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Corporate Information

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

Manufacturing Facilities:

Choutuppal Unit
Lingojigudem Village, Choutuppal Mandal
Nalgonda Dist. (A.P.) Pin 508 252

100% Export Oriented Unit - Chippada
Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P.) Pin 531 162

Divi's Pharma SEZ
Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P.) Pin 531 162

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 531 162

Subsidiaries:

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

Divi's Laboratories Europe AG
Basel, Switzerland.

Registrar & Share Transfer Agent:

Karvy Computershare Private Limited
Plot No.17-24, Vittal Rao Nagar,
Madhapur, HYDERABAD – 500 081

Chief Financial Officer:

L. KISHOREBABU

Company Secretary:

P.V. LAKSHMI RAJANI

Auditors:

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

Bankers:

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

Shares listed at:

National Stock Exchange of India Limited
Bombay Stock Exchange Limited

The Past Decade

(Rs. in Lakhs)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	**2008-09**
SALES (NET)	15270	18799	20705	24652	30283	34738	38111	72442	103318	**119056**
Sales Growth %	43%	23%	10%	19%	23%	15%	10%	90%	43%	**15%**
Other Income	768	938	1320	1320	1445	1715	1062	1361	1361	**2301**
TOTAL INCOME (Rs. in Lakhs)	16039	19737	22025	25972	31728	36452	39174	73803	104680	**121357**
Total Income Growth %	44%	23%	12%	18%	22%	15%	7%	88%	42%	**16%**
Profit before Interest, Depreciation and Tax (PBDIT)	3235	4239	5507	8123	11857	12168	12731	25961	43051	**51339**
Finance Charges	1010	1003	705	445	336	430	558	1057	1018	**723**
Depreciation	597	729	795	887	1324	1507	1482	2233	3565	**4782**
Profit before tax (PBT)	1628	2753	4231	6933	10196	10231	10691	22670	38469	**45834**
Profit before tax (PBT) Growth (%)	157%	69%	54%	64%	47%	0.34%	4%	112%	70%	**19%**
Provision for Taxation	12	125	573	1442	2912	3628	3644	3496	3113	**3389**
Profit after Tax (PAT)	1616	2628	3657	5490	7284	6603	7047	19175	35356	**42446**
Profit after Tax (PAT) Growth (%)	157%	63%	39%	50%	33%	(9%)	7%	172%	84%	**20%**
Equity Dividend(%)	20%	35%	50%	60%	80%	80%	100%	100%	200%	**300%**
Dividend and Tax thereon payout	231	404	577	769	1157	1169	1462	1472	3021	**4558**
Equity Share Capital	1155	1155	1155	1282	1282	1282	1282	1291	1291	**1295**
Reserves & Surplus	5961	8144	9511	15510	21638	27084	32800	52913	86107	**124884**
Net Worth	6500	8620	10666	16792	22920	28366	34082	54205	87399	**126179**
Net Worth Growth (%)	25%	33%	24%	57%	36%	24%	20%	59%	61%	**44%**
Gross Fixed Assets	10884	12355	13132	19005	22360	25380	30186	49067	64193	**78249**
Net Fixed Assets	8805	9547	9587	14593	16632	18154	21477	38119	49687	**58967**
Total Assets	15489	18611	20516	29252	38342	37478	51916	72553	100136	**136299**
KEY INDICATORS										
Earnings Per Share (Face value of Rs.2/- each)	2.80	4.55	6.33	8.57	11.37	10.30	11.00	29.91	54.77	**65.59**
Cash Earnings Per Share (Face value of Rs.2/- each)	3.83	5.81	7.71	9.95	13.43	12.65	13.31	33.39	60.29	**72.98**
Gross Turnover Per Share (Face value of Rs.2/- each)	27.77	34.18	38.14	40.52	49.50	56.87	61.12	115.12	162.15	**187.40**
Book Value Per Share (Face value of Rs.2/- each)	11.26	14.93	18.47	26.20	35.76	44.26	53.17	84.55	135.38	**194.85**
Total Debt to Equity	0.64	0.38	0.22	0.06	0.29	0.23	0.44	0.28	0.10	**0.04**
PBDIT / Gross Turnover %	20%	23%	26%	32%	37%	33%	33%	35%	41%	**43%**
Net Profit Margin %	11%	14%	18%	22%	24%	19%	18%	26%	34%	**35%**
Return on Net Worth %	25%	30%	34%	33%	32%	23%	21%	35%	40%	**34%**

Directors' Report

Dear Shareholders,

Your Directors have pleasure in placing before you the Nineteenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2009.

FINANCIAL RESULTS

(Rs. in Crores)

Particulars	2008-09	2007-08
Net Sales	**1190.56**	1033.19
Other operating income	**12.93**	11.74
Other income	**10.08**	1.87
Total Income	**1213.57**	1046.80
Expenditure	**700.18**	616.28
PBDIT	**513.39**	430.52
Finance charges	**7.23**	10.18
Depreciation	**47.82**	35.65
Profit before tax (PBT)	**458.34**	384.69
Provision for tax		
Current Tax	**29.59**	38.34
MAT Credit Entitlements	**(3.19)**	(19.30)
Deferred Tax Liability	**7.27**	11.77
Fringe Benefit Tax	**0.22**	0.32
Profit after tax (PAT)	**424.45**	353.56
Earnings per Share (EPS)		
a) Basic	**65.59**	54.77
b) Diluted	**64.92**	54.14

DIVIDEND

Your Directors are pleased to recommend a dividend of Rs.6 per equity share of Rs.2/- each i.e., 300% for the year 2008-09 subject to approval of members.

We also had to make provision of Rs.0.05 crores for dividend paid for the year 2007-08 in respect of the equity shares allotted during April, 2008 on exercise of stock options by the employees as these shares rank pari-passu with other equity shares of the company as per the listing guidelines.

TAXATION

We made a provision of Rs.29.60 crores for Income-tax provision this year (including prior year adjustment) as against a corresponding provision of Rs. 38.34 crores during the previous year. We have provided for a MAT credit of Rs.3.19 crores for the year as against a MAT credit of Rs.19.30 crores during the last year as entitled under Income Tax Act, 1961.

An amount of Rs.7.27 crores has been provided towards Deferred Tax Liability during the year as against Rs. 11.77 crores during the previous year. Provision towards Fringe Benefit Tax (FBT) for the year was Rs.0.22 crores as against Rs.0.32 crores during last year.

We refer to the qualification of the Auditors in their report regarding the provision for current income-tax, we have provided for income-tax in respect of the profits of the SEZ Unit as a proportion of the export turnover to the total turnover of the Unit. The Section 10AA(7) of the Income-tax Act, 1961 has resulted in discriminatory treatment of an assessee having units only in SEZ vis-à-vis an assessee having units both in SEZ and outside. Several representations have been made by the industry in this regard and we expect the necessary statutes would be amended to rectify this anomaly. Pending the amendment, the current provision is lower by Rs.34.25 crores and the profit after tax and the balance in profit and loss account are overstated to this extent.

EQUITY CAPITAL

During the year, we allotted 200,925 equity shares of Rs.2 each to employees on exercise of their stock options. As a result, the paid-up equity capital of the company has increased by Rs.0.04 crores to Rs12.95 crores. There has been an addition of Rs.6.81 crores to the Share Premium Account on this account.

EMPLOYEE STOCK OPTION SCHEME

The Employee Stock Option Scheme (ESOP 2006) approved by the company provided for vesting of stock options in 4 tranches of which the second tranche has been exercised by some of the employees during the last year. The third tranche was vested on 13th March, 2009. An amount of Rs.4.90 crores (Rs. 8.60 crores during last year) has been charged to Expenses during the year as per SEBI Guidelines.

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 Scheme are given in the Annexure – I to this report.

SUBSIDIARIES

Your company has two wholly owned subsidiaries viz., M/s. Divis Laboratories (USA) Inc., in USA and M/s. Divi's Laboratories Europe AG in Switzerland for marketing its nutraceutical products and a greater reach to customers within these regions. The losses at the subsidiaries amounted to Rs.6.47 crores and Rs.3.64 crores respectively for the current year. Auditors of these subsidiaries have observed that they have negative networth and suffer from deficiency of cash for continuing operations as a going-concern without the support of the parent.

The losses in the subsidiaries are on account of low level of operations as the subsidiaries have currently been marketing only a few of the nutraceutical products. With the scale up of operations of the Nutra facility, the subsidiaries will have full scale marketing operations and are expected to achieve profitable operations in the coming years

CONSOLIDATED ACCOUNTS

The consolidated financial statements have been prepared by the Company in accordance with the relevant accounting standards under the Companies Act, 1956 and in compliance with listing agreement with the Stock Exchanges. The audited consolidated financial statements together with Auditors Report thereon form part of the Annual report. The consolidated net profits after tax of the company and its subsidiaries for the year amounted to Rs.416.64 crores as compared to Rs. 347.60 crores in the previous year representing a basic earning per share of Rs.64.38 and Rs. 63.73 per share on diluted basis for the current year as against Rs.53.84 and Rs.53.23 respectively for the previous year.

DIRECTORS

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

DIRECTORS' RESPONSIBILITY REPORT

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

a) the applicable accounting standards have been followed in the preparation of the annual accounts

b) the accounting policies selected were applied consistently and the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2009 and its profit for the year ended on that date;

c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

d) the annual accounts have been prepared on a going concern basis.

AUDITORS

The Auditors, M/s. 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 year 2008-09. M/s. EVS & Associates, Cost Accountants, Hyderabad have been appointed as Cost Auditors. While the Cost audit records for the year 2007-08 have been filed with the Central Government, cost audit for the year 2008-09 is in progress.

MANAGEMENT DISUCSSION AND ANALYSIS

A report on Management Discussion & Analysis is provided as part of this Annual Report.

CORPORATE GOVERNANCE AND SHAREHOLDERS' INFORMATION

A report on Corporate Governance is included as a part of this Annual Report.

RELATED PARTY TRANSACTIONS

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

PUBLIC DEPOSITS

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

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION

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

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 the Annexure – III attached and forms part of this Report.

ACKNOWLEDGEMENTS

We thank our customers, suppliers and investors for their continued support. We also 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 its employees at all levels and their contribution to the growth and progress of the company.

For and on behalf of the Board of Directors

Hyderabad
6th June, 2009

Dr. Murali K. Divi
Chairman & Managing Director

Annexure-I

Statement of Stock Options as at 31st March 2009, pursuant to Guideline 12 of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended, the details of Divi's Employee Stock Option Scheme 2006 as under:

a) Options granted on 13-03-2006	23,24,600 (*)
b) Pricing formula As follows:	

Vesting Period	Vesting Proportion	Exercise Price Amount
End of One year from the date of Grant	20 %	At Rs.2 each *
End of Two years from the date of Grant	25 %	At Rs.200 each *
End of Three years from the date of Grant	25 %	At Rs.200 each *
End of Four years from the date of Grant	30 %	At Rs.200 each *

c) Options vested during the year	5,68,629
d) Options exercised during the year	2,00,925
e) Total number of shares arising as a result of exercise of option	2,00,925
f) Options lapsed during the year	605
g) Variation of terms of options	No. of outstanding options and the exercise price have been adjusted consequent to the split of equity shares
h) Money realized by exercise of options	4,01,85,000
i) Total number of options in force	16,09,990
j) Employee wise details of options granted to :	

*adjusted due to the split of equity shares to Rs. 2/- each

i) Senior Managerial Personal:

Name	Options granted	Options Exercised During the year		Options Outstanding
		Exercise Price (Rs)	No. of options	
Mr. N V Ramana	236700	200	59175	130185
Dr. P Gundu Rao	46200	200	11550	25410
Dr. B Nageswara Rao	50300	200	Nil	40240
Mr. P Srinivasa Rao	50300	200	Nil	40240
Mr. M Ramesh Babu	50300	200	Nil	40240
Mr. Y T S Prasad	39100	200	Nil	31280
Mr. G Hemanth Kumar	50300	200	Nil	40240
Mr. S Devendra Rao	56000	200	Nil	44800
Mr. S Ramakrishna	49000	200	Nil	39200
Mr. L Kishorebabu	50100	200	12525	27555
Dr. M N A Rao	39200	200	9800	21560
Mr. Chandra S. Divi	72600	200	Nil	58080
Dr. P V Subba Rao	9000	200	Nil	7200
Dr. A S R Anjaneyulu	9000	200	Nil	7200
P. Ramaiah Chowdary	22300	200	Nil	17840

ii) Employee receives a grant of 5 % or more of options granted during that year	Mr. N.V. Ramana, Executive Director
iii) Employee 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 2008-09 is Rs.4.90 crores. 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 statement for the year 2008-09 would be Rs.7.22 crores. The effect of adopting the fair value method on the net income and earnings per share is presented below:

Annexure-I

Where the Company has calculated the employees compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall been recognized if the Company had used the fair value methods and its impact on profits and on EPS of the Company.	Proforma Adjusted Net Income and Earning Per Share	
	Particulars	Rs. in Crores
	Net Income (As reported)	424.46
	Add: Intrinsic Value CC	4.90
	Less: Fair Value CC	7.22
	Adjusted Pro Forma Net Income	422.14
	Earning Per Share : Basic	
	As reported	65.59
	Adjusted pro forma	65.23
	Earning Per Share : Diluted	
	As reported	64.92
	Adjusted Pro Forma	64.57

Weighted- average exercise price of options granted during the year whose	
- Exercise price equals market price	Nil
- Exercise price is greater than market price	Nil
- Exercise is less than market price	Nil
Weighted- average fair value of options granted during the year whose	
- Exercise price equals market price	Nil
- Exercise price is greater than market price	Nil
- Exercise is less than market price	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 calculated using the Black Scholes Option Pricing Model. The Assumption used in the model are as follows:

	On the Date of grant	
Variables	Vest 3 13/03/2009	Vest 4 13/03/2010
Risk-free interest rate	7.19 %	7.25 %
Expected life	4.5 years	5.5 years
Expected volatility	45.13 %	44.78 %
Dividend yield	1.53 %	1.53 %
Price of the underlying share in market at the time of the option grant (adjusted to the current face value Rs.2 each)	344.46	344.46

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	2008-09	2007-08
1. Electricity		
(a) Purchases:		
Units	**82264316**	71778703
Total Amount – (Rs.crores)	**25.08**	21.93
Rate/Unit – Rs.	**3.05**	3.06
(b) Own generation:		
Through diesel Generator Units	**2599306**	568955
Units per Lt. of diesel	**3.33**	3.39
Cost/Unit – Rs.	**10.66**	9.80
2. Coal (D/C grade)		
Quantity (Kgs)	**54511137**	43189492
Total Cost – (Rs.crores)	**18.06**	12.08
Average rate – Rs.	**3.31**	2.80

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.

Annexure-II

FORM - B

Form for disclosure of particulars with respect to technology absorption

RESEARCH AND DEVELOPMENT (R&D) :

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

Amount (Rs. in Crores)

Particulars	2008-09	2007-08
a) Capital	**0.00**	0.34
b) Recurring	**11.96**	11.33
c) Total	**11.96**	11.47
d) Total R&D Expenditure as a percentage of Sales	**1.00%**	1.11%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts in brief, made towards technology absorption and adoption. : The company has its own R&D Centre which develops technologies and processes for Active Pharmaceutical Ingredients and drug intermediates and these technologies are absorbed and implemented at the company's Plants.
2. Benefits derived as a result of the above efforts : The company constantly has been executing process developments for its product range. Process optimization has been achieved in Production, which resulted in lower cost of production and substantial exports. The developments implemented brought more green chemistry by reducing reagents, minimize wastes and increasing recoveries.
3. Information regards import of technology during the last 5 years. : There is no import of technology.

FORM - C

Foreign Exchange Earnings and Outgo

Amount (Rs.in Crores)

Particulars	2008-09	2007-08
(a) Foreign Exchange earnings:		
i) FOB Value of Exports	**1103.35**	962.82
ii) Contract Research Fee	**2.36**	3.70
iii) Professional fee	**-**	-
iv) Interest	**0.74**	0.39
v) Others	**0.37**	0.08
(b) Foreign Exchange outgo :		
i) Remittance in Foreign Currency :		
Dividend (Net of Tax)	**0.01**	-
ii) CIF value of imports :		
Raw Materials	**247.05**	210.57
Capital Goods	**7.35**	8.61
Spares	**0.74**	0.44
iii) Expenditure in Foreign Currency towards :		
Memberships and Subscriptions	**0.07**	0.01
Books and Periodicals	**0.25**	0.17
Traveling Expenses	**0.46**	0.58
Laboratory Chemicals and consumables	**0.30**	0.50
Consultancy Charges	**0.48**	0.64
Sales Commission	**1.64**	0.76
Foreign Bank Charges	**0.34**	0.48
Finance Charges	**2.06**	3.91
Software expenses	**0.20**	-
Others	**1.07**	0.32
iv) Investment in subsidiaries	**-**	-
v) Advances to subsidiaries	**15.58**	10.54

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 (Rs.Crores)	Last employment
Employed through out the year :							
Dr. Murali K. Divi	58	M. Pharm. Ph.D.	Chairman & Managing Director	12.10.90	34	**15.61**	Managing Director, Cheminor Drugs Ltd.
Ramana N.V.	51	B.Sc.(Chem)	Executive Director	26.12.94	24	**8.65**	President, Enmark Exim Services Pvt.Ltd
Madhusudana Rao Divi	65	M.E. (Structural Engg.)	Director (Projects)	01.07.97	40	**0.66**	Executive Director, Sadah General Trading and Construction Co., Kuwait
Dr. Gundu Rao P.	74	M. Pharm., Ph.D.	Director (R&D)	10.02.95	53	**0.36**	Principal, College of Pharmacy, Manipal.
Kiran S. Divi	33	B. Pharm.	Director (Business Development)	10.08.01	8	**5.56**	–
Chandra S. Divi	41	B.E.	General Manager	19.10.94	16	**0.50**	–
Devendra Rao S.	47	M.Sc.	General Manager	10.02.95	26	**0.71**	Sr. Manager (Prod) Natco Pharma Ltd
Hemanth Kumar G.	49	M.Sc.	General Manager	01.11.94	26	**0.70**	Sr. Prod. Manager Sumitra Pharma Ltd
Kishorebabu L.	57	B.Com, FICWA	Chief Financial Officer	20.11.94	36	**0.75**	Finance Manager, Nagarjuna Fertilizers & Chemicals Ltd.
Dr. Nageswara Rao B.	50	M.Sc., Ph.D.	General Manager	01.11.90	21	**0.37**	Manager R&D Cheminor Drugs Ltd.
Prasad Y.T.S.	41	B.E.	General Manager	01.11.90	21	**0.66**	Engineer (Devpt) Cheminor Drugs Ltd.
Ramakrishna S.	47	B.Sc.	General Manager	15.02.95	26	**0.69**	General Manager (Works) Vera Labs Ltd.
Ramaiah Chowdary P.	45	B.E.	General Manager	15.11.94	22	**026**	Maint. Manager Natco Pharma Ltd.
Ramesh Babu M.	43	B.Sc.	Chief Technologist	01.11.90	23	**0.69**	R&D Incharge Cheminor Drugs Ltd.
Dr. M.N.A. Rao	58	M.Pharm., Ph.D.	General Manager	17.04.97	36	**0.37**	Principal College of Pharmacy Manipal
Srinivasa Rao P.	44	B.Pharm.	Chief Technologist	01.11.90	21	**0.69**	Sr. Chemist Cheminor Drugs Ltd.
Sudhakar Pendyala	42	B.Com.	AGM	01.10.94	22	**0.31**	Manager Lakshmi Engg. Works

Note : 1) Remuneration includes salary, allowances, company contribution to provident fund, provision for gratuity, provision for leave encashment, Commission, benefits and value of stock options.

2) All the above appointments are contractual.

3) Dr Murali K Divi, Chairman and Managing Director is related to Mr Madhusudana Rao Divi, Director (Projects) and Mr Kiran S Divi, Director (Business Development). No other employee mentioned above is related to any Directors 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

The global pharmaceutical market is expected to grow at 4.5 - 5.5 percent during 2009, a pace similar to 2008, according to the IMS Global Pharmaceutical and Therapy Forecast released by IMS Health. The forecast predicts global pharmaceutical sales to surpass $820 billion in 2009. The market will continue to contend with a number of forces – among them, the shift in growth from developed countries to emerging ones, specialist-driven products playing a larger role, blockbuster drugs losing patent protection, and the rising influence of regulators and payers on healthcare decisions. Layered on top is the uncertainty in the global economic environment and its effect on demand.

The U.S. pharmaceutical market, the world's largest, stood at about $312 billion during 2008 and is forecast by IMS Health to decline by at about 1 - 2 percent and reflects the impact of continuing patent expirations, fewer new product launches and a tighter economy. The top five E.U. countries (France, Germany, Italy, Spain and the United Kingdom) are forecast to grow 3 - 4 percent next year, reaching sales of $162 - $172 billion. In Europe, growth driven by the continued aging of the region's population and rising demand for preventive care will be tempered by the increased impact of health technology assessments, the use of contracting by payers as a means to control costs, and the decentralization of government healthcare budgets. Japan, the world's second-largest market, is expected to see higher growth of 4 - 5 percent, reaching $84 - $88 billion.

The pharmerging markets of China, Brazil, India, South Korea, Mexico, Turkey and Russia are forecast to grow at a combined 14 - 15 percent pace to $105 - $115 billion. Along with the pharmaceutical industry's increased focus on these high-growth markets, these countries are benefiting from greater government spending on healthcare and broader public and private healthcare funding – which is driving greater access to, and demand for, innovative medicines. Economic conditions will be a complicating factor impacting the worldwide pharmaceutical market in 2009.

The Indian pharma industry grew by 10.2% during the year 2008 and is likely to grow by 12-13% in 2009 against earlier projections of 15% due to the global economic meltdown according to ORG IMS Research, a joint venture of AC Nielsen ORG-Marg and IMS Health of UK. There has been a significant amount of restructuring in the global pharmaceutical industry, with smaller companies running out of cash and bigger companies merging with each other. According to ORG-IMS, the Indian pharmaceutical industry is estimated to touch $30 billion by 2020.

While continuing presence in innovation business and marketing, the Big pharma is also foraying into the generic industry in the emerging markets. During the year, several collaborations were announced between big pharma and domestic generic formulators in India for marketing dosage forms abroad.

Company infrastructure

Divi operates from its Headquarters and Registered Office at Hyderabad. The company has three multi-purpose manufacturing facilities with a total reactor capacity of 4000 cu.m., and all support infrastructure like Utilities, environment management and safety systems.

- The 1st Facility at village Lingojigudem, Choutuppal Mandal, Nalgonda district, about 60 KM from Hyderabad.
- The 2nd Facility is a 100% 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.

The company has 4 Research Centers with the 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, review efficiency of processes and ongoing process.

The company has constantly been augmenting capacities to cater to increasing business needs. Divi is in the process of setting up a new multi-storey facility at Divi's Research Centre (DRC) at Sanathnagar with a state-of-the-art infrastructure to augment the capabilities for handling the growing needs for research.

Internal Control systems

The Company maintains a system of well established policies and procedures for internal control of operations and activities, and these are continually reviewed for effectiveness. The internal control system is supported by qualified personnel and a continuous program of internal audit. The prime objective of such audits is to test the adequacy and effectiveness of all internal control systems laid down by the management and to suggest improvements. 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 periodically.

Risks and Concerns

Divi lays emphasis on risk management and has an enterprise-wide approach to risk management, which lays emphasis on identifying and managing key operational and strategic risks. Through this approach, the company strives to identify opportunities that enhance organisational values while managing or mitigating risks that can adversely impact its future performance. The risk management framework entails regular review of risk status and risk exposure by senior management.

Divi is engaged in manufacture of generic APIs, custom synthesis of active ingredients for innovator companies and other specialty chemicals like peptides and nutraceuticals. 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. Similarly, the company plays a non-conflict role with its generic customers. The company constantly reviews its policies and procedures to adhere to conformity to the various regulatory approvals for its manufacturing facilities, its commitment to IPR. The company is very selective in its product portfolio with a focus on export markets within the domain of its capabilities.

The company constantly works on taking appropriate measures and reviewing them from time to time to de-risk itself from foreign exchange and various other business risks. The company's current and fixed assets as well as products are adequately insured against various risks. The company's risk management and control procedures involve prioritization and continuing assessment of these risks and devise appropriate controls, evaluating and reviewing the control mechanism and redesigning it from time to time in the light of its effectiveness.

Tax Structures under EOU and SEZ schemes

Divi's Laboratories has an EOU Unit as well as an SEZ Unit at vill Chippada, Bheemunipatnam, Visakhapatnam Dist in the state of Andhra Pradesh

Under the applicable Income-tax regulations as of 31st March, 2009, the EOU Unit will have income-tax exemption for 100% of export profits upto the 31st March, 2010.

Special Economic Zone (SEZ) Units are governed by the SEZ Act, 2005 under which income-tax exemption of 100% of export profits is available for a period of 5 years from the date of commercial operations, and of 50% of export profits for the next 5 years. A further 50% of export profits are exempted for the next 5 years, subject to the Unit meeting certain conditions.

However, the tax exemption is restricted by Section 10AA(7) of the Income-tax Act, 1961 whereby companies having units both in the SEZ as well as outside ie., in the Domestic Tariff Area (DTA) are subjected to a disadvantage in terms of getting the intended exemptions vis-à-vis companies having units only in the SEZ. We expect this anomaly would soon get rectified by the Government of India through appropriate amendments to the relevant Statutes.

Environment, Health and Safety

Environment, Health and Safety (EHS) is given high importance at Divi. Design and implementation of the EHS is done through established management system called EHSMS. Equal importance is given to EHS on par with the quality and Good Manufacturing Practices (GMP) to ensure utmost care of the environment, safety of operations and protection of employee health. Divi conducts its EHS management that reflects the best industry practices and the following activities are implemented continually:

1. Imparting basic safety training to all Personnel at the manufacturing facilities
2. Conducting Safety and technical competency development programs to improve competencies of employees for safety critical jobs.
3. Work place inspections by executives and managers at all levels. Senior management team members involve in the process and show commitment through work place inspections.
4. Reduce waste generation and improve environment management by collection, treatment and disposal of all waste in an environment friendly manner.
5. Waste water management and recycling and recharging the ground water
6. Development of green cover by tree plantation across premises and factory.
7. Audit by outside agencies regularly to address any inadequacies in the system.
8. Continual Energy audits are made to minimize energy losses.
9. Risks are analysed in detail and minimized, if not eliminated, at each stage.

Regulatory Filings/Approvals

Divi 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 and these certifications are renewed from time to time. All the manufacturing sites have been inspected by US-FDA. During the year, Unit-2 had another successful inspection by the US-FDA. Divi's Nurtraceutical facility has been successfully inspected for HACCP (Hazard Assessment and critical control points) based Food Safety System by SGS India.

During the year, your company has filed 5 DMFs with US-FDA. As at the end of the year, Divi has a total of 37 drug master files (DMFs) with US-FDA and Certificate of Suitability with European Directorate for 10 products. It also has dossiers for 20 products with other countries.

Business distribution

Divi's product portfolio comprises of i) Generic APIs (active pharma ingredients) and Nutraceuticals and ii) Custom Synthesis of APIs, intermediates and specialty ingredients for innovator pharma giants. This also includes peptide building blocks (protected amino acids).

Management Discussion And Analysis

Business has been growing decently across both these segments and is broadly equal distributed. Among Divi's well distributed products range, the largest product accounts for 19% of sales and the top 5 products contributed around 61% of revenues. The top 5 customers stand at 51% 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 46% of its raw material consumption is also met from imports.

Performance and Operations Review

Analysis of profitability for the current and the last financial years is given hereunder :

(Rs. in Crores)

Particulars	2008-09	2007-08	Growth%
Net Sales	**1190.56**	1033.19	15%
Other income	**23.01**	13.61	
Total Income	**1213.57**	1046.80	16%
Expenditure	**700.18**	616.28	
PBDIT	**513.39**	430.52	19%
Finance charges	**7.23**	10.18	
Depreciation	**47.82**	35.65	
Profit before tax (PBT)	**458.34**	384.69	19%
Provision for tax			
Current Tax	**29.59**	38.34	
MAT Credit Entitlements	**(3.19)**	(19.30)	
Deferred Tax Liability	**7.27**	11.77	
Fringe Benefit Tax	**0.22**	0.32	
Profit after tax (PAT)	**424.45**	353.56	20%
Earnings per Share (EPS)			
1. Basic	**65.59**	54.77	
2. Diluted	**64.92**	54.14	

During the year, Divi achieved a turnover of Rs. 1191 crores as against Rs. 1033 crores during the previous year reflecting a growth of 15%. Exports constituted 93% of total turnover as against 94% during the last year. Profit after Tax (PAT) for the year grew by 20% to Rs.424 crores as against Rs.354 crores during the last year.

The year has seen unprecedented global economic slowdown with its effect on almost all markets be it commodities, crude, financial or currency. This has resulted in serious turmoil across the globe with varying severity in different countries or regions. Although pharmaceutical and healthcare sector is considered a defensive sector – nevertheless appears to have been impacted, albeit lesser than other sectors.

As par of their efforts to conserve resources in the current economic situation, many of our MNC customers have been undertaking lean inventory management and destocking inventories across all their supply chains covering their plants, warehouses, distributors, stockists as well as suppliers. This has resulted in slow off-take of our products which has muted the general growth of business. We expect normalcy would get restored when once the destocking gets over in a span of a couple of quarters.

During the year, Divi has added 9 products to its product portfolio of which 4 are generic APIs and intermediates and 5 are custom synthesis APIs and intermediates.

Your company continues to work towards optimizing the capacities created at its multi-purpose manufacturing facilities and also adding additional capacities aimed at the promising business opportunities available to it in its domain of capability in line with its strategy to work with innovators playing a complementary role and non-compete model with its generic customers.

Capital Expenditure

During the year, your company has spent an amount of Rs.110 crores on capital expenditure towards enhancing production capacities. We have also set up a new Specialty Chemistry Block to handle highly energetic reagents, doubled the QC lab capabilities. We have added several support utilities to meet the requirements of our EOU and SEZ Units. Additional Reverse Osmosis (RO) plants and forced evaporation systems were installed to augment the environmental management.

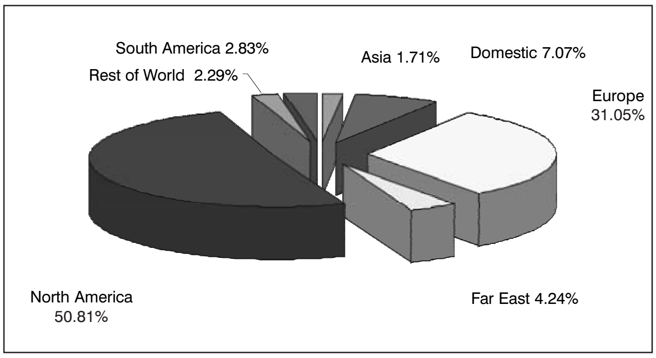
After absorbing the Capital work-in-progress carried from the last year, the assets capitalised during the year amounted to Rs.141 crores. This also included the beadlet manufacturing Nutra facility at the company's SEZ.

Exports

Exports constituted around 93% of gross sales during the year as against 94% in the previous year. Exports to advanced markets comprising Europe and America accounted for 82% of business.

Particulars	2008-2009		2007-2008	
Region	Sales Rs. in Crores	% Shares	Sales Rs. in Crores	% Shares
Asia	**20.51**	**1.71%**	14.59	1.40%
Europe	**372.25**	**31.05%**	300.82	28.89%
Far East	**50.80**	**4.24%**	58.12	5.58%
India	**84.72**	**7.07%**	59.52	5.72%
North America	**609.08**	**50.81%**	550.74	52.90%
South America	**33.91**	**2.83%**	18.21	1.75%
Rest of the World	**27.55**	**2.29%**	39.12	3.76%
Total	**1198.82**	**100.00%**	1041.12	100.00%

Gross Sales

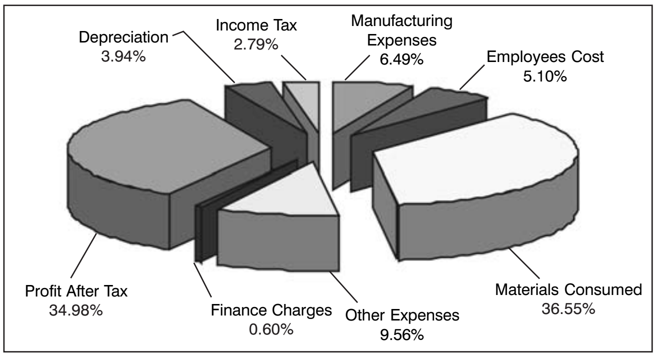


Other Income

Other Income mainly comprised of Contract Research fee, duty drawbacks available to the company and miscellaneous income. Other Income for the year amounted to Rs.23.01 crores, as against Rs.13.61 crores in the previous year.

Income on contract research accounted for Rs.2.35 crores during the year as against Rs. 3.70 crores during the last year. Miscellaneous Income during the year amounted to Rs.8.25 crores as against Rs. 5.86 crores during last year. During the year, we have earned a dividend income of Rs.8.11 crores on investment of surplus funds in liquid funds of SBI Mutual Fund as against a dividend income of Rs.0.56 crore during last year.

Distribution of income :



Material costs

Raw material consumption for the year accounted to Rs.543 crores as against Rs. 444 crores for the previous year. Raw material consumption varies from product to product. Manufacture of an active pharma ingredient or intermediate involves stage-wise production processing of the product through it chemistry to the specifications under the standard operating practices complying to cGMP conditions.

Increase in stocks is represented by:

(Rs. in Crores)

Particulars	2008-09	2007-08
Closing Stocks of:		
Work-in-Process	**163.49**	96.93
Finished Goods (net of excise)	**94.08**	57.00
Less: Stock out of trial runs:		
Work-in-ProcessFinished Goods	**2.06**	-
Less: Opening Stock of:	**3.04**	-
Work-in-Process	**96.93**	91.77
Finished Goods	**57.00**	30.00
Excise duty adjustments	**0.55**	0.03
Increase in stocks	**(99.09)**	(32.19)

Material consumption net of increase/decrease in stocks is about 37% of revenue during the year as compared to 40% during the last year, variation being the result of product mix as each product will have a different material consumption.

Manufacturing Expenses

Manufacturing expenses comprising of Power and Fuel, Repairs to Plant and stores consumption came to Rs.78.72 crores for the year as against Rs. 64.51 crores for the last year. Manufacturing expenses have increased due to increase in the prices of coal. These expenses account for about 6% of turnover.

Employee Costs

Staff costs for the year have amounted to Rs. 61.92 crores as against Rs. 50.54 crores during the last year. Costs for the year included a charge of Rs.4.90 crores (Rs. 8.60 crores last year) on account of stock options granted to employees other than the Directors. Increase in salaries is on account of the induction of additional staff at the manufacturing facilities besides revision in remuneration of employees. Salaries, including ESOP expense, continue to be about 5% of total income.

Other Expenses

Other Expenses for the year amounted to Rs.115.98 crores as against Rs. 89.54 crores during the previous year. Major components of Other Expenses include Freight and handling, Loss on currency fluctuations, Managerial Remuneration and R&D expenses. Increase in some of these expenses is on account of increased level of operations.

Freight and handling charges have gone up steeply due to the substantial increase of international air/sea freight rates which again is a factor of the crude oil prices. Increase in managerial remuneration is on account of provision of commission to Mr. Kiran S. Divi, Director (Business Development) as approved by members at the last Annual General Meeting.

There was a net loss of Rs.31 crores during the year on account of foreign exchange fluctuations as against a net loss of Rs. 10 crores during last year. The year has seen violent fluctuations in foreign currencies. Due to the substantial export business that it has, the company has hedged some of its exposure and also undertaken some forex derivative transactions. During the year, losses on these treasury operations including the Mark-to-market losses on the outstanding forex derivative contracts amounted to Rs.45 crores, although there was a gain of Rs.23 crores on translation of foreign currency exposures in respect of

Management Discussion And Analysis

Receivables and creditors for imports. In addition, there was also a loss of Rs.9 crores on account of translation of foreign currency loans.

We have fully provided for all foreign currency translation losses as well as MTM losses on forex forward contracts, short or long term and have not exercised the option available in respect of exchange difference on long term monetary items under clause 46 of Accounting Standard - 11 notified by the Ministry of Company Affairs under the Companies Accounting Standards (Amendment) Rules, 2009.

Other Expenses for the year account for 10% of Income as against to 9% during the last year.

Finance charges

Interest and Finance charges during the year amounted to Rs.7.23 crores as against Rs. 10.18 crores during the previous year. As the company has generated significant cash surpluses, utilization of working capital has substantially reduced. We have also prepaid the balance of Rupee Term Loan with Bank of Nova Scotia.

Profits before Depreciation, Interest and Taxes (EBITA)

EBITA for the year grew by about 19% to Rs.513.39 crores as against Rs. 430.52 crores during the previous year.

Depreciation

Deprecation charge for the current year came to Rs.47.82 crores as compared to Rs. 35.65 crores during the last year.

During the year, addition to Fixed Assets accounted to Rs.140.77 crores as against Rs. 151.42 crores in the previous year.

Taxation

Provision fo Income Tax for the Current year made of Rs.29.80 Crores represents minimum alternate tax payable under the Income Tax against which MAT credit of Rs.3.19 is available for set off against tax in forthcoming years.During the year, there is also a write-back on account of income-tax adjustment of earlier years amounting to Rs.0.20 crores.

For the last year, the Tax provision under MAT amounted to Rs.36.75 crores of which the company was eligible for a MAT Credit entitlement of Rs.19.30 crores. There was also income-tax adjustment of earlier years amounting to Rs.1.59 crores during the last financial year.

The company has three manufacturing facilities, Unit-1 near Hyderabad, EOU and SEZ Units near Visakhapatnam. EOU Unit will be eligible for 100% income-tax exemption from export profits upto 31st March, 2010.

Our Unit in Divi's Pharma SEZ notified under the Special Economic Zone Act, 2005 is eligible for income-tax exemption under Section 10AA of the Income-tax Act, 1961 @ 100% of its export profits for the first five years of commercial operations, 50% for the succeeding five years and thereafter for a further period of 5 years for an amount not exceeding 50% of its export profits on compliance of certain conditions prescribed under the provision.

Subsection 7 of Section 10AA of the IT Act defines the method of calculation of tax exemption based on calculation of profit derived from exports. The present wording and interpretation of the sub-section is restricting the quantum of exemption of tax of the Unit between companies having Units in SEZs as well as outside vis-à-vis companies having Units only or exclusively in SEZ. Thus, the exemption of income-tax on profits of the SEZ Unit is restricted to a proportion of the export turnover of the Unit to the total turnover of the company. The industry has represented the matter to the Government and several statements have been made in the press as well as in the parliament by the Government officials and Ministers of Commerce and Finance that it has been decided to remove this anomaly through necessary changes in the Act.

Having considered the various press reports and other information available on this matter, the company preferred to make provision for current income-tax calculating the profits eligible for income-tax exemption in respect of its SEZ Unit derived as a proportion of the export turnover of the Unit to the total turnover of the SEZ Unit.

Deferred Tax

Divi has also provided for Deferred Tax Liability of Rs.7.27 crores for the year as against Rs. 11.77 crores during the previous year.

Fringe Benefit Tax

Fringe benefit tax (FBT) for the year accounted for Rs.0.22 crores as against Rs. 0.32 crores last year. FBT on shares allotted to employees under the company's Employee Stock Options Scheme has been collected from the employees and paid to the Government.

Profit after Tax

Profit after Tax for the year grew by 20% to Rs.424.46 crores from Rs. 353.56 crores during the previous year.

Earnings Per Share

Earnings Per Share for the year works out to Rs.65.59 per share of Rs.2 each as against Rs. 54.77 last year on absolute basis and to Rs.64.92 per share as against Rs. 54.14 last year on diluted basis.

Dividend

Your Board has recommended a dividend of Rs.6 per share of face value Rs.2 each or 300% for the year 2008-09. Dividend for the previous year was Rs.4 per share or 200%.

We also had to make provision of Rs.0.05 crores towards dividend paid for the financial year 2007-08 in respect of the equity shares allotted during April, 2008 on exercise of stock options by the employees as these shares rank pari-passu with other equity shares of the company as per the listing guidelines and stand allotted on the record date fixed for declaration of dividend for the last year.

Dividend pay-out for the year works out to 9% of profits earned as against 7.3% last year. An amount of Rs.6.62 crores (Rs. 4.39 crores last year) has been provided during the year towards Corporate Dividend Tax.

Transfer to General Reserves

We propose to transfer an amount of Rs.43 crores to General Reserve for facilitating the dividend for the year and leaving a balance of Rs.1015.93 crores in the Profit and Loss Account.

Secured Loans

Term Loans, availed at competitive terms, are being repaid as per the schedule. We have prepaid the balance of Rupee Term Loan from Scotia Bank. Utilisation of working capital loans has reduced substantially due to the significant cash flows generated.

As at the end of the year under review, we have a total Secured Debt of Rs.49.52 crores and an Unsecured loan (being sales-tax deferment) of Rs.3.11 crores. Debt-equity ratio as of 31st March, 2009 is at 0.04 while it was 0.10 during the last year.

Fixed Assets

During the year, the Gross Block grew by Rs.140.77 crores to Rs.782.49 crores as against a gross block of Rs.641.93 crores as of last year. During the year, Divi's SEZ Unit accounted for an investment of Rs.109.33 crores and the balance of the investment was done at our EOU and the Other Unit

Inventories

(Rs. in Crores)

Particulars	2008-09	2007-08
Raw Materials	**120.03**	109.84
Work-in-Process	**163.49**	99.76
Finished Goods	**94.08**	58.87
Stores and Spares	**18.31**	7.19
Total	**395.91**	275.66

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. Increase in inventories is also accentuated by the process of destocking across all their supply chains by some of our large MNC customers who have been undertaking lean inventory management – as the off-take of the produces has been lower.

Debtors

Debtors as of 31st March, 2009 amounted to Rs.293.50 crores as against Rs. 214.24 crores during the previous year.

(Rs. in Crores)

Particulars	2008-09	2007-08
Debtors considered good	**272.24**	210.24
Debtors over 6 months	**11.44**	4.63
Total Debtors	**283.68**	214.87
Less: Prov. for Doubt full Debts	**0.18**	0.63
Total	**283.50**	214.24
Average Debtor days	**87**	75

The company has provided for doubtful debts of Rs.0.18 crores and charged-off bad debts of Rs.1.44 crores.

Loans and Advances

Loans and advances as of 31st March, 2009 amounted to Rs.99.33 crores as against Rs. 76.53 crores during the previous year. Increase in advances is mainly on account of prepaid income-tax, advances to subsidiaries and MAT credit entitlements.

Investments

We have invested the short-term surpluses generated from operations in money market mutual funds. An amount of Rs.171.80 crores was invested in liquid funds of SBI Mutual Fund as at the year-end as against an investment of Rs.55.57 during the previous year.

In addition, we also have investments in the equity of our two 100% subsidiaries and in the equity of M/s. Patan Cheru Enviro-Tech Limited, a common effluent treatment company promoted by the Government of Andhra Pradesh.

Current Liabilities and provisions

Current Liabilities as of 31st March, 2009 amounted to Rs.161.60 crores as against Rs.157.83 crores during the previous year. While the increase in current liabilities is on account of increased level of operations, the significant one-off item is the liability provided for the MTM losses on the unexpired foreign exchange contracts amounting to Rs.45.21 crores.

Provisions for the year amounted to Rs.48.91 crores as against Rs. 36.47 crores during last year. Of this, dividend proposed for the year amounted to Rs.38.91 crores as against a dividend provision of rs.25.82 crores during last year.

