

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED

DIRECTORS' REPORT

To
The Members of

Sun Pharma Advanced Research Company Limited

Your Directors have pleasure in presenting herewith their First Annual Report and the Audited Accounts for the period 1st March, 2006 to 31st March, 2006.

FINANCIAL RESULTS

	(Rs.)
	Period ended 31 st March, 2006
Total Income	-
Profit/(Loss) before Depreciation & Taxation	(33,224)
Depreciation	-
Profit/(Loss) before Tax	(33,224)
Provision for Tax	-
Profit/(Loss) after Tax carried to Balance She	(33,224)

Your Company was incorporated on 1st March, 2006, obtained the Certificate of Commencement of Business on 22nd March, 2006 and is in the first year of its operations.

DIVIDEND

In view of loss and absence of accumulated profits, your Directors do not recommend any dividend for the year under review.

DEMERGER AND TRANSFER OF INNOVATIVE RESEARCH AND DEVELOPMENT UNIT OF SUN PHARMACEUTICAL INDUSTRIES LIMITED TO THE COMPANY

With effect from 1st April, 2006 or such other date as may be approved by the High Court of Gujarat at Ahmedabad, the Innovative Research and Development Unit of Sun Pharmaceutical Industries Limited will be transferred to your Company on receipt of the approval of the same by the Honourable High Court of Gujarat and filing the same before the concerned authorities.

PUBLIC DEPOSITS

The Company has not accepted any deposit from Public during the period under review under the provisions of the Companies Act, 1956 and the rules framed thereunder.

DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, your Directors confirm that:

- a. In the preparation of the Annual Accounts for the year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b. The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and loss of the Company for the year under review.
- c. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d. The annual accounts for the year under review have been prepared on a going concern basis.

PARTICULARS PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975

No particulars pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended are furnished, since the Company has no person in its employment for the period ended 31st March, 2006 drawing salary in excess of Rs.2,00,000/- per month.

PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUT GOES:

Since the commercial operations of the Company have not been undertaken during the period under review, there is no information / particulars to be furnished for conservation of energy, technology absorption, foreign exchange earning and out goes are not applicable to the Company for the year under review.

DIRECTORS

As per the provisions of Section 255 read with Section 256 of the Companies Act, 1956 all the Directors of the Company namely Mr. Dilip S. Shanghvi, Mr. Sudhir V. Valia and Mr. Sailesh T. Desai retire by rotation at the First Annual General Meeting and being eligible offer themselves for reappointment.

AUDITORS

As per the provisions of Section 224(5) of the Companies Act, 1956, M/s Deloitte, Haskins & Sells, Chartered Accountants, Mumbai were appointed as first auditors of the Company and will retire at the conclusion of the First Annual General Meeting. Your Company has received a letter from them to the effect that their re-appointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Place: Mumbai
10.07.2006

DILIP S. SHANGHVI
Chairman and Director

Auditors' Report to the Members of Sun Pharma Advanced Research Company Limited

1. We have audited the attached Balance Sheet of Sun Pharma Advanced Research Company Limited ("the Company") as at March 31, 2006, the Profit and Loss Account and also the Cash Flow Statement for the period from March 1, 2006 to March 31, 2006 annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the para 3 above, we report that:
 - (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - (v) on the basis of written representations received from directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006;
 - (b) in the case of the profit and loss account, of the loss for the period from March 1, 2006 to March 31, 2006; and

- (c) in the case of the cash flow statement, of the cash flows for the period from March 1, 2006 to March 31, 2006.

For Deloitte Haskins & Sells
Chartered Accountants

Vadodara, June 6, 2006

K.A. Katki
Partner
Membership No. 038568

ANNEXURE TO THE AUDITORS' REPORT
(Referred to in paragraph 3 of our report of even date)

Sun Pharma Advanced Research Company Limited

1. In our opinion and according to the information and explanations given to us, the nature of the Company's activities during the period from March 1, 2006 to March 31, 2006, is such that clauses i, ii, iv, v, vii, viii, ix, x, xi, xii, xiii, xiv, xviii, xix, xx of Companies (Auditors' Report) Order, 2003 are not applicable to the Company.
2. The Company has not granted or taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clauses iii(a) to (g) are not applicable.
3. In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits from public within the meaning of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.
4. In our opinion and according to the information and explanation given to us, the Company has not given any guarantees for loans taken by others from banks and financial institutions.
5. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, during the period of our audit, the company has not availed any term loans.
6. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, during the period of our audit, the company has not raised any funds on short term basis.
7. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the period.

For Deloitte Haskins & Sells
Chartered Accountants

K. A. Katki
Partner
Membership No. 038568

Vadodara, June 6, 2006

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED
BALANCE SHEET AS AT MARCH 31, 2006

	Schedules	As at March 31, 2006	
		Rupees	Rupees
<u>SOURCES OF FUNDS</u>			
Shareholders' Funds			
Share Capital	1		500,000
			<u>500,000</u>
<u>APPLICATION OF FUNDS</u>			
Current Assets, Loans and Advances			
Cash & Bank balances:			
Balances with Schedule Bank in Current Accounts			500,000
Less :			
Current Liabilities and Provisions			
Current Liabilities			
Sundry Creditors - other than Small Scale Industrial Undertakings			<u>33,224</u>
Net Current Assets			466,776
Profit and loss account (Debit Balance)			33,224
			<u><u>500,000</u></u>
Significant accounting policies and notes to accounts			
As per our report of even date attached	2	For and on behalf of the Board	
		DILIP S. SHANGHVI <i>Chairman</i>	
		SUDHIR V. VALIA <i>Director</i>	
		SAILESH T. DESAI <i>Director</i>	
For Deloitte Haskins & Sells Chartered Accountants		Vadodara, 06th June, 2006	
K.A.Katki Partner		Vadodara, 06th June, 2006	

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED
 PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM MARCH 1,2006 TO MARCH 31, 2006

	Schedules	PERIOD FROM MARCH 1,2006 TO	
		MARCH 31,2006	
		Rupees	Rupees
INCOME			
Income from Operations			-
EXPENDITURE			
Preliminary Expenses			22,000
Statutory Audit Fees (including service tax)			11,224
			<u>33,224</u>
Loss Before Tax			<u>33,224</u>
Provision for Taxation			-
Loss After Tax			<u>33,224</u>
Balance of Loss Carried Forward			<u><u>33,224</u></u>
Earning Per shares (EPS) (Rs.)			(0.07)
Face Value of Shares (Rs.)			1.00
Loss used as Numerator in calculating Basic & Diluted EPS (Rs.)			33,224
Weighted Average Number of Equity Shares used in computing EPS			500,000

Significant accounting policies and notes to accounts

2

As per our report of even date attached

For and on behalf of the Board

DILIP S. SHANGHVI
 Chairman

For Deloitte Haskins & Sells
 Chartered Accountants

SUDHIR V. VALIA
 Director

K.A.Katki
 Partner

SAILESH T. DESAI
 Director

Vadodara, 06th June, 2006

Vadodara, 06th June, 2006

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED

CASH FLOW STATEMENT FOR THE PERIOD MARCH 1, 2006 TO MARCH 31, 2006

Particulars	FOR THE PERIOD MARCH 1, 2006 TO MARCH 31, 2006 (Rupees)
Cash Flow From Operating Activities:	
Loss before Tