



Index

Five Years Financials at a glance-----	3
Directors' Report -----	4
Management Discussion & Analysis -----	11
Corporate Governance -----	14
Auditors' Report -----	23
Stand-alone Financials	
Balance Sheet-----	26
Profit & Loss Account -----	27
Cash Flow Statement -----	28
Schedules -----	30
Accounting Policies -----	39
Notes to Accounts -----	42
Statement under Section 212 -----	50
Consolidated Financials -----	51
Financials of Divis Laboratories (USA) Inc. -----	71
Financials of Divi's Laboratories EUROPE AG -----	77
Notice of Annual General Meeting -----	81

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)
Lingojigudem Village, Choutuppal Mandal
Nalgonda Dist. (A.P) Pin 508 252
EOU UNIT (Chippada)
Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P) Pin 531 163
SEZ UNIT (Chippada)
Divi's Pharma SEZ,
Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P) Pin 531 163

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. Lingojigudem Village
Choutuppal Mandal
Nalgonda Dist (A.P) 508 252
3. Chippada Village
Bheemunipatnam Mandal
Visakhapatnam Dist. (A.P) Pin 531 163

Bankers:

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



This page has been intentionally left blank.

Five Years Financials at a Glance

(Rs. in Lakhs)

	2002-03	2003-04	2004-05	2005-06	2006-07
SALES (NET)	24651.97	30283.14	34737.83	38111.07	72442.45
Sales Growth (%)	19.06	22.84	14.71	9.71	90.08
Other Income	1320.09	1445.15	1714.65	1062.48	1360.83
TOTAL INCOME	<u>25972.06</u>	<u>31728.29</u>	<u>36452.48</u>	<u>39173.55</u>	<u>73803.28</u>
Total Income Growth (%)	17.92	22.16	14.89	7.46	88.40
Profit before Interest, Depreciation and Tax (PBDIT)	8264.33	11856.85	12167.99	12731.03	25960.62
Finance Charges	444.94	336.39	429.89	558.32	1057.39
Depreciation	886.73	1324.21	1506.68	1481.59	2232.86
Profit before tax (PBT)	6932.66	10196.25	10231.42	10691.12	22670.37
Profit before tax (PBT) Growth (%)	63.87	47.08	0.34	4.49	112.05
Provision for Taxation	1442.32	2911.94	3628.30	3643.98	3495.87
Profit after Tax (PAT)	5490.34	7284.31	6603.12	7047.14	19174.50
Profit after Tax (PAT) Growth (%)	50.12	32.68	-9.35	6.72	172.09
Dividend(%)	60	80	80	100	100
Dividend and Tax payout thereon	867.66	1164.89	1169.32	1461.65	1472.22
Equity Share Capital	1281.87	1281.87	1281.87	1281.87	1291.14
Reserves & Surplus	15510.31	21637.74	27084.12	32799.78	52913.37
Net Worth	16792.18	22919.61	28365.99	34081.65	54204.51
Net Worth Growth (%)	57.44	36.49	23.76	20.15	59.04
Gross Fixed Assets	19004.98	22360.32	25380.49	30185.58	49066.56
Net Fixed Assets	14592.55	16632.43	18154.39	21477.38	38119.19
Total Assets	29251.75	38342.38	37478.26	51916.04	72553.22
KEY INDICATORS					
Earnings Per Share (Rs.)	42.83	56.83	51.51	54.98	149.54
Cash Earnings Per Share - Rs.	49.75	67.16	63.27	66.53	166.95
Gross Turnover Per Share - Rs.	202.61	247.52	284.37	305.60	575.58
Book Value Per Share- Rs.	131.00	178.80	221.29	265.87	419.32
Total Debt to Equity	0.26	0.29	0.23	0.44	0.28
PBDIT / Gross Turnover %	31.82	37.37	33.38	32.50	35.18
Net Profit Margin %	22.27	24.05	19.01	18.49	25.98
Return on Net Worth %	32.70	31.78	23.28	20.68	35.37

Directors' Report

Dear Shareholders,

Your Directors have pleasure in placing before you the Seventeenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2007.

FINANCIAL RESULTS

(Rs. in Lakhs)

Particulars	2006-07	2005-06
Net Sales	72442	38111
Other income	1361	1062
Total Income	73803	39173
PBDIT	25961	12731
Finance Charges	1058	558
Depreciation	2233	1482
Profit before tax	22670	10691
<u>Provision for tax:</u>		
- Income Tax	3332	3316
- Deferred Tax	137	313
- Fringe Benefit Tax	27	15
Profit after tax	19174	7047
Profit brought forward from previous year	23558	18683
Total available for Appropriation	42732	25730
Appropriations		
Proposed Dividend	1291	1282
Corporate Dividend Tax	181	180
General Reserve	1990	710
Balance carried to Balance Sheet	39270	23558
Earnings Per Share (EPS)		
–Basic	149.54	54.98
–Diluted	147.77	53.94

DIVIDEND

Your Directors have paid an interim dividend of Rs.10.00 per equity share of Rs.10/- each for the year 2006-07 and recommend the same as dividend for the year, for approval and ratification by the members.

PERFORMANCE AND OPERATIONS REVIEW

During the year, Divi's achieved a turnover of Rs.72442 lakhs as against Rs. 38111 lakhs during the previous year reflecting a growth of 90%. As has been the norm for your company, exports constituted 93% of total turnover and exports to advanced markets comprising Europe and America accounted for 75% of business. Other Income earned during the year stood at Rs.1361 lakhs as against Rs. 1062 lakhs in the previous year. Expenses for the year included a charge of Rs.2411 lakhs on account of stock options granted to employees. Profit after Tax (PAT) grew by about 172% to Rs.19174 lakhs as against Rs. 7047 lakhs during the previous year.

Earnings Per Share for the year works out to Rs.149.54 per share as against Rs. 54.98 last year on absolute basis and to Rs.147.77 per share as against Rs. 53.94 last year on diluted basis.

We could achieve this substantial growth due to the continued pursuit of our strategy to work with multi-national innovator companies developing compounds under custom synthesis besides a strategic positioning on our range of generic products in international domain duly supported by our capital expenditure programs.

The newly commissioned SEZ Unit has also contributed to business during the year. This structure is able to provide a convenient mechanism for big pharma companies for sourcing their custom compounds, as it is an efficient platform for international business. Investments made during the year, with multi-purpose capacities created supporting improved safety and environment management capabilities, are able to attract greater business in custom synthesis business. Divi's is now recognised as a strategic long term supplier by some of the leading innovator companies. This would ensure a continuing flow of opportunities to Divi's. The strategic size reached in some of the generic APIs has made Divi's a supplier of choice for major customers including branded generic manufacturers, which ensures business from these customers on a long term basis.

With the marketing arms in place in Europe and USA, we will be able to have a wider reach in the advanced markets, meet supply-chain requirements of customers in these markets and enhance our business.

TAXATION

We made a provision of Rs.3332 lakhs for Income-tax this year as against Rs. 3316 lakhs during the previous year. We are eligible for tax exemptions for profits from our EOU and SEZ Units. An amount of Rs.137 lakhs has been provided during the year towards Deferred Tax Liability for the year as required under Accounting Standard AS-22 relating to "Accounting for Taxes on Income". Deferred Tax Liability provision during the previous year was Rs. 313 lakhs.

CAPITAL EXPENDITURE

During the year, your company has spent an amount of Rs.23084 lakhs on capital expenditure (net of capital work-in-progress) towards enhancing production capacities. We have set up new production as well as utility facilities in SEZ and EOU Units, and enhanced existing capacities at Unit-1. Capital Work-in-Progress includes a nutraceuticals project being implemented at our SEZ with an estimated investment of Rs.3500 lakhs which is expected to be completed by middle of next year.

SPECIAL ECONOMIC ZONE and EXPORT ORIENTED UNIT

Your company has developed an SEZ titled 'Divi's Pharma SEZ' on a 250-acre site at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist., and has set up its SEZ Unit after obtaining approvals. Total capex incurred on our SEZ would be Rs.10194 lakhs. First phase of the SEZ Unit was commissioned and commercial operations commenced from 27th October, 2006. As the company is predominantly into exports, this SEZ structure would help the company to be internationally competitive on a level playing field with its peers in Europe, Brazil, China and Singapore.

Your company's 2nd Manufacturing Site at village Chippada, Bheemunipatnam Mandal has been converted into Export Oriented Unit (EOU) and started operations as EOU from 1st June, 2006.

EMPLOYEE STOCK OPTION SCHEME

Under the Employee Stock Option Scheme (ESOP 2006) for employees approved by the company, 92720 shares were allotted

Directors' Report

during the year by the Compensation Committee, this being the first tranche of exercise of the 4 tranches granted. As per the provisions of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999, disclosures with respect to the Scheme are given in Annexure – I to this report. An amount of Rs.2411 lakhs (Rs.130 lakhs during last year) has been charged to Expenses during the year representing the difference between issue price and intrinsic value as per SEBI Guidelines.

CHANGES IN SHARE CAPITAL

Your company has allotted 92720 equity shares during the year at the par value of Rs. 10/- each to employees upon exercise of options under its Employee stock option scheme. Consequently, the paid up capital of the company as on 31st March, 2007, stands increased by Rs.9 lakhs to Rs.1291 lakhs. The new shares rank pari passu in all respects with the existing equity shares of the company. Approval has been obtained from NSE and BSE for listing of the new shares on the stock exchanges.

SUBSIDIARIES

Your company incorporated, during late last year, two 100% subsidiaries viz., M/s. Divi's Laboratories (USA) Inc., in USA and M/s. Divi's Laboratories Europe AG in Switzerland for marketing its products and a greater reach to customers within these regions. The low level of operations of the subsidiaries during the year resulted in net loss, mainly a result of salaries and administrative expenses. The subsidiaries would undertake full scale marketing operations with the ensuing commencement of commercial operations of the nutraceuticals project.

DIRECTORS

Dr. K. Satyanarayana and Dr. P. Gundu Rao and Mr. Kiran S.Divi 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, 2007 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, being eligible, offer themselves for reappointment.

COST AUDIT

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed Cost Audit for the company for the financial years 2005-06 and 2006-07. M/s. EVS & Associates, Cost Accountants, Hyderabad have been appointed as Cost Auditors. While the cost audit records for the year 2005-06 have been filed with the Central Government, the Cost Audit for the year 2006-07 is in progress.

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 Account 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 are given in Annexure – II to this report.

HUMAN RESOURCES

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 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
23rd May, 2007

Dr. Murali K. Divi
Chairman and Managing Director

Annexure-I

Statement of Stock Options as at 31st March 2007, 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 are as under:

a) Options granted	4,64,920		
b) Pricing formula As follows:			
	Vesting Period	Vesting Proportion	Exercise Price Amount
	End of One year from the date of Grant	20 %	At Rs.10 each
	End of Two years from the date of Grant	25 %	At Rs.1000 each
	End of Three years from the date of Grant	25 %	At Rs.1000 each
	End of Four years from the date of Grant	30 %	At Rs.1000 each
c) Options vested during the year	92,720		
d) Options exercised during the year	92,720		
e) Total number of shares arising as a result of exercise of option	92,720 The option conversion ratio is 1:1		
f) Options lapsed	1,320		
g) Variation of terms of options	Nil		
h) Money realized by exercise of options	Rs. 9,27,200		
i) Total number of options in force	3,70,880		
j) Employee wise details of options granted to:			
i) Senior Managerial Personal:			
	Name	Options granted	Options Exercised
			Exercise Price (Rs.) No. of Options
	Mr. N V Ramana	47340	10 9468
	Dr. P Gundurao	9240	10 1848
	Dr. B Nageswara Rao	10060	10 2012
	Mr. P Srinivasa Rao	10060	10 2012
	Mr. M Ramesh Babu	10060	10 2012
	Mr. Y T S Prasad	7820	10 1564
	Mr. G Hemanth Kumar	10060	10 2012
	Mr. K Rajeswara Rao	9980	10 1996
	Mr. S Devendra Rao	11200	10 2240
	Mr. S Ramakrishna	9800	10 1960
	Mr. L Kishorebabu	10020	10 2004
	Dr. M N A Rao	7840	10 1568
	Mr. Chandra S.divi	14520	10 2904
	Dr. P V Subba Rao	1800	10 360
	Dr. A S R Anjaneyulu	1800	10 360
	Mr. P Ramaiah Chowdary	4460	10 892

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 2006-07 is Rs.2411 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 2006-07 would be Rs.2743 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 be 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)	19174	
	Add: Intrinsic Value CC	2411	
	Less: Fair Value CC	2743	
	Adjusted Pro Forma Net Income	18842	
	Earning Per Share: Basic		
	As reported	149.54	
Adjusted pro forma	146.95		
Earning Per Share: Diluted			
As reported	147.77		
Adjusted Pro Forma	145.21		
Weighted- average exercise price of options granted during the year whose - Exercise price equals market price - Exercise price is greater than market price - Exercise is less than market price	Nil Nil Nil		
Weighted- average fair value of options granted during the year whose - Exercise price equals market price - Exercise price is greater than market price - Exercise is less than market price	Nil Nil Nil		
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 2 – 13/03/2008	Vest 3 – 13/03/2009	Vest 4 – 13/03/2010
Risk-free interest rate	7.12%	7.19%	7.25 %
Expected life	3.5 years	4.5 years	5.5 years
Expected volatility	46.42 %	45.13 %	44.78 %
Dividend yield	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

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

Form for disclosure of particulars with respect to Conservation of Energy

A. CONSERVATION OF ENERGY

Power and Fuel consumption

Particulars	2006-07	2005-06
1. Electricity		
(a) Purchases:		
Units	4,57,34,552	3,55,30,367
Total Amount - (Rs.lakhs)	1440	1171
Rate/Unit - Rs.	3.15	3.29
(b) Own generation:		
Through diesel Generator Units	7,52,419	9,47,688
Units per Lt. of diesel	3.44	3.30
Cost/Unit - Rs.	10.38	9.71
2. Coal (D/C grade)		
Quantity (Kgs)	2,35,23,164	1,60,00,244
Total Cost - (Rs.lakhs)	557.57	369.88
Average rate - Rs.	2.37	2.31

B. CONSUMPTION PER UNIT OF PRODUCTION:

Products
Electricity (Units)
Coal (D/C Grade)
Others (Specify)

Since the Company manufactures different types of active pharmaceutical ingredients and intermediates, it is not practicable to give consumption per unit of production.

FORM - B

Form for disclosure of 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.
- Expenditure on R&D

Amount (Rs. in lakhs)

Particulars	2006-07	2005-06
a) Capital	-	134
b) Recurring	1028	872
c) Total	1028	1006
d) Total R&D Expenditure as a percentage of Sales	1.42%	2.64%

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

Foreign Exchange Earnings and Outgo (Rs.in lakhs)

Particulars	2006-07 Amount	2005-06 Amount
(a) Foreign Exchange earnings:		
i) FOB Value of Exports	67120.78	33479.57
ii) Contract Research Fee	268.52	318.72
iii) Professional fee	-	38.89
iv) Interest	17.66	0.78
v) Others	18.30	0.16
(b) Foreign Exchange outgo:		
i) Remittance in Foreign Currency:		
Dividend (Net of Tax)	1.04	11.17
ii) CIF value of imports:		
Raw Materials	15795.06	10746.41
Capital Goods	1285.21	144.26
Spares	7.96	76.65

Particulars	2006-07 Amount	2005-06 Amount
iii) Expenditure in Foreign Currency towards:		
Memberships and Subscriptions	0.54	0.32
Books and Periodicals	19.46	12.16
Traveling Expenses	61.14	45.28
Laboratory Chemicals	6.37	197.30
Consultancy Charges	101.45	159.59
Sales Commission	121.48	177.35
Foreign Bank Charges	33.38	132.00
Finance Charges	439.06	66.65
Others	7.52	103.47

Annexure-III

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

Name	Age (yrs)	Qualifications	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration ¹ (Rs.lakhs)	Last employment
Employed throughout the year :							
Dr. Murali K. Divi	56	M. Pharm. Ph.D.	Chairman & Managing Director	10.10.90	31	788.00	Managing Director, Cheminor Drugs Ltd.
Ramana N.V.	49	B.Sc.(Chem)	Executive Director	26.12.94	21	663.84	President, Enmark Exim Services Pvt.Ltd
Madhusudana Rao Divi	63	M.E. (Structural Engg.)	Director (Projects)	01.07.97	37	41.84	Executive Director, Sadah General Trading and Construction Co., Kuwait
Dr. Gundu Rao P.	72	M. Pharm., Ph.D.	Director (R&D)	10.02.95	50	69.04	Principal, College of Pharmacy, Manipal.
Kiran S. Divi	31	B. Pharm.	Director (Business Development)	10.08.01	05	25.97	-
Chandra S. Divi	39	B.E.	General Manager	19.10.94	13	95.80	-
Devendra Rao S.	45	M.Sc.	General Manager	10.02.95	23	90.35	Sr. Manager (Prod) Natco Pharma Ltd
Hemanth Kumar G.	47	M.Sc.	General Manager	01.11.94	23	84.93	Sr. Prod. Manager Sumitra Pharma Ltd
Kishore Babu L.	55	B.Com, FICWA	Chief Financial Officer	20.11.94	33	90.66	Finance Manager, Nagarjuna Fertilizers & Chemicals Ltd.

Dr. Nageswara Rao B.	48	M.Sc., Ph.D.	General Manager	01.11.90	18	75.87	Manager R&D Cheminor Drugs Ltd.
Prasad, Y.T.S.	39	B.E.	General Manager	01.11.90	18	71.58	Engineer (Devpt) Cheminor Drugs Ltd.
Rajeswara Rao K.	62	AMIE	General Manager	01.12.94	40	75.66	General Manager Doctors Organics Ltd.
Ramakrishna S.	45	B.Sc.	General Manager	15.02.95	23	83.29	General Manager (Works) Vera Labs Ltd.
Ramaiah Chowdary P.	43	B.E.	General Manager	15.11.94	18	35.21	Maint. Manager Natco Pharma Ltd.
Ramesh Babu M.	41	B.Sc.	Chief Technologist	01.11.90	20	83.63	R&D Incharge Cheminor Drugs Ltd.
Dr. Rao M.N.A.	56	M.Pharm., Ph.D.	General Manager	17.04.97	33	66.80	Principal College of Pharmacy Manipal
Srinivasa Rao P.	42	B.Pharm.	Chief Technologist	01.11.90	18	84.11	Sr. Chemist Cheminor Drugs Ltd.
Balaji S.	44	B.Sc.	AGM	11.02.95	19	32.85	Asst. Manager Natco Pharma Ltd.
Doraswamy A.	36	M.B.A.	AGM	06.11.95	12	29.56	-
Krishnaji Rao M.	36	M.Pharm.	AGM	01.01.96	10	29.79	-
Nagamalleswara Rao G.	38	M.Sc.	AGM	16.04.95	19	31.59	Asst. Manager Natco Pharma Ltd.
Nageswara Rao I.	42	B.Sc.	AGM	06.03.95	18	31.67	Block Incharge Natco Pharma Ltd.
Nagasekhar V.	41	D.M.E.	AGM	23.03.95	15	31.71	Maint. Supervisor Vera Labs Ltd.
Narasimha Rao N.V.V.	44	B.Sc.	AGM	02.05.95	19	31.50	Production Officer Natco Pharma Ltd.
Prasad M.S.N.	41	M.Sc.	AGM	01.05.95	20	31.42	Production Officer Natco Pharma Ltd.
Ramana L.V.	37	B.Sc.	AGM	01.11.90	15	32.48	-
Ramasekhar P.	43	B.Sc.	AGM	01.11.90	14	32.41	-
Rameshbabu Kodali	45	B.Pharm.	AGM	01.11.90	15	32.51	-
Rama Rao Ch.	41	B.Sc.	AGM	07.05.95	22	31.52	Sr. Officer Natco Labs. Ltd.
Ramu Tatineni	35	B.Sc.	AGM	15.07.95	16	30.91	Shift Incharge Vera Labs Ltd.
Ravi Kantamaneni	44	L.E.E.	AGM	25.06.95	21	31.10	Plant Manager RR Metals
Sridhar Donepudi	39	B.Sc.	AGM	01.11.90	15	32.44	-
Srinivas B.	33	B.Sc.	AGM	01.11.90	15	32.34	-
Sudhakar Pendyala	40	B.Com.	AGM	01.10.94	18	73.46	Manager Lakshmi Engg. Works
Subba Rao K.	43	M.P.M.	AGM	01.10.94	21	34.75	Personnel Officer PR Cements Ltd.
Veeraiah Chowdary G.	40	B.Sc.	AGM	01.06.95	19	34.04	Prod Chemist Cheminar Drugs Ltd.
Venkateswara Rao Y.	44	B.Sc.	AGM	04.05.95	20	31.44	Officer, QCD., Natco Pharma Ltd.

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

2. All the above appointments are contractual.

3. Dr. Murali K. Divi, Chairman and Managing Director, Mr. Madhusudana Rao Divi, Director (Projects) and Sri Kiran S. Divi, Director (Business Development) are related to each other. No other employee mentioned above is related to any director of the Company.

Management Discussion And Analysis

Overview

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

Industry and structure

Your company is engaged in manufacture of generic APIs, custom synthesis of active ingredients and intermediates for innovator companies and other speciality chemicals like peptide building blocks and Nutraceuticals. During 2006, the global pharmaceutical market grew by 7% to US \$643 billion which includes prescription and OTC drugs. US market accounts for a little over 50% of the total market. The component for the Active Pharmaceutical Ingredients business (API) is estimated about 5 to 7% of the pharma market i.e. between US \$ 32 to 45 billion. The US generic market, which represents over 50% of the global revenues, is witnessing increased pressures about rising healthcare costs. This market stands amongst the highest in terms of healthcare spends compared to other countries.

Over the last 3 decades, the Indian pharmaceutical industry has gained considerable expertise and skills in handling complex chemical reactions and manufacture under cGMP conditions and now ranks fourth globally in terms of output volume and thirteenth in value terms. The onset of full compliance to patent regime in place in India effective 2005, and with the cost-competitive structure and intricate chemistry handling capabilities that Indian companies have demonstrated, there will be a more conducive atmosphere for outsourcing by big pharma companies resulting in major opportunities to Indian pharma companies committed to intellectual property rights (IPR) and playing a complementary role to the innovators.

Company infrastructure

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

- The 1st Facility at village Lingoigudem, Choutuppal Mandal, Nalgonda district, about 60 KM from Hyderabad.
- The 2nd Facility has been converted during the year as an Export Oriented Unit at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist. about 30 KM from the Port City of Visakhapatnam on the east coast.
- The 3rd facility is an SEZ Unit at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist., which was commissioned and commenced commercial operations during the year.

The company has 4 Research Centers with well defined functional focus on custom synthesis, contract research for MNC companies as also future generics involving processes like route design, route selection, establishing gram scale process and structural confirmation, process optimization, impurity profile, pilot studies, pre-validation batches, validation of process and transfer of technology to Plant and review efficiency of processes.

Internal Control systems

The company has well laid-out internal control systems which are continually reviewed for effectiveness and is augmented by written policies, 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 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.

Risks and Concerns

From the very inception of manufacturing operations, the company committed itself to respecting intellectual property and playing a complementary role to its innovator customers thus ensuring a consistent business in custom synthesis. The company constantly reviews its policies and procedures to adhere to conformity to the various regulatory approvals for its manufacturing facilities. With a diverse product portfolio, the company has a unique de-risked business model. The company ensures adequate risk coverage for its assets.

Business distribution

Among well distributed products range, the largest product accounts for 21% of sales and the top 5 products contributed around 60% of revenues and the top 5 customers stand at 50% of its revenues.

The company operates predominantly in export markets and has a broad product portfolio under generics and custom synthesis. The company has a substantial exposure to foreign exchange risk due to its exports. 93% of turnover of the company comprises exports and about 45% 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 to address the same. The company's current and fixed assets are adequately insured against various risks.

Regulatory Filings/Approvals

Divi's has triple Certifications - ISO-9001 (Quality Systems), ISO-14001 (Environment Management Systems) and OHSAS-18001 (Occupational Health and Safety systems) for its manufacturing facilities and adheres to cGMP and standard operating practices in its manufacturing/operating activities. During the year, your company had a successful inspection by the US-FDA for its EOU and SEZ Units.

During the year, Divi's has filed 2 DMFs with US-FDA, 9 Dossiers with European and 4 dossiers with other countries. The cumulative DMFs filed with US-FDA are 28 and 8 with European Directorate.

Awards

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

- ICC award for Excellence in Management of Health, Safety and Environment.
- National Award for Excellence in Water Management from Confederation of Indian Industry.

Management Discussion And Analysis

Operational Performance

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

(Rs. in Lakhs)

	2006-07	2005-06	Growth %
Net Sales	72442	38111	90
Other income	1361	1062	28
Total Income	73803	39173	88
Expenditure	51133	28482	
PBDIT	25961	12731	104
Depreciation	2233	1482	
Finance Charges	1058	558	
Profit before tax	22670	10691	112
Provision for tax	3332	3316	
Deferred Tax Liability	137	313	
Fringe Benefit Tax	27	15	
Profit after tax	19174	7047	172
Earnings per Share (EPS) (Rs.)			
a)Basic	149.54	54.98	
b)Diluted	147.77	53.94	
Dividend %	100%	100%	
Dividend pay-out	7%	18%	
Debt-Equity Ratio	0.28	0.44	
Book Value per Share (Rs.)	420	266	

Sales turnover

Divi's has achieved a turnover net of taxes/duties of Rs. 72442 lakhs as compared to Rs. 38111 lakhs during the previous financial year, reflecting an impressive growth of 90%.

Your company's product portfolio currently comprises about 111 products covering:

- i) Generic products and their intermediates.
- ii) New Chemistries comprising:
 - a. Custom Synthesis of APIs and Intermediates for multi-national innovators worldwide.
 - b. Peptide building blocks
 - c. Nutraceutical products

During the year, Divi's has added 13 products to its product portfolio of which 2 are generic APIs and intermediates and 11 are custom synthesis APIs and intermediates.

Exports

Exports constituted around 93% of turnover during the year as against 89% in the previous year. North America and Europe continue to be significant value markets for your company.

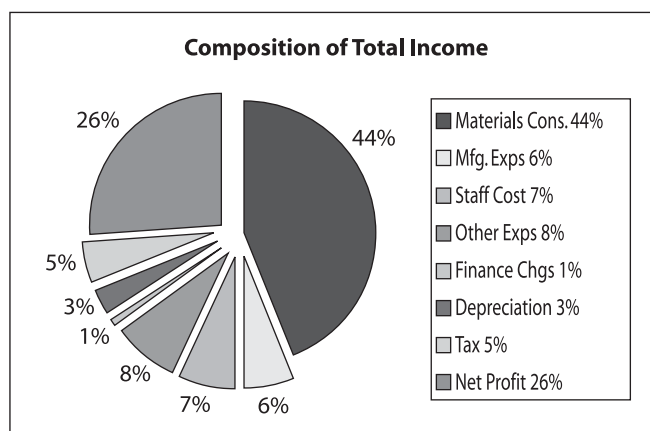
Region	Sales(Rs. lakhs)	%share
Asia	1179	1.63%
Europe	19149	26.43%
Far East	6651	9.18%
India	4430	6.12%
North America	34931	48.22%
South America	5174	7.14%
Rest of the World	928	1.28%
Total	72442	100.00%

Other Income

Other Income mainly comprised Contract Research fee and sale/transfer of some of the export benefits like DEPB Credits and drawbacks available to the company. Other Income for the year amounted to Rs.1361 lakhs as against Rs. 1062 lakhs for the previous year.

Income on Export benefits for the year came to at Rs.747 lakhs as against Rs. 446 lakhs during the last year. Income on contract research accounted for Rs.269 lakhs during the year as against Rs. 348 lakhs during the last year.

Expenses



Material costs

Raw material consumption for the year was Rs.31112 lakhs as against Rs. 18292 lakhs for the previous year. Closing Inventory of Raw materials was Rs. 7893 lakhs as against Rs. 5545 lakhs.

Work-in-Process at the year end amounted to Rs..9177 lakhs and finished goods (net of duties) to Rs.3001 lakhs as against Work-in-Process of Rs. 10998 lakhs and Finished Goods of Rs.1363 lakhs respectively during the previous year.

The company now operates from 3 manufacturing sites. Increased levels of raw materials will support the increasing volumes of business and diverse product portfolio at the company's 3 manufacturing sites.

Manufacturing Expenses

Manufacturing expenses comprising of Power and Fuel, Repairs to Plant and stores consumption came to Rs.4381 lakhs for the year as against Rs. 3317 lakhs for the last year. These expenses account for about 6% of income and is lower as compared to 8% of previous year, due to a combination of product mix and economies of scale.

Management Discussion And Analysis

Salaries and Wages

Staff costs for the year have amounted to Rs.5158 lakhs as against Rs. 1844 lakhs during the last year. Employee salaries for current year included a charge of Rs.2117 lakhs (Rs.114 lakhs last year) on account of stock options granted. Increase in salaries is on account of the induction of additional staff at the 3 manufacturing facilities besides the yearly revision in remuneration of employees. Salaries, including ESOP expense, as a % of income account for 7% during the year as against 5% in the previous year.

Other Expenses

Major components of Other Expenses comprise Managerial Remuneration, Rates and taxes, Travelling, Insurance premium, R&D expenses, Freight and handling charges, Factory upkeep, Sales commission and general expenses. Other Expenses for the year amounted to Rs.5994 lakhs as against Rs.4300 lakhs. The increase is on account of increase in managerial remuneration, charge on account of stock options to directors, travel, Factory upkeep and general expenses besides other expenses that are operations related. As a proportion of total income, Other Expenses have account for 8% of income during last year to 11% during the year.

Finance charges

Interest and Finance charges during the year have increased to Rs.1057 lakhs as against Rs. 558 lakhs during the previous year due to availing term loans for capex needs besides higher level of operations. Higher interest expense is also due to increase in LIBOR rates as also in local interest rates.

Profits before Depreciation, Interest and Taxes (EBIT)

EBITA for the year grew by about 104% to Rs. 25961 lakhs as against Rs. 12731 lakhs during the previous year. This impressive growth in profitability during the year is due to significant increase business aided by custom synthesis which has grown close to 50% of total business and a very good growth in the generic products business.

Depreciation

Depreciation charge for the current year came to Rs.2233 lakhs as compared to Rs. 1482 lakhs during the last year.

There was addition to Fixed Assets during the year to the tune of Rs. 18,881 lakhs as against Rs. 4830 lakhs in the previous year.

Taxation

Divi's had to provide for Income-tax of Rs.3332 lakhs for the current year. This includes income-tax of earlier years amounting to Rs.17 lakhs. Income-tax provision during the last year was Rs. 3316 lakhs. During the year, the company is eligible for tax exemptions from operations of the EOU and SEZ Units.

Divi's has also provided for Deferred Tax Liability of Rs. 137 lakhs for the year as against Rs. 313 lakhs during the previous year. Fringe benefit tax for the year accounted for Rs.27 lakhs as against Rs.15 lakhs last year.

Profit after Tax

Profit after Tax during the year grew by 172% to Rs.19174 lakhs from Rs. 7047 lakhs during the previous year.

Earnings Per Share

Basic EPS for the year has worked out to Rs.149.54 per share as compared to Rs. 54.98 during the last year. Diluted EPS worked out to Rs.147.77 as against Rs.53.94 during last year.

Dividend

Your Board had recommended and paid an interim dividend of Rs. 10.00 per share for the year 2006-07, the same as in the previous year. New equity shares issued, on pari passu basis with the existing shares, on exercise of ESOPs also qualified for the dividend during

the year. Dividend pay-out works out to 7% of the profits earned. An amount of Rs. 181 lakhs has been provided towards Corporate Dividend Tax during the year.

Financial condition

i) Secured Loans

The company has during last year obtained sanctions for FC loans aggregating \$ 17 million and a Rupee loan of Rs.20 crores to part finance its capex programs. Disbursement of a part of these loans was availed during the last year and of the balance during the current year. Repayments have also commenced during the year and an amount of Rs.286 lakhs was repaid during the year. Utilisation of working capital limits has been optimum despite increase in business.

ii) Fixed Assets

During the year, additions to Fixed Assets totalled Rs.18881 lakhs. Divi's Pharma SEZ accounted for an investment of Rs.10194 lakhs and the balance of the investment was done at our EOU and the Unit-1. We have set up new production as well as utility facilities in SEZ and EOU Units, and enhanced existing capacities at Unit-1.

iii) Inventories

Major items of Inventories as of 31st March, 2007:

(Rs. in Lakhs)

Particulars	2006-07	2005-06
Raw Materials	8601	5826
Work-in-Process	9177	10998
Finished Goods	3001	1363

Increase in the levels of Raw Materials is due to the increased level of operations at the three manufacturing facilities, strategies of production on campaign basis and manufacture of new products.

iv) Debtors

Debtors as of 31st March, 2007 amounted to Rs. 16446 lakhs as against Rs. 10744 lakhs during the previous year. Average outstandings account for 83 days for the current year as against 103 days during the last year.

v) Loans and Advances

Loans and advances as of 31st March, 2007 amounted to Rs.3945 lakhs as against Rs. 5301 lakhs during the previous year. The company has been able to get refund of a good part of its VAT and cenvat credits.

vi) Current Liabilities & Provisions

Current Liabilities and provisions as of 31st March, 2007 amounted to Rs.12587 lakhs as against Rs. 13092 lakhs during the previous year. The company has paid interim dividend during the year. Liabilities last year included provision for dividend and dividend tax for Rs.1462 lakhs.

vii) Debt-Equity Ratio

Debt-equity ratio as of 31st March, 2007 is at 0.28, based on total debt, as against 0.44 during the previous year.

Community Development activities

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

Corporate Governance

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Corporate governance is about commitment to values and about ethical business conduct. It is about how an organization is managed. Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. It also includes the relationships among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. 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. Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organisation.

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 2006 - 07 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 2007, the Board comprised of ten directors, five of whom are Executive and remaining are non-executive independent directors as detailed below:

Sl. No.	Name of the Director	Status / Designation	Category
1.	Dr. Murali K. Divi	Chairman and Managing Director	Promoter and Executive Director
2.	Mr. N V Ramana	Executive Director	Executive Director
3.	Mr. Madhusudana Rao Divi	Director (Projects)	Executive Director
4.	Dr. P Gundu Rao	Director (R&D)	Executive Director
5.	Mr. Kiran S. Divi	Director (Business Development)	Executive Director
6.	Dr. K Satyanarayana	Director	Non-executive Independent Director
7.	Mr. S Vasudev	Director	Non-executive Independent Director
8.	Mr. 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 seven times, i.e. on 29th May 2006, 17th June 2006, 31st July 2006, 29th September 2006, 28th October 2006, 27th January 2007 and 17th March 2007. Director's attendance at the Board and General Meetings held during the financial year 2006-07 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 Directorships and Committee member/ chairmanship in other Companies		
		No. of Board Meetings held	No. of Board Meetings attended	Last AGM	Directorships	Committee Memberships	Committee Chairmanships
1.	Dr. Murali K. Divi	7	6	Yes	3	-	-
2.	Mr. N.V.Ramana	7	7	Yes	1	-	-
3.	Mr. Madhusudana Rao Divi	7	5	Yes	-	-	-
4.	Dr.P.Gundu Rao	7	5	Yes	-	-	-
5.	Mr. Kiran S Divi	7	7	Yes	1	-	-
6.	Dr.K. Satyanarayana	7	6	Yes	-	-	-
7.	Mr. S.Vasudev	7	7	No	-	-	-
8.	Mr. G.Venkata Rao	7	7	Yes	1	-	-
9.	Prof. C.Ayyanna	7	4	No	-	-	-
10.	Dr.G.Suresh Kumar	7	7	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:

There are no changes in directors since last annual general meeting.

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

Dr. P. Gundu Rao holds a Masters Degree in Pharmacy from Benaras Hindu University. Dr. Gundu Rao obtained his Ph. D., from Friedrich Schiller University, Jena, Germany in 1962. He taught pharmaceutical sciences at the Birla Institute of Technology & Sciences (BITS), Pilani for over a decade from 1957 to 1968 and was later Professor & Chairman at School of Pharmacy, Addis Ababa University, Ethiopia. He also served as a Professor and Principal at College of Pharmacy, Manipal and was associated with the college for over 24 years. He has published several research papers and technical articles and has authored books on inorganic pharmaceutical chemistry and biochemistry. Presently he is whole time Director and heads the R&D Division of your Company.

He is a not a Director in any other Company and is not a member of any Committee of your company.

Dr. K. Satyanarayana holds M. S. (General Surgery) from Osmania Medical College, Hyderabad and also M. Ch. (Neurosurgery) from Christian Medical College, Vellore. He is a common fellow of Royal Infirmary, Edinburgh, UK. He was a Professor of Neuro Surgery at Kakatiya Medical College, Warangal and at Gandhi Medical College, Hyderabad. Dr. Satyanarayana also worked as Professor & Head of Dept. of

Neurosurgery at Osmania Medical College, Hyderabad and as the Director of Medical Education, Government of Andhra Pradesh. He has retired from Government service and is currently Consulting Neuro Surgeon at Vijaya Health Care, Durgabhai Deshmukh Hospital and Medwin Hospitals at Hyderabad.

He is a not a Director in any other Company. He is a member and Chairman of the Remuneration Committee of your Company.

Mr. Kiran S. Divi has been on the Board of Directors since August 2001 and is also Director (Business Development).

Mr. Kiran S. Divi is a Bachelor of Pharmacy from College of Pharmacy, Manipal. He was involved in understanding the markets in USA in respect of active ingredients and intermediates for about two years before joining the Board. He is responsible for marketing of generic products. Mr. Kiran S. Divi is also a Director in Divi's Biotech Private Limited

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 comprising of three Independent Directors, met six times during

Corporate Governance

the year, i.e. on 17th June 2006, 31st July 2006, 29th September 2006, 28th October 2006, 27th January 2007 and 17th March 2007.

Name	Designation	No. of Meetings	
		Held	Attended
Mr. G. Venkat Rao	Chairman	6	6
Mr. S. Vasudev	Member	6	6
Dr. G. Suresh Kumar	Member	6	6

The Company Secretary acts as Secretary to the Committee. The meetings of the Audit Committee were also attended by the Executive Director, the Chief Financial Officer and representatives of Statutory Auditors of the Company.

Scope of the Audit Committee includes 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 and Compensation Committee

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

The said committee met once during the year on 17th March 2007 and the attendance of each member of the Committee is as follows:

Name	Designation	No. of Meetings	
		Held	Attended
Dr. K. Satyanarayana	Chairman	1	1
Mr. S. Vasudev	Member	1	1
Prof. C. Ayyanna	Member	1	1

DETAILS OF REMUNERATION TO DIRECTORS

Executive Directors:

(Rs. in Lakhs)

Name	Salary	PF	Perks	Commn	Options Value	Total	Stock Options Outstanding (Nos.)
Dr. Murali K. Divi	42.00	5.04	13.17	727.79	--	788.00	Nil
Mr. N. V. Ramana	33.00	3.96	16.75	363.90	246.23	663.84	37872*
Mr. Madhusudana Rao Divi	31.20	3.74	6.90	—	--	41.84	Nil
Dr. P. Gundu Rao	18.00	0.39	2.59	—	48.06	69.04	7392*
Mr. Kiran S. Divi	19.32	2.32	4.33	—	--	25.97	Nil
Total	143.52	15.45	43.74	1091.69	294.29	1588.69	

*To be exercised in subsequent years as per ESOP Scheme.

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 the Board/Committee meetings. The details of sitting fee paid to Non-Executive Directors during the year 2006-07 is as follows:

Sl. No.	Name of the Non-Executive Directors	Designation	No. shares held	Sitting Fees (Rs. In Lakhs)
01	Dr. K. Satyanarayana	Director	1000	0.70
02	Mr. S. Vasudev	Director	Nil	1.40
03	Mr. G. Venkat Rao	Director	400	1.30
04	Prof. C. Ayyanna	Director	Nil	0.50
05	Dr. G. Suresh Kumar	Director	Nil	1.30

Corporate Governance

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 annual reports etc.

During the year the committee has met 10 times on 1st April 2006, 22nd May 2006, 29th June 2006, 9th August 2006, 10th October 2006, 4th November 2006, 25th November 2006, 5th December 2006, 22nd December 2006 and 17th March 2007 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
Mr. N. V. Ramana	Member	10	10
Mr. L. Kishore Babu	Member	10	10

Ms. P. V. Lakshmi Rajani, 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	0	6	6	0
2.	Dividend Related	0	11	11	0

Disclosure on legal proceedings pertaining to shares

One case relating to dispute over title in which the Company has been made a party got resolved among the parties and there are no pending legal proceedings as on 31.03.2007.

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.divislaboratories.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 2006-07.

For and on behalf of the Board of Directors

Hyderabad
23rd May, 2007

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
16 th	31.03.2006	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004	02.09.2006 10 A.M	1. Re-appointment of Mr. Madhusudana Rao Divi as Director (Projects) and Mr. Kiran S Divi as Director (Business Development) of the Company. 2. Increase of remuneration payable to Mr. N.V. Ramana, Executive Director and Dr. P. Gundu Rao, Director (R&D) of the Company.
15 th	31.03.2005		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

SPECIAL RESOLUTION PASSED THROUGH POSTAL BALLOT:

During the year the Company sought approval through Postal Ballot dated 17.03.2007 from the Members for increasing the remuneration payable to whole time Directors of the Company. The last date for receipt of Postal Ballot is fixed as 18th May 2007 and results declared on 19th May 2007. Since, the resolution is passed and approved by Members in the financial year 2007-08, details of results will be taken into consideration in the next Annual Report.

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 a 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.

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.

Corporate Governance

8. GENERAL SHAREHOLDER INFORMATION

Annual General Meeting	Date: 3 rd September, 2007 Time: 10 AM
Venue	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004
Financial Year	1 st April 2006 to 31 st March 2007
Book Closure Date	10 th August 2007 to 13 th Aug 2007
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 2007-08 to both the above Stock Exchanges.

9. Depository Registrar and Transfer Agent:

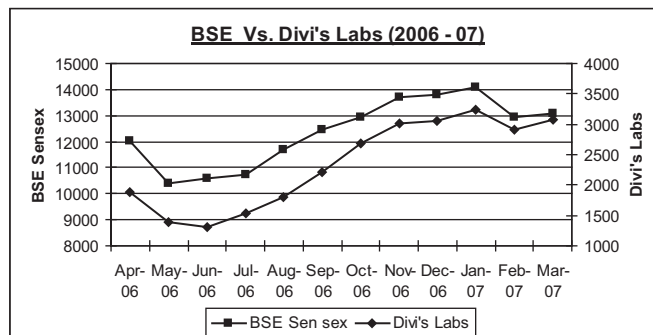
M/s. Karvy Computershare Private Limited
"Karvy House",
Road No. 1, Avenue 4, Banjara Hills,
HYDERABAD – 500 034
Phone No. 040-23312454 /23320751 / 752
Fax : 040-23311968
Email: karvyhyd@karvy.com

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 2006-07 are as follows:

Month	Mumbai Stock Exchange			National Stock Exchange		
	Low	High	Volume	Low	High	Volume
Apr-06	1700.05	2009.00	157500	1670.00	2015.00	785496
May-06	1200.00	1959.90	204240	1180.00	1959.00	662072
Jun-06	1118.00	1455.00	304191	1110.05	1424.00	381184
Jul-06	1255.00	1575.00	171606	1255.05	1590.00	558050
Aug-06	1555.00	1875.00	234476	1560.00	1871.05	763230
Sep-06	1799.00	2224.80	1235904	1795.00	2225.00	3718490
Oct-06	2155.00	2719.80	405651	2168.00	2724.00	1351879
Nov-06	2720.00	3180.00	659853	2578.90	3180.00	2288463
Dec-06	2360.00	3133.00	865644	2345.00	3126.00	2717931
Jan-07	2859.00	3245.50	518019	2850.00	3246.50	1674292
Feb-07	2882.00	3541.00	576162	2881.20	3540.00	1872583
Mar-07	2564.10	3090.00	754165	2570.00	3073.40	1641448

Below given chart shows the stock performance at closing prices 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, 2007:

Financial Year	No. of warrants unclaimed	Unclaimed Dividend (Rs in Lakhs)
1999-2000	122	1.84
2000-2001	82	1.81
2001-2002	94	3.12
2002-2003	193	4.37
2003-2004	171	3.90
2004-2005	238	3.54
2005-2006	240	3.98

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, the dividend for the following years, which remain unclaimed for seven years, will be transferred to Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

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 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:

Corporate Governance

Financial year ended	Date of declaration of dividend	Due for transfer to IEPF on
31.03.2000	15.04.2000	14.05.2007
31.03.2001	04.06.2001	03.07.2008
31.03.2002	11.03.2002	10.04.2009
31.03.2003	18.08.2003	17.09.2010
31.03.2004	09.08.2004	08.09.2011
31.03.2005	22.08.2005	21.09.2012
31.03.2006	02.09.2006	01.10.2013

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 2007				As on 31 st March 2006			
	No. of Members		No. of Shares		No. of Members		No. of Shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5000	9747	93.32	594602	4.61	6116	90.74	5330410	4.16
5001 – 10000	329	3.15	261284	2.02	304	4.51	2515660	1.96
10001 – 20000	142	1.36	216789	1.68	137	2.03	2133170	1.66
20001 – 30000	61	0.58	153351	1.19	48	0.71	1218380	0.95
30001 – 40000	34	0.33	122564	0.95	27	0.40	972520	0.76
40001 – 50000	18	0.17	84103	0.65	14	0.21	647950	0.51
50001 – 100000	44	0.42	320213	2.48	39	0.58	2965390	2.32
100001 & above	70	0.67	11158514	86.42	55	0.82	112403520	87.68
TOTAL	10445	100	12911420	100	6740	100	12818700	100

15. (i) Shareholding pattern

Category	As on 31.03.2007		As on 31.03.2006	
	No. of Shares	% to Share Capital	No. of Shares	% to Share Capital
Promoters	6913000	53.54	6920441	53.99
Mutual Funds and UTI	1714484	13.28	1114360	8.69
Banks	5928	0.05	8645	0.07
Foreign Institutional Investors	1705999	13.21	2339030	18.25
Private Corporate Bodies	687963	5.33	604094	4.71
Indian Public	1582452	12.26	1503424	11.73
Non-Resident Indians / Overseas Corporate Bodies	208632	1.62	185618	1.45
Clearing Members	9739	0.08	91408	0.71
Trusts	20257	0.16	430	0.00
Directors (Not having control over the Company)	62766	0.49	51250	0.40
Foreign Nationals	200	0.00	–	–
Grand Total	12911420	100.00	12818700	100.00



Corporate Governance

(ii) Shareholding profile

Mode of Holding	As on 31.03.2007				As on 31.03.2006			
	No. of Holders	%	No. of shares	%	No. of Holders	%	No. of shares	%
Demat	10242	98.06	6466176	50.08	6540	97.03	6350083	49.54
Physical	203	1.94	6445244	49.92	200	2.97	6468617	50.46
Total	10445	100	12911420	100	6740	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, 2007, 50.08 % 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

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

16. Correspondence address

Ms. P.V. Lakshmi Rajani

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, 1760 / 61

Fax: 040-2373 3242, email: cs@divislaboratories.com

For and on behalf of the Board of Directors

Hyderabad
23rd May, 2007

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, Murali K. Divi, Chairman and Managing Director appointed in terms of the Companies Act, 1956 and L.Kishore Babu, Chief Financial Officer, to the best of our knowledge and belief, certify that:

- a. We have reviewed the financial statements and cash flow statements for the year ended 31st March, 2007 and to the best of our knowledge and belief these statements :
 - 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: 23rd May 2007

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, 2007, 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 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: 23rd May 2007

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 2007, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 4 Further to our comments in the Annexure referred to above, we report that:
 - i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - ii) In our opinion, proper books of account as required by Law have been kept by the Company so far as appears from our examination of these books.

- iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
- iv) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred in Section 211 (3C) of the Companies Act, 1956 to the extent applicable.
- v) On the basis of the written representations received from the directors, as on 31.03.2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 st March, 2007 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, 2007;
 - 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
23.05.2007

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 2007

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, Customs duty, Excise duty, Cess and other material statutory dues applicable to it except in case of service tax where the instances of delays have been observed in depositing the dues with the appropriate authorities and in respect of these statutory dues, there are no outstanding dues as on 31.3.2007 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 of any dispute as on 31.3.2007 except Excise Duty, the details of which are as given under:

Annexure

Name of the Statute	Period to which the amount relates	Nature of dues	Amount Rs. in lakhs	Forum where dispute is pending
Excise duty	January, 2005 to October, 2005	Claim for CENVAT Credit against duty paid by availing the credit under DEPB Scheme	32.67	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.
Excise duty	July, 2004	Claim for CENVAT Credit on Capital Goods	36.06	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.
Excise duty	January, 2007	Penalty for non-fulfillment of export obligation against goods imported under DEEC Scheme	10.00	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.
Excise duty	August, 2005	Penalty and fine for non-fulfillment of export obligation against goods imported under DEEC Scheme	0.30	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.

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 31 st March 2007.
16. According to records of the Company the term loans raised during the year have been applied for the purposes for which they were raised.
17. As per the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the company, we report that the 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
23.05.2007

P V R K NAGESWARA RAO
Partner
Membership No. 18840

**Balance Sheet As At 31st March 2007**

(Rs. in Lakhs)

	Schedule No.	As At 31st March 2007	As At 31st March 2006
SOURCES OF FUNDS :			
SHARE HOLDERS' FUNDS :			
Share Capital	1	1291.14	1281.87
Reserves and Surplus	2	52913.37	32799.78
		<u>54204.51</u>	<u>34081.65</u>
LOAN FUNDS :			
Secured Loans	3	15080.93	14584.06
Unsecured Loans	4	314.65	433.94
		<u>15395.58</u>	<u>15018.00</u>
DEFERRED TAX LIABILITY (NET)	5	2953.13	2816.39
TOTAL		<u>72553.22</u>	<u>51916.04</u>
APPLICATION OF FUNDS :			
FIXED ASSETS :			
Gross Block	6	49066.56	30185.58
Less: Depreciation		<u>10947.37</u>	<u>8708.20</u>
Net Block		38119.19	21477.38
Capital Work - in - Progress		2502.56	6027.08
Unallocated Expenditure pending capitalization	7	71.95	396.77
Advances for Capital Works		1250.20	1603.46
		<u>41943.90</u>	<u>29504.69</u>
INVESTMENTS	8	58.36	39.75
NET CURRENT ASSETS :			
A. CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	9	21004.58	18385.88
Sundry Debtors	10	16446.14	10744.22
Cash and Bank Balances	11	1722.10	1014.71
Other Current Assets	12	20.60	17.99
Loans And Advances	13	3944.54	5300.72
		<u>43137.96</u>	<u>35463.52</u>
B. CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	14	12393.49	11516.30
Provisions	15	193.51	1575.62
		<u>12587.00</u>	<u>13091.92</u>
NET CURRENT ASSETS (A-B)		30550.96	22371.60
TOTAL		<u>72553.22</u>	<u>51916.04</u>
SIGNIFICANT ACCOUNTING POLICIES	23		
NOTES TO ACCOUNTS	24		

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
23.05.2007

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary



Profit And Loss Account For The Year Ended 31st March 2007

(Rs. in Lakhs)

	Schedule No.	For the year ended 31st March 2007	For the year ended 31st March 2006
I INCOME :			
Gross Sales		72973.45	38559.07
Less: Excise Duty		531.00	448.00
Net Sales		72442.45	38111.07
Other Income	16	1360.83	1062.48
TOTAL		73803.28	39173.55
II EXPENDITURE :			
Materials Consumed	17	32309.92	16981.61
Manufacturing Expenses	18	4380.98	3317.26
Salaries, Wages and other			
Allowances to Staff	19	5157.51	1843.62
Other Expenses	20	5994.25	4300.03
Finance Charges	21	1057.39	558.32
Depreciation	22	2232.86	1481.59
TOTAL		51132.91	28482.43
III PROFIT FOR THE YEAR:		22670.37	10691.12
Less : <u>Provision for Taxation:</u>			
-Current Tax		3315.50	3360.00
-Deferred Tax		136.74	313.16
- Income-tax adjustment of Earlier years		16.97	(44.18)
		3469.21	3628.98
- Fringe Benefit Tax		26.66	15.00
		3495.87	3643.98
IV PROFIT AFTER TAX:		19174.50	7047.14
Add : Profit brought forward from last year		23558.42	18682.93
		42732.92	25730.07
Less: <u>Transfer to:</u>			
Interim Dividend		1291.14	-
Proposed Dividend		-	1281.87
Corporate Dividend Tax		181.08	179.78
General Reserve		1990.00	710.00
Balance Carried to Balance Sheet		39270.70	23558.42
V Earnings Per Share:			
Basic (Rs.)		149.54	54.98
(Face Value Rs.10/- per share)	Diluted (Rs.)	147.77	53.94
SIGNIFICANT ACCOUNTING POLICIES	23		
NOTES TO ACCOUNTS	24		

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
23.05.2007 **P.V.R.K.NAGESWARA RAO**
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary

Cash Flow Statement For The Year Ended 31st March 2007

(Rs. in Lakhs)

PARTICULARS	For the year ended 31st March 2007	For the year ended 31st March 2006
I CASH FLOW / (USED) FROM OPERATING ACTIVITIES:		
Profit before tax for the year	22670.37	10691.12
Add/ (Less) : Adjustments for:		
Depreciation	2232.86	1481.59
Provision for Doubtful Debts made / (Written back)	(4.47)	(16.73)
Tools written off	3.59	3.26
Interest paid	887.78	433.95
Employee stock compensation costs amortised	2411.31	130.17
Wealth Tax	1.19	1.30
Interest received	(64.26)	(61.34)
Bad debts written off	44.74	2.63
	5512.74	1974.83
	28183.11	12665.95
Add / (Less) : Adjustments for Working Capital Changes :		
Trade and Other Receivables	(4634.25)	(2973.86)
Inventories	(2622.29)	(4484.27)
Trade Payables	738.27	3256.10
	(6518.27)	(4202.03)
Cash generated from operations	21664.84	8463.92
Less : Direct taxes paid	2697.07	3474.44
Net Cash flow from operating activities (I)	18967.77	4989.48
II CASH FLOW / (USED) FROM INVESTING ACTIVITIES:		
Purchase of Fixed assets	(15015.60)	(11073.51)
Investments In Subsidiaries	(18.61)	(39.75)
Advances to Subsidiaries	(852.63)	(115.97)
Net Cash (used) in Investing activities (II)	(15886.84)	(11229.23)



Cash Flow Statement

(Rs. in Lakhs)

PARTICULARS	For the year ended 31st March 2007	For the year ended 31st March 2006
III CASH FLOW / (USED) FROM FINANCING ACTIVITIES:		
Consideration for Issue of Shares under ESOP	9.27	-
Interest received	61.65	63.84
Proceeds from Long Term Loans	3415.04	5726.26
Repayment of Long Term Loans	(286.00)	-
Proceeds from Short Term Loans	-	2698.56
Repayment of Short Term Loans	(2751.47)	(15.36)
Interest paid	(914.75)	(496.73)
Corporate Dividend Tax paid (CDT)	(360.86)	(143.82)
Dividend paid	(2573.01)	(1025.50)
Net Cash flow in Financing Activities (III)	(3400.13)	6807.25
IV Net Increase / (Decrease) in cash and cash equivalents	(319.20)	567.50
V Cash and Cash Equivalents as at the beginning of the year	746.02	178.52
VI Cash and Cash Equivalents as at the end of the year	426.82	746.02
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2006-07	2005-06
Cash and Bank Balances as per the Balance Sheet	1722.10	1014.71
Less: Deposits lodged towards Security Deposits, Margin Money against Bank Guarantees and other designated accounts dealt separately.	1295.28	268.69
	426.82	746.02

Note:

- 1 Significant Accounting Policies (Schedule 23) and other Notes to Accounts (Schedule 24) form an Integral part of the Cash Flow Statement
- 2 Previous year figures have been regrouped / reclassified to conform to current year classification.

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
23.05.2007

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary



Schedules

(Rs. in Lakhs)

	As At 31st March 2007		As At 31st March 2006	
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>				
1,29,11,420 (Previous year 1,28,18,700) Equity shares of Rs.10/- each fully paid-up		<u>1291.14</u>		<u>1281.87</u>
(Of the above 1,50,000 Equity Shares of Rs.10/- each have been allotted as Bonus Shares on Capitalisation of General Reserve)				
02. RESERVES AND SURPLUS:				
<u>CAPITAL RESERVES:</u>				
Share Premium				
As per Loan Account	4148.61		4148.61	
Add: Premium on allotment of equity shares against options available under ESOP scheme	<u>1570.26</u>	5718.87	—	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	4191.49		—	
Additions during the year	—		4191.49	
Deletions during the year	<u>1582.16</u>		—	
	2609.33		4191.49	
Less: Deferred Employee Compensation Costs (Refer Note No.6 of Schedule No.24 -Notes to Accounts)	<u>1638.11</u>	971.22	<u>4061.32</u>	130.17
<u>REVENUE RESERVES:</u>				
<u>General Reserve:</u>				
As per Last account	4810.00		4100.00	
Add: Transferred from Profit and Loss Account	<u>1990.00</u>	6800.00	<u>710.00</u>	4810.00
PROFIT AND LOSS ACCOUNT (SURPLUS)		39270.70		23558.42
		<u>52913.37</u>		<u>32799.78</u>

Schedules

(Rs. in Lakhs)

	As At 31st March 2007	As At 31st March 2006
03. SECURED LOANS:		
<u>TERM LOANS :</u>		
From Banks:		
Foreign Currency Term Loans	7028.45	3613.41
Rupee Term Loan	<u>1833.30</u>	<u>2000.00</u>
	8861.75	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	6219.18	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 Vehicles acquired against the Loan)	<u>15080.93</u>	<u>14584.06</u>
04. UNSECURED LOANS:		
Deferred Sales Tax Credit	314.65	433.94
	<u>314.65</u>	<u>433.94</u>
05. DEFERRED TAX LIABILITY(NET):		
Balance brought forward	2816.39	2503.23
Add/Less: Adjustments during the year	136.74	313.16
(Refer Note No.15 of Schedule 24 Notes to Accounts)	<u>2953.13</u>	<u>2816.39</u>

Schedules

06. FIXED ASSETS: (Rs. in Lakhs)

Sl. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as at 01.04.2006	Additions	Deductions	Total Upto 31.03.2007	Upto 31.03.2006	For the Year	On Deductions	Total Upto 31.03.2007	At at 31.03.2007	As at 31.03.2006
1	LAND AND DEVELOPMENT	623.17	61.36	-	684.53	-	-	-	-	684.53	623.17
2	BUILDINGS	6270.09	2080.33	-	8350.42	948.89	201.57	-	1150.46	7199.96	5321.20
3	PLANT AND MACHINERY	20822.05	15844.42	-	36666.47	7122.99	1838.42	-	8961.41	27705.06	13699.06
4	LABORATORY EQUIPMENT	1736.91	786.01	-	2522.92	311.67	111.13	-	422.80	2100.12	1425.24
5	FURNITURE AND FIXTURES	136.13	46.97	-	183.10	82.69	25.83	-	108.52	74.58	53.44
6	DATA PROCESSING EQUIPMENT	183.02	50.82	-	233.84	103.56	24.27	-	127.83	106.01	79.46
7	VEHICLES	414.21	11.07	-	425.28	138.40	37.95	-	176.35	248.93	275.81
	TOTAL	30185.58	18880.98	-	49066.56	8708.20	2239.17	-	10947.37	38119.19	21477.38
	PREVIOUS YEAR	25380.49	4829.79	24.70	30185.58	7226.10	1485.01	2.91	8708.20	21477.38	18154.39

Schedules
**7. STATEMENT OF UNALLOCATED EXPENDITURE, PENDING CAPITALISATION, INCURRED UPTO 31ST MARCH 2007
(Rs. in Lakhs)**

PARTICULARS	UPTO 31st March 2006	Additions During The Year	Total Upto 31.03.2007
Salaries, Wages and Allowances	8.92	72.33	81.25
Printing and Stationary	1.27	2.75	4.02
Rent	4.70	-	4.70
Communication Expenses	3.71	0.10	3.81
Fee, Rates and taxes	0.09	0.21	0.30
Travel and Conveyance	51.41	52.02	103.43
Insurance	0.22	0.25	0.47
Legal and Professional Charges	54.87	1.90	56.77
Factory Upkeep	1.80	3.60	5.40
Carriage and Freight	1.95	23.57	25.52
General Expenses	14.99	1.39	16.38
Safety Expenses	-	4.70	4.70
(Gain)/Loss on Forex Fluctuations	5.65	(61.68)	(56.03)
INTEREST ON TERM LOANS:			
- Foreign Currency Term Loan	66.65	211.36	278.01
- Rupee Term Loan	22.28	68.94	91.22
Interest to Banks	4.99	9.43	14.42
Bank Charges	104.01	3.40	107.41
Depreciation	0.51	6.31	6.82
<u>Trial Run Expenses :</u>			
Raw Materials Consumed	-	1142.22	1142.22
Stores Consumed	2.93	30.53	33.46
Power and Fuel	50.19	66.35	116.54
Repairs and Maintenance	0.12	7.28	7.40
	401.26	1646.96	2048.22
Less: Stock out of Trial Runs :			
Stock of work in process	-	1112.07	1112.07
Interest Earned (Net of provision for tax)	4.49	0.13	4.62
	396.77	534.76	931.53
Less: Expenditure capitalized during the year			859.58
Balance carried forward			71.95



Schedules

(Rs. in Lakhs)

	As At 31st March 2007	As At 31st March 2006
8. INVESTMENTS:		
<u>LONG - TERM</u>		
<u>NON TRADE- UNQUOTED</u>		
A. <u>IN SUBSIDIARIES:</u>		
- Divi's Laboratories (USA) Inc		
1000 Ordinary Shares of US\$0.01 each fully paid-up	22.18	22.18
- Divi's Laboratories EUROPE AG		
200 Shares of CHF 500 each fully paid-up	36.18	17.57
(Previous Year 200 shares of CHF 500 each on which CHF 250 paid up)	—	—
	<u>58.36</u>	<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	1.20	—
	<u>—</u>	<u>1.20</u>
Value of Un -Quoted Investments	<u>58.36</u>	<u>39.75</u>
Aggregate Value of Quoted Securities	Nil	Nil
Aggregate Market Value of Quoted Securities	Nil	Nil
Aggregate Value of Unquoted Securities	<u>58.36</u>	<u>39.75</u>
9. INVENTORIES:		
(As taken, Valued and Certified by the Management)		
Stock of Raw Materials	7892.58	5544.95
Stock of Stores and Spares	221.07	190.40
Stock of Work-in-Process	9176.98	10998.15
Stock of Finished Goods	3000.35	1363.22
Material in Transit	708.28	281.31
Tools and Spares	5.32	7.85
	<u>21004.58</u>	<u>18385.88</u>
10. SUNDRY DEBTORS:		
(Unsecured)		
Outstanding for a Period Exceeding Six Months		
- Considered Good	318.21	285.52
- Considered doubtful	—	4.47
	<u>318.21</u>	<u>289.99</u>
Less : Provision for Doubtful Debts	—	4.47
Others:		
- Considered Good	16127.93	10458.70
	<u>16446.14</u>	<u>10744.22</u>

Schedules

(Rs. in Lakhs)

	As At 31st March 2007	As At 31st March 2006
11. CASH AND BANK BALANCES:		
Cash on Hand	9.08	14.80
Balance with Scheduled Banks :		
- In Current Accounts	417.74	131.22
- In Unclaimed Dividend Accounts	597.84	21.54
- In Term Deposit Accounts	697.44	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.697.42 lakhs (Previous Year Rs.247.13 lakhs) towards Margin on Letters of Credits and Guarantees issued by the Banks}		
	<u>1722.10</u>	<u>1014.71</u>
12. OTHER CURRENT ASSETS:		
Interest accrued on deposits	20.60	17.99
	<u>20.60</u>	<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	305.47	269.60
Advances to Suppliers	347.92	412.91
Advance for Expenses	8.33	8.71
Central Excise Duty	1213.60	2270.70
Prepaid Expenses	141.29	90.95
Other Advances and Recoverables	959.33	1481.30
Prepaid Taxes (Net of Provision for Taxation)	-	650.58
Advances to Subsidiaries	968.60	115.97
(Maximum amount outstanding during the year- Rs.968.60 lakhs)(Previous Year Rs. 115.97 lakhs)		
	<u>3944.54</u>	<u>5300.72</u>



Schedules

(Rs. in Lakhs)

	As At 31st March 2007		As At 31st March 2006	
14. CURRENT LIABILITIES:				
<u>CREDITORS FOR CAPITAL WORKS</u>				
-Small Scale Industrial Undertakings (Refer Note No.5 of Schedule 24- Notes to Accounts)	4.93		17.43	
-Others	<u>1360.67</u>	1365.60	<u>1691.70</u>	1709.13
<u>SUNDRY CREDITORS :</u>				
-Small Scale Industrial Undertakings (Refer Note No.5 of Schedule 24- Notes to Accounts)	72.07		41.02	
-Others	<u>8710.61</u>	8782.68	<u>8351.95</u>	8392.97
Advances from Customers		1643.20		1361.52
Interest Accrued But Not Due		4.17		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)		597.84		21.54
		<u>12393.49</u>		<u>11516.30</u>
15. PROVISIONS:				
Provision for Gratuity and Leave Encashment		179.95		113.19
Proposed Dividend		-		1281.87
Provision for Corporate Dividend Tax		-		179.78
Provision for Income Tax (Net of Prepaid Taxes)		7.03		-
Provision for Fringe Benefit Tax (Net of Prepaid Taxes)		6.53		0.78
		<u>193.51</u>		<u>1575.62</u>

Schedules

(Rs. in Lakhs)

	For the year ended 31st March 2007		For the year ended 31st March 2006	
16. OTHER INCOME:				
Contract Research Fee		268.52		347.68
Export Benefits		747.38		445.92
Interest Earned (Gross) (TDS Rs.10.10 lakhs (Previous Year Rs.7.65 lakhs))		64.26		61.34
Provision for doubtful debts written back		4.47		16.73
Miscellaneous Income		276.20		190.81
		<u>1360.83</u>		<u>1062.48</u>
17. MATERIALS CONSUMED:				
A. RAW MATERIALS CONSUMED:				
Opening Stock	5544.95		2256.23	
Less: VAT Credit availed	<u>-</u>	5544.95	<u>6.89</u>	2249.34
Add: Purchases		33511.75		21655.50
		<u>39056.70</u>		<u>23904.84</u>
Less: Closing Stock	7892.58		5544.95	
Sales	<u>51.97</u>	7944.55	<u>68.07</u>	5613.02
(A)		<u>31112.15</u>		<u>18291.82</u>
B. (INCREASE)/DECREASE IN STOCKS :				
<u>Closing Stock of :</u>				
Finished Goods		3000.35		1363.22
Work-in-Process		9176.98		10998.15
(I)		<u>12177.33</u>		<u>12361.37</u>
<u>Stock out of trial runs:</u>				
Work-in-process		1112.07		-
(II)				
<u>Opening Stock of:</u>				
Finished Goods		1363.22		1534.62
Work-in-Process	10998.15	-	9619.01	
Less: VAT Credit availed	<u>-</u>	10998.15	<u>68.44</u>	9550.57
(III)		<u>12361.37</u>		<u>11085.19</u>
Excise Duty adjustment in movement in Finished goods Inventory		(98.34)		(34.03)
(IV)				
(Increase)/Decrease in Stocks : (B)(I-II-III+IV)		1197.77		(1310.21)
MATERIALS CONSUMED: (A+B)		<u>32309.92</u>		<u>16981.61</u>
18. MANUFACTURING EXPENSES:				
Stores Consumed		993.85		741.43
Power and Fuel		2434.82		1848.47
Conversion Charges		54.64		14.06
Tools Written off		3.59		3.26
Repairs and Maintenance to :				
- Buildings		97.63		102.07
- Plant and Machinery		796.45		607.97
		<u>4380.98</u>		<u>3317.26</u>



Schedules

(Rs. in Lakhs)

	For the year ended 31st March 2007	For the year ended 31st March 2006
19. SALARIES WAGES AND OTHER ALLOWANCES TO STAFF:		
Salaries, Wages, Bonus and Other Allowances	2808.18	1582.47
Contribution to PF and ESI	72.44	48.24
Workmen and Staff Welfare expenses	159.87	98.58
Amortisation of Deferred Employee Compensation (Exclusive of Rs.294.29 Lakhs (Previous year Rs.15.84 Lakhs) included in Managerial Remuneration)	2117.02	114.33
	<u>5157.51</u>	<u>1843.62</u>
20. OTHER EXPENSES:		
Managerial Remuneration	1588.69	722.17
Directors' Sitting Fees	5.20	1.85
Printing and Stationery	106.00	66.33
Rent	14.66	14.86
Communication Expenses	53.43	51.42
Fees, Rates and Taxes	304.27	287.59
Travelling and Conveyance	263.82	177.28
Insurance	185.18	136.14
Repairs and Maintenance to other Assets	29.64	21.94
Vehicle Maintenance	80.72	73.87
Payment to Auditors	18.61	16.03
Professional and Consultancy Charges	101.56	129.23
Factory Upkeep	205.73	120.80
Research and Development Expenses	1027.96	848.12
Environment Management Expenses	174.28	112.75
Freight and Handling Charges	1034.14	854.26
Advertisement	3.46	2.97
Sales Commission	215.03	258.45
General Expenses	366.89	234.38
Claims Written off	13.31	7.13
Bad Debts Written-off	44.74	2.63
Donations	1.01	5.81
Loss on Foreign Exchange Fluctuations	155.92	154.02
	<u>5994.25</u>	<u>4300.03</u>
21. FINANCE CHARGES:		
Interest on Fixed Loans	296.32	-
Interest on Working Capital Loans	540.17	361.80
Interest to Others	51.29	72.15
Bank Charges and Commission	169.61	124.37
	<u>1057.39</u>	<u>558.32</u>
22. DEPRECIATION:		
Depreciation for the year as per Schedule No.6	2239.17	1485.01
Less: Depreciation written back avilment of VAT Credit on additions of earlier years	-	2.91
	<u>2239.17</u>	<u>1482.10</u>
Less: Depreciation included in Unallocated Expenditure pending Capitalisation	6.31	0.51
	<u>2232.86</u>	<u>1481.59</u>

Accounting Policies

23. SIGNIFICANT ACCOUNTING POLICIES:

A. ACCOUNTING CONVENTION:

The financial statements are prepared under historical cost convention on the accrual basis of accounting in accordance with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and under the relevant provisions of the Companies Act, 1956.

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. Borrowing costs directly attributable to acquisition or construction of fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. The cost of fixed assets also includes the exchange difference arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.
- ii. Depreciation on Fixed Assets is provided under Straight Line Method at the rates and in the manner 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 is being capitalised by allocating to relevant assets in the ratio of their direct cost.

C. IMPAIRMENT OF ASSETS:

The carrying amount of the assets are being tested on annual basis for impairment so as to determine the provision required for impairment loss if any or for reversal of the provision, if any, required on account of impairment loss recognised in previous periods.

D. 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.

E. INVENTORIES :

- i. Inventories are valued at lower of cost or net realisable value. Cost is determined considering the cost of purchase, cost of conversion, cost of labour and appropriate portion of manufacturing overheads and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is being determined in case of raw materials, packing materials and stores and spares under weighted average cost method, in case of work in progress and finished goods under first and first out (FIFO) method and in case of Tools under revaluation method.
- ii. Stationery, Uniforms, Medical, Canteen and Books and Periodicals are charged off to the revenue at the time of purchase / payment.

F. 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.

G. 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 wherever applicable.

H. 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 the same is amortised over the vesting period of the stock options.

I. 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.

Accounting Policies

- iii Non-monetary assets and liabilities are recorded at the rates prevailing on the date of the transaction.
- iv. Forward contracts are being entered into to mitigate the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitments or highly probable forecast transactions. In case of forward contracts not intended for trading or speculative purposes, the premium or discount on all such contracts is amortised as income or expense over the life of the contract. Any profit or loss arising on cancellation or renewal of forward contracts is recognised as income or expense for the period. The exchange differences, consisting of the difference between (a) the foreign currency amount of the contract translated at the exchange rate at the reporting date or the settlement date where the transaction is settled during the reporting period and (b) the same foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date, are recognised in the profit and loss account in the reporting period in which the exchange rates change.

In case of other forward contracts, the gain or loss, computed considering the exchange difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate, is recognised as income or expense in the statement of profit and loss for the period.

J. EMPLOYEE'S 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.

K. TAXES ON INCOME:

- i. Tax expense is the aggregate of current year income tax, deferred income tax charged or credited to the Profit and Loss account and Fringe Benefits Tax 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.

L. 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.

M. 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.
- iii. Service income is recognised as per the terms of the contracts with customers when the related services are performed or the agreed milestones are achieved.

N. BORROWING COSTS:

Borrowing costs that are attributable to the acquisition or construction of a qualifying asset are capitalised as part of cost of such

asset till such time as the asset is ready for its intended use. Other borrowing costs are recognised as expense for the period.

O. LEASES:

Lease of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight line basis over the period of lease.

P. 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.

Q. 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.

R. CONTINGENT LIABILITIES:

The Company makes a provision when there is a present obligation as a result of a past event where the outflow of economic resources is probable and a reliable estimate of the amount of obligation can be made. The disclosure is made for possible or present obligations that may, but probably will not, require outflow of resources as contingent liability in the financial statements.

Notes To Accounts

24. NOTES TO ACCOUNTS

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

Particulars	(Rs in lakhs)	
	2006-07	2005-06
i) On account of Letters of Credit and bank guarantees issued by the bankers.	7563.95	2286.24
ii) On account of Foreign bills discounted with banks	NIL	78.07
iii) On account of Bonds and / or legal agreements executed with Central Excise/ Customs authorities/ Development Commissioners	8250.00	2000.00
iv) Demands being disputed / contested by the Company	87.19	50.10

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

3424.42	3703.80
---------	---------
- (ii) Uncalled liability on partly paid shares of Divis Laboratories (Europe) AG

Nil	17.57
-----	-------
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. The names of Small Scale Industrial Undertakings to whom the company owes a sum outstanding for more than 30 days are(1) Godavari Plasto Containers Pvt Ltd, (2) GPC Flow Instruments Pvt. Ltd, (3) Costal Ammonia Pvt. Ltd, (4) Sri Sairam Polymers, (5) Durga Industries, (6) Super Olefins Pvt. Ltd (7) Coastal Plasto Containers (P) Ltd (8) SPP Poly Pack Private Ltd (9) 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.

6. EMPLOYEE STOCK OPTIONS:

In respect of Options granted to employees during the year 2005-06 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 being amortised on a straight line basis over the vesting period. Consequently an amount of Rs.2411.31 lakhs (Previous year Rs. 130.17 Lakhs) has been amortised for the Current Year.

The movement of Stock Options during the year ended 31st March 2007 is as detailed below:

Particulars	2006-07 Nos.	2005-06 Nos.
At the beginning of the year	464920	Nil
Granted during the year	Nil	464920
Expired / Forfeited during the year	1320	Nil
Exercised during the year	92720	Nil
At the end of the year	370880	464920

7. AMOUNTS PAID/PAYABLE TO AUDITORS:

Particulars	(Rs in lakhs)	
	2006-07	2005-06
As Auditors	10.00*	8.42
For Tax Audit	3.37	2.21
For Certification charges	4.10*	1.65
For Taxation matters	0.75*	3.50
For Reimbursement of out of pocket expenses	0.39	0.25
TOTAL	18.61	16.03

* Excluding Service Tax availed / to be availed

Notes To Accounts

8. MANAGERIAL REMUNERATION:

(Rs in lakhs)

Particulars	2006-07	2005-06
Salary	143.52	138.48
Commission	1091.69	512.92
Perquisites	43.74	39.97
Contribution to Provident Fund	15.45	14.96
Amortization of deferred employee compensation expenses	294.29	15.84
Total	1588.69	722.17

9. CALCULATION OF COMMISSION:

Computation of Net Profit in accordance with Section 349 read with section 198 of the Companies Act, 1956 with relevant details of the calculation of commission payable by way of percentage of such Profits to Chairman and Managing Director and Executive Director for the year ending 31st March, 2007

(Rs. in lakhs)

Particulars	2006-07	
Profit as per Profit and Loss Account		22670.37
Add:-Managerial Remuneration	1588.69	
Directors Sitting Fee	5.20	1593.89
		24264.26
Less: Provision for doubtful debts written back		4.47
Profit U/s. 198 (1) of the Companies Act 1956		24259.79
Commission @ 4.5% of the above		1091.69

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

(Rs. in lakhs)

Particulars	2006-07	2005-06
Consumption of Spares/Stores	0.17	0.01
Professional and Consultancy Charges	3.01	—
Fees, Rates and Taxes	—	20.06
Sales Commission	—	0.65
Others	0.62	0.56
Total	3.80	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.

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	2006-07		2005-06	
	Revenue	%	Revenue	%
Exports	68025.12	93.22	34206.82	88.71
Domestic	4948.33	6.78	4352.25	11.29
Total	72973.45	100.00	38559.07	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:

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

- b) Transactions with Related Parties:

(Rs. in lakhs)

Particulars	2006-07		2005-06	
	Amount	Outstanding as at 31.03.2007	Amount	Outstanding as at 31.03.2006
Remuneration to Key Management Personnel	1588.68	1099.52	722.17	519.05
Lease Rent to Key Management Personnel	14.51	1.01	14.51	0.59
Salary and Allowances to Relatives of Key Management Personnel	4.31	0.32	4.31	0.28
Investment in Capital of Subsidiaries	18.61	58.36	39.75	39.75
Advances to Subsidiaries	835.09	950.70	115.61	115.61
Interest from subsidiary	17.54	17.90	0.36	0.36
Sales to Subsidiaries	371.23	296.55	Nil	Nil

Note: Options granted and outstanding to Key Management Personnel (No'S)

45264

56580

Notes To Accounts

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

- (i) The Company has operating lease for office premise, which is renewable on a periodical basis and cancellable at its option. Rental expenses for operating lease recognised in Profit and Loss account for the year is 14.51 Lakhs (Previous Year Rs.14.51 lakhs).

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

Particulars	2006-07	2005-06
A EARNINGS:		
Profit attributable to Equity Shareholders (Rs. In lakhs)	19174.50	7047.15
B NO. OF SHARES:		
Weighted average number of Equity shares outstanding during the year (Nos.) - Basic	12822510	12818700
Add: Weighted average number of equity shares arising out of outstanding stock options that have diluted effect on the EPS	153170	246064
Weighted average number of Equity Shares outstanding during the year- Diluted	12975680	13064744
C Earnings Per Share of Par Value –Rs.10/- Basic (Rs.)	149.54	54.98
Earnings Per Share of Par Value –Rs.10/- Diluted (Rs.)	147.77	53.94

15. DEFERRED TAX LIABILITY:

Movement of Provision for Deferred Tax for the year ended 31.03.2007 is as given below:

(Rs. in lakhs)

Particulars	(Liability)/Asset As at 01.04.2006	(Charges)/ Credit for the year	(Liability)/ Asset as at 31.03.2007
Timing Differences on account of:			
1. Depreciation on Assets	(2876.34)	(150.58)	(3026.92)
2. Expenses allowable on the basis of Payment	42.80	30.58	73.38
3. Others	17.15	(16.74)	0.41
TOTAL	(2816.39)	(136.74)	(2953.13)

16. Information pursuant to Clause 32 of Listing Agreement with Stock Exchange:

(Rs. in lakhs)

Particulars	Balance as on 31.3.2007	Balance as on 31.3.2006	Maximum Balance Outstanding during the year	
			31.3.2007	31.3.2006
Loans and advances in the nature of loans to wholly owned subsidiary companies with no specific repayment schedule:				
a) Divi's Laboratories (USA) Inc (Excluding interest)	493.33	70.94	493.33	70.94
b) Divi's Laboratories Europe AG* *(Interest free)	457.37	44.67	457.37	44.67

Notes To Accounts

17. Disclosures w.r.t Derivative Instruments:

A. Foreign currency Exposures that are covered for hedging the foreign exchange risk by Derivative Instruments:

(Rs. in Lakhs)

Particulars	Currency	As on 31.3.2007		As on 31.3.2006	
		Amount In Foreign Currency	Equivalent Amount in Indian Currency	Amount In Foreign Currency	Equivalent Amount in Indian Currency
Receivables	US\$	227.50	9916.73	—	—
Total	US\$	227.50	9916.73	—	—

B. Foreign currency Exposures that are not covered by a derivative instruments or otherwise:

(Rs. in Lakhs)

Particulars	Currency	As on 31.3.2007		As on 31.3.2006	
		Amount In Foreign Currency	Equivalent Amount in Indian Currency	Amount In Foreign Currency	Equivalent Amount in Indian Currency
Long term Loans	US\$	161.24	7028.45	81.00	3613.41
Liabilities for supplies and services	Euro	5.05	293.41	—	—
	GBP	3.28	280.28	20.99	1633.50
	US\$	28.30	1233.57	14.08	627.95
	JapY	1965.60	72.73	—	—
	CHF	0.01	0.12	—	—
Receivables	Euro	4.08	237.39	1.87	101.13
	GBP	59.31	5072.52	28.17	2191.68
	US\$	—	—	169.00	7539.07

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

Particulars	2006-07	2005-06
i) Details of capacities and production:		
A. Registered capacity:		
Active Pharma Ingredients and Intermediates (MTs)	N.A.	N.A.
B. Installed capacity:		
Active Pharma Ingredients and Intermediates (MTs) (As certified by the Management, But not verified by the Auditors, being a technical matter)	3500.00	2200.00
C. Actual production:		
Active Pharma Ingredients and Intermediates (MTs) (Net of Captive Consumption of 2563.77 MTs (Previous Year 1602.81 MTs))	2056.50	1349.98

Notes To Accounts

Particulars	2006-07		2005-06	
	Qty MTs	Value (Rs.in lakhs)	Qty MTs	Value (Rs.in lakhs)
ii) Opening and Closing Stock of Finished Goods:				
<u>Opening Stock:</u>				
Active Pharma Ingredients and Intermediates	92.21	1363.22	114.80	1534.62
<u>Closing Stock:</u>				
Active Pharma Ingredients and Intermediates	281.22	3000.35	92.21	1363.22
iii) Details of Turnover:				
(Inclusive of samples)				
Active Pharma Ingredients and Intermediates	1867.49	72973.45	1372.57	38559.07
iv) Details of Raw Materials Consumed:				
P-Anisaldehyde	283.27	650.44	622.82	1489.36
Iodine	119.88	1241.72	93.51	779.92
Toluene	6846.96	2883.17	3372.19	1087.00
Methanol	7547.39	1246.58	6386.13	737.67
Alluminium Chloride	1879.16	788.67	1677.55	601.99
Beta Naphtol	1517.03	1278.91	849.62	563.02
Others		23022.66		13032.86
Total		31112.15		18291.82

	2006-07		2005-06	
	Value (Rs.InLakhs)	%	Value (Rs.InLakhs)	%
v) Value of Imported and Indigenous Raw Materials consumed and their percentage to total consumption:				
Imported	13848.83	44.51	6417.85	35.09
Indigenous	17263.32	55.49	11873.97	64.91
Total	31112.15	100.00	18291.82	100.00

(Rs. in Lakhs)

	2006-07	2005-06
vi) Expenditure in Foreign Currency Towards:(On accrual basis)		
Membership and Subscription	0.54	0.32
Books and Periodicals	19.46	12.16
Traveling Expenses	61.14	45.28
Lab Chemicals	6.37	197.30
Consultancy charges	101.45	159.59
Sales commission	121.48	177.35
Foreign Bank charges	33.38	132.00
Finance charges	439.06	66.65
Others	7.52	103.47



Notes To Accounts

(Rs. in Lakhs)

	2006-07	2005-06
vii) Earnings in Foreign Exchange: (On accrual basis)		
FOB Value of Exports	67120.78	33479.57
Contract Research Fee	268.52	318.72
Professional Receipts	—	38.89
Interest	17.66	0.78
Others	18.30	0.16
viii) CIF Value of Imports:		
Raw Materials	15795.06	10746.01
Capital Equipment	1285.21	144.26
Spares	7.96	76.65
ix) Remittances in Foreign Currency for Dividend:		
A No. of Non-resident Shareholders	7	7
B No. of Shares held(Equity shares of Rs. 10/- each)	10400	139600
C Dividend Remitted(Net of Tax Rs. Nil)	1.04	11.17

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

20. 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 23th day of May, 2007 at Hyderabad.

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
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	:	31.03.2007
			(Rs.in Lakhs)
ii)	Capital raised during the year		
	Public issue	:	Nil
	Rights issue	:	Nil
	Bonus issue	:	Nil
	Private Placement	:	9.27
iii)	Position of Mobilisation and deployment of funds		
	Total Liabilities	:	72553.22
	Total Assets	:	72553.22
	a) <u>Sources of funds</u>		
	Paid-up capital	:	1291.14
	Reserves and Surplus	:	52913.37
	Secured Loans	:	15080.93
	Unsecured Loans	:	314.65
	Deferred Tax Liability (Net)	:	2953.13
	b) <u>Application of funds</u>		
	Net Fixed Assets	:	41943.90
	Investments	:	58.36
	Net Current Assets	:	30550.96
	Miscellaneous Expenditure	:	Nil
	Accumulated Losses	:	Nil
iv)	Performance of Company		
	Turnover	:	73803.28
	Total Expenditure	:	51132.91
	Profit before tax	:	22670.37
	Profit after tax	:	19174.50
	Earnings per share (Rs.) (Basic)	:	149.54
	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 2007	31st March 2007
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 (INR in Lakhs)	Nil	Nil
	b. Not dealt with or provided for in the accounts of the holding company	(279.76) <u>USD (623539)</u>	(309.04) <u>CHF (840306)</u>
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	Nil	Nil
	b. Not dealt with or provided for in the accounts of the holding company	--	--
6	Changes in the interest of Divi's Laboratories Limited, between the end of the last financial year and 31st March 2007	Nil	Nil
7	Material changes between the end of the last financial year and 31st March 2007	Nil	Nil

For and on behalf of the Board

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
23.05.2007

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary



Audit 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, 2007 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 this 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. 182.82 Lakhs as at 31st March, 2007 and their share of total loss of Rs. 746.69 Lakhs and their net cash inflows amounting to Rs. 74.80 Lakhs for the year ended on that date as considered in the consolidated financial statements. The financial statements and other financial information of these subsidiaries have been audited by other auditors, whose reports 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 reports of such other auditors.

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 and under the provisions of the Companies Act, 1956.
5. Based on our audit and on consideration of the reports of other auditors on separate financial statements and on the other financial information of the entities, 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 in the case of:
 - (i) Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at March 31, 2007;
 - (ii) Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its subsidiaries for the year ended on that date; and
 - (iii) Consolidated Cash Flow Statement, of the consolidated cash flows of the Company and its subsidiaries for the year ended on that date.

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

P V R K NAGESWARA RAO
Partner
Membership No.18840

HYDERABAD
23.05.2007



Consolidated Balance Sheet As At 31st March 2007

(Rs. in Lakhs)

	Schedule No.	As At 31st March 2007		As At 31st March 2006	
SOURCES OF FUNDS :					
SHARE HOLDERS' FUNDS :					
Share Capital	1	1291.14		1281.87	
Reserves and Surplus	2	<u>52250.12</u>	53541.26	<u>32705.52</u>	33987.39
LOAN FUNDS :					
Secured Loans	3	15080.93		14584.06	
Unsecured Loans	4	<u>314.65</u>	15395.58	<u>433.94</u>	15018.00
DEFERRED TAX LIABILITY (NET)	5		2771.43		2786.94
TOTAL			<u>71708.27</u>		<u>51792.33</u>
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	6	49087.39		30195.23	
Less: Depreciation		<u>10949.62</u>		<u>8708.69</u>	
Net Block		38137.77		21486.54	
Capital Work - in - Progress		2502.56		6027.08	
Unallocated Expenditure pending Allocation	7	71.95		396.77	
Advances for Capital Works		<u>1250.20</u>	41962.48	<u>1603.46</u>	29513.85
INVESTMENTS	8		-		-
NET CURRENT ASSETS :					
A. CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	9	21350.89		18385.88	
Sundry Debtors	10	16166.19		10744.22	
Cash and Bank Balances	11	1833.99		1051.23	
Other Current Assets	12	20.60		17.99	
Loans And Advances	13	3021.06		5192.10	
		<u>42392.73</u>		<u>35391.42</u>	
B. CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	14	12445.87		11537.32	
Provisions	15	201.07		1575.62	
		<u>12646.94</u>		<u>13112.94</u>	
NET CURRENT ASSETS (A-B)			29745.79		22278.48
TOTAL			<u>71708.27</u>		<u>51792.33</u>
ACCOUNTING POLICIES	23				
NOTES TO ACCOUNTS	24				

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
23.05.2007

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary



Consolidated Profit And Loss Account For The Year Ended 31st March 2007

(Rs. in Lakhs)

	Schedule No.	For the year ended 31st March 2007	For the year ended 31st March 2006
I INCOME :			
Gross Sales		72988.56	38559.07
Less: Excise Duty		531.00	448.00
Net Sales		72457.56	38111.07
Other Income	16	1343.07	1062.13
TOTAL		73800.63	39173.20
II EXPENDITURE :			
Materials Consumed	17	32308.57	16981.61
Manufacturing Expenses	18	4392.00	3317.26
Salaries, Wages and other Allowances to Staff	19	5510.97	1874.18
Other Expenses	20	6372.60	4391.56
Finance Charges	21	1058.19	558.36
Depreciation	22	2234.62	1482.08
TOTAL		51876.95	28605.05
III PROFIT FOR THE YEAR:		21923.68	10568.15
LESS : <u>Provision for Taxation:</u>			
-Current Tax		3316.50	3360.22
-Deferred Tax		(22.14)	283.71
- Income-tax adjustment of Earlier years		16.96	(44.18)
		3311.32	3599.75
- Fringe Benefit Tax		26.66	15.00
		3337.98	3614.75
IV PROFIT AFTER TAX		18585.70	6953.40
Add : Profit brought forward from last year		23464.68	18682.93
		42050.38	25636.33
Less: Transfer to:			
Interim Dividend		1291.14	-
Proposed Dividend		-	1281.87
Corporate Dividend Tax		181.08	179.78
General Reserve		1990.00	710.00
Balance carried to Balance Sheet		38588.16	23464.68
V Earnings Per Share:			
Basic (Rs.)		144.95	54.24
(Face Value Rs.10/- per share)	Diluted (Rs.)	143.23	53.22
ACCOUNTING POLICIES	23		
NOTES TO ACCOUNTS	24		

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
23.05.2007

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary

Consolidated Cash Flow Statement For The Year Ended 31st March 2007

(Rs. in Lakhs)

PARTICULARS	For the year ended 31st March 2007	For the year ended 31st March 2006
I CASH FLOW FROM / (USED IN) OPERATING ACTIVITIES:		
Profit before tax for the year	21923.68	10568.15
Add/ (Less) : Adjustments for:		
Depreciation	2234.62	1482.08
Provision for Doubtful Debts made / (Written back)	(4.47)	(16.73)
Tools written off	3.59	3.26
Interest paid	887.79	433.95
Employee stock compensation costs amortised	2411.32	130.17
Wealth Tax	1.19	1.30
Interest received	(46.50)	(60.99)
Bad debts written off	44.74	2.63
Foreign Exchange (gain)/loss on consolidation	15.08	(0.51)
	5547.36	1975.16
	27471.04	12543.31
Add / (Less) : Adjustments for Working Capital Changes :		
Trade and Other Receivables	(4396.32)	(2978.49)
Inventories	(2968.60)	(4484.27)
Trade Payables	776.18	3274.18
	(6588.74)	(4188.58)
Cash generated from operations	20882.30	8354.73
Less: Direct taxes paid	2675.15	3474.44
Net Cash flow from operating activities	(18207.15)	4880.29
II CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES:		
Purchase of Fixed assets	(15033.09)	(11083.16)
Net Cash (used) in Investing activities	(15033.09)	(11083.16)



Consolidated Cash Flow Statement

(Rs. in Lakhs)

PARTICULARS	For the year ended 31st March 2007	For the year ended 31st March 2006
III CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES:		
Consideration for issue of Shares under ESOP	9.27	-
Interest received	43.89	63.49
Proceeds from Long Term Loans	3415.04	5726.26
Repayment of Long Term Loans	(286.00)	-
Proceeds from Short Term Loans	-	2698.56
Repayment of Short Term Loans	(2751.47)	(15.36)
Interest Paid	(914.76)	(496.73)
Corporate Dividend Tax paid (CDT)	(360.86)	(143.82)
Dividend Paid	(2573.01)	(1025.50)
Net Cash flow from / (used in) Financing Activities	(3417.90)	6806.90
IV Net Increase / (Decrease) in cash and cash equivalents	(243.84)	604.03
V Cash and Cash Equivalents as at the beginning of the year	782.55	178.52
VI Cash and Cash Equivalents as at the end of the year	538.71	782.55
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2006-07	2005-06
Cash and Bank Balances as per the Balance Sheet	1833.99	1051.23
<u>Less:</u> Deposits lodged towards Security Deposits, Margin Money against Bank Gurantees and other designated accounts dealt seperately.	1295.28	268.68
	538.71	782.55

Note:

- 1 Significant Accounting Policies (Schedule 23) and other Notes to Accounts (Schedule 24) form an Integral part of the Cash Flow Statement
- 2 Previous year figures have been regrouped / reclassified to conform to current year classification.

Signed at Hyderabad on 23rd May, 2007.

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary



Consolidated Schedules

(Rs. in Lakhs)

	As At 31st March 2007		As At 31st March 2006	
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>
SUBSCRIBED AND PAID-UP:				
1,29,11,420 (previous year 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>1291.14</u>		<u>1281.87</u>
02. RESERVES AND SURPLUS:				
<u>CAPITAL RESERVES:</u>				
Share Premium As per last Account		4148.61		4148.61
Add: Premium on Allotment of Equity shares against options availed Under ESOP Scheme		<u>1570.26</u>		4148.61
		5718.87		
Debenture Forfeiture Account		90.00		90.00
Debenture Premium Account		30.00		30.00
State Investment Subsidy		32.58		32.58
<u>EMPLOYEE STOCK OPTION OUTSTANDING:</u>				
As per Last account		4191.49		-
Additions during the year		-		4191.49
Deletions during the year		<u>1582.16</u>		-
		2609.33		4191.49
Less: Deferred Employee Compensation Costs (Refer Note No.7 of Schedule No.24 -Notes to Accounts)		<u>1638.11</u>		<u>4061.32</u>
		971.22		130.17
<u>REVENUE RESERVES:</u>				
<u>General Reserve:</u>				
As per Last account		4810.00		4100.00
Add: Transferred from Profit and Loss Account		<u>1990.00</u>		<u>710.00</u>
		6800.00		4810.00
Foreign Currency Translation Reserve		19.29		(0.52)
PROFIT AND LOSS ACCOUNT (SURPLUS)		38588.16		23464.68
		<u>52250.12</u>		<u>32705.52</u>



Consolidated Schedules

(Rs. in Lakhs)

	As At 31st March 2007	As At 31st March 2006
03. SECURED LOANS:		
<u>TERM LOANS :</u>		
From Banks:		
Foreign Currency Term Loans	7028.45	3613.41
Rupee Term Loan	<u>1833.30</u>	<u>2000.00</u>
	8861.75	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	6219.18	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>15080.93</u>	<u>14584.06</u>
04. UNSECURED LOANS:		
Deferred Sales Tax Credit	314.65	433.94
	<u>314.65</u>	<u>433.94</u>
05. DEFERRED TAX LIABILITY(NET):	<u>2771.43</u>	<u>2786.94</u>
(Refer Note No.14 of Schedule 24 Notes to Accounts)		

Consolidated Schedules

(Rs. in Lakhs)

Sl. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as at 01.04.2006	Additions	Deductions	Total Upto 31.03.2007	Upto 31.03.2006	For the Year	On Deductions	Total Upto 31.03.2007	At at 31.03.2007	As at 31.03.2006
1	LAND AND DEVELOPMENT	623.17	61.36	-	684.53	-	-	-	-	684.53	623.17
2	BUILDINGS	6270.09	2080.33	-	8350.42	948.89	201.57	-	1150.46	7199.96	5321.20
3	PLANT AND MACHINERY	20824.07	15847.18	-	36671.25	7123.07	1838.56	-	8961.63	27709.62	13701.00
4	LABORATORY EQUIPMENT	1736.91	786.01	-	2522.92	311.67	111.13	-	422.80	2100.12	1425.24
5	FURNITURE AND FIXTURES	140.65	48.47	-	189.12	82.93	26.16	-	109.09	80.03	57.72
6	DATA PROCESSING EQUIPMENT	186.13	57.74	-	243.87	103.73	25.56	-	129.29	114.58	82.40
7	VEHICLES	414.21	11.07	-	425.28	138.40	37.95	-	176.35	248.93	275.81
	TOTAL	30195.23	18892.16	-	49087.39	8708.69	2240.93	-	10949.62	38137.77	21486.54
	PREVIOUS YEAR	25380.49	4839.44	24.70	30195.23	7226.10	1485.50	2.91	8708.69	21486.54	18154.39

Consolidated Schedules
**7. STATEMENT OF UNALLOCATED EXPENDITURE, PENDING CAPITALISATION, INCURRED UPTO 31ST MARCH 2007
(Rs. in Lakhs)**

PARTICULARS	UPTO 31st March 2006	Additions During The Year	Total Upto 31.03.2007
Salaries, Wages and Allowances	8.92	72.33	81.25
Printing and Stationary	1.27	2.75	4.02
Rent	4.70	-	4.70
Communication Expenses	3.71	0.10	3.81
Fee, Rates and taxes	0.09	0.21	0.30
Travel and Conveyance	51.41	52.02	103.43
Insurance	0.22	0.25	0.47
Legal and Professional Charges	54.87	1.90	56.77
Factory Upkeep	1.80	3.60	5.40
Carriage and Freight	1.95	23.57	25.52
General Expenses	14.99	1.39	16.38
Safety Expenses	-	4.70	4.70
(Gain)/Loss on Forex Fluctuations	5.65	(61.68)	(56.03)
INTEREST ON TERM LOANS:			
- Foreign Currency Term Loan	66.65	211.36	278.01
- Rupee Term Loan	22.28	68.94	91.22
Interest to Banks	4.99	9.43	14.42
Bank Charges	104.01	3.40	107.41
Depreciation	0.51	6.31	6.82
<u>Trial Run Expenses :</u>			
Raw Materials Consumed	-	1142.22	1142.22
Stores Consumed	2.93	30.53	33.46
Power and Fuel	50.19	66.35	116.54
Repairs and Maintenance	0.12	7.28	7.40
	401.26	1646.96	2048.22
Less: Stock out of Trial Runs :			
Stock of work in process	-	1112.07	1112.07
Interest Earned (Net of provision for tax)	4.49	0.13	4.62
	396.77	534.76	931.53
Less: Expenditure capitalized during the year			859.58
Balance carried forward			71.95



Consolidated Schedules

(Rs. in Lakhs)

	As At 31st March 2007	As At 31st March 2006
8. INVESTMENTS:	<u>Cost</u>	<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	1.20
Less: Provision for decline in Value of Investments	<u>1.20</u> -	<u>1.20</u> -
Value of Un -Quoted Investments	<u>-</u>	<u>-</u>
Aggregate Value of Quoted Securities	Nil	Nil
Aggregate Market Value of Quoted Securities	Nil	Nil
Aggregate Value of Unquoted Securities	Nil	Nil
9. INVENTORIES:		
(As taken, Valued and Certified by the Management)		
Stock of Raw Materials	8094.82	5544.95
Stock of Stores and Spares	223.26	190.40
Stock of Work-in-Process	9176.98	10998.14
Stock of Finished Goods	3142.23	1363.22
Material in Transit	708.28	281.32
Tools and Spares	5.32	7.85
	<u>21350.89</u>	<u>18385.88</u>
10. SUNDRY DEBTORS:		
(Unsecured)		
Outstanding for a Period Exceeding Six Months		
- Considered Good	318.21	285.52
- Considered doubtful	-	4.47
	<u>318.21</u>	<u>289.99</u>
Less : Provision for Doubtful Debts	<u>-</u> 318.21	<u>4.47</u> 285.52
<u>Others:</u>		
- Considered Good	15847.98	10458.70
	<u>16166.19</u>	<u>10744.22</u>



Consolidated Schedules

(Rs. in Lakhs)

	As At 31st March 2007	As At 31st March 2006
11. CASH AND BANK BALANCES:		
Cash on Hand	9.11	14.80
Balance with Scheduled Banks :		
- In Current Accounts	529.60	167.75
- In unclaimed Dividend Accounts	597.84	21.53
- In Term Deposit Accounts	697.44	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.697.42 lakhs (Previous Year Rs.247.13 lakhs) towards Margin on Letters of Credits and Guarantees issued by the Banks)		
	<u>1833.99</u>	<u>1051.23</u>
12. OTHER CURRENT ASSETS:		
Interest accrued on deposits	20.60	17.99
	<u>20.60</u>	<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	308.07	270.76
Advances to Suppliers	347.92	412.91
Advance for Expenses	8.33	8.71
Central Excise Duty	1213.60	2270.70
Prepaid Expenses	181.56	92.05
Other Advances and Recoverables	961.58	1486.61
Prepaid Taxes	-	650.36
(Net of Provision for Taxation)		
	<u>3021.06</u>	<u>5192.10</u>
14. CURRENT LIABILITIES:		
Creditors For Capital Works	1365.60	1709.13
Sundry Creditors	8835.06	8414.00
Advances from Customers	1643.20	1361.52
Interest Accrued But Not Due	4.17	31.14
<u>Investors Education And Protection Fund:</u>		
Unclaimed Dividend	597.84	21.53
(Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund)		
	<u>12445.87</u>	<u>11537.32</u>
15. PROVISIONS:		
Provision for Employee retirement benefits	186.52	113.19
Proposed Dividend	-	1281.87
Provision for Corporate Dividend Tax	-	179.78
Provision for Taxation (Net of prepaid taxes)	8.02	-
Provision for Fringe Benefit Tax (Net of Tax Paid)	6.53	0.78
	<u>201.07</u>	<u>1575.62</u>

Consolidated Schedules

(Rs. in Lakhs)

	For the Year ended 31st March 2007		For the Year ended 31st March 2006	
16. OTHER INCOME:				
Contract Research Fee		268.52		347.68
Export Benefits		747.38		445.92
Interest Earned (Gross)		46.50		60.99
(Tax deducted Rs.10.10 lakhs (previous year Rs.7.65 lakhs)				
Provision for doubtful debts written back		4.47		16.73
Miscellaneous Income		276.20		190.81
		<u>1343.07</u>		<u>1062.13</u>
17. MATERIALS CONSUMED:				
A. RAW MATERIALS CONSUMED:				
Opening Stock		5544.95		2249.34
Add: Purchases		<u>33854.52</u>		<u>21655.50</u>
		39399.47		23904.84
Less: Closing Stock	8094.82		5544.95	
Sales	51.97	<u>8146.79</u>	68.07	<u>5613.02</u>
	(A)	<u>31252.68</u>		<u>18291.82</u>
B. (INCREASE)/DECREASE IN STOCKS :				
<u>Closing Stock of :</u>				
Finished Goods	3142.23		1363.22	
Work-in-Process	<u>9176.98</u>	<u>12319.21</u>	<u>10998.15</u>	12361.37
<u>Stock out of train runs:</u>				
Work-in-Process		1112.07		
<u>Opening stock of:</u>				
Finished Goods	1363.22		1534.62	
Work-in-Process	<u>10998.95</u>	<u>12361.37</u>	<u>9550.57</u>	11085.19
Excise duty adjustment in movement in finished goods inventory		<u>(98.34)</u>		<u>(34.03)</u>
(Increase)/Decrease in Stocks :	(B)	<u>1055.89</u>		<u>(1310.21)</u>
MATERIALS CONSUMED:	(A-B)	<u>32308.57</u>		<u>16981.61</u>
18. MANUFACTURING EXPENSES:				
Stores Consumed		997.60		741.43
Power and Fuel		2434.82		1848.47
Conversion Charges		61.91		14.06
Tools Written off		3.59		3.26
Repairs and Maintenance to :				
- Buildings		97.63		102.07
- Plant and Machinery		796.45		607.97
		<u>4392.00</u>		<u>3317.26</u>

Consolidated Schedules

(Rs. in Lakhs)

	For the Year ended 31st March 2007	For the Year ended 31st March 2006
19. SALARIES,WAGES AND OTHER ALLOWANCES TO STAFF:		
Salaries,Wages,Bonus and Other Allowances	3161.63	1613.03
Contribution to PF and ESI	72.44	48.24
Workmen and Staff Welfare expenses	159.87	98.58
Amortisation of differed employees compensation	2117.03	114.33
(Exclusive of Rs.294.29 lakhs (previous year Rs.15.84 lakhs) included in managerial remuneration)	<u>5510.97</u>	<u>1874.18</u>
20. OTHER EXPENSES:		
Managerial Remuneration	1686.87	744.46
Directors' Sitting Fees	5.20	1.85
Printing and Stationery	109.78	66.33
Rent	26.34	17.19
Communication Expenses	76.68	58.41
Fees, Rates and Taxes	316.45	287.62
Travelling and Conveyance	347.11	181.43
Insurance	200.46	136.79
Repairs and Maintenance to other Assets	31.23	22.16
Vehicle Maintenance	80.72	73.87
Payment to Auditors	29.01	19.28
Professional and Consultancy Charges	159.22	140.08
Factory Upkeep	205.73	120.80
Research and Development Expenses	1027.96	871.87
Environment Management Expenses	174.28	112.75
Freight and Handling Charges	1045.52	854.26
Advertisement	12.74	9.60
Sales Commission	215.03	258.46
General Expenses	403.92	236.07
Claims Written off	13.31	7.13
Bad Debts Written-off	44.74	2.63
Donations	1.01	5.81
Loss on Foreign Exchange Fluctuations	159.29	154.02
Preliminary expenses written off	-	8.69
	<u>6372.60</u>	<u>4391.56</u>
21. FINANCE CHARGES		
Interest on Fixed Loans	296.32	-
Interest on Working Capital Loans	540.18	361.80
Interest to Others	51.29	72.15
Bank Charges and Commission	170.40	124.41
	<u>1058.19</u>	<u>558.36</u>
22. Depreciation		
Depreciation for the year as per schedule No.6	2240.93	1485.50
Less: Depreciation written back due to availment of VAT credit on additions of earlier years	-	2.91
	<u>2240.93</u>	<u>1482.59</u>
Less: Depreciation included in unallocated expenditure pending capitalization	6.31	0.51
	<u>2234.62</u>	<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 under provisions of the Companies Act, 1956 and also the 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 and in the manner specified in Schedule XIV of the Companies Act, 1956.
- 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.
- e. The carrying amount of the assets are being tested on annual basis for impairment so as to determine the provision required for impairment loss if any or for reversal of the provision, if any, required on account of impairment loss recognised in previous periods.

5. INVESTMENTS:

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

6. INVENTORIES :

- a. Inventories are valued at lower of cost or net realisable value. Cost is determined considering the cost of purchase, cost of conversion, cost of labour and appropriate portion of manufacturing overheads and other costs incurred in bring the inventories to their present location and condition. The cost of inventories is being determined in case of raw materials, packing materials and stores and spares under weighted average cost method, in case of work in progress and finished goods under first and first out (FIFO) method and incase of Tools under revaluation method.
- b. Stationery, Uniforms, Medical, Canteen and Books and Periodicals are charged off to the revenue at the time of purchase / payment.

Consolidated Accounting Policies

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 of the period in which the same is paid. The value of closing stock of finished goods includes excise duty paid / payable on such stocks wherever applicable.

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. Forward contracts are being entered into to mitigate the foreign currency risk of the underlying outstanding at the balance sheet date and also to hedge the foreign currency risk of firm commitments or highly probable forecast transactions. In case of forward contracts not intended for trading or speculative purposes, the premium or discount on all such contracts is amortised as income or expense over the life of the contract. Any profit or loss arising on cancellation or renewal of forward contracts is recognised as income or expense for the period. The exchange differences, consisting of the difference between (a) the foreign currency amount of the contract translated at the exchange rate at the reporting date or the settlement date where the transaction is settled during the reporting period and (b) the same foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date, are recognised in the profit and loss account in the reporting period in which the exchange rates change. In case of other forward contracts, the gain or loss, computed considering the exchange difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate, is recognised as income or expense in the statement of profit and loss for the period.
- e. In case of Foreign Subsidiaries, 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:

In case of post employment benefits viz., gratuity and earned leave encashment to employees, the accruing liability towards the same at the year end is provided on the basis of actuarial valuations made by an independent actuary.

b. PROVIDENT FUND:

The company is making contributions to the Employees Provident Fund and Pension funds and the same are recognised as expense in the profit and loss account.

12. TAXES ON INCOME:

- i. Tax expense is the aggregate of current year tax, deferred tax charged or credited to the Profit and Loss account for the year and other taxes like fringe benefit tax etc., for the year.
- ii. **Current Year Tax:** The Provision for taxation is based on assessable profits of the company as determined under the relevant tax laws of the respective countries / states.
- 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.

Consolidated Accounting Policies

- iv **Fringe Benefits 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.

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. Interest on deposits is accounted on accrual basis.
- iii Service income is recognised as per the terms of the contracts with customers when the related services are performed or the agreed milestones are achieved.

15. BORROWING COSTS:

Borrowing costs that are attributable to the acquisition or construction of a qualifying asset are capitalised as part of cost of such asset till such time as the asset is ready for its intended use. Other borrowing costs are recognised as expense for the period.

16. **LEASES:** Lease of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight line basis over the period of lease.

17. 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.

18. 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.

19. PRELIMINARY EXPENDITURE:

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

20. CONTINGENT LIABILITIES:

The Company makes a provision when there is a present obligation as a result of a past event where the outflow of economic resources is probable and a reliable estimate of the amount of obligation can be made. The disclosure is made for possible or present obligations that may, but probably will not, require outflow of resources as contingent liability in the financial statements.

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 India based manufactures of Active Pharmaceutical Ingredients and intermediates having headquarters at Hyderabad, India. The major portion of its turnover 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 in 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 2005-06 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 31.3.2007	Extent of Holding as on 31.3.2006
1.	Divis Laboratories (USA) Inc	USA	100%	100%
2.	Divi's Laboratories Europe AG	SWITZERLAND	100%	100%

3. Previous year figures have been regrouped / rearranged wherever necessary.

4. CONTINGENT LIABILITIES:

(Rs. in lakhs)

Sl. No.	Particulars	2006-07	2005-06
i)	On account of Letters of Credit and bank guarantees issued by the bankers.	7563.05	2286.24
ii)	On account of Foreign bills discounted with banks	Nil	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.	8250.00	2000.00
iv)	Demands being disputed / contested by the Company	87.19	50.10
v)	On account of Severance Compensation payable to employees on termination of employment by either the employee or the Company at will.	104.02	107.06

5. Estimated amount of contracts remaining to be executed on capital account and not provided for (Gross) 3424.42 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:

The Company has granted the Options to its eligible employees during the year 2005-06 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 prevailing on the before day of 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. 2411.31 Lakhs (Previous year Rs. 130.17 Lakhs) has been amortised for the Current Year.

The movement of Stock Options During the year ended 31st March, 2007 is as detailed below:

Particulars	2006-07 Nos	2005-06 Nos
At the beginning of the year	464920	Nil
Granted during the year	Nil	464920
Expired/Forfeited during the year	1320	Nil
Exercised during the year	92720	Nil
At the end of the year	370880	464920

Consolidated Notes To Accounts

8. AMOUNTS PAID/PAYABLE TO AUDITORS:

(Rs. in lakhs)

Particulars	2006-07	2005-06
Statutory Audit fees	14.08	11.67
Tax Audit fees	3.37	2.21
Certification charges	4.10	1.65
For Other matters	7.07	3.50
For Expenses	0.39	0.25
TOTAL	29.01	19.28

9. MANAGERIAL REMUNERATION:

(Rs. in lakhs)

Particulars	2006-07	2005-06
Salary	241.70	160.77
Commission	1091.69	512.92
Perquisites	43.74	39.97
Contribution to Provident Fund	15.45	14.96
Amortisation of Deferred Employee Compensation	294.29	15.84
Total	1686.87	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. 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	2006-07		2005-06	
	Revenue	%	Revenue	%
European	19090.57	26.16	13263.31	34.40
American Countries	39948.74	54.73	15443.41	40.05
India	4948.33	6.78	4352.25	11.29
Other Countries	9000.92	12.33	5500.10	14.26
Total	72988.56	100.00	38559.07	100.00

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

11. 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.	N.V. Ramana
3.	Dr. P. Gundu Rao
4.	D. Madhusudana Rao
5.	Kiran S. Divi
6.	Guido Schaer

Consolidated Notes To Accounts

ii) RELATIVES OF KEY MANAGEMENT PERSONNEL:

Sl. No. Name of the person

1. N. Laxmana Rao
2. Mallikarjuna Rao Divi

b) Transactions with Related Parties:

(Rs. in lakhs)

Particulars	Amount	Outstanding as at 31.03.2007	Amount	Outstanding as at 31.03.2006
Remuneration to Key Management Personnel	1686.87	1099.52	744.46	519.05
Lease Rent to Key Management Personnel	14.51	1.01	14.51	0.59
Salary and Allowances to Relatives of Key Management Personnel	4.31	0.32	4.31	0.28
Options Granted and Outstanding to:Key Management Personnel	(Nos.)	45264	(Nos.)	56580

12. INFORMATION ON OPERATING LEASES :

The Company has operating lease for office premise, which is renewable on a periodical basis and cancelable at its option. Rental expenses for operating lease recognised in Profit and Loss account for the year is Rs. 26.19 Lakhs (Previous Year Rs.16.84 lakhs.)

13. EARNINGS PER SHARE (EPS):

The Numerator and denominator used to calculate Earnings Per Share:

(Rs. In lakhs)

Particulars	2006-07	2005-06
A EARNINGS:		
Profit attributable to Equity Shareholders	18585.70	6953.40
B NO. OF SHARES:		
Weighted average number of Equity shares outstanding during the year (Nos.) - Basic	12822510	12818700
Weighted average number of equity shares arising out of outstanding stock options that have diluted effect on the EPS	153170	246064
Weighted average number of Equity Shares outstanding during the year- Diluted	12975680	13064744
C Earnings Per Share of Par Value –Rs.10/- Basic (Rs)	144.95	54.24
Earnings Per Share of Par Value –Rs.10/- Diluted (Rs.)	143.23	53.22

14. DEFERRED TAX LIABILITY:

Details of Deferred Tax Liability are as given below:

(Rs. in lakhs)

Particulars	As at 31.03.2007	As at 31.03.2006
Deferred Tax Liability:		
Depreciation on Assets	3026.92	2876.34
Total (A)	3026.92	2876.34
Deferred Tax Asset:		
Expenses allowable on the basis of Payment	73.38	42.80
Others (B)	182.11	46.60
	255.49	89.40
TOTAL (A-B)	2771.43	2786.94



Consolidated Notes To Accounts

15. Disclosures w.r.t Derivative Instruments:

A. Foreign currency Exposures that are covered for hedging the foreign exchange risk by Derivative Instruments:

(Rs. in Lakhs)

Particulars	Currency	As on 31.3.2007		As on 31.3.2006	
		Amount In Foreign Currency	Equivalent Amount in Indian Currency	Amount In Foreign Currency	Equivalent Amount in Indian Currency
Receivables	US\$	227.50	9916.73	—	—
Total	US\$	227.50	9916.73	—	—

B. Foreign currency Exposures that are not covered by a derivative instruments or otherwise:

Particulars	Currency	As on 31.3.2007		As on 31.3.2006	
		Amount In Foreign Currency (In Lakhs)	Equivalent Amount in Indian Currency (Rs. in Lakhs)	Amount In Foreign Currency (In Lakhs)	Equivalent Amount in Indian Currency (Rs. in Lakhs)
a) Long term Loans	US\$	161.24	7028.45	81.00	3613.41
b) For suppliers and services	Euro	6.31	366.61	—	—
	GBP	3.285	280.71	20.99	1633.50
	US\$	32.90	1434.11	14.08	627.95
	JapY	1965.60	72.73	—	—
	CHF	2.95	104.84	—	—
c) Receivables	Euro	4.08	237.39	1.87	101.13
	GBP	59.31	5072.52	28.17	2191.68
	US\$	1.03	44.90	169.00	7539.07

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

SIGNATURES TO SCHEDULES 1 TO 24

Signed on 23rd May, 2007 at Hyderabad.

For and on behalf of the Board

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

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary



Directors' Report

Management Report for the period

The Directors present their report and the financial statements for the business year ended March, 31 2007.

PRINCIPAL ACTIVITY

The company is a subsidiary of M/s. Divi's Laboratories Limited, India formed with the objective to identify opportunities in North America for active pharma ingredients and nutraceuticals, to enter into marketing and distribution of these products and to have a greater reach to customers in this region.

REVIEW OF OPERATIONS

During the year, the company has sold products to several customers as part of market seeding program and has received approvals. The company is developing the market and working closely with the parent for developing the products. Your Company is yet to get into full-scale operations and has thus registered a loss of \$ 623,539 mainly comprising salaries and administration.

AUDITORS

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

DIRECTORS

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

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, 2007 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

Dr. Murali K. Divi
Director

N.V. Ramana
Director

May10, 2007

Auditors' Report

293 EISENHOWER PARKWAY, SUITE 290
LIVINGSTON, NEW JERSEY 07039-1711
973-994-9494 FAX : 973-994-1571
www.sobel-cpa.com

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, 2007 and the related statements of operations, stockholder's deficiency, and cash flows for the year ended March 31, 2007 and the period of December 14, 2005 (date of inception) through March 31, 2007. 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 as 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, 2007, 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.

SOBEL & CO. LLC.
Certified Public Accountants

MAY 10, 2007

**Balance Sheet As At 31st March 2007**

	31st March 2007 (US \$)	31st March 2006 (US \$)
ASSETS		
CURRENT ASSETS :		
Cash	171,654	38,135
Accounts receivable	54,023	-
Finished goods inventory	376,401	-
Prepaid expenses	13,818	-
Total Current Assets	<u>615,896</u>	<u>38,135</u>
PROPERTY AND EQUIPMENT :		
Equipment	4,077	429
Furniture and fixtures	9,372	6,007
Computer equipment	<u>15,402</u>	<u>9,182</u>
	28,851	15,618
Less : Accumulated depreciation Property and Equipment, Net	<u>3,653</u>	<u>742</u>
	<u>25,198</u>	<u>14,876</u>
OTHER ASSETS :		
Deferred taxes	416,846	66,004
Security deposit	1,800	1,800
Total Other Assets	<u>418,646</u>	<u>67,804</u>
	<u>1,059,740</u>	<u>120,815</u>
LIABILITIES AND STOCKHOLDER'S DEFICIENCY		
CURRENT LIABILITIES :		
Accounts payable	540,987	15,749
Taxes payable	-	500
Accrued expenses	73,795	9,730
Loan payable - Parent company	1,132,691	159,030
Total Current Liabilities	<u>1,747,473</u>	<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	50,000
Accumulated deficit during the development stage	<u>(737,733)</u>	<u>(114,194)</u>
Total Stockholder's Deficiency	<u>(687,733)</u>	<u>64,194</u>
	<u>1,059,740</u>	<u>120,815</u>



Statement of Operations

(US \$)

	For the year ended 31st March 2007	For the period of december 14, 2005 (date of inception) Through march 31, 2007
NET SALES	<u>332,876</u>	<u>332,876</u>
Cost of Goods Sold:		
Product costs, net	302,350	302,350
Warehouse expense	6,280	6,280
Freight expense	9,047	9,047
Total Cost of Goods Sold	<u>317,677</u>	<u>317,677</u>
GROSS PROFIT	<u>15,199</u>	<u>15,199</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries, officer	205,413	257,298
Salaries, other	289,331	329,318
Bonus	-	3,462
Rent	13,200	16,800
Telephone	21,816	28,579
Office and postage	16,766	20,199
Professional fees	66,491	80,948
Advertising and promotion	65,878	80,763
Insurance	24,599	25,995
Travel and entertainment	86,697	91,168
Employee benefits	42,945	52,497
Auto expense	20,484	22,969
Freight out	8,221	8,221
Repairs and maintenance	2,793	2,862
Payroll taxes	33,411	42,758
Depreciation	2,910	3,653
Pension	12,286	13,486
Bank fees	1,002	1,057
Data processing service	1,254	1,630
Dues, licenses, and subscriptions	5,001	7,021
Start up costs	-	8,601
Certifications	26,492	26,492
Miscellaneous	1,065	1,159
Total selling, General, and Administrative Expenses	<u>948,055</u>	<u>1,126,936</u>
OTHER EXPENSES :		
Interest expense	<u>39,309</u>	<u>40,126</u>
NET LOSS BEFORE PROVISION FOR (Benefit from) INCOME TAXES	<u>(972,165)</u>	<u>(1,151,863)</u>
PROVISION FOR (Benefit from) INCOME TAXES :		
Provision for income taxes	2,216	2,716
Benefit from deferred income taxes	<u>(350,842)</u>	<u>(416,846)</u>
Net Benefit from Income Taxes	<u>(348,626)</u>	<u>(414,130)</u>
NET LOSS	<u><u>(623,539)</u></u>	<u><u>(737,733)</u></u>

**Statement of Changes in Stockholder's Deficiency**

FOR THE PERIOD OF DECEMBER 14, 2005 (DATE OF INCEPTION) THROUGH MARCH 31, 2007

(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 Dec 14, 2006 through March 31, 2006	-	(114,194)	(114,194)
Stockholder's Deficiency at March 31, 2006	50,000	(114,194)	(64,194)
Net loss for the year ended March 31, 2007	-	(623,539)	(623,539)
Stockholder's Deficiency at March 31, 2007	50,000	(737,733)	(687,733)

Statement of Cash Flows

(US \$)

	31st March 2007 (US \$)	For the period of December 14, 2005 (date of inception) Through March 31, 2007
CASH FLOWS PROVIDED BY (USED FOR) :		
OPERATING ACTIVITIES :		
Net loss	(623,539)	(737,733)
Adjustments to reconcile net loss to net cash used for operating activities :		
Depreciation	2,910	3,653
Deferred taxes	(350,842)	(416,846)
Changes in certain assets and liabilities :		
Accounts receivable	(54,023)	(54,023)
Finished goods inventory	(376,401)	(376,401)
Prepaid expenses	(11,602)	(13,818)
Security deposit	-	(1,800)
Accounts payable and accrued expenses	587,087	612,566
Taxes payable	(500)	-
Net Cash Used for Operating Activities	<u>(826,910)</u>	<u>(984,402)</u>
INVESTING ACTIVITIES :		
Purchase of property and equipment	<u>(13,232)</u>	<u>(28,851)</u>
FINANCING ACTIVITIES :		
Loan from Parent company	973,661	1,132,691
Issuance of common stock	-	50,000
Net Cash Provided by Operating Activities	<u>973,661</u>	<u>1,182,691</u>
NET INCREASE IN CASH	133,519	169,438
CASH :		
Beginning of period	<u>38,135</u>	-
End of period	<u>171,694</u>	<u>169,438</u>
Supplemental Disclosure of Cash Flows Information:		
Cash paid for income taxes	<u>500</u>	<u>500</u>



Notes to Financial Statements

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :

Organization :

Divi's Laboratories (USA), Inc. was formed as a Delaware corporation in December 2005. The Company 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.

Financial Statements :

Under accounting principles generally accepted in the United States of America, development stage companies are required to report cumulative results of operations and cash flows through the completion of the development stage period. Accordingly, these financial statements include information for the development stage period December 14, 2005 through March 31, 2007.

Accounts Receivable :

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs, collections, and current credit conditions. Management has determined that an allowance for doubtful accounts is not required at March 31, 2007.

Inventories :

Inventories, which consist principally of dietary supplements, are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market.

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 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 cumulative net operating losses. The losses approximated \$11,44,000 and can be carried forward to offset future taxable income.

Concentration of Credit Risk :

At times, the Company maintained cash balances in excess of insured limits

Advertising :

The Company expenses advertising costs as they are incurred and amounted to \$ 65,878 and \$80,763 for the year and development stage period ended March 31, 2007, respectively.

Use of Estimates :

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

NOTE 2 - DEVELOPMENT STAGE OPERATIONS :

The Company was formed in December, 2005, Shares of common stock were issued at \$50 per share during the development stage period through March 31, 2007, the Company has 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, 2007, the initial investment in the common stock amounted to \$50,000. The Company commenced operations in July 2006. Customers have ordered from the Company in small quantities in order to perform stability and other testing on the products. All of the Company's revenue has been derived from these types of orders. The Company is still considered a development stage company due to the nature of the revenue transactions.

NOTE 3 - RELATED PARTIES :

The Company has received loans from its parent company for the purpose of funding initial operating expenses. The loans are payable on demand with interest at 6% At March 31, 2007 the loans and accrued interest amounted to \$1,132,691 and \$40,126, respectively. Accrued interest is included in accrued expenses at March 31, 2007.



Notes to Financial Statements

The Company purchases substantially all its inventory from the parent company or subsidiaries of the parent company. During the year and development stage period ended March 31, 2007, the Company purchased \$678,751 of inventory from its parent company or its subsidiaries. At March 31, 2007, the Company has accounts payable related to the purchase of this inventory of \$540,987.

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 \$12,286 and \$13,486, respectively, for the year and development stage period ended March 31, 2007.

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 September 30	
2007	\$14,400
2008	<u>7,200</u>
Total	<u>\$21,600</u>

Rent expense for the three months and development stage period ended March 31, 2007 was \$13,200 and \$16,800, respectively.

The Company has agreements with several of its employees which provided for, among other things, base salaries and benefits such as health insurance and severance provisions. Although the agreement allow for the termination of employment by either the employee or the Company at will, severance payments are payable under either event. These agreements expire December 31, 2007. The maximum contingent amounts payable under the severance provisions of these agreements approximated \$240,000 as of March 31, 2007.

NOTE 6 - CONCENTRATIONS :

At March 31, 2007 the Company had two customers that accounted for approximately 88% of the accounts receivable balance. The Company also has two customers that accounted for approximately 87% of sales for the year and development stage ended March 31, 2007.

The Company purchases substantially all of its products from its parent company and subsidiaries. At March 31, 2007, the accounts payable balance was due solely to the parent company and its subsidiaries.



Directors' Report

Management Report for the period

The Directors present their report and the financial statements for the business year 2006-07 ended March 31, 2007.

PRINCIPAL ACTIVITY

The company is a subsidiary of M/s. Divi's Laboratories Limited, India. The Company's main business is to identify opportunities available in Europe for Nutraceuticals and to enter into marketing and distribution of these products.

REVIEW OF OPERATIONS

During the business year 2006-07, for the purpose of market seeding, the company has been organizing toll manufacturing of Nutraceutical products by obtaining the key ingredient from parent and sending the finished formulation to its associate in US for qualification and market seeding program.

During the period under report, your Company is yet to get into marketing and distribution operations in European region and has registered a loss of CHF 840'306.48 comprising primarily of salaries and administration. The company entered a subordination agreement with the parent to comply with the local corporate law requirement.

A large number of customers have approved or are in the process of testing our products, we are confident of a good take-off of sales in the next fiscal and the company.

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 a further 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, 2007 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 profitable operations shortly.

By Order of the Board

Basel, Switzerland
May 22, 2007

Guido Schaer
Director



Auditors' Report

Ernst & Young

Ernst & Young Ltd
Aeschengraben 9
PO. Box, CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

To the General Manager
Divi's Laboratories Europe AG, Basel
Basel, May 22, 2007
Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Divi's Laboratories Europe AG for the year ended as of March 31, 2007.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements 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 financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements comply with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

We further state that the Company is over-indebted as of March 31, 2007. As the shareholder has subordinated receivables of CHF 1'580'680.58 to the claims of other creditors, the board of directors according to article 725 para. 2. of the Swiss Code of Obligations (CO, Company Law) renounced to inform the judge.

Ernst & Young Ltd.

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

Jurg Zurcher
Swiss Certified Accountant



Balance Sheet As At 31st March 2007

Particulars	31 March 2007 CHF	31st March 2006 CHF
ASSETS		
Cash	104'297.20	57'611.10
A/R Trade/Other	6'336.12	0.00
A/R Intercompany Divi's Lab Ltd. USA	125'848.76	0.00
Prepaid Expenses & Deposits	101'474.94	20'002.50
Current Assets	337'957.02	77'613.60
Fixed Assets	23'206.40	7'905.35
Less: Accumulated Depreciation	-2'696.50	-372.50
Inventories	492'447.66	0.00
Setting-up costs	14'325.70	14'325.70
Less: Setting-up costs written-off	-14'325.70	-14'325.70
Fixed Assets, net	512'957.56	7'532.85
Total	<u>850'914.58</u>	<u>85'146.45</u>
LIABILITIES & EQUITY		
A/P Trade/Other	74'464.58	422.10
Subordinated A/P Intercompany Divi's Lab. Ltd. India	1'580'680.58	131'912.70
Accruals	52'837.05	19'572.80
Current Liabilities	1'707'982.21	151'907.60
Capital	100'000.00	100'000.00
Not paid start-up capital	0.00	-50'000.00
Retained Earnings	-116'761.15	0.00
Net Loss	-840'306.48	-116'761.15
Stockholder's Equity	-857'067.63	-66'761.15
Total	<u>850'914.58</u>	<u>85'146.45</u>

Statement of Income

Particulars	1.4-31.3-2007 CHF	1.2-31.3.2006 CHF
Sales	216'340.31	0.00
Carriage and freight outward	-12'810.45	0.00
Sales	203'529.86	0.00
Material costs and stocks adjustments	224'430.95	0.00
Material costs	224'430.95	0.00
Production profit	20'901.09	0.00
Personnel	513'715.00	74'166.85
Recruiting, Travel & Memberships	67'099.94	3'090.35
Supplies, Tools & Equipment	0.00	1'704.75
Outside Services	113'271.52	13'000.00
Marketing and promotional	24'119.33	0.00
R&M, Utilities, Insurance	88'419.69	10'024.90
Depreciation	2'324.00	372.50
Other Expenses	830.11	0.00
Expenses	809'779.59	102'359.35
Operating Loss	-830'680.68	-102'359.35
Interest Income	104.81	11.40
Currency Differences	-9'249.36	0.00
Property and income taxes	-481.25	-87.50
Start-up Expenses written-off	0.00	-14'325.70
Net Loss	-840'306.48	-116'761.15

Notes

1. Accounts drawn on accrual basis to Indian GAAP
2. Contingent Liabilities -
3. Disputed claims -
4. Undisputed claims -
5. Debts not acknowledged as debts -
6. Start-up expenses have been amortised and charged-off in the year of incurrence n.a.
7. Accounts payable Pension Fund 15'028
8. Calculation of Current Tax and Deferred Tax Liabilities

<u>Income tax 2007</u>	<u>Rate</u>				
Federal & Communal			0		0
<u>Capital Tax</u>	0.525%	100'000	525		88

The rest CHF 50,000 of the startup capital has been paid in on September 26, 2006.
9. 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
10. 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 Seventeenth Annual General Meeting of the Members of DIVI'S LABORATORIES LIMITED will be held on **Monday the 3rd day of September 2007 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 2007, the Profit and Loss account for the year ended 31st March 2007 along with the reports of Directors and the Auditors thereon and the consolidated financials along with the Auditors' Report thereon.
2. To confirm the interim dividend paid on equity shares as dividend for the year ended 31st March 2007
3. To appoint a Director in place of Dr. P Gundu Rao, who retires by rotation and being eligible, offers himself for reappointment.

4. To appoint a Director in place of Dr. K Satyanarayana, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. Kiran S Divi, 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.

For and on behalf of the Board of Directors

Hyderabad
23rd May, 2007

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. The Register of Members and Share Transfer books of the company will remain closed from **10th August 2007 to 13th August 2007** (both days inclusive).
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 fill 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. 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.
8. 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.

9. 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.
10. Unclaimed dividend for the year(s) 2000-01, 2001-02, 2002-03, 2003-04 and 2005-06 are held in separate Bank accounts and shareholders who have not received the dividend / encashed the warrants are advised to write to the Company with complete details
11. Interim Dividend declared by the Board of Directors was paid to the members whose names appeared on the Company's Register of Members as on 26th March 2007. In respect of shares held in Electronic Form, the dividend was paid on the basis of beneficial ownership as on 26th March 2007 as furnished by the Depositories
12. 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.

For and on behalf of the Board of Directors

Hyderabad
23rd May, 2007

Dr. Murali K. Divi
Chairman and Managing Director



This page has been intentionally left blank.



Divi's Laboratories Limited

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

PROXY FORM 17th 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 17th Annual General Meeting of the Company to be held at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad
- 500 004 on Monday, the 3rd September, 2007 at 10.00 A.M. and at any adjournment(s) thereof.

Affix
Revenue
Stamp

Signed this _____ day of _____ 2007.

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 17th 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 17th Annual General Meeting of the Company at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad - 500 004 on Monday, the 3rd September, 2007 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.