Community Development activities

Corporate social responsibility is integrated in all the activities that Divi undertakes. Divi continues to be associated with various community development activities in the villages around the company's Manufacturing Facilities. Divi follows a structured process through which it engages with the communities around its plant sites to understand their needs. In consultation with these communities, self help groups and government agencies, Divi contributed for and executed several community development programs either on its own or through voluntary/Government organizations aimed at improving self-reliance, health and hygiene, some of the examples are:

- Helping communities to manage their water and other natural resources effectively
- Organising health camps and veterinary camps
- Helping self-help groups to improve their economic conditions
- Encouraging rural enterprise development, like garments making where women contribute more and gain economic independence
- Providing vocational training
- Promoting quality health and education

Corporate Governance

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be more fully informed in order to maintain or alter organizational activity. It is the mechanism by which individuals are motivated to align their actual behaviors with the overall participants. It further inspires and strengthens investor's confidence by ongoing commitment to overall growth of the Company.

Your Company adheres to the principles of corporate governance and commits itself to accountability and fiduciary duty in the implementation of guidelines and mechanisms to ensure its corporate responsibility to the members and other stakeholders. In accordance with the clause 49 of the Listing Agreement, 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 are 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 2009, the Board comprised of ten directors, five of whom are Executive and remaining are non-executive independent directors. The category of directors as on 31st March 2009 is as follows:

Sl. No.	Name of the Director	Status / Designation	Category
1.	Dr Murali K. Divi	Chairman andManaging Director	Promoter and Executive Director
2.	Sri N V Ramana	Executive Director	Executive Director
3.	Sri Madhusudana Rao Divi	Director (Projects)	Executive Director
4.	Dr P Gundu Rao	Director (R&D)	Executive Director
5.	Sri Kiran S Divi	Director (Business Development)	Executive Director
6.	Dr K Satyanarayana	Director	Non-executive Independent Director
7.	Sri S Vasudev	Director	Non-executive Independent Director
8.	Sri G Venkat Rao	Director	Non-executive Independent Director
9.	Prof C Ayyanna	Director	Non-executive Independent Director
10.	Dr G Suresh Kumar	Director	Non-executive Independent Director

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

During the financial year the Board has met six times, i.e. on 19th April 2008, 7th June 2008, 26th July 2008, 16th September 2008, 29th October 2008 and 24th January 2009. Director's attendance at the Board and General Meetings held during the financial year 2008-09 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	Director-ships	Committee Member-ships	Committee Chairman-ships
1.	Dr Murali K. Divi	6	6	Yes	4	1	-
2.	Sri N V Ramana	6	6	Yes	1	-	-
3.	Sri Madhusudana Rao Divi	6	6	Yes	-	-	-
4.	Dr P Gundu Rao	6	4	Yes	-	-	-
5.	Sri Kiran S. Divi	6	6	Yes	2	-	-
6.	Dr K Satyanarayana	6	5	Yes	-	-	-
7.	Sri S Vasudev	6	6	No	1	1	1
8.	Sri G Venkat Rao	6	6	Yes	1	-	-
9.	Prof C Ayyanna	6	5	No	-	-	-
10.	Dr G Suresh Kumar	6	6	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 during the year.

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

i) Mr. S. Vasudev

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

Mr. Vasudev joined the company as Director being nominee of IDBI on 01.12.1999 and appointed as director liable to retire by rotation on 9th August 2004.He is also a director in M/s Fatpipe Networks India Limited and not holding any equity shares of the company as on 31st March 2009.

ii) Dr. G. Suresh Kumar

Dr G Suresh Kumar is a Consulting Surgeon and holds an MBBS degree from Gandhi Medical College, Hyderabad and M.S. (General Surgery) from Gulbarga University, Karanataka. He worked with the Ministry of Health, Government of Algeria between 1978 and 1983. He is a practicing Consultant Surgeon at several multi-speciality hospitals at Hyderabad.

Dr. Suresh Kumar joined the company as Director on 10.03.2001. He is not a director of any other company and not holding any equity shares of the company as on 31st March 2009.

iii) Mr Kiran S Divi

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 Pharma ingredients and intermediates for about two years before joining the Board. He is responsible for marketing the company's generic products in the USA, which is considered an important value market for the Pharma ingredients.

Mr. Kiran S.Divi has been a whole-time director of the company since 10.08.2001. Mr. Kiran S. Divi is also a Director in M/s. Divi's Biotech Private Limited and M/s. Divi's Resorts Private Limited. He is neither a Member nor Chairman of Committees of other Companies. Mr. Kiran belongs to the promoter-group and holds 35,00,000 equity shares of Rs.2 each of the company.

3. COMMITTEES OF BOARD

a) Audit Committee

The primary objective of the Audit Committee of the company is to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. The Committee comprising of three Independent Directors, met six times during the year, i.e. on 19th April 2008, 7th June 2008, 26th July 2008, 16th September 2008, 29th October 2008 and 23rd January 2009.

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.

Terms of reference to the Audit Committee include the following:

a) To oversee the Company's financial information disclosure, review the adequacy of internal control systems.

b) To hold periodic discussions with the Statutory Auditors as well as the officials of the Company concerning the accounts of the company, internal control systems, scope and observations of the Auditors.

c) To review the un-audited financial statements before submission to the Board.

d) 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.

e) 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 also to administer the employee's 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 five times during the year on 19th April 2008, 7th June 2008, 26th July 2008, 29th October 2008 and 24th January 2009 and the attendance of each member of the Committee is as follows:

Name	Designation	No. of Meetings	
		Held	Attended
Dr K Satyanarayana	Chairman	5	4
Sri S Vasudev	Member	5	5
Prof C Ayyanna	Member	5	5

DETAILS OF REMUNERATION TO DIRECTORS

Executive Directors:

(Rs. in Lakhs)

Name	Salary	PF	Perks	Commision	Options Value	Total	Stock Options Outstanding (Nos.)
Dr. Murali K. Divi	72.00	8.64	13.42	1466.59	-	1560.65	Nil
Sri. N V Ramana	60.00	7.20	13.16	733.30	51.02	864.68	130185*
Sri D Madhusudana Rao	48.00	5.76	12.00	-	-	65.76	Nil
Dr. P Gundu Rao	19.42	0.62	6.34	-	9.96	36.34	25410*
Sri. Kiran S. Divi	48.00	5.76	13.47	488.86	-	556.09	Nil
Total	**247.42**	**27.98**	**58.39**	**2688.75**	**60.98**	**3083.52**	

*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 2008-09 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	5000	1.80
02	Sri S Vasudev	Director	Nil	3.40
03	Sri G Venkat Rao	Director	1500	2.40
04	Prof C Ayyanna	Director	Nil	2.00
05	Dr G Suresh Kumar	Director	Nil	2.40

c) **Shareholders / Investors' Grievance Committee**

The Shareholders/Investors' Grievance Committee is empowered to approve issue of duplicate share certificates, to review all matters connected with the shares transfers and transmissions, to review the performance of the Registrar and Transfer Agents. The Committee also looks into redressing of shareholders' complaints like non transfer of shares, non-receipt of dividend and Annual Report etc.

The Shareholders/Investors' Grievance Committee consists of Executive Director, One Independent Non-Executive Director and Chief Financial Officer of the Company.

During the year the committee has met 3 times on 5th June 2008, 15th November 2008 and 22nd December 2008 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	3	3
Mr. N. V. Ramana	Member	3	3
Mr. L. Kishore Babu	Member	3	3

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	9	9	0
2.	Dividend Related	0	45	45	0

Disclosure on legal proceedings pertaining to shares

There are no pending cases pertaining to shares as on 31.03.2009.

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 2008-09.

For and on behalf of the Board of Directors

Hyderabad
6th June 2009

Dr. Murali K. Divi
Chairman & Managing Director

4. GENERAL BODY MEETINGS

Particulars of last three Annual General Meetings:

AGM	Year ended	Venue	Date & Time	Special Resolutions Passed
18th	31.03.2008	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004	16.08.2008 10 A.M	Increase of remuneration payable to Mr Kiran S Divi, Director (Business Development) of the company.
17th	31.03.2007		03.09.2007 10 A.M	NIL
16th	31.03.2006		02.09.2006 10 A.M	1. Re-appointment of Mr Madhusudhana 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.

No special resolutions were put through postal ballot during the year.

5. DISCLOSURES

A) Disclosures on Materially Significant Related Party Transactions

The Company does not have any related party transactions, which may have potential conflict with the interest of the Company. Other related party transactions have been reported at item No.14 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.

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

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

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.

The Company has paid listing fees for 2009-10 to both the above Stock Exchanges.

8. GENERAL SHAREHOLDER INFORMATION

Annual General Meeting	Date: 17th August 2009 Time: 10 AM
Venue	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004
Financial Year	1st April2008 to 31st March 2009
Book Closure Date	17th June 2009 to 20th June 2009
Dividend payment date	On or before 16th September 2009
Listing on Stock Exchanges	a) Bombay Stock Exchange Ltd. b) National Stock Exchange of India Limited
Stock Code	**BSE - 532488** **NSE - DIVISLAB**
ISIN No	**INE361B01024**

9. DEPOSITORY REGISTRAR AND TRANSFER AGENT

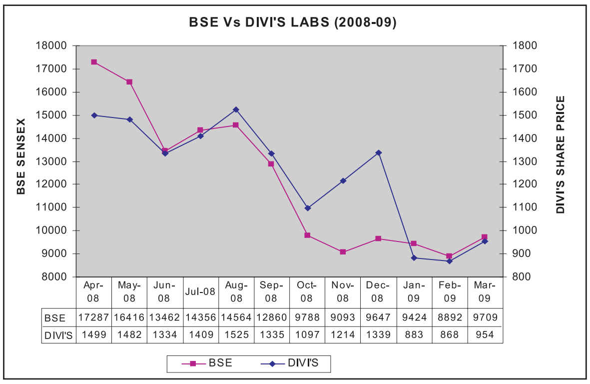
M/s. Karvy Computershare Private Limited
Plot No 17-24, Vittal Rao Nagar,
Madhapur, HYDERABAD – 500 081
Phone No. 040-23420815-28
Fax : 040-23420814/ 23420857
Email: mailmanager@karvy.com

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 2008-09 are as follows:

Month	Mumbai Stock Exchange			National Stock Exchange		
	Low	High	Volume	Low	High	Volume
Apr-08	1224.00	1522.90	599093	1219.95	1524.00	2166421
May-08	1302.00	1560.00	564824	1305.55	1550.00	2475884
Jun-08	1306.65	1634.95	1162055	1301.00	1634.70	3819620
Jul-08	1249.90	1454.70	326155	1245.00	1453.40	1599008
Aug-08	1387.00	1613.80	616714	1381.10	1614.00	2420913
Sep-08	1222.05	1586.00	500374	1228.00	1596.80	4037839
Oct-08	890.15	1350.00	581464	894.05	1355.00	1924906
Nov-08	1080.00	1294.00	702385	1085.50	1295.00	1870581
Dec-08	1108.00	1351.90	356133	1108.00	1350.00	1472938
Jan-09	797.10	1367.95	3017623	793.00	1368.00	7388951
Feb-09	793.00	963.00	1577000	793.00	965.00	3798617
Mar-09	765.05	975.00	1373281	765.00	975.00	3293383

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, 2009:

Financial Year	No. of warrants unclaimed	Unclaimed Dividend (Rs in Lakhs)
2001-2002	76	2.49
2002-2003	190	4.31
2003-2004	171	3.90
2004-2005	232	3.43
2005-2006	222	2.91
2006-2007	344	3.40
2007-2008	1475	4.82

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:

Financial year ended	Date of declaration of dividend	Due for transfer to IEPF on
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
31.03.2007	17.03.2007	16.04.2014
31.03.2008	16.08.2008	15.09.2015

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.

Members may please note that Securities And Exchange Board of India (SEBI) has made it mandatory to furnish PAN particulars for registration of physical share transfer requests. Hence, all members are required to furnish their PAN particulars in the transfer deed while seeking transfer of shares.

14.DISTRIBUTION OF SHAREHOLDING

Category	As on 31st March, 2009				As on 31st March, 2008			
	No. of Members		No. of Shares		No. of Members		No. of Shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5000	**25531**	**97.87**	**2927301**	**4.52**	25956	97.69	3217433	4.99
5001 – 10000	**234**	**0.90**	**922302**	**1.42**	282	1.06	1099423	1.70
10001 – 20000	**122**	**0.47**	**898271**	**1.39**	137	0.52	1015964	1.57
20001 – 30000	**55**	**0.21**	**676439**	**1.04**	47	0.18	578923	0.90
30001 – 40000	**21**	**0.08**	**383261**	**0.59**	24	0.09	441634	0.68
40001 – 50000	**17**	**0.06**	**379595**	**0.59**	18	0.07	406634	0.63
50001 – 100000	**36**	**0.14**	**1282759**	**1.98**	46	0.17	1665581	2.58
100001 & above	**71**	**0.27**	**57288097**	**88.47**	58	0.22	56131508	86.95
Total	**26087**	**100**	**64758025**	**100**	26568	100	64557100	100

15. (i) Shareholding pattern

Category	As on 31.03.2009		As on 31.03.2008	
	No. of shares	% to share capital	No. of shares	% to share capital
Promoters	**34584300**	**53.41**	34584500	53.57
Mutual Funds and UTI	**9000918**	**13.90**	8965682	13.89
Banks/Financial institutions	**57154**	**0.09**	32942	0.05
Foreign Institutional Investors	**10428674**	**16.10**	10080548	15.61
Private Corporate Bodies	**4043599**	**6.24**	3070296	4.76
Indian Public	**5543460**	**8.56**	6594983	10.22
Non-Resident Indians / Overseas Corporate Bodies	**633818**	**0.98**	839814	1.30
Clearing Members	**99263**	**0.15**	28145	0.04
Trusts	**22579**	**0.04**	82155	0.13
Directors (Not having control over the Company)	**344260**	**0.53**	278035	0.43
Grand Total	**64758025**	**100**	64557100	100

ii) Shareholding profile

Mode of Holding	As on 31.03.2009				As on 31.03.2008			
	No. of Holders	%	No. of shares	%	No. of Holders	%	No. of shares	%
Demat	**25967**	**99.54**	**33264700**	**51.37**	26429	99.48	33008150	51.13
Physical	**120**	**0.46**	**31493325**	**48.63**	139	0.52	31548950	48.87
Total	**26087**	**100**	**64758025**	**100**	26568	100	64557100	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 INE361B01024. 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, 2009, 51.37 % of the shares were in demat mode.

(iv) Plant Location

Unit I : Lingojigudem Village, Choutuppal Mandal, Nalgonda Dist. (A.P.) Pin Code-508 252.
EOU : 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
6th June 2009

Dr. Murali K. Divi
Chairman & Managing Director

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

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

a. We have reviewed balance sheet and profit and loss account (consolidated and unconsolidated) and all its schedules and notes on accounts as well as the cash flow statements and the directors' report;

   i. do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   ii. together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.

c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

d. We have indicated to the auditors and the Audit committee

   i. significant changes in internal control over financial reporting during the year;

   ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

   iii. instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

For Divi's Laboratories Limited

Hyderabad
Date: 6th June 2009

Dr. Murali K. Divi
Chairman and Managing Director

L. Kishorebabu
Chief Financial Officer

Certificate

To

The Members of
Divi's Laboratories Limited

We have examined the compliance of the conditions of corporate governance by DIVI'S LABORATORIES LIMITED, for the year ended on 31st March, 2009, 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 a review of the procedures and implementation thereof, adopted by the company for ensuring the compliance with the conditions of the Corporate Governance as stipulated in the said clause. 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, and based on the representations made by the directors and the management, we certify that the company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreements.

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

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

HYDERABAD
Date: 6th June 2009

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** ("the company") as at 31st March 2009, 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 ('the Order') issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956 (the act), 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) **With respect to the provision for current Income Tax, we draw your attention to Note No. 6 (i) - Current Income Tax of Notes to Accounts given as schedule - 24 to the financial statement. As stated in the note, the Company is of the view that the profits derived from export from their Unit notified under Special Economic Zone Act, 2005 are entitled for tax exmption in proportion of the export turnover of the unit to the total turnover of the unit and the provision for current income tax as been determined and provided in the financial statements accordingly. Pending clarification / amendments to relevant statutes proposed to be issued by the Government of India, the provision made for current income tax for the year ended 31st March 2009 is lower by Rs.3,425 lakhs. Due to this, the Profit After Tax, Balance in Profit and Loss Account are overstated and the Provision for Taxation is understarted to the extent.**

   v) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211 (3C) of the Act, to the extent applicable.

   vi) On the basis of the written representations received from the directors, as on 31.03.2009, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 st March, 2009 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

   vii) Subject to clause 4 (iv) of this report and in our opinion to the best of our information and according to the explanation given to us, the said accounts read in conjunction with the notes and accounting policies thereon give the information required by the Act, 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, 2009;

      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

P V R K NAGESWARA RAO
Partner
Membership No. 18840

Hyderabad
6th June 2009

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF AUDIT REPORT OF EVEN DATE ON THE ACCOUNTS OF DIVI'S LABORATORIES LIMITED ('THE COMPANY') FOR THE YEAR ENDED 31ST MARCH 2009

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets.

   (b) As explained to us, the fixed assets have been physically verified by the management according to the phased programme designed to cover all the fixed assets on rotation basis. In respect of fixed assets verified according to this programme, which is considered reasonable, no material discrepancies were noticed on such verification. As regards capital works in-progress, the same will be verified by the management on completion of assets.

   (c) The fixed assets disposed off during the year did not represent substantial part of fixed assets of the Company, which will affect the going concern status of the Company.

2. (a) The Inventories of the company have been physically verified by the Management during the year at reasonable intervals except stocks lying with others, which have been verified with reference to confirmations, certificates and other relevant documents where available.

   (b) The procedures of physical verification of Inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   (c) The Company has maintained proper records of inventories and the discrepancies noticed on physical verification of stocks as compared to book records, which in our opinion were not material, have been properly dealt with in the books of account.

3. The Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Act, 1956. Consequently, the provisions of Clause 4(iiib), 4(iiic), 4(iiid), 4(iiif) and 4(iiig) of the Order are not applicable to the Company.

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 and Management 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 Act, and the rules framed there under. Consequently, the provisions of clause 4 (vi) of the order are not applcable to the company.

7. In our opinion and according to the explanations given to us, the Company has an internal audit system commensurate with the size and nature of its business.

8. We have broadly reviewed the records maintained by the Company pursuant to the order made by the Central Government of India, 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. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.

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 instances of delay 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 31.3.2009 which are outstanding for a period of more than six months from the date they became payable.

   (b) According to the records of the Company and as per the information and explanations given to us, there are no dues of Sales Tax, Wealth Tax, Service Tax, and Cess, which have not been deposited on account of any dispute as on 31.3.2009 except Excise Duty, Custome Duty and Income Tax, 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	August 2005	Penalty and fine for non-fulfillment of export obligation against goods imported under DEEC Scheme	0.30	Customs, Excise & Service Tax Appellate Tribunal, south Zonal Bench, Bangalore
Excise duty	January, 2007	Penalty for non-fulfillment of export obligation against goods imported under DEEC Scheme	10.00	Customs, Excise & Service Tax Appellate Tribunal, south Zonal Bench, Chennai
Excise duty	June 2006 to July 2007	Customs duty foregone on materials used for manufacture of non-excisable goods, penalty for non-payment of customs duty and penalty for improper utilisation of Cenvat Credit	69.48	Customs, Excise & Service Tax Appellate Tribunal, south Zonal Bench, Bangalore
Excise duty	August 2007 to July 2008	Customs duty foregone on materials used for manufacture of non-excisable goods, penalty for non-payment of customs duty and penalty for improper utilisation of Cenvat Credit	60.61	Customs, Excise & Service Tax Appellate Tribunal, south Zonal Bench, Bangalore
Income Tax	2004-05	Income Tax and interest demanded on completion of assessment	27.60	Commissioner of Income Tax, Appeals-II, Hyderabad
Income Tax	2005-06	Interest for delay in payment of advance fringe benefit tax demanded on completion of assessment	0.41	Additional Commissioner of Income Tax, Range-1, Hyderabad

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, as 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, the provisions of clause 4 (xii) of the order are not applicable to the company.

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 Order are not applicable to the Company.

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 Order are not applicable to the company.

15. As per the information and explanations given to us, as the Company has not given any guarantees for loans taken by others from banks or financial institutions, the provisions of clause 4 (xv) are not applicable to the company.

16. According to records of the Company, the Company has not raised any term loans during the year and in respect

of term loans raised in earlier years, the same have been applied for the purposes for which they were raised in the corresponding years.

17. According to records and on an overall examination of the balance sheet and cashflow statement of the company, as the company has not raised any funds on shortterm basis during the year, the provisions of clause 4 (xvii) are not applicable to the company.

18. As per the information and explanations given to us, as the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act during the year, the provisions of clause 4 (xviii) are not applicable to the company.

19. As the Company has not issued any debentures during the year, which requires the creation of security or charge, the provisions of clause 4 (xix) are not applicable to the company.

20. As the company has not raised any money by public issue during the year, the provisions of clause 4 (xx) are not applicable to the company.

21. During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, and as per the representation given by the Company and relied on by us, we have neither come across any instance of material fraud on or by the Company, noticed or reported during the year, nor have we been informed of such cases by the management.

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

P.V.R.K. NAGESWARA RAO
Partner
Membership No. 18840

HYDERABAD
6th June 2009

Balance Sheet As At 31st March, 2009

(Rs. in Lakhs)

Particulars	Schedule No.	As At **31st March, 2009**		As At 31st March, 2008	
SOURCES OF FUNDS :					
SHARE HOLDERS' FUNDS :					
Share Capital	1	**1295.16**		1291.14	
Reserves and Surplus	2	**124883.60**	**126178.76**	86107.49	87398.63
LOAN FUNDS :					
Secured Loans	3	**4952.00**		8295.94	
Unsecured Loans	4	**311.98**	**5263.98**	311.98	8607.92
DEFERRED TAX LIABILITY (NET)	5		**4856.52**		4129.90
TOTAL			**136299.26**		100136.45
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	6	**78248.92**		64192.54	
Less: Depreciation		**19281.85**		14505.52	
Net Block		**58967.07**		49687.02	
Capital Work - in - Progress		**1442.94**		4618.90	
Unallocated Expenditure pending capitalisation	7	**-**		326.31	
Advances for Capital Works		**507.22**	**60917.23**	1363.26	55995.49
INVESTMENTS	8		**17238.80**		5614.86
NET CURRENT ASSETS :					
A. CURRENT ASSETS, LOANS AND ADVANCES :					
Inventories	9	**39590.75**		27565.53	
Sundry Debtors	10	**28349.95**		21424.51	
Cash and Bank Balances	11	**1286.77**		1260.82	
Other Current Assets	12	**34.37**		51.96	
Loans And Advances	13	**9932.78**		7652.66	
		79194.62		57955.48	
B. CURRENT LIABILITIES AND PROVISIONS :					
Current Liabilities	14	**16160.30**		15782.76	
Provisions	15	**4891.09**		3646.62	
		21051.39		19429.38	
NET CURRENT ASSETS (A-B)			**58143.23**		38526.10
TOTAL			**136299.26**		100136.45
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
06.06.2009

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, 2009

(Rs. in Lakhs)

Particulars	Schedule No.	For the year ended 31st March, 2009		For the year ended 31st March, 2008	
I INCOME :					
Gross Sales			**119881.66**		104111.55
Less: Excise Duty			**825.64**		793.09
Net Sales			**119056.02**		103318.46
Other Income	16		**2301.44**		1361.12
TOTAL			**121357.46**		104679.58
II EXPENDITURE :					
Raw Materials Consumed	17		**54264.65**		44388.05
Manufacturing Expenses	18		**7872.14**		6450.75
Employees Cost	19		**6191.92**		5054.68
Other Expenses	20		**11598.49**		8953.71
Finance Charges	21		**722.59**		1017.76
Depreciation			**4781.96**		3565.18
(Increase) in Stocks	22		**(9908.64)**		(3219.09)
TOTAL			**75523.11**		66211.04
III PROFIT FOR THE YEAR:			**45834.35**		38468.54
Less : Income Tax Expense					
- Current IncomeTax		**2980.00**		3675.00	
- MAT Credit Entitlements		**(319.00)**		(1930.00)	
		2661.00		1745.00	
- Income-tax adjustment of earlier years		**(20.42)**		158.98	
		2640.58		1903.98	
- Deferred Income Tax		**726.62**		1176.77	
- Fringe Benefit Tax		**21.58**	**3388.78**	32.27	3113.02
IV PROFIT AFTER TAX :			**42445.57**		35355.52
Add : Profit brought forward from last year			**68005.08**		39270.70
			110450.65		74626.22
Less : Appropriations					
Proposed Dividend		**3890.88**		2582.28	
Difference in Final Dividend for 2007-08		**4.63**		-	
Corporate Dividend Tax		**662.04**		438.86	
General Reserve		**4300.00**	**8857.55**	3600.00	6621.14
Balance Carried to Balance Sheet			**101593.10**		68005.08
V EARNINGS PER SHARE : Basic (Rs.)			**65.59**		54.77
(Face Value Rs.2/- per share) Diluted (Rs.)			**64.92**		54.14
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
06.06.2009

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, 2009

(Rs. in Lakhs)

Particulars	**For the year ended 31st March, 2009**		For the year ended 31st March, 2008	
I. **CASH FLOW FROM / (USED) IN OPERATING ACTIVITIES:**				
Profit before tax for the year		**45834.35**		38468.54
Add/ (Less) : Adjustments for :				
Depreciation	**4781.96**		3565.18	
Provision for Doubtful Debts made / (Written back)	**(44.10)**		62.50	
Loss on Forex Hedging / Swap Arrangements	**4532.68**		798.77	
Interest Charged	**400.96**		820.07	
Loss on Sale of Assets	**0.58**		3.08	
Employee Stock Compensation Costs Amortised	**490.26**		859.74	
Wealth Tax	**0.97**		0.88	
Interest Earned	**(160.73)**		(131.09)	
Bad debts written off	**144.13**		29.85	
Dividends Received	**(810.86)**		(56.50)	
Provision for Employee Retirement Benefits	**60.10**		98.90	
		9395.95		6051.38
		55230.30		44519.92
Add / (Less) : Adjustments for Working Capital Changes :				
Trade and Other Receivables	**(7178.76)**		(6247.69)	
Inventories	**(12025.22)**		(6560.95)	
Trade Payables	**(565.83)**	**(19769.81)**	2033.91	(10774.73)
Cash generated from operations		**35460.49**		33745.19
Less : Direct taxes paid		**3909.02**		3534.39
Net Cash flow from operating activities (I)		**31551.47**		30210.80
II **CASH FLOW FROM / (USED IN) INVESTING ACTIVITIES :**				
Purchase of Fixed assets		**(11032.53)**		(17104.51)
Sale of Fixed Assets		**2.50**		10.68
Redemption of Current Investments		**5086.92**		-
Investment in Current Investments		**(16710.86)**		(5556.50)
Dividend from Current Investments		**810.86**		56.50
Interest received		**103.95**		60.54
Advances to Subsidiaries		**(1557.65)**		(1014.74)
Repayment of advance from Subsidiaries		**85.34**		-
Net Cash (used in) Investing activities (II)		**(23211.47)**		(23548.03)

Cash Flow Statement

(Rs. in Lakhs)

Particulars	**For the year ended 31st March, 2009**	For the year ended 31st March, 2008
III CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES :		
Consideration for issue of Shares under ESOP	**401.85**	-
Repayment of Long Term Loans	**(1689.62)**	(2445.28)
Repayment of Short Term Loans	**(1654.31)**	(4342.38)
Interest Paid	**(416.74)**	(794.53)
Gain /(Loss) on Forex Hedging / Swap Arrangements	**(1845.65)**	1074.03
Corporate Dividend Tax paid (CDT)	**(439.65)**	-
Dividend Paid	**(2586.92)**	-
Net Cash (used in) Financing Activities (III)	**(8231.04)**	(6508.16)
IV Net Increase / (Decrease) in cash and cash equivalents	**108.96**	154.61
V Cash and Cash Equivalents as at the beginning of the year	**581.43**	426.82
VI Cash and Cash Equivalents as at the end of the year	**690.39**	581.43
Note : CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2008-09**	2007-08
Cash and Bank Balances as per the Balance Sheet	**1286.77**	1260.82
Less :Deposits lodged towards Security Deposits, Margin Money against Bank Gurantees and other designated accounts dealt seperately.	**596.38**	679.39
	690.39	581.43

Note:

1 Figures in brackets indicate cash outgo.

2 The above cash flow statement has been prepared under the indirect method set out in Accounting Standard -III notified under the Companies Act, 1956

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

4 Previous year figures have been regrouped / reclassified wherever necessary 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
06.06.2009

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary

Schedules

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
01. SHARE CAPITAL:				
AUTHORISED :				
7,50,00,000 Equity Shares of Rs. 2/- each		**1500.00**		1500.00
5,00,000 Redeemable Preference Shares of Rs.100/- each		**500.00**		500.00
		2000.00		2000.00
ISSUED :				
6,50,00,000 Equity Shares of Rs.2/- each		**1300.00**		1300.00
SUBSCRIBED AND PAID-UP:				
6,47,58,025 (Previous year 6,45,57,100) Equity Shares of Rs.2/- each fully paid up		**1295.16**		1291.14
(Of the above 7,50,000 Equity Shares of Rs.2/- each have been allotted as Bonus Shares on Capitalisation of General Reserve)				
02. RESERVES AND SURPLUS :				
CAPITAL RESERVES:				
Share Premium:				
As per Last Account	**5718.87**		5718.87	
Add: Premium on allotment of equity shares against options availed under ESOP scheme	**680.55**	**6399.42**	-	5718.87
Debenture Forfeiture Account		**90.00**		90.00
Debenture Premium Account		**30.00**		30.00
State Investment Subsidy		**32.58**		32.58
EMPLOYEE STOCK OPTIONS OUTSTANDING :				
As per last account	**2548.99**		2609.33	
Deletions during the year	**283.57**		60.34	
	2265.42		2548.99	
Less:Deferred Employee Compensation Costs (Refer Note No.7 of Schedule No.24 -Notes to Accounts)	**226.92**	**2038.50**	718.03	1830.96
REVENUE RESERVES :				
General Reserve :				
As per Last account	**10400.00**		6800.00	
Add: Transferred from Profit and Loss Account	**4300.00**	**14700.00**	3600.00	10400.00
PROFIT AND LOSS ACCOUNT (SURPLUS)		**101593.10**		68005.08
		124883.60		86107.49

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
03. SECURED LOANS:				
TERM LOANS:				
From Banks:				
Foreign Currency Term Loans	**4729.51**		5272.84	
Rupee Term Loan	-	**4729.51**	1146.30	6419.14
{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}				
WORKING CAPITAL LOANS:				
From Banks		**222.49**		1876.80
(Secured by Hypothecation of stocks, book-debts and receivables and further secured by second charge on specified fixed assets of the Company)				
		4952.00		8295.94
04. UNSECURED LOANS:				
Deferred Sales Tax Credit		**311.98**		311.98
		311.98		311.98
05. DEFERRED TAX LIABILITY(NET):				
Balance brought forward		**4129.90**		2953.13
Add: Adjustments during the year		**726.62**		1176.77
(Refer Note No.6 of Schedule 24-Notes to Accounts)		**4856.52**		4129.90

Schedules

06. FIXED ASSETS:

(Rs. in Lakhs)

Sl. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as at 01.04.2008	Additions	Deduct-ions	**Total Upto 31.03.2009**	Upto 31.03.2008	**For the Year**	On Deduct-ions	**Total Upto 31.03.2009**	**At at 31.03.2009**	As at 31.03.2008
1	LAND AND DEVELOPMENT	1239.94	427.54	12.07	**1655.41**	-	**-**	-	**-**	**1655.41**	1239.94
2	BUILDINGS	11042.89	3127.47	-	**14170.36**	1433.46	**367.69**	-	**1801.15**	**12369.21**	9609.43
3	PLANT AND MACHINERY	47831.34	9704.81	-	**57536.15**	11998.26	**4134.27**	-	**16132.53**	**41403.62**	35833.08
4	LABORATORY EQUIPMENT	3041.42	676.64	-	**3718.06**	554.18	**177.89**	-	**732.07**	**2985.99**	2487.24
5	FURNITURE AND FIXTURES	301.21	54.41	-	**355.62**	154.52	**28.04**	-	**182.56**	**173.06**	146.69
6	DATA PROCESSING EQUIPMENT	260.02	54.46	-	**314.48**	156.39	**28.77**	-	**185.16**	**129.32**	103.63
7	VEHICLES	475.72	31.82	8.70	**498.84**	208.71	**45.30**	5.63	**248.38**	**250.46**	267.01
	TOTAL	64192.54	14077.15	20.77	**78248.92**	14505.52	**4781.96**	5.63	**19281.85**	**58967.07**	49687.02
	PREVIOUS YEAR TOTAL	49066.56	15141.59	15.61	**64192.54**	10947.37	**3565.18**	7.03	**14505.52**	**49687.02**	38119.19

7. STATEMENT OF EXPENDING CAPITILISATION CAPITILISED DURING THE YEAR ENDED 31ST MARCH 2009

(Rs. in Lakhs)

Particulars	Upto 31st March, 2008		For the Year		**Total**	
Employees Cost		141.26		10.27		**151.53**
Printing and Stationary		5.81		0.29		**6.10**
Rent		4.70		-		**4.70**
Communication Expenses		6.68		0.01		**6.69**
Fees, Rates and taxes		0.30		-		**0.30**
Travel and Conveyance		168.55		0.28		**168.83**
Insurance		0.47		-		**0.47**
Legal and Professional Charges		74.29		1.05		**75.34**
Factory Upkeep		8.06		0.09		**8.15**
Carriage and Freight		25.94		-		**25.94**
General Expenses		18.48		-		**18.48**
Safety Expenses		4.83		-		**4.83**
(Gain) /Loss on Forex Fluctuations		(56.03)		-		**(56.03)**
Repairs and Maintenance		9.12		0.02		**9.14**
Interest on Term Loans:						**-**
- Foreign Currency Term Loan		278.01		-		**278.01**
-Rupee Term Loan		91.22		-		**91.22**
Interest to Banks		14.42		-		**14.42**
Bank Charges		107.86		0.10		**107.96**
Depreciation		6.82		-		**6.82**
Trial Run Expenses:						
Raw Materials consumed	1834.98		232.03		**2067.01**	**-**
Stores Consumed	83.04		2.65		**85.69**	**-**
Power and Fuel	170.56		4.25		**174.81**	**-**
	2088.58		238.93		**2327.51**	**-**
Less:						
Stock out of Trial Runs /						
(Increase) / Decrease in Stocks:						
Stock of Work in process	(282.60)		76.46		**(206.14)**	
Stock of Finished Goods	(187.28)		(116.32)		**(303.60)**	
Sales / captive consumption	(1338.98)	279.72	(137.77)	61.30	**(1476.75)**	**341.02**
		1,190.51		73.41		**1263.92**
Less:						
Interest Earned		4.62		-		**4.62**
(Net of Provision for Tax)						
		1185.89		73.41		**1259.30**
Less: Expendiure capitalised		859.58		399.72		**1259.30**
Balance		326.31		(326.31)		**-**

Schedules

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
8 INVESTMENTS				
I. CURRENT INVESTMENTS :				
NON-TRADE - UNQUOTED :				
A. In Mutual Funds :				
SBI Mututal Fund - SBI-SHF-Liquid Plus-Institutional Plan - Daily Dividend Scheme-171718563 (Previous year 55537227) Units of Rs.10/- each (158920540 Units purchased, 8104554 Units cumulated, 50843758 Units sold during the year)		**17180.44**		5556.50
		17180.44		5556.50
II. LONG - TERM INVESTMENTS :				
NON-TRADE - UNQUOTED :				
A In Subsidiaries :				
- Divis Laboratories (USA) Inc	**22.18**		22.18	
1000 Ordinary Shares of US$0.01 each fully paid-up				
- Divi's Laboratories EUROPE AG				
200 Shares of CHF 500 each fully paid up	**36.18**	**58.36**	36.18	58.36
B In Other Companies :				
Pattancheru 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**	**-**	1.20	-
		58.36		58.36
Total Investments		**17238.80**		5614.86
Aggregate Value of Quoted Securities		**Nil**		Nil
Aggregate Market Value of Quoted Securities		**Nil**		Nil
Aggregate Value of Unquoted Securities		**17240.00**		5616.06
9 INVENTORIES :				
(As taken, Valued and Certified by the Management)				
Raw Materials		**11843.88**		10329.28
Stores and Spares		**1830.44**		718.93
Work-in-Process		**16349.18**		9693.07
Work-in-Process - Out of Trial Runs		**-**		282.60
Finished Goods		**9408.00**		5699.90
Finished Goods- Out of Trial Runs		**-**		187.28
Material in Transit		**159.25**		654.47
		39590.75		27565.53

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
10 SUNDRY DEBTORS :				
(Unsecured)				
Outstanding for a Period Exceeding Six Months				
- Considered Good	**1125.34**		400.05	
-Considered doubtful	**18.39**		62.49	
	1143.73		462.54	
Less : Provision for Doubtful Debts	**18.39**	**1125.34**	62.49	400.05
Others:				
- Considered Good		**27224.61**		21024.46
		28349.95		21424.51
11 CASH AND BANK BALANCES :				
Cash on Hand		**12.23**		19.09
Balance with Scheduled Banks :				
- In Current Accounts		**678.16**		562.34
- In Unclaimed Dividend Accounts		**25.28**		23.94
- In Term Deposit Accounts		**571.10**		655.45
(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. 571.08 Lakhs(Previous Year Rs.655.43 lakhs) towards Margin on Letter of Credits and Guarantees issued by Banks)				
		1286.77		1260.82
12 OTHER CURRENT ASSETS :				
Interest accrued on deposits		**34.37**		51.96
		34.37		51.96
13 LOANS AND ADVANCES :				
(Unsecured, considered good, recoverable in cash or in kind or for value to be received)				
Deposits Recoverable		**451.52**		403.22
Advances to Suppliers		**576.42**		779.36
Advance for Expenses		**17.32**		2.03
Central Excise Duty		**603.60**		1283.22
Prepaid Expenses		**87.55**		162.97
Other Advances and Recoverables		**1471.75**		1069.33
Prepaid Income Tax		**889.86**		
(Net of Provision for Tax)				

Schedules

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
Prepaid Fringe Benefit Tax (Net of Provision for Tax)		**9.41**		-
MAT Credit Entitlements		**2256.15**		1930.00
Advances to Subsidiaries (Maximum outstanding during the year- Rs. 3569.20 Lakhs) (Previous Year Rs. 2022.53 Lakhs)		**3569.20**		2022.53
		9932.78		7652.66
14 CURRENT LIABILITIES :				
CREDITORS FOR CAPITAL WORKS :				
-Dues of Micro and Small Enterprises (Refer Note No.12 of Schedule 24- Notes to Accounts)	**14.25**		28.90	
-Dues of Enterprises otherthan Micro and Small Enterprises	**946.29**	**960.54**	2257.39	2286.29
SUNDRY CREDITORS :				
-Dues of Micro and Small Enterprises (Refer Note No.12 of Schedule 24- Notes to Accounts)	**329.59**		31.02	
-Dues of Others otherthan Micro and Small Enterprises	**14275.67**	**14605.26**	12656.00	12687.02
Advances from Customers		**555.28**		755.79
Interest Accrued But Not Due		**13.94**		29.72
INVESTORS EDUCATION AND PROTECTION FUND:				
Unclaimed Dividend (Of the above,there is no amount due and outstanding to be credited to Investor Education and Protection Fund)		**25.28**		23.94
		16160.30		15782.76
15 PROVISIONS :				
Provision for Employee Retirement Benefits		**338.96**		278.86
Proposed Dividend		**3890.88**		2582.28
Provision for Corporate Dividend Tax		**661.25**		438.86
Provision for Income Tax (Net of Prepaid Taxes)		**-**		338.82
Provision for Fringe Benefit Tax (Net of Prepaid Taxes)		**-**		7.80
		4891.09		3646.62

(Rs. in Lakhs)

Particulars	**For the year ended 31st March, 2009**		For the year ended 31st March, 2008	
16 OTHER INCOME :				
Contract Research Fee		**235.72**		370.42
Export Benefits		**225.24**		217.03
Interest Earned (Gross)		**160.73**		131.09
(TDS Rs. 17.11 Lakhs (Previous Year 18.32 lakhs))				
Dividend from current investments		**810.86**		56.50
Provision for doubtful debts written back		**44.10**		-
Miscellaneous Income		**824.79**		586.08
		2301.44		1361.12
17 RAW MATERIALS CONSUMED :				
Opening Stock		**10329.28**		7892.58
Add: Purchases		**55817.85**		46881.22
		66147.13		54773.80
Less: Closing Stock	**11843.88**		10329.28	
Sales	**38.60**	**11882.48**	56.47	10385.75
		54264.65		44388.05
18 MANUFACTURING EXPENSES :				
Stores Consumed		**1515.86**		1455.43
Power and Fuel		**4993.07**		3830.53
Conversion Charges		**13.25**		17.67
Repairs and Maintenance to :				
- Buildings		**327.98**		117.86
- Plant and Machinery		**1021.98**		1029.26
		7872.14		6450.75
19 EMPLOYEES COST :				
Salaries,Wages,Bonus and Other Allowances		**5438.03**		3998.10
Contribution to PF and ESI		**152.16**		105.23
Workmen and Staff Welfare expenses		**260.33**		198.51
Amortisation of Deferred Employee Compensation (Exclusive of Rs.148.86 Lakhs (Previous Year Rs. 106.90 Lakhs) included in other heads of expenditure)		**341.40**		752.84
		6191.92		5054.68
20 OTHER EXPENSES :				
Managerial Remuneration		**3083.52**		2290.07
Directors' Sitting Fees		**12.00**		8.40
Printing and Stationery		**127.41**		132.65
Rent		**41.36**		30.89
Communication Expenses		**65.18**		61.30
Fees,Rates and Taxes		**218.88**		321.59
Travelling and Conveyance		**248.09**		233.42
Insurance		**145.70**		187.42

Schedules

(Rs. in Lakhs)

Particulars	**For the year ended 31st March, 2009**	For the year ended 31st March, 2008
Repairs and Maintenance to other Assets	**42.30**	32.49
Vehicle Maintenance	**133.46**	96.09
Payment to Auditors	**29.05**	25.91
Professional and Consultancy Charges	**61.03**	83.25
Factory Upkeep	**193.95**	203.25
Research and Development Expenses	**1196.49**	1113.20
Environment Management Expenses	**286.05**	205.28
Freight and Handling Charges	**1583.24**	2211.49
Advertisement	**4.98**	4.08
Sales Commission	**230.99**	141.93
General Expenses	**673.79**	486.84
Bad Debts Written-off	**144.13**	29.85
Provision for Doubtful Debts	**-**	62.50
Donations	**1.65**	0.33
Loss on Foreign Exchange Fluctuations	**3074.66**	988.40
Loss on Sale of Assets	**0.58**	3.08
	11598.49	8953.71
21 FINANCE CHARGES :		
Interest on Fixed Loans	**266.44**	502.95
Interest on Working Capital Loans	**115.28**	272.99
Interest to Others	**19.24**	44.13
Bank Charges and Commission	**321.63**	197.69
	722.59	1017.76
22 (INCREASE) IN STOCKS :		
i Closing Stock of :		
Finished Goods	**9408.00**	5699.90
Work-in-Progress	**16349.18**	9693.07
	25757.18	15392.97
ii Stock out of Trial Runs on commencement of commercial production utilised for sales:		
Finished Goods	**303.60**	-
Work-in-Progress	**206.15**	-
	509.75	-
iii Opening Stock of :		
Finished Goods	**5699.90**	3000.35
Work-in-Progress	**9693.07**	9176.98
	15392.97	12177.33
iv Excise Duty adjustment in movement in Finished Goods Inventory	**54.18**	3.45
(Increase) in Stocks (i-ii-iii+iv)	**(9908.64)**	(3219.09)

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 generally accepted accounting principles in India and the Accounting Standards issued 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 and net of CENVAT and Value Added Tax credit availed against Tax or cess paid on such items. 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, incurred till the commencement of commercial production or their intended use are capitalised.

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 or their intended use 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 are classified into Current and Long Term investments.

ii. Current investments are valued at lower of cost and fair value.

iii. Long-term investments are valued at cost of acquisition. Provision for diminution in value of Long Term Investments in the nature of permanent, if any, is made in the accounts.

E. INVENTORIES :

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 in first out (FIFO) method.

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 an 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.

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 are recognised in the profit and loss account.

iii. Non-monetary assets and liabilities are recorded at the rates prevailing on the date of the transaction.

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 BENEFITS :

i. **Short-Term Benefits :**

Short Term Employee Benefits, at the undiscounted amount in the year in which the services have been rendered, are charged off to the Profit and Loss Account.

ii. **Long-Term Benefits :**

a. The Contributions to Provident Fund and Employee State Insurance Schemes, which are defined contribution schemes, to the relevant funds administered and managed by the Central Government of India, are charged off to the Profit and Loss Account as and when incurred. The Company has no further obligations under these plans beyond its monthly contributions.

b. Provision for Gratuity and Leave Encashment, which are defined benefit plans, is made on the basis of an actuarial valuation at the balance sheet date carried out by an independent actuary under Projected Unit Credit Method.

c. Actuarial gains / losses arises during the year are recognised in the Profit and Loss Account.

iii. Terminal Benefits are recognised as an expense as and when incurred.

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 Income 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 Income 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 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.

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. PROVISIONS,CONTINGENT LIABILITIES AND CONTINGENT ASSETS :

Provisions, involving substantial degree of estimation in measurement, are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities, which are possible or present obligations that may but probably will not require outflow of resources, are not recognised but are disclosed in the Notes to the financial statements. Contingent Assets are neither recognised nor disclosed in the financial statements.

Notes To Accounts

24. NOTES TO ACCOUNTS

1. Previous year figures have been regrouped/ recasted/ rearranged wherever necessary to conform to current year classification.
2. CONTINGENT LIABILITIES : (Rs. in Lakhs)

Particulars	2008-09	2007-08
i) On account of Letters of Credit and Guarantees issued by the bankers.	**3055.30**	5093.76
ii) On account of bonds and / or legal agreements executed with Central Excise/ Customs authorities/ Development Commissioners	**7250.00**	7250.00
iii) Demands being disputed / contested by the Company	**260.82**	177.89

3. Estimated amount of contracts remaining to be executed on capital account and not provided for (Gross)	**1183.58**	4039.52

4. Land admeasuring 29.30 acres acquired under deeds of assignment and under possession of the company at Chippada village, Bheemunipatnam Mandal, Visakhapatnam Dist. is yet to be registered in the name of the company.
5. EXCHANGE DIFFERENCES :

   The Exchange Differences on account of foreign currency transactions of both short term and long term monetary items have been duly recognized in the profit and loss account. The Company has not exercised the option available in respect of exchange difference on long term monetary items under Clause No. 46 of Accounting Standard -11 notified under the Companies Accounting Standards (Amendment) Rules,2009.
6. PROVISION FOR TAXATION :

   Current Income Tax :

   The unit notified under Special Economic Zone Act, 2005 at Chippada village, Bheemunipatnam Mandal, Visakhapatnam in "Divi's Pharma SEZ" has commenced commercial operations on 27/10/2006. The profits derived from exports by this unit are eligible for tax exemption under Section10AA of the Income Tax Act, 1961 @100% for the first five years and @50% for succeeding five years and thereafter for a further period of five years not exceeding 50% of the profit on compliance of conditions prescribed under the provision.

   The provisions of Section 10AA(7) defines the method of calculation of the profit derived from the exports. However, the present wording of this provision and interpretation of the same restricting the profit derived from exports eligible for tax exemption to a greater extent, differentiating the quantum of profits eligible for tax exemption from the unit between the enterprises having exclusive SEZ unit and enterprises having multiple units including SEZ units and also the method of calculating the quantum of profits eligible for tax exemption from SEZ unit and 100% Export Oriented Undertaking. The industry is foreseeing the clarification or amendment to this provision which is pending with the relevant authorities since long time.

   Having considered the press reports and other information available on this matter, the company has preferred for making the provision for current income tax calculating the profits eligible for income tax exemption in respect of SEZ Unit derived from export in proportion to the export turnover of the SEZ Unit to the total turnover of SEZ Unit and provision for current income tax has been made accordingly. Had the prevailing provisions of Subsection (7) of Section 10AA and the interpretations had been followed, the provision for current income tax will be higher by about Rs.3425.00 Lakhs and the profit after tax (PAT) for the year is less by to that extent.

   MAT Credit Entitlements :

   The Provision for Current Tax represents the Minimum Alternate Tax (MAT) provided as per the provisions of Section 115JB of the Income Tax Act, 1961. As it is estimated to be certain in availing the tax credit within the specified period as per the provisions of Section 115JAA of the Income Tax Act, 1961 against the Minimum Alternate Tax for the Current Year, the eligible tax credit is recognised as "MAT Credit Entitlements" in the accounts.

   Fringe Benefits Tax :

   The provision for Fringe Benefits Tax for the current year of Rs. 21.58 Lakhs is net of fringe benefits tax on benefit of equity shares allotted against the stock options during year recovered from employees of Rs. 659.03 Lakhs

   Deferred Tax :

   Movement of Provision for Deferred Tax for the year ended 31.03.2009 is as given below :

(Rs. in Lakhs)

Particulars	(Liability)/ Asset As at 01.04.2008	(Charges)/ Credit for the year	**As at 31.03.2009**
Timing Differences on account of:			
Deffered Tax (Liability) :			
a. Depreciation on Assets	(4246.75)	(725.33)	**(4972.08)**
Total (A)	(4246.75)	(725.33)	**(4972.08)**
b. Deferred Tax Assets :			
Expenses allowable on the basis of Payment	98.02	15.58	**113.60**
c. Others	18.83	(16.87)	**1.96**
Total (B)	116.85	(1.29)	**115.56**
Net (A-B)	(4129.90)	(726.62)	**(4856.52)**

7. EMPLOYEE STOCK OPTION SCHEME :

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, determined based on market price of the share on the before day of the grant of the Option, is accounted as Deferred Employee Compensation Costs and the same is being amortised on straight line basis over the vesting period of Stock Options. Consequently for the Current Year, an amount of Rs.490.26 Lakhs (Previous year Rs. 859.74 Lakhs) has been amortised.

The Movement of Stock Options during the year is as detailed below:

Particulars	**2008-09 Nos.**	2007-08 Nos.
At the beginning of the year	**18,11,520**	18,54,400
Granted during the year	**Nil**	Nil
Expired/Forfeited during the year	**605**	42,880
Exercised during the year	**2,00,925**	Nil
At the end of the year	**16,09,990**	18,11,520

8. PAYMENT TO AUDITORS :

(Rs. in Lakhs)

Particulars	**2008-09**	2007-08
As Auditors	**13.00**	12.00
For Tax Audit	**7.50**	5.00
For Certification	**7.50**	4.50
For Taxation Matters	**0.50**	4.00
For Reimbursement of Expenses	**0.55**	0.41
TOTAL	**29.05**	25.91

9. MANAGERIAL REMUNERATION:

(Rs. in Lakhs)

Particulars	**2008-09**	2007-08
Salary	247.42	248.40
Commission	2688.75	1837.47
Perquisites	58.39	69.28
Contribution to Provident Fund	27.98	28.02
Amortisation of Deferred Employee Compensation Costs	60.98	106.90
Total	3083.52	2290.07

Notes To Accounts

10. CALCULATION OF COMMISSION:

Computation of Net Profit in accordance with Section 349 read with section 198 of the Companies Act, 1956 with relevant details of the calculation of commission payable by way of percentage of such Profits to Chairman and Managing Director, Executive Director and Director (Business development) for the year ending 31st March, 2009.

(Rs. in Lakhs)

Particulars	2008-09	
Profit as per Profit and Loss Account		**45834.35**
Add: Managerial Remuneration	**3083.52**	
Directors Sitting Fee	**12.00**	
Depreciation as per books of account.	**4781.96**	
Loss on Sale of Assets	**0.58**	**7878.06**
		53712.41
Less: Provision for doubtful debts written back	**44.10**	
Depreciation as specified u/s 350	**4781.96**	**4826.06**
PROFIT U/S 198 (1) of the Companies Act 1956		**48886.35**
Commission @ 5.5% of the above		**2688.75**

11. EMPLOYEE BENEFITS :

The disclosures required under Accounting Standard 15 “Employee Benefits” notified in the Companies (Accounting Standards) Rules 2006, are given below:

I. Defined Contribution Schemes:

Contributions to Defined Contribution Schemes charged off for the year are as under:

(Rs. in Lakhs)

Particulars	2008-09	2007-08
Employer’s Contribution to Provident Fund	**73.27**	63.34
Employer’s Contribution to Pension Scheme	**51.97**	36.73
Employer’s Contribution to State Insurance Scheme	**67.50**	43.25

II. Defined Benefit Plans:

The present value of obligation in respect of Provision for Payment of Gratuity and Leave encashment is determined, based on actuarial valuation using the Projected Unit Credit Method, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation, recognised and charged off during the year are as under:

(Rs. in Lakhs)

Particulars	GRATUITY UNFUNDED		LEAVE ENCASHMENT UNFUNDED	
	2008-09	2007-08	**2008-09**	2007-08
a. Reconciliation of opening and closing balances of Defined Benefit obligation :				
Defined Benefit obligation at beginning of the year	**166.48**	88.02	**112.38**	91.93
Current Service Cost	**9.53**	20.38	**8.39**	1.12
Interest Cost	**9.15**	4.84	**6.18**	5.06

Actuarial (gain)/loss	**13.90**	53.24	**13.91**	15.04
Benefits paid	**(0.62)**	NIL	**(0.34)**	(0.77)
Defined Benefit obligation at year end	**198.44**	166.48	**140.52**	112.38
b. Expenses recognised during the year :				
Current Service Cost	**9.53**	20.38	**8.39**	1.12
Interest Cost on benefit obligation	**9.15**	4.84	**6.18**	5.06
Expected return on plan assets	**NIL**	NIL	**NIL**	NIL
Actuarial (gain)/loss	**13.90**	53.24	**13.91**	15.04
Net benefit expense	**32.58**	78.46	**28.48**	21.22
c. Actuarial assumptions :				
Mortality Table (L.I.C)	**1994-96** **(Ultimate)**	1994-96 (Ultimate)	**1994-96** **(Ultimate)**	1994-96 (Ultimate)
Discount rate (per annum)	**5.50%**	5.50%	**5.50%**	5.50%
Attrition Rate (per annum)	**10.00%**	10.00%	**10.00%**	10.00%
Rate of escalation in salary (per annum)	**10.00%**	10.00%	**10.00%**	10.00%

The estimates of rate of escalation in salary considered in actuarial valuation, is determined after taking in to account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market. The above information is as certified by the actuary.

12. DUES OF MICRO AND SMALL ENTERPRISES:

The information as required to be disclosed under Schedule VI of the Companies Act, 1956 w.r.t. Micro and Small Enterprises under the Micro, Small and Medium Enterprises Development Act, 2006(Act) is as given below and the information mentioned at Sch No.14 – Current Liabilities w.r.t. dues of Micro and Small Enterprises, has been determined to the extent such parties have been identified on the basis of information available with the Company and relied on by the auditors :

(Rs. in Lakhs)

Particulars	**2008-09**	2007-08
a. Principal amount remaining unpaid as on 31st March	**343.84**	59.92
b. Interest due thereon as on 31 st March	**NIL**	NIL
c. Interest paid by the Company in terms of Section 16 of Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of payment made to the supplier beyond the appointed day during the year	**NIL**	NIL
d. Interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Act	**NIL**	NIL
e. Interest accrued and remaining unpaid as at 31 st March	**NIL**	NIL
f. Further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise for the purpose of disallowance as a deductible expenditure under Section 23 of the Act	**NIL**	NIL

13. SEGMENTAL REPORTING :

(i) As the Company's business for the year 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)

Particulars	2008-09		2007-08	
	Revenue	**%**	Revenue	%
Exports	**111409.45**	**92.93**	98160.05	94.28
Domestic	**8472.21**	**7.07**	5951.50	5.72
Total	**119881.66**	**100.00**	104111.55	100.00

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

14. TRANSACTIONS WITH RELATED PARTIES :

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

i) KEY MANAGEMENT PERSONNEL :

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

ii) RELATIVES OF KEY MANAGEMENT PERSONNEL:

1. N. Laxmana Rao
2. Mallikarjuna Rao Divi
3. Mrs. Nilima Motaparti

(iii) SUBSIDIARIES:

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

b) Transactions with Related Parties :

(Rs. in Lakhs)

Particulars	2008-09		2007-08	
	Amount	**Outstanding as at 31.03.2009**	Amount	Outstanding as at 31.03.2008
1. Managerial Remuneration to Key Management Personnel	**3083.52**	**2703.39**	2290.07	1852.90
2. Lease Rent to Key Management Personnel	**20.68**	**1.91**	15.45	1.16
3. Lease Rent to Relative of Key Management Personnel	**20.68**	**1.52**	15.44	-
4. Salary and Allowances to Relatives of Key Management Personnel	**4.31**	**0.32**	4.31	0.32
5. Investment in Capital of Subsidiaries	**-**	**58.36**	-	58.36
6. Repayment of Advances from Subsidiaries	**85.34**	**-**	-	-
7. Advances to Subsidiaries	**1557.65**	**3439.56**	1016.55	1967.25
8. Interest from Subsidiary	**74.36**	**129.65**	39.19	55.28
9. Sales to Subsidiaries	**2473.55**	**2025.03**	512.67	419.66
10. Purchases of Materials from Subsidiaries	**2.51**	**-**	12.37	12.37
11. Purchase of and Equipment and Spares from Subsidiaries	**8.54**	**-**	1.98	1.98
Note : Options granted and outstanding to Key Management Personnel	**(No's)**	**155595**	(No's)	226320

c) Disclosure in respect of transactions which are more than 10% of the total transactions of the same type with related parties during the year :

(Rs. in Lakhs)

Nature of transaction	Name of the party	2008-09	2007-08
Managerial Remuneration	Dr. Murali. K. Divi	**1560.65**	1325.31
	N.V. Ramana	**864.67**	784.38
	Dr. P. Gundu Rao	**36.34**	43.69
	D. Madhusudana Rao	**65.76**	68.53
	Kiran S. Divi	**556.10**	68.16
Salary and Allowances	N. Laxmana Rao	**2.15**	2.15
	D.Mallikarjuna Rao	**2.16**	2.16
Rent	Kiran S. Divi	**20.68**	15.45
	Nilima Motaparti	**20.68**	15.44
Advances to Subsidiaries	Divis Laboratories (USA) Inc.	**773.31**	357.21
	Divi's Laboratories EUROPE AG	**784.34**	659.34
Repayment of advance by Subsidiaries	Divi's Laboratories EUROPE AG	**85.34**	-
Interest from Subsidiary	Divis Laboratories (USA) Inc.	**74.36**	39.19
Sales to Subsidiaries	Divis Laboratories (USA) Inc.	**2239.21**	389.92
	Divi's Laboratories EUROPE AG	**234.34**	122.75
Purchase of Materials from Subsidiaries	Divi's Laboratories EUROPE AG	**2.51**	12.37
Purchase of Equipment and Spares	Divis Laboratories (USA) Inc.	**-**	0.97
from Subsidiaries	Divi's Laboratories EUROPE AG	**8.54**	1.01

15. LEASES:

The Company has operating lease for office premise, which is renewable on a periodical basis and cancellable at its option. Rental expenses for operating lease recognised in Profit and Loss account for the year is Rs. 41.36 Lakhs (Previous Year Rs. 30.89 Lakhs)

The future minimum lease payments are as given below:

(Rs. in Lakhs)

Year Ending	2008-09	2007-08
Not later than one year	**51.43**	40.64
Later than one year and not later than five years	**172.34**	175.32
Later than Five years	**-**	-

16. EARNINGS PER SHARE (EPS):

The Numerator and denominator used to calculate Earnings Per Share:

(Rs. in Lakhs except Earnings per Share)

Particulars	2008-09	2007-08
A. EARNINGS:		
Profit attributable to Equity Shareholders	**42445.57**	35355.52
B. NO. OF SHARES :		
Weighted average number of Equity shares outstanding during the year (Nos.) - Basic	**6,47,14,187**	6,45,57,100
Add : Weighted average number of equity shares arising out of outstanding stock options that have diluting effect on Earnings Per Share	**6,64,911**	7,48,140

Weighted average number of Equity Shares outstanding during the year- Diluted	**6,53,79,098**	6,53,05,240
C. EARNINGS PER SHARE :		
Earnings Per Share of Par Value Rs. 2/- each – Basic	**65.59**	54.77
Earnings Per Share of Par Value Rs. 2/- each – Diluted	**64.92**	54.14

17. ADVANCES TO SUBSIDIARIES :

a. The Company has undertaken to provide financial assistance to its wholly owned subsidiaries Viz., Divis Laboratories (USA) Inc., and Divi's Laboratories Europe AG by way of loans with no specific repayment schedule. In respect of loan to Divi's Laboratories Europe AG, the same is subordinated to other creditors to the extent of CHF 35.00 Lakhs equivalent to Rs. 1555.75 Lakhs (Previous year CHF 25.00 Lakhs equivalent to Rs.1005.50 Lakhs)

b. Information pursuant to Clause 32 of Listing Agreement with Stock Exchanges w.r.t. Loans and Advances in the nature of loans to wholly owned Subsidiaries is as given below:

(Rs. in Lakhs)

Particulars	Balance as on		Maximum Balance Outstanding during the year	
	31.03.2009	31.03.2008	**2008-09**	2007-08
a. Divis Laboratories (USA) Inc (Excluding interest)	**1623.85**	850.54	**1623.85**	850.54
b. Divi's Laboratories Europe AG* *(Interest free)	**1815.71**	1116.71	**1815.71**	1116.71

18. DERIVATIVE INSTRUMENTS:

a. The Company uses foreign exchange forward contracts and options to hedge its foreign currency exposures relating to the underlying transactions and firm commitments, to reduce the foreign exchange fluctuation risk or cost to the Company. The Company does not use these derivative instruments for trading and speculative purposes.

b. The details of outstanding foreign exchange forward contracts are:

(Rs. in Lakhs)

Nature of Contract	Currency	**As on 31.3.2009**		As on 31.3.2008	
		No.	**Amount**	No.	Amount
Buy	Euro /USD	**-**	**NIL**	1	946.35
Buy	GBP/USD	**-**	**NIL**	2	636.24
Sell	Euro /USD	**-**	**NIL**	2	7570.80
Sell	GBP/USD	**-**	**NIL**	4	3499.32
Sell	USD/CHF	**-**	**NIL**	9	4998.99
Sell	USD/INR	**4**	**21628.27**	6	11991.00

c. The details of net foreign currency exposures that are not hedged by any derivative instruments or otherwise are as under :

Currency	**As on 31.3.2009**		As on 31.3.2008	
	Foreign Currency (In Lakhs)	**Amount Rs. in Lakhs**	Foreign Currency (In Lakhs)	Amount Rs. in Lakhs
USD	**123.21**	**6277.41**	106.93	4273.41
GBP	**47.89**	**3489.34**	7.81	620.78
EURO	**34.79**	**2347.71**	-	-
CHF	**40.86**	**1816.05**	32.63	1312.26
JPY	**-**	**-**	443.21	177.64
SGD	**0.01**	**0.45**	0.05	1.50
TOTAL		**13930.96**		6385.59

d. The losses on account of Exchange difference on Foreign Currency Forward Contracts and Options have been fully provided for in the books of accounts and the outstanding provision for loss at the year end is Rs 4521.01 Lakhs (Previous year Rs.1833.98 Lakhs).

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

Particulars			**2008-09**	2007-08
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)	**4000**	3500
	(As certified by the Management, but not verified by the Auditors, being a technical matter)			
C.	Actual production:			
	Active Pharma Ingredients and Intermediates (MTs)		**2798.71**	2902.35
	(Net of Captive Consumption of 4285.94MTs (Previous year 3625.52 MTs)			

Particulars		**2008-09**		2007-08	
		Qty MTs	**Value (Rs.in Lakhs)**	Qty MTs	Value (Rs.in Lakhs)
ii)	**Opening and Closing Stock of Finished Goods:**				
	Opening Stock :				
	Active Pharma Ingredients and Intermediates	**350.46**	**5887.18**	281.22	3000.35
	Closing Stock :				
	Active Pharma Ingredients and Intermediates	**597.13**	**9408.00**	350.46	5887.18
iii)	**Details of Turnover:**				
	(Inclusive of samples and net of sales returns)				
	Active Pharma Ingredients and Intermediates	**2552.04**	**119881.66**	2833.11	104111.55
iv)	**Details of Raw Materials Consumed:**				
	P-Anisaldehyde	**245.97**	**1142.66**	366.30	888.08
	Iodine	**48.80**	**606.82**	80.41	810.66
	Tolune	**5405.97**	**2517.78**	7575.60	3030.98
	Methonol	**10885.53**	**1680.32**	9506.55	1457.89
	Aluminium Chloride	**3111.96**	**1150.73**	3258.08	1254.32
	Beta Naphtol	**2478.10**	**3304.36**	2564.04	3109.12
	Others		**43861.98**		33837.00
	Total		**54264.65**		44388.05

Particulars		**2008-09**		2007-08	
		Value (Rs.in Lakhs)	%	Value (Rs.in Lakhs)	%
v)	**Value of Imported and Indigenous Raw Materials consumed and their percentage to total consumption:**				
	Imported	**24708.36**	**45.53%**	18405.53	41.47%
	Indigenous	**29556.29**	**54.47%**	25982.52	58.53%
	Total	**54264.65**	**100%**	44388.05	100%

Notes To Accounts

(Rs. in Lakhs)

	Particulars		2008-09	2007-08
vi)	**Expenditure in Foreign Currency Towards:(On accrual basis)**			
	Membership and Subscription		**6.79**	0.80
	Books and Periodicals		**25.44**	17.09
	Travelling Expenses		**46.10**	58.20
	Lab Chemicals and Consumables		**30.46**	50.49
	Consultancy charges		**48.28**	63.65
	Sales commission		**164.19**	76.23
	Foreign Bank charges		**33.97**	48.24
	Finance charges		**206.44**	390.89
	Software Expenses		**19.99**	—
	Others		**107.05**	32.16
vii)	**Earnings in Foreign Exchange : (On accrual basis)**			
	FOB Value of Exports		**110335.47**	96282.04
	Contract Research Fee		**235.72**	370.42
	Interest		**74.36**	39.19
	Others		**37.42**	8.08
viii)	**CIF Value of Imports:**			
	Raw Materials		**24704.66**	21057.09
	Capital Equipment		**735.06**	861.25
	Spares		**74.30**	43.93
ix)	**Remittances in Foreign Currency for Dividend :**			
	A No. of Non-resident Shareholders	(Nos.)	**4**	NIL
	B No. of Shares held(Equity Shares of Rs. 2/- each)	(Nos.)	**26,500**	NIL
	C Dividend Remitted(Net of Tax Rs. NIL)	(Rs.)	**1.06**	NIL

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

21. 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 **6th day of June, 2009** 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	:	31.03.2009
		('Rs.' 000)
ii) Capital raised during the year		
Public issue	:	Nil
Rights issue	:	Nil
Bonus issue	:	Nil
Private Placement	:	402
iii) Position of Mobilisation and deployment of funds		
Total Liabilities	:	13629926
Total Assets	:	13629926
Sources of funds :		
Paid-up capital	:	129516
Reserves and Surplus	:	12488360
Secured Loans	:	495200
Unsecured Loans	:	31198
Deferred Tax Liability	:	485652
Application of funds :		
Net Fixed Assets	:	6091723
Investments	:	1723880
Net Current Assets	:	5814323
Miscellaneous Expenditure	:	Nil
Accumulated Losses	:	Nil
iv) Performance of Company		
Turnover	:	12135746
Total Expenditure	:	7552311
Profit /Loss Before tax	:	4583435
Profit /Loss After tax	:	4244557
Earnings per share (Rs.)	:	65.59
Dividend (%)	:	300 %
v) Generic names of three principal Products/services of company (as per monetary terms)		
1. Item Code No.(ITC Code)	:	2907.29.90
Product Description	:	Naproxen
2. Item Code No.(ITC Code)	:	2942.00.90
Product Description	:	Dextromethorphan Hbr
3. Item Code No.(ITC Code)	:	2942.00.90
Product Description	:	Levetiracetam

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, 2009	31st March, 2009
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	Rs. (417.21) Lakhs USD (536,161)	Rs. (364.18) Lakhs CHF (740,310)
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	Rs. (214.83) Lakhs USD (600,242)	Rs. (381.66) Lakhs CHF (846,644)
6	Changes in the interest of Divi's Laboratories Limited, between the end of the last financial year and 31st March, 2008	Nil	Nil
7	Material changes between the end of the last financial year and 31st March, 2008	Nil	Nil

For and on behalf of the Board

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
06.06.2009

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, 2009 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. 3660.83 Lakhs as at 31 st March, 2009 and their share of total loss of Rs. 1011.49 Lakhs and their net cash inflows amounting to Rs. 31.95 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, notified 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, 2009;

   (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
06.06.2009

Consolidated Balance Sheet As At 31st March, 2009

(Rs. in Lakhs)

Particulars	Schedule No.	As At 31st March, 2009		As At 31st March, 2008	
SOURCES OF FUNDS :					
SHARE HOLDERS' FUNDS :					
Share Capital	1	**1295.16**		1291.14	
Reserves and Surplus	2	**122843.28**	**124138.44**	84848.56	86139.70
LOAN FUNDS :					
Secured Loans	3	**4952.00**		8295.94	
Unsecured Loans	4	**311.98**	**5263.98**	311.98	8607.92
DEFERRED TAX LIABILITY (NET)	5		**4321.75**		3825.23
TOTAL			**133724.17**		98572.85
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	6	**78276.50**		64216.53	
Less: Depreciation		**19290.08**		14510.62	
Net Block		**58986.42**		49705.91	
Capital Work - in - Progress		**1442.94**		4618.90	
Unallocated Expenditure pending Allocation	7	**-**		326.31	
Advances for Capital Works		**507.22**	**60936.58**	1363.26	56014.38
INVESTMENTS	8		**17180.44**		5556.50
NET CURRENT ASSETS :					
A. CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	9	**42128.15**		28141.48	
Sundry Debtors	10	**26600.68**		20945.20	
Cash and Bank Balances	11	**1478.50**		1420.60	
Other Current Assets	12	**34.37**		51.96	
Loans And Advances	13	**6466.30**		5742.01	
		76708.00		56301.25	
B. CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	14	**16206.46**		15643.04	
Provisions	15	**4894.39**		3656.24	
		21100.85		19299.28	
NET CURRENT ASSETS (A-B)			**55607.15**		37001.97
TOTAL			**133724.17**		98572.85
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
06.06.2009

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, 2009

(Rs. in Lakhs)

Particulars	Schedule No.	**For the year ended 31st March, 2009**		For the year ended 31st March, 2008	
I INCOME :					
Gross Sales			**118859.39**		104075.78
Less : Excise Duty			**825.64**		793.09
Net Sales			**118033.75**		103282.69
Other Income	16		**2213.85**		1379.45
TOTAL			**120247.60**		104662.14
II EXPENDITURE :					
Raw Materials Consumed	17		**54381.84**		44527.66
Manufacturing Expenses	18		**8080.12**		6560.98
Employees Cost	19		**6628.49**		5419.53
Other Expenses	20		**12671.80**		9385.84
Finance Charges	21		**724.30**		1019.45
Depreciation			**4785.09**		3568.03
(Increase) in stocks	22		**(11846.90)**		(3569.24)
TOTAL			**75424.74**		66912.25
III PROFIT FOR THE YEAR :			**44822.86**		37749.89
Less : Income Tax Expense :					
-Current Tax		**2980.00**		3675.00	
- Tax Credit Entitlements		**(319.00)**		(1930.00)	
- Income-tax adjustment of Earlier years		**(20.42)**		158.98	
		2640.58		1903.98	
-Deferred Tax		**496.52**		1053.80	
		3137.10		2957.78	
- Fringe Benefit Tax		**21.58**		32.27	
			3158.68		2990.05
IV PROFIT AFTER TAX :			**41664.18**		34759.84
Add : Profit brought forward from last year			**66726.86**		38588.16
			108391.04		73348.00
Less : Appropriations :					
Proposed Dividend		**3890.88**		2582.28	
Difference in Final Dividend for 2007-08		**4.63**		-	
Corporate Dividend Tax		**662.04**		438.86	
General Reserve		**4300.00**	**8857.55**	3600.00	6621.14
Balance Carried to Balance Sheet			**99533.49**		66726.86
V EARNINGS PER SHARE :	Basic (Rs.)		**64.38**		53.84
(Face Value Rs.2/- per share)	Diluted (Rs.)		**63.73**		53.23
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
06.06.2009

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, 2009

(Rs. in Lakhs)

Particulars	For the year ended 31st March, 2009		For the year ended 31st March, 2008	
I CASH FLOW FROM / (USED IN) OPERATING ACTIVITIES:				
Profit before tax for the year		44822.86		37749.89
Add/(Less) : Adjustments for :				
Depreciation	4785.09		3568.03	
Provision for Doubtful Debts made / (Written back)	(30.15)		62.50	
(Gain) /Loss on Forex Hedging / Swap Arrangements	4532.68		798.77	
Interest charged	401.00		820.47	
Loss on Sale of Assets	0.58		3.08	
Employee stock compensation costs amortised	490.26		859.74	
Wealth Tax	0.97		0.88	
Interest Earned	(86.49)		(92.00)	
Bad debts written off	144.13		29.85	
Dividend from Current Investments	(810.86)		(56.50)	
Provision for Employee Retirement Benefit	53.76	9480.97	101.98	6096.80
		54303.83		43846.69
Add/(Less) : Adjustments for Working Captial Changes:				
Trade and Other Receivables	(5918.90)		(6052.32)	
Inventories	(13986.67)		(6848.01)	
Trade Payables	(374.59)	(20280.16)	1836.43	(11063.90)
Cash generated from operations		34023.67		32782.79
Less : Direct taxes paid		3909.08		3535.39
Net Cash flow from operating activities		30114.59		29247.40
II CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES:				
Purchase of Fixed assets		(11036.11)		(17107.67)
Sale of Fixed assets		2.50		10.68
Investments in Current Investments		(16710.86)		(5556.50)
Redemption of Current Investments		5086.92		-
Dividend Received		810.86		56.50
Interest Received		104.08		60.64
Net Cash (used in) Investing activities		(21742.61)		(22536.35)

Consolidated Cash Flow Statement

(Rs. in Lakhs)

Particulars	For the year ended 31st March, 2009	For the year ended 31st March, 2008
III CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES :		
Consideration for Issue of Shares under ESOP	**401.85**	-
Repayment of Long Term Loans	**(1689.62)**	(2445.28)
Repayment of Short Term Loans	**(1654.31)**	(4342.38)
Interest Paid	**(416.78)**	(794.92)
Gain / (Loss) on Forex Hedging / Swap Arrangements	**(1845.65)**	1074.03
Corporate Dividend Tax paid (CDT)	**(439.65)**	-
Dividend Paid	**(2586.91)**	-
Net Cash flow in Financing Activities	**(8231.07)**	(6508.55)
IV Net Increase / (Decrease) in cash and cash equivalents	**140.91**	202.50
V Cash and Cash Equivalents as at the beginning of the year	**741.21**	538.71
VI Cash and Cash Equivalents as at the end of the year	**882.12**	741.21
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2008-09**	2007-08
Cash and Bank Balances as per the Balance Sheet	**1478.50**	1420.60
Less : Deposits lodged towards Security Deposits, Margin Money against Bank Guarantees and other designated accounts dealt seperately.	**596.38**	679.39
	882.12	741.21

Note :

1. Figures in brackets indicate cash outgo.
2. The above cash flow statement has been prepared under the indirect method set out in Accounting Standard -3 notified under the Companies Act, 1956
3. Significant Accounting Policies (Schedule 23) and other Notes to Accounts (Schedule 24) form an Integral part of the cashflow statement
4. Previous year figures have been regrouped / reclassified wherever necessary 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
06.06.2009

P.V.R.K.NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

P.V. LAKSHMI RAJANI
Company Secretary

Consolidated Schedules

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
1. SHARE CAPITAL :				
AUTHORISED :				
7,50,00,000 Equity Shares of Rs. 2/- each		**1500.00**		1500.00
5,00,000 Redeemable Preference Shares of Rs.100/- each		**500.00**		500.00
		2000.00		2000.00
ISSUED :				
6,50,00,000 Equity Shares of Rs.2/- each		**1300.00**		1300.00
SUBSCRIBED AND PAID-UP:				
6,47,58,025 (Previous Year 6,45,57,100) Equity Shares of Rs.2/- each fully paid up		**1295.16**		1291.14
(Previous Year 7,50,000 Equity Shares of Rs.2/- each) have been allotted as Bonus Shares on Capitalisation of General Reserve)				
2. RESERVES AND SURPLUS:				
CAPITAL RESERVES :				
Share Premium :				
As per Last Account	**5718.87**		5718.87	
Add : Premium on Allotment of Equity Shares against options availed under ESOP Scheme	**680.55**	**6399.42**	-	5718.87
Debenture Forfeiture Account		**90.00**		90.00
Debenture Premium Account		**30.00**		30.00
State Investment Subsidy		**32.58**		32.58
EMPLOYEE STOCK OPTION OUTSTANDING :				
As per Last account	**2548.99**		2609.33	
Less : Deletions during the year	**283.57**		60.34	
	2265.42		2548.99	
Less : Deferred Employee Compensation Costs	**226.92**	**2038.50**	718.03	1830.96
(Reference Note No.7 of Schedule - 24 Notes to Accounts)				
REVENUE RESERVES :				
General Reserve :				
As per Last account	**10400.00**		6800.00	
Add : Transferred from Profit and Loss Account	**4300.00**	**14700.00**	3600.00	10400.00
Foreign Currency Translation Reserve		**19.29**		19.29
PROFIT AND LOSS ACCOUNT (SURPLUS)		**99533.49**		66726.86
		122843.28		84848.56

Consolidated Schedules

(Rs. in Lakhs)

Particulars	As At 31st March, 2009		As At 31st March, 2008	
3. SECURED LOANS:				
TERM LOANS :				
From Banks:				
Foreign Currency Term Loans	**4729.51**		5272.84	
Rupee Term Loan	**-**	**4729.51**	1146.30	6419.14
(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)				
WORKING CAPITAL LOANS :				
From Banks		**222.49**		1876.80
(Secured by Hypothecation of stocks, book-debts and receivables and further secured by second charge on specified fixed assets of the Company)		**4952.00**		8295.94
4. UNSECURED LOANS :				
Deferred Sales tax Credit		**311.98**		311.98
		311.98		311.98
5. DEFERRED TAX LIABILITY (NET) :		**4321.75**		3825.23
(Refer Note No. 14 of Schedule 24 Notes to Accounts)				

06. FIXED ASSETS:

(Rs. in Lakhs)

Sl. No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as at 01.04.2008	Additions	Deduct-ions	Total Upto 31.03.2009	Upto 31.03.2008	For the Year	On Deduct-ions	Total Upto 31.03.2009	At at 31.03.2009	As at 31.03.2008
1	LAND AND DEVELOPMENT	1239.94	427.54	12.07	**1655.41**	-	**-**	-	**-**	**1655.41**	1239.94
2	BUILDINGS	11042.89	3127.47	-	**14170.36**	1433.46	**367.69**	-	**1801.15**	**12369.21**	9609.43
3	PLANT AND MACHINERY	47836.25	9704.87	-	**57541.12**	11998.95	**4134.95**	-	**16133.86**	**41407.26**	35837.30
4	LABORATORY EQUIPMENT	3041.42	676.64	-	**3718.06**	554.18	**177.89**	-	**732.07**	**2985.99**	2487.24
5	FURNITURE AND FITTINGS	307.60	54.58	-	**362.18**	155.52	**28.49**	-	**184.01**	**178.17**	152.08
6	DATA PROCESSING EQUIPMENT	272.71	57.82	-	**330.53**	159.80	**30.81**	-	**190.61**	**139.92**	112.91
7	VEHICLES	475.72	31.82	8.70	**498.84**	208.71	**45.30**	5.63	**248.38**	**250.46**	267.01
	TOTAL	64216.53	14080.74	20.77	**78276.50**	14510.62	**4785.09**	5.63	**19290.08**	**58986.42**	49705.91
	PREVIOUS YEAR	49087.39	15144.75	15.61	**64216.53**	10949.62	**3568.03**	7.03	**14510.62**	**49705.91**	38137.77

7. STATEMENT OF EXPENDITURE PENDING CAPITILISATION CAPITILISED DURING THE YEAR ENDED 31ST MARCH 2009

(Rs. in Lakhs)

Particulars	UPTO 31st March, 2008		Incurred During The Year		**Total**	
Employees Cost		141.26		10.27		**151.53**
Printing and Stationary		5.81		0.29		**6.10**
Rent		4.70		-		**4.70**
Communication Expenses		6.68		0.01		**6.69**
Fees, Rates and taxes		0.30		-		**0.30**
Travel and Conveyance		168.55		0.28		**168.83**
Insurance		0.47		-		**0.47**
Legal and Professional Charges		74.29		1.05		**75.34**
Factory Upkeep		8.06		0.09		**8.15**
Carriage and Freight		25.94		-		**25.94**
General Expenses		18.48		-		**18.48**
Safety Expenses		4.83		-		**4.83**
(Gain) /Loss on Forex Fluctuations		(56.03)		-		**(56.03)**
Repairs and Maintenance		9.12		0.02		**9.14**
Interest on Term Loans :						
-Foreign Currency Term Loan		278.01		-		**278.01**
-Rupee Term Loan		91.22		-		**91.22**
Interest to Banks		14.42		-		**14.42**
Bank Charges		107.86		0.10		**107.96**
Depreciation		6.82		-		**6.82**
Trial Run Expenses :						
Raw Materials consumed	1834.98		232.03		**2067.01**	
Stores Consumed	83.04		2.65		**85.69**	
Power and Fuel	170.56		4.25		**174.81**	
	2088.58		238.93		**2327.51**	
Less:						
Stock out of Trial Runs /						
(Increase) / Decrease in Stocks :						
Stock of Work in process	(282.60)		76.46		**(206.14)**	
Stock of Finished Goods	(187.28)		(116.32)		**(303.60)**	
Sales / captive consumption	(1338.98)	279.72	(137.77)	61.30	**(1476.75)**	**341.02**
		1190.51		73.41		**1263.92**
Less :						
Interest Earned (Net of Provision for Tax)		4.62		-		**4.62**
		1185.89		73.41		**1259.30**
Less : Expendiure capitalised		859.58		399.72		**1259.30**
Balance		326.31		(326.31)		**-**

Consolidated Schedules

(Rs. in Lakhs)

Particulars	As At **31st March, 2009**		As At 31st March, 2008	
8. INVESTMENTS:	**Cost**		Cost	
NON TRADE- UNQUOTED				
A CURRENT INVESTMENTS:				
In Mutual Funds:				
SBI Mututal Fund - SBI-SHF-Liquid Plus-Institutional Plan - Daily Dividend Scheme-171718563 (Previous year 55537227) Units of Rs.10/- each		**17180.44**		5556.50
(158920540 Units purchased, 8104554 Units cumulated, 50843758 Units sold during the year)				
B. LONG - TERM				
In Other Companies				
Pattancheru 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**	**-**	1.20	-
Total		**17180.44**		5556.50
Aggregate Value of Quoted Securities		**-**		
Aggregate Market Value of Quoted Securities		**-**		-
Aggregate Value of UnQuoted Securities		**17181.64**		5557.70
9 INVENTORIES :				
(As taken, Valued and Certified by the Management)				
Stock of Raw Materials		**11943.36**		10405.98
Stock of Stores and Spares		**1838.07**		726.15
Stock of Work-in-Process		**16349.18**		9693.07
Stock of Work-in-Process - Out of Trial Runs		**-**		282.60
Stock of Finished Goods		**11838.29**		6191.93
Stock of Finished Goods- Out of Trial Runs		**-**		187.28
Material in Transit		**159.25**		654.47
		42128.15		28141.48
10 SUNDRY DEBTORS :				
(Unsecured)				
Outstanding for a Period Exceeding Six Months				
- Considered Good	**1150.11**		341.92	
- Considered Doubtful	**18.39**		62.49	
	1168.50		404.41	
Less : Provision for Doubtful Debts	**32.34**	**1136.16**	62.49	341.92
Others :				
- Considered Good		**25464.52**		20603.28
		26600.68		20945.20

Consolidated Schedules

(Rs. in Lakhs)

Particulars	As At 31st March, 2009	As At 31st March, 2008
11. CASH AND BANK BALANCES:		
Cash on Hand	**12.28**	19.33
Balance with Banks :		
- In Current Accounts	**869.84**	721.88
- In Unclaimed Dividend Accounts	**25.28**	23.94
- In Term Deposit Accounts	**571.10**	655.45
(Of the above, Rs.0.02 lakhs-(Previous year Rs.0.02 lakhs) has been pledged with Government Department and Rs.571.08 lakhs (Previous Year Rs.655.43 lakhs) towards Margin on Letters of Credits and Guarantees issued by the Banks)		
	1478.50	1420.60
12. OTHER CURRENT ASSETS :		
Interest accrued on deposits	**34.37**	51.96
	34.37	51.96
13. LOANS AND ADVANCES :		
(Unsecured, considered good, recoverable in cash or in kind or for value to be received)		
Deposits Recoverable	**1058.30**	1689.20
Advances to Suppliers	**576.42**	779.37
Advance for Expenses	**17.32**	2.03
Prepaid Expenses	**144.10**	178.81
Other Advances and Recoverable	**1514.68**	1162.60
Prepaid Income Tax (Net of Provision for Taxation)	**889.92**	
Prepaid Fringe Benefit Tax (Net of Provision for Tax)	**9.41**	
Income Tax Credit Entitlements	**2256.15**	1930.00
	6466.30	5742.01
14. CURRENT LIABILITIES :		
Creditors for Capital Works	**960.54**	2286.29
Sundry Creditors	**14651.42**	12541.94
Advances from Customers	**555.28**	761.15
Interest Accrued But Not Due	**13.94**	29.72
Unclaimed Dividends	**25.28**	23.94
	16206.46	15643.04
15. PROVISIONS :		
Provision for Employee Retirement Benefits	**342.26**	288.50
Proposed Dividend	**3890.88**	2582.28
Provision for Corporate Dividend Tax	**661.25**	438.86
Provision for Taxation (Net of Prepaid Taxes)	**-**	338.80
Provision for Fringe Benefit Tax	**-**	7.80
(Net of Tax Paid)	**4894.39**	3656.24

Consolidated Schedules

(Rs. in Lakhs)

Particulars	**For the Year ended 31st March, 2009**		For the Year ended 31st March, 2008	
16. OTHER INCOME:				
Contract Research Fee		**235.72**		370.42
Export Benefits		**225.24**		217.03
Interest Earned (Gross) (Tax deducted Rs 17.11 Lakhs (Previous year Rs.18.32 Lakhs))		**86.49**		92.00
Dividends from Current Investments		**810.86**		56.50
Provision for doubtful debts written back		**30.15**		-
Miscellaneous Income		**825.39**		643.50
		2213.85		1379.45
17. RAW MATERIALS CONSUMED :				
Opening Stock		**10405.98**		8094.82
Add : Purchases		**55957.82**		46895.29
		66363.80		54990.11
Less : Closing Stock	**11943.36**		10405.98	
Sales	**38.60**	**11981.96**	56.47	10462.45
		54381.84		44527.66
18. MANUFACTURING EXPENSES :				
Stores Consumed		**1523.07**		1458.63
Power and Fuel		**4993.07**		3830.53
Conversion Charges		**214.55**		124.70
Repairs and Maintenance to :				
- Buildings		**327.98**		117.86
- Plant and Machinery		**1021.45**		1029.26
		8080.12		6560.98
19. EMPLOYEES COST :				
Salaries,Wages,Bonus and Other Allowances		**5844.25**		4340.27
Contribution to Provident and Other Funds		**152.16**		105.23
Workmen and Staff Welfare expenses		**290.68**		221.19
Amortisation of Differed Employees Compensation Costs		**341.40**		752.84
(Exclusive of Rs.148.86 Lakhs (Previous Year Rs. 106.90 Lakhs) included in Other heads of Expenditure)		**6628.49**		5419.53
20. OTHER EXPENSES :				
Managerial Remuneration		**3166.18**		2380.09
Directors' Sitting Fees		**12.00**		8.40
Printing and Stationery		**136.20**		139.18
Rent		**54.86**		41.80
Communication Expenses		**81.37**		85.03
Fees,Rates and Taxes		**220.32**		322.08

Consolidated Schedules

(Rs. in Lakhs)

Particulars	**For the Year ended 31st March, 2009**	For the Year ended 31st March, 2008
Travelling and Conveyance	**312.60**	290.49
Insurance	**161.57**	199.75
Repairs and Maintenance to other Assets	**45.77**	33.28
Vehicle Maintenance	**153.98**	117.34
Payment to Auditors	**48.11**	36.02
Professional and Consultancy Charges	**109.75**	126.08
Factory Upkeep	**193.95**	203.25
Research and Development Expenses	**1196.49**	1113.20
Environment Management Expenses	**286.05**	205.28
Freight and Handling Charges	**1722.87**	2255.79
Advertisement	**4.98**	17.42
Sales Commission	**252.07**	143.44
General Expenses	**702.59**	516.45
Bad Debts Written-off	**144.13**	29.85
Provision for Doubtful Debts	**-**	62.50
Loss on Foreign Exchange Fluctuations	**3665.38**	1056.04
Loss on Sale of Assets	**0.58**	3.08
	12671.80	9385.84
21. FINANCE CHARGES :		
Interest on Fixed Loans	**266.44**	502.95
Interest on Working Capital Loans	**115.28**	273.00
Interest to Others	**19.27**	44.52
Bank Charges and Commission	**323.31**	198.98
	724.30	1019.45
22 (INCREASE) IN STOCKS :		
I Closing Stock of :		
Finished Goods	**11838.29**	6191.93
Work in Process	**16349.18**	9693.07
	28187.47	15885.00
II Stock out of Trial Runs :		
Work-in-Process	**303.60**	-
Finished Goods	**206.15**	-
	509.75	-
III Opening Stock of :		
Finished Goods	**6191.93**	3142.23
Work in Process	**9693.07**	9176.98
	15885.00	12319.21
IV Excise Duty adjustment in movement in Finished Goods Inventory	**54.18**	3.45
(Increase) in Stocks : (I - II - III + IV)	**(11,846.90)**	(3,569.24)

Consolidated Accounting Policies

23. SIGNIFICANT ACCOUNTING POLICIES :

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 notified accounting standards issued 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 and net of tax credits availed against tax are cess paid on such items. Borrowing costs directly attributable to acquisition or construction of fixed assets which necessarily take a substantial period of time to get ready for there intended use, incurred till the commencement of commerical production are their intended use are captilized.

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 or at the rates based on their estimated usefull lives of the assets.

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:**

a. Investments are classified into Current and Long Term Investments.

b. Current investments are valued at lower of cost and fair value.

c. Long-term investments are valued at cost of acquisition, proivision for diminution 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 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.

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 AND OTHER TAXES**

Excise Duty and other taxes collected and paid are 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.

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 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, liabilities, income and expenditure of such subsidiaries are translated considering that the operations of the subsidiaries are in the nature of integral foreign operations. The resulting net exchange difference on transalation is charged / credited to Profit and Loss Account

11. **EMPLOYEE BENEFITS:**

i. Short - Term Benefits :

Short-term benefits, at the undiscounted amount in the year in which the services have been rendered are charge off to the Profit and Loss Account.

ii. Long - Term Benefits :

a. The contributions to Provident Fund, State Insurance and other schemes, which are defined contribution schemes, generally to relevant funds administered and managed by the Government are Statutory Bodies, are charged off to the Profit and Loss Account as and when incurred. There is no other obligation under these plans beyond its monthly contributions.

b. Provision for Gratuity and Leave Encashment, which are defined benefit plans, whereever applicable is made on the basis of an actuarial valuation at the balance sheet date carried out by an independent actuary under Project Unit Credit Method.

c. Actuarial gains / losses arises during the year are recognised in the Profit and Loss Account.

Consolidated Accounting Policies

iii. Terminal Benefits are recognised as an expense as and when incurred.

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 under the relevant tax laws of the respective countries / states.

iv Other Taxes VIz., 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.

13. REVENUE RECOGNITION

i. SALES :

Domestic and export sales are recognized on dispatch of goods from the Factory, warehouse 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.

14. 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.

15. 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.

16. 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.

17. EARNINGS PER SHARE:

i. Basic earnings per share is calculated considering the weighted average number of equity shares outstanding during the year

ii 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.

18. PRELIMINARY / SET UP EXPENDITURE:

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

19. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS :

Provisions, involving substantial degree of estimation in measurement, are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities, which are possible are present obligations that may but probably will not require outflow of resources, are not recognised but are disclosed in the notes to the financial statements. Contingent Assets are neither recognised nor disclosed in the financial statments.

25. NOTES TO ACCOUNTS (CONSOLIDATED)

1. DESCRIPTION OF THE BUSINESS :

Divi's Laboratories Limited (the Company or Divi's) is a India based manufacturer of Active Pharmaceutical Ingredients and Intermediates having headquarters at Hyderabad, India. The major portion of its turnover is on account of export of its products to European and American countries. The Companies main manufacturing and research and development facilities are located in the State of Andhra Pradesh, India. The Equity Shares of the Company are listed in The Bombay Stock Exchange Ltd, Mumbai and The National Stock Exchange, Mumbai. The Company has two Subsidiaries viz., Divis Laboratories (USA) Inc., and Divis Laboratories (Europe) AG looking after manufacturing and marketing of Neutraceutical products in North American and European Countries.

2. LIST OF FOREIGN SUBSIDIARIES CONSIDERED FOR CONSOLIDATION :

S.No.	Name of the Entity	Country of Incorporation	Extent of Holding	
			As on 31.3.2009	As on 31.3.2008
1.	Divis Laboratories (USA) Inc	USA	**100%**	100%
2.	Divis Laboratories (Europe) AG	SWITZERLAND	**100%**	100%

3. Previous year figures have been regrouped/ recast/ rearranged wherever necessary to conform to current year classification.

4. CONTINGENT LIABILITIES: (Rs. in lakhs)

S.No.	Particulars	**2008-09**	2007-08
i)	On account of Letters of Credit and Guarantees issued by the bankers	**3055.30**	5093.76
ii)	On account of bonds and / or legal agreements executed with regulated authorities.	**7250.00**	7250.00
iii)	Demands being disputed / contested by the Company	**260.82**	177.89

5. Estimated amount of contracts remaining to be executed on capital account and not provided for (Gross) as on 31.3.2009 is Rs. 1183.58 Lakhs (As on 31.3.2008 Rs. 4039.52 Lakhs)

6. Land admeasuring 29.30 acres acquired under deeds of assignment and under possession of the company at Chippada village, Bheemunipatnam Mandal, Visakhapatnam Dist. Andhra Pradesh, 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, determined based on market price of the share on the before day of the grant of the Option, is accounted as Deferred Employee Compensation Costs , which is being amortised on a straight line basis over the vesting period of the Options. Consequently for the Current Year, an amount of Rs. 490.26 Lakhs (Previous year Rs. 859.74 Lakhs) has been amortised.

The Movement of Stock Options during the year is as detailed below:

Particulars	**2008-09 Nos**	2007-08 Nos
At the beginning of the year	**18,11,520**	18,54,400
Granted during the year	**Nil**	Nil
Expired/Forfeited during the year	**605**	42,880
Exercised during the year	**2,00,925**	Nil
At the end of the year	**16,09,990**	18,11,520

Consolidated Notes To Accounts

8. PAYMENT TO AUDITORS : (Rs. in lakhs)

Particulars	2008-09	2007-08
Statutory Audit Fees	**21.30**	17.36
Tax Audit Fees	**7.50**	5.00
Certification Charges	**7.50**	8.50
For Other Matters	**11.26**	4.75
For Reimbursement of Expenses	**0.55**	0.41
Total	**48.11**	36.02

9. MANAGERIAL REMUNERATION : (Rs. in lakhs)

Particulars	2008-09	2007-08
Salary	**330.08**	338.42
Commission	**2688.75**	1837.47
Perquisites	**58.39**	69.28
Contribution to Provident and other Funds	**27.98**	28.02
Amortisation of Deferred Employee Compensation Costs	**60.98**	106.90
Total	**3166.18**	2380.09

10. EMPLOYEE BENEFITS :

Disclosures required under Accounting Standard 15 "Employee Benefits" notified in the Companies (Accounting Standards) Rules 2006, are given below:

I) Defined Contribution Schemes :

Contributions to Defined Contribution Schemes charged off for the year are as under:

(Rs. in lakhs)

Particulars	2008-09	2007-08
Employer's Contribution to Provident Fund	**73.27**	63.34
Employer's Contribution to Pension Scheme	**59.00**	50.46
Employer's Contribution to State Insurance Scheme	**67.50**	43.25

II) Defined Benefit Plans:

The present value of obligation in respect of Provision for Payment of Gratuity and Leave encashment is determined, based on actuarial valuation using the Projected Unit Credit Method, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation, recognised and charged off during the year are as under:

Particulars	Gratuity (Unfunded)		Leave Encashment (Unfunded)	
	2008-09	2007-08	**2008-09**	2007-08
a. Reconciliation of opening and closing balances of Defined Benefit obligation:				
Defined Benefit obligation at beginning of the year	**166.48**	88.02	**112.38**	91.93
Current Service Cost	**9.53**	20.38	**8.39**	1.12

Interest Cost	**9.15**	4.84	**6.18**	5.06
Actuarial (gain)/loss	**13.90**	53.24	**13.91**	15.04
Benefits paid	**(0.62)**	NIL	**(0.34)**	(0.77)
Defined Benefit obligation at year end	**198.44**	166.48	**140.52**	112.38
b. Expenses recognised during the year				
Current Service Cost	**9.53**	20.38	**8.39**	1.12
Interest Cost on benefit obligation	**9.15**	4.84	**6.18**	5.06
Expected return on plan assets	**NIL**	NIL	**NIL**	NIL
Actuarial (gain)/loss	**13.90**	53.24	**13.91**	15.04
Net benefit expense	**32.58**	78.46	**28.48**	21.22
c. Actuarial assumptions :				
Mortality Table (L.I.C)	**1994-96 (Ultimate)**	1994-96 (Ultimate)	**1994-96 (Ultimate)**	1994-96 (Ultimate)
Discount rate (per annum)	**5.50%**	5.50%	**5.50%**	5.50%
Attrition Rate	**10.00%**	10.00%	**10.00%**	10.00%
Rate of escalation in salary (per annum)	**10.00%**	10.00%	**10.00%**	10.00%

The estimates of rate of escalation in salary considered in actuarial valuation, taken into account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market. The above information is certified by the actuary.

11. SEGMENTAL REPORTING :

(i) As the Company's business for the current year 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)

Particulars	**2008-09**		2007-08	
	Revenue	**%**	Revenue	%
European	**37235.19**	**31.33**	30559.29	29.36
American Countries	**63265.56**	**53.23**	58473.08	56.18
India	**8472.21**	**7.12**	5951.50	5.72
Other Countries	**9886.43**	**8.32**	9091.91	8.74
Total	**118859.39**	**100.00**	104075.78	100.00

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

Consolidated Notes To Accounts

12. TRANSACTIONS WITH RELATED PARTIES :

a) The list of related parties with whom transactions have taken place and nature of relationship is :

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 (Director for a part of the year)

ii) RELATIVES OF KEY MANAGEMENT PERSONNEL:

Sl. No.	Name of the person
1.	N. Laxmana Rao
2.	Mallikarjuna Rao Divi
3.	Mrs. Nilima Motaparti

b) Transactions with Related Parties:

(Rs. in Lakhs)

Particulars	**2008-09**		2007-08	
	Amount	**Outstanding as at 31.03.2009**	Amount	Outstanding as at 31.03.2008
Managerial Remuneration to Key Management Personnel	**3166.18**	**2703.39**	2380.09	1852.90
Lease Rent to Key Management Personnel	**20.68**	**1.91**	15.45	1.16
Lease Rent to Relative of Key Management Personnel	**20.68**	**1.52**	15.44	-
Salary and Allowances to Relatives of Key Management Personnel	**4.31**	**0.32**	4.31	0.32
Note : Options granted and outstanding to Key Management Personnel	**(No's)**	**155595**	(No's)	226320

c) Disclosure in respect of transactions which are more than 10% of the total transactions of the same type with related parties during the year:

(Rs. in Lakhs)

Nature of transaction	Name of the party	**2008-09**	2007-08
Managerial Remuneration	Dr. Murali. K. Divi	**1560.65**	1325.31
	N.V. Ramana	**864.67**	784.38
	Dr. P. Gundu Rao	**36.34**	43.69
	D. Madhusudana Rao	**65.76**	68.53
	Kiran S. Divi	**556.10**	68.16
	Guido Schaer	**82.66**	90.02

Salary and Allowances	N. Laxmana Rao	**2.15**	2.15
	D.Mallikarjuna Rao	**2.16**	2.16
Rent	Kiran S. Divi	**20.68**	15.45
	Nilima Motaparti	**20.68**	15.44

13. LEASES :

The Company has operating leases for premises and vehicles, which is renewable on a periodical basis and cancellable at its option. Rental expenses for operating lease recognised in Profit and Loss account for the year is Rs 64.58 Lakhs (Previous Year Rs. 45.15 Lakhs).

(Rs. in Lakhs)

Year Ending	**2008-09**	2007-08
Not later than one year	**62.53**	49.35
Later than one year and not later than five years	**176.58**	184.20
Later than five years	**-**	-

14. INCOME TAX EXPENSE :

(i) CURRENT INCOME TAX :

The provision for current income tax in respect of operations of the Parent Company is estimated expecting the tax exemption is available to a certain amount of profits earned by certain tax exemption units as per the prevailing provisions of the tax laws whereas the prevailing interpretations of the statute determines the lower amount of profits eligible for tax exemption than estimated. This may result in lower provision of current income tax about Rs. 3425 Lakhs. However the company is of the view that the necessary amendment or clarification will be given by the regulating authorities in the near future and doesnot foresee any further liability for current income tax than provided.

(ii) DEFERRED TAX LIABILITY :

Movement of Provision for Deferred Tax for the year ended 31.03.2009 is as given below :

(Rs. in Lakhs)

Particulars	As at 01.04.2008	(Charges) Credit for the year	**As at 31.03.2009**
Timing Differences on account of :			
Deferred Tax (Liability) :			
a. Depreciation on Assets	(4246.75)	(725.33)	**(4972.08)**
Total (A)	(4246.75)	(725.33)	**(4972.08)**
Deferred Tax Assets :			
b. Expenses allowable on the basis of Payment	98.02	15.57	**113.59**
c. Others	323.50	213.24	**536.74**
Total (B)	421.52	228.81	**648.93**
Net (A-B)	(3825.23)	(496.52)	**(4321.75)**

(iii)Fringe Benefits Tax :

Fringe Benefits Tax provided is net of recovery Rs. 659.03 Lakhs from employees as allowable under Indian Income Tax Act, 1961.

Consolidated Notes To Accounts

15. EARNINGS PER SHARE (EPS) :

The Numerator and denominator used to calculate Earnings Per Share:

(Rs. in Lakhs excet earning per share)

Particulars	**2008-09**	2007-08
A EARNINGS :		
Profit attributable to Equity Shareholders	**41664.18**	34759.84
B NO. OF SHARES :		
Weighted average number of Equity shares outstanding during the year (Nos.) - Basic	**6,47,14,187**	6,45,57,100
Add. : Weighted average number of equity shares arising out of outstanding stock options that have diluted effect on Earnings Per Share (Nos.)	**6,64,911**	7,48,140
Weighted average number of Equity Shares outstanding during the year (Nos.) - Diluted	**6,53,79,098**	6,53,05,240
C EARNINGS PER SHARE :		
Earnings Per Share of Par Value – Basic	**64.38**	53.84
Earnings Per Share of Par Value – Diluted	**63.73**	53.23

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

SIGNATURES TO SCHEDULES 1 TO 24
Signed on 06th day of June, 2009 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 statement for the business year 2008-09 ended March 31, 2009.

Manufacturing and R&D :

Since the start up of the Multipurpose facility in June, 2008 at the manufacturing site of parent, Divi's Laboratories Ltd., in Visakhapatnam, all major product forms with the existing portfolio of the active ingredients, have been commercially introduced in the American market and sales have started. These phase II products are expected to contribute to significant increase in sales during the coming years. As a major step, Divi's Astaxanthin product for the aquaculture market, produced in the facility, has been approved by some major customers in the industry. Divis Nutraceutical facility has been successfully inspected for HACCP (Hazard Assessment and Critical Control Points) based Food Safety System by SGS India.

The Nutraceutical group operates its own R&D department which has its development labs, the pilot plant as well as the application labs set up at the same production facility building. Several new product forms of existing Carotenoids as well as new promising products are in Divis Nutraceutical pipeline and the launch of most of these products is scheduled for 2009.

Operations :

A major accomplishment for us is the fact that we have established our name in the industry. Divis is now known as one of the few manufacturers who is operating a high tech microencapsulation process, supplies quality products at a competitive price and provides key technical service to its customers.

During the fiscal year, we have achieved a net sales income of $ 2,627,241 as against $ 1,087,962 during the last fiscal. Net loss for the year has reduced to $ 536,161 as against a net loss of $ 600,242 during last year. We have been able to achieve modest increase in sales as well as gross margins despite a slowdown in the global economic situation as some of the products we are present in are lifestyle consumption nutraceuticals. Due to these factors, we also felt a general slow down of customer investment and hold-up of new projects and new supplier approval processes.

Market :

As we move forward with new qualification of our phase II product with larger customers, we expect a significant increase of our beadlet sales in the coming years. There is a high interest in our products and due to available technical support and meeting specific requirements. Many customers consider Divis as a viable supply source for the long term.

We will continue to follow our strategy of offering a complete package of quality products, reliable service and comprehensive customer support. The implementation of GMP's for the dietary supplement industry which is scheduled this year, will add some challenges to a lot of suppliers. Divis is well prepared to handle these additional requirements from our customers as we have the necessary organization and resources in place.

Directors :

Dr. Murali K. Divi and Mr. N.V. Ramana continue as Directors of the company.

Unusual Items after the financial year :

No item transaction or event of the material nature as 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.

Responsibility Statement :

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 on March 31, 2009 and of the results of the business for the period . The Directors have taken all reasonable steps to prepare these financial statements on a going concern basis and the suitable accounting policies have been adopted consistently. Further, with the commencement of operations in the Nutra plant and the support of the parent organization and the ongoing efforts in qualification of the products by several strategic customers, the company is expected to grow its business and commence profitable operations within a reasonable time.

By Order of the Board

	Dr. Murali K. Divi	**N.V. Ramana**
27th May, 2009	Director	Director

Auditors' Report

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LIVINGSTON, NEW JERSEY 07039-1711
973-994-9494 FAX : 973-994-1571
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Divi's Laboratories (USA), Inc.
Morristown, New Jersey

We have audited the accompanying balance sheets of Divi's Laboratories (USA), Inc. (the "Company") as of March 31, 2009 and 2008, and the related statements of operations, stockholder's deficiency, and cash flows for the years then ended. These financial statements are the responsibility of the management of Divi's Laboratories (USA), Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis 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. as of March 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations; the Company has experienced a deficiency of cash from operations and lacks sufficient liquidity to continue operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that result from the outcome of this uncertainty.

SOBEL & CO. LLC.

MAY 13, 2009

Certified Public Accountants

Balance Sheet As At 31st March, 2009

Particulars	31st March, 2009 (US $)	31st March, 2008 (US $)
ASSETS		
CURRENT ASSETS :		
Cash	**272,899**	199,759
Accounts receivable, net	**489,563**	243,512
Finished goods inventory	**4,018,927**	835,033
Other current assets	**4,495**	151,317
Total Current Assets	**4,785,884**	1,429,621
PROPERTY AND EQUIPMENT :		
Equipment	**5,263**	5,139
Furniture and fixtures	**10,643**	10,301
Computer equipment	**25,810**	18,415
	41,716	33,855
Less : Accumulated depreciation	**12,491**	7,450
Property and Equipment, Net	**29,225**	26,405
OTHER ASSETS :		
Deferred taxes	**1,049,598**	762,248
Security deposit	**3,000**	1,800
Total Other Assets	**1,052,598**	764,048
	5,867,707	2,220,074
LIABILITIES AND STOCKHOLDER'S DEFICIENCY		
CURRENT LIABILITIES :		
Accounts payable	**4,231,829**	1,197,197
Accrued expenses	**315,507**	169,531
Customer deposits	**-**	13,380
Loan payable - Parent company	**3,144,507**	2,127,941
Total Current Liabilities	**7,691,843**	3,508,049
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	**(1,874,136)**	(1,337,975)
Total Stockholder's Deficiency	**(1,824,136)**	(1,287,975)
	5,867,707	2,220,074

Statements of Operations

(US $)

Particulars	For the year ended 31st March, 2009	For the year ended 31st March, 2008
NET SALES	**2,627,241**	1,087,962
Cost of Goods Sold :		
Product costs, net	**2,147,215**	948,061
Warehouse expense	**24,167**	9,999
Freight expense	**94,531**	40,248
Commissions	**45,840**	3,759
Total Cost of Goods Sold	**2,311,753**	1,002,067
GROSS PROFIT	**315,488**	85,895
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries, officer	**210,101**	210,101
Salaries, other	**335,359**	329,236
Office Rent	**14,440**	14,400
Rates and taxes	**250**	212
Telephone	**22,024**	26,139
Office and postage	**12,757**	18,334
Professional fees	**34,517**	55,247
Advertising expenses	**44,658**	48,013
Insurance	**14,379**	14,134
Travel and entertainment	**93,498**	69,195
Employee benefits	**64,578**	50,219
Auto expense	**30,642**	27,974
Repair and maintenance	**586**	1,400
Payroll taxes	**38,440**	38,566
Depreciation	**5,041**	3,798
Pension	**15,283**	14,213
Bank fees	**2,025**	2,318
Data processing service	**1,651**	1,210
Dues and subcriptions	**7,166**	7,994
Certifications	**-**	200
Bad debt expense	27,383	-
Miscellaneous	**5,447**	454
Total Selling, General, and Administrative Expenses	**980,225**	933,357
OTHER EXPENSES :		
Interest expense	**158,774**	98,182
NET LOSS BEFORE BENEFIT FROM INCOME TAXES	**(823,511)**	(945,644)
PROVISION FOR (BENEFIT FROM) INCOME TAXES :		
Deferred income tax	**(287,350)**	(345,402)
Benefit from income taxes	**(287,350)**	(345,402)
NET LOSS	**(536,161)**	(600,242)

Statements of Changes in Stockholder's Deficiency

MARCH 31, 2009

(US $)

Particulars	Common Stock	Accumulated Deficit	Total Stockholder's Deficiency
Balance April 1, 2007	50,000	(737,733)	(687,733)
Net loss	–	(600,242)	(600,242)
Balance March 31, 2008	50,000	(1,337,975)	(1,287,975)
Net loss	–	(536,161)	(536,161)
Balance March 31, 2009	**50,000**	**(1,874,136)**	**(1,824,136)**

Statements of Cash Flows

(US $)

	For the year ended 31st March, 2009	For the year ended 31st March, 2008
CASH FLOWS PROVIDED BY (USED FOR) :		
OPERATING ACTIVITIES :		
Net loss	**(536,161)**	(600,242)
Adjustments to reconcile net loss to net cash used for operating activities :		
Depreciation	**5,041**	3,798
Bad debt expense	**27,383**	-
Non cash interest expense	**158,774**	98,182
Deferred taxes	**(287,350)**	(345,402)
Changes in certain assets and liabilities :		
Accounts receivable	**(273,434)**	(189,489)
Finished goods inventory	**(3,183,894)**	(458,633)
Security deposit	**(1,200)**	-
Prepaid expenses	**146,822**	(137,499)
Accounts payable and accrued expenses	**3,008,454**	667,144
Net Cash Used for Operating Activities	**(935,565)**	(962,141)
INVESTING ACTIVITIES :		
Purchase of property and equipment	**(7,861)**	(5,004)
FINANCING ACTIVITIES :		
Loan from Parent company	**1,016,566**	995,250
NET INCREASE IN CASH	73,140	28,105
CASH :		
Beginning of period	**199,759**	171,654
End of period	**272,899**	199,759
SUPPLEMENTAL CASH FLOWS DISCLOSURE		
Amounts Paid for :		
Interest		–
Income Taxes		500

Notes to Financial Statements

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :

Organization :

Divi's Laboratories (USA), Inc. (the "Company") 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) ("Parent") and was formed to distribute dietary supplements and pharmaceutical ingredients in North America.

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. The allowance amounted to $27,383 at March 31, 2009. Management determined that an allowance for doubtful accounts was not required at March 31, 2008.

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 net operating losses being carried forward to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48") *Accounting for Uncertainty in Income Taxes.* FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes.* FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the positin will be sustained upon examination. In December 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises, which allows deferral of FIN 48 for cetain nonpublic enterprises* included within the FSP's scope to financial statements for fiscal years beginning after December 15,2008. The Company has elected to defer implementation of FIN 48.

The determination of uncertain tax positions in the accompanying consolidated financial statements uses the tax judgments as reported on the Company's tax returns which are based on the requirements for filling the returns. These filings may be subject to amendment or change during an examination by the various taxing authorities, which has not been considered in the determination of the Company's tax assets or liabilities included in the accompanying financial statements.

The Company does not expect that the adoption of FIN 48 will have a material effect on its financial position, results of operations or cash flows.

The Company recorded a deferred tax asset as a result of cumulative net operating losses. The net operating losses approximated $2,900,000 for both federal and state purposes and can be carried forward to offset future taxable income. The net operating losses begin expiring in 2027.

Concentration of Credit Risk :

At times, the Company maintained cash balances in excess of FDIC insurance limits.

Shipping and Handling Costs :

The Company has recorded shipping and handling costs as a component of cost of sales.

Advertising :

The Company recognizes advertising costs as they are incurred. Advertising expense amounted to $44,658 and $48,013 for the years ended March 31, 2009 and 2008, respectively.

Use of Estimates :

The preparation of financial statements inconformity 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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Reclassification :

Certain reclassifications may have been made to the 2008 financial statements in order for them to conform to the 2009 financial statement presentation. Such reclassifications have no effect on net income as previously reported.

NOTE 2 - GOING CONCERN :

As shown in the accompanying financial statements, the Company has incurred a loss of $536,161 and experienced a deficiency of cash from operations of $935,565 for the year ended March 31, 2009. As of March 31, 2009, the Company's current liabilities exceed current assets by approximately $2,900,000 and the Company has an accumulated stockholder's deficit of $1,874,136. These factors raise substantial doubt about the company's ability to continue as a going concern.

The Company has relied solely on the support of its Parent Company and its Affiliates for financing the Company from its inception through March 31, 2009. Management expects that the support from the Parent will continue until such time as the company is profitable. Management's plans to achieve profitability include the continued development of current and new sales bases and the introduction of new, more profitable products in its current markets.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should the Company be unable to continue in existence. Continuation of the Company as a going concern is dependent upon the continued support from the Parent and its Affiliates and achieving profitable operations. There are no assurances that the Company will become profitable or that the parent will continue to finance the losses until the Company becomes profitable.

NOTE 3 - RELATED PARTIES:

The Company has received loans from the Parent Company for the purpose of funding operating expenses. The loans are payable on demand with interest at 6%. At March 31, 2009 and 2008, the loans amounted to $3,144,507 and $2,127941 respectively. Included in accrued expenses in the accompanying balance sheet is accrued interest relating to the loans amounting to $297,083 and $138,308 at March 31, 2009 and 2008, respectively. All of the interest expense reported on the accompanying Statements of Operations was accrued in connection with these loans.

The Company purchases substantially all its inventory from the Parent Company or subsidiaries of the Parent Company. During the years ended March 31, 2009 and 2008, the Company purchased $5,359,994 and $1,535,935 of inventory from its Parent Company or the Parent's subsidiaries, respectively. Prior to March 31, 2008, the Company received damaged goods amounting to $143,667 purchased for inventory from Divi's (Europe), a company related by common ownership. The costs of the goods have been included in other current assets at March 31,2008. Divi's (Europe) replaced the product during the year ended March 31, 2009.

At March 31, 2009 and 2008, the Company has accounts payable related to the purchase of inventory of $4,219,754 and $1,186,709 respectively.

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 make matching contributions to a maximum 3% of compensation. Pension expense amounted to $15,283 and $14,213, respectively, for the years ended March 31, 2009 and 2008.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

The Company leases premises in Morristown, New Jersey for its office. The lease will expire on October 14, 2009. The Company entered into operating lease agreements for two vehicles expiring on June 28, 2010 and March 31, 2011.

Future minimum lease payments are as follows :

Year Ending, March 31st	
2010	$ 21,780
2011	$ 8,325
Total	$ 30,105

Rent expense for the years ended March 31, 2009 and 2008 was $14,440 Vehicle lease expense amounted to $21,126 and $8,325 for the year ended March 31, 2009 and 2008 repectively.

The Company has agreements with several of its employees which provide for, among other things, base salaries and benefits such as health insurance and pension matching. Each employment agreement includes a confidentiality clause pertaining to any internal, non public trade information.

NOTE 6 - CONCENTRATIONS:

At March 31, 2009, the Company had one customer that accounted for approximately 14% of the accounts receivable balance. At March 31, 2008, four customers comprised 48% of the accounts receivable balance.

The Company had one customer that accounted for approximately 10 % of sales for the year ended March 31, 2009. For the year ended March 31, 2008, four customers accounted for 51% of sales.

The Company purchases substantially all of its products from its parent company and the parent's subsidiaries. At March 31, 2009 and 2008, substantially all of the accounts payable was payable to the parent company and its subsidiaries.

Directors' Report

Management Report for Fiscal 2008 / 09

The Directors present their report and the financial statement for the business year 2008-09 ended March, 31 2009.

Manufacturing Facility

The Nutraceuticals manufacturing facility has been commissioned in June, 2008 at parent's Divis' Pharma SEZ at Visakhapatnam, India. This facility with the state-of-the art beadlet technology is the first of its kind set up in India. About 6 application products have now been developed fully and these are being marketed commercially by Divi's Laboratories Europe AG and Divi's Laboratories USA Inc.

REVIEW OF OPERATIONS

During the fiscal year, we have achieved a net sales income of CHF 850, 126 As Against CHF 785, 320 during the last fiscal. Net loss for the year has reduced to CHF 740, 310 as against a net loss of CHF 846,644 during last year. Although the marginal increase in sales and reduction of expenses has contributed to reduction of net loss, business was impacted by the overall slowdown in the global economic situation as some of the products we are present in are lifestyle consumption nutraceuticals. Due to these factors, we also felt a general slow down of customer investment and hold-up of new projects and new supplier approval processes. Delay in developing sum of the forms and qualifications from some of the major consuming customers has also contributed to lower sales than forecasted.

MARKET

An increasing number of global customers have approved our products. There is significant market potential for the second phase products and we see large customer interest. We succeeded in receiving long term commitments from strategic customers for some of our products and are working on others who are evaluating the products. In addition, intensive R&D Activities are going on for new components as well as for new product forms. These activities will increase our product portfolio and enable us to attract additional customers who are looking for a supplier with a broader product range. This should further strengthen Divi's Nutraceuticals market positioning. In order to reach the wide and diverse market for Nutraceuticals, we are implementing a strategy for a faster and comprehensive market penetration via well positioned distributors. We expect to reach the important European markets effectively through this distribution channels.

We are confident that our continuing development of products, the intensive marketing activities, the new distributor network and optimized and extended product range will result in profitable operations in the year ahead.

DIRECTORS

Mr. Guido Schaer left the services of the company and has been recalled as Director of the company. Mr. L. Kishore Babu has been appointed as Director at a meeting of the company held on 23rd September, 2008 and continues as Director.

UNUSUAL ITEMS AFTER THE FINANCIAL YEAR

No item transaction or event of the 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.

RESPONSIBILITY STATEMENT

In the opinion of the Director and Managers, the accompanying financial statments were drawn up so as to give a true and fair view of the state of affairs of the company as on March 31, 2009 and of the results of the business for the period. The Director and Managers have taken all reasonable steps to prepare these financial statements on a going concern basis and the suitable accounting policies have been adopted consistently. Further, with the commencement of operations in the Nutra plant and the support of the parent organization and the ongoing efforts in qualification of the products by several strategic customers, the company is expected to grow its business and commence profitable operations within a reasonable time.

By Order of the Board

L. Kishore Babu
Director

Claudia Mastrangelo
Manager

Anita Kaufman
Manager

27th May, 2009

Auditors' Report

Ernst & Young

Ernst & Young Ltd
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To the Board of Directors of
Divi's Laboratories Europe AG, Basle

Basle, May 27, 2009

Report of the Independent auditor on the financial statements

As independent auditor and in accordance with your istructions, we have audited the acompanying financial statements of Divi's Laboratories Europe AG, which comprise the balance sheet, income statement and notes for the year ended 31 March 2009.

Board of Director's responsibility

The Board of Directors is responsible for the preparation of the financial statements in acordance with the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2009 comply with Swiss law and the company's articles of incorporation.

Without qualifying our opinion, we refer to the notes according to which the ability of the Company to continue as going concern depends on the temporarily future funding by the shareholder and the successful realization of the business plan and is, therefore, uncertain.

We further state that the Company is over-indebted as of 31 March 2009. As the share holder has subordinated his claims of CHF 3'500'000 as of 31 March 2009, the board of directors has refrained from notifying the judge.

Should there be no future funding by the shareholder or should the business plan not be realized as planned, the company's liquidity position and, in the worst case, its ability to continue as a going concern, might become impaired, and the financial statements would have to be prepared on liquidation values. In this case, the subordinated loans might not be sufficient anymore to avoid the consequences of art. 725 para 2. of the Swiss Code of Obligations (Co. Company Law).

In addition we emphasize that the loan in the amount of CHF 611'688.23 could violate article 680 para. 2 of the Swiss Code of Obligations to the extent that shareholders do not have the right to reclaim their contribution.

Ernst & Young Ltd

Jurg Zurcher	Marc Riggenbach
Licensed audit expert	Licensed audit expert
	(Auditor Incharge)

Balance Sheet As At 31st March, 2009

Particulars	**31 March, 2009 CHF**	31st March, 2008 CHF
ASSETS		
Cash	**118’510.11**	198’720.71
A/R Trade/Other	**67’347.92**	86’108.66
A/R Intercompany Divi’s Lab Ltd. USA	**611’688.23**	444’833.99
Prepaid Expenses & Deposits	**216’834.12**	119’812.00
Inventories	**1’101’828.17**	602’161.96
Current Assets	**2’116’208.55**	1’451’637.32
Fixed Assets	**26’497.70**	26’497.70
Less: Accumulated Depreciation	**(7’892.00)**	(5’242.00)
Setting-up costs	**14’325.70**	14’325.70
Less: Setting-up costs written-off	**(14’325.70)**	(14’325.70)
Fixed Assets, net	**18’605.70**	21’255.70
Total	**2’134’814.25**	1’472’893.02
LIABILITIES & EQUITY		
A/P Trade/Other	**31’484.40**	67’416.23
A/P Intercompany Divi’s Lab Ltd. USA	**2,435.84**	0.00
Subordinated A/P Intercompany Divi’s Lab. Ltd. India	**3’500’000.00**	2’500’000.00
A/P Intercompany Divi’s Lab. Ltd. India	**913’841.87**	578’504.04
Accruals	**131’074.00**	30’684.68
Current Liabilities	**4’578’836.11**	3’176’604.95
Capital	**100’000.00**	100’000.00
Retained Earnings	**(1’803’711.93)**	(957’067.63)
Net Loss	**(740’309.93)**	(846’644.30)
Stockholder’s Equity	**(2’444’021.86)**	(1’703’711.93)
Total	**2’134’814.25**	1’472’893.02

Statement of Income

Particulars	1.4.08 - 31.3.2009 CHF	1.4.07 - 31.3.2008 CHF
Sales	**1’054’649.42**	830’627.74
Carriage and freight outward	**(204’523.22)**	(45’307.57)
Net Sales	**850’126.20**	785’320.17
Material costs and stock adjustments	**797’227.41**	692’096.47
Material costs	**797’227.41**	692’096.47
Production profit	**52’898.79**	93’223.70
Personnel	**513’025.35**	565’361.30
Recruiting, Travel & Memberships	**54’010.82**	87’398.37
Supplies, Tools & Equipment	**990.00**	828.10
Outside Services	**123’831.32**	88’483.06
Marketing and promotional	**8’424.14**	37’478.11
R&M, Utilities, Insurance	**91’472.93**	114’517.75
Depreciation	**2’650.00**	2’545.50
Expenses	**794’404.56**	896’612.19
Operating Loss	**(741’505.77)**	(803’388.49)
Interest Income	**268.34**	85.64
Miscellaneous Income	**1’452.50**	0.00
Currency Differences	**0.00**	(42’816.45)
Capital Taxes	**(525.00)**	(525.00)
Net Loss	**(740’309.93)**	(846’644.30)

Notes

		Rate	**1.4.08 - 31.3.09** **CHF**		1.4.07 - 31.3.08 CHF
1.	Accounts drawn on accrual basis in accordance to Swiss GAAP				
2.	Unrealized currency gains aggregating to CHF 86'239.75 as of 31 March 2009 on forex exposures and loans from parent have not been booked				
3.	Contingent Liabilities		–		–
4.	Disputed claims		–		–
5.	Undisputed claims		–		–
6.	Debts not acknowledged as debts		–		–
7.	Start-up expenses have been amortised and charged-off in the year of incurrence		**n.a.**		n.a.
8.	Leasing Liabilities		**9'211**		14'738
9.	Accounts payable Pension Fund		**n.a**		**14'050**
10.	Calculation of Current Tax and Deferred Tax Liabilities				
	<u>Income tax 2008</u>	**<u>Rate</u>**			
	Federal & Communal			0	0
	<u>Capital Tax</u>	**0.525%**	**100'000**	525	525

11. 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

c) Other Equipment - 4.75% on Straight Line Method proportionate from purchase date

12. Deferred Taxation

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

13. Explanation of the board of directors with regard to the business and the going concern of the Company

These financial statements were prepared on a going concern basis which the Company's board of directors believes to be appropriate, in despite of the significant losses suffered to date. The board of directors took the following remedial actions:

- elaboration of a business plan and cash budget in which break-even is expected in the subsequent 18 until 24 month period.
- conclusion of new sales agreements in accordance with the busines plan
- market penetration via distribution has been decided and implemented
- interim funding by the shareholder in order to enable and finance the sales to Divi's Lab Ltd., USA

14. The board of directors is convinced of the success of the actions taken and the business. However, should these remedial actions not be successful, this will have a material effect upon the Company and could likely result in an inability to continue as a going concern.

The Company is over-indebted as of 31 March 2009. As the shareholder, Divi's Lab. Ltd, India has subordinated his claims of CHF 3'500'000 to the claims of other creditors, the board of directors according to article 725 para 2 of the Swiss Code of Obligation (CO, Company Law) renounced to inform the judge.

15. The board of directors regularly performs a risk assessment (the status of the projects is assessed) and assesses the respective measures taken to minimize the risk of a material misstatement in the financial statements.

The board of directors has not formally documented the risk assessment.

Notice of Annual General Meeting

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of DIVI'S LABORATORIES LIMITED will be held on **Monday the 17th day of August 2009 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 2009, the Profit and Loss account for the year ended 31st March 2009 along with the reports of Directors and the Auditors thereon.
2. To declare dividend for the financial year 2008 - 2009.
3. To appoint a Director in place of Mr S Vasudev, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Dr. G Suresh Kumar, 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, Hyderabad 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 **Dr. Murali K. Divi**
6th June 2009 **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. Pursuant Pursuant to Clause 49 of the Listing Agreement additional information on directors seeking appointment / re-appointment at the annual general meeting is annexed hereto.
3. 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.
4. 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.
5. 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.
6. Closure of register of Members and Dividend :
   (a) The Company has notified that Register of Members and Transfer Books will be closed from 17th June 2009 to 20th June 2009 (both days inclusive) for determining the names of the Members eligible for dividend, if approved, on equity shares. In respect of shares held in Electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
   (b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid to those shareholders whose name appears in Register of Members as on 20th June 2009.
   (c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 6 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centers / branches. The members are, therefore, advised to encash Dividend Warrants within the initial validity period.
7. Bank particulars :

   In order to provide protection against fraudulent encashment of the warrant, shareholders holding shares in physical form are requested to intimate the Company under the signature of sole / first joint holder, the following information to be incorporated on the Dividend Warrants:
   (i) Name of the Sole / First joint holder and the Folio Number.
   (ii) Particulars of Bank account, viz.,
      - Name of the Bank
      - Name of the Branch
      - Complete address of the Bank with Pin Code Number
      - Account type, whether Savings (SB) or Current account (CA)
      - Bank Account Number allotted by the Bank
8. Shareholders holding shares in electronic form may kindly note that their Bank account details as furnished by their Depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. Shareholders requested to intimate immediately any change in their address or bank mandates to their depository participants with whom they are maintaining their demat accounts or to the company's share transfer agent, M/s Karvy Computershare Private Limited, if the share are held in physical form.
9. Non-Resident Indian Shareholders are requested to inform the registrars, M/s. Karvy Computershare Private Limited immediately :
   a) The change in the Residential status on return to India for permanent settlement.
   b) The particulars of the Bank Account maintained in India with complete name, branch, account type, account number and address of the Bank, if not furnished earlier.
10. 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.

Notes

11. 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.
12. M/s. Karvy Computershare Private Limited, Plot No 17-24, Vittal Rao Nagar, Madhapur, Hyderabad – 500 081 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.
13. Unclaimed dividend for the year(s) 2002-03, 2003-04, 2005-06, 2006-07 and 2007-08 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.
14. Members desiring to seek any information on the annual accounts are requested to write to the company at an early date to enable the management to keep the information ready

ADDITIONAL INFORMATION ON DIRECTORS SEEKING APPOINTMENT / RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING

(Pursuant to Clause 49 of the Listing Agreement)

Item # 3 of Notice of AGM

i) Mr. S. Vasudev

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

Mr. Vasudev joined the company as Director being nominee of IDBI on 01.12.1999 and appointed as director liable to retire by rotation on 9th August 2004.He is also a director in M/s Fatpipe Networks India Limited and not holding any equity shares of the company as on 31st March 2009.

ii) Dr. G. Suresh Kumar

Dr G Suresh Kumar is a Consulting Surgeon and holds an MBBS degree from Gandhi Medical College, Hyderabad and M.S. (General Surgery) from Gulbarga University, Karanataka. He worked with the Ministry of Health, Government of Algeria between 1978 and 1983. He is a practicing Consultant Surgeon at several multi-speciality hospitals at Hyderabad.

Dr. Suresh Kumar joined the company as Director on 10.03.2001. He is not a director of any other company and not holding any equity shares of the company as on 31st March 2009.

iii) Mr Kiran S Divi

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 Pharma ingredients and intermediates for about two years before joining the Board. He is responsible for marketing the company's generic products in the USA, which is considered an important value market for the Pharma ingredients.

Mr. Kiran Divi has been a whole-time director of the company since 10.08.2001. Mr. Kiran S. Divi is also Director in M/s. Divi's Biotech Private Limited and M/s.Divi's Resorts Pvt Ltd.He is neither a Member nor Chairman of Committees of other Companies. Mr. Kiran belongs to the promoter-group and holds 35,00,000 equity shares of Rs.2 each of the company.

For and on behalf of the Board of Directors

Hyderabad
6th June 2009

Dr. Murali K. Divi
Chairman and Managing Director

Divi's Laboratories Limited

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

PROXY FORM

19th 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 19th 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 17th August, 2009 at 10.00 A.M. and at any adjournment(s) thereof.

Affix
Revenue
Stamp

Signed this ________________day of____________ 2009. ______________________________

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

19th 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 19th Annual General Meeting of the Company at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad - 500 004 on Monday, the 17th August, 2009 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.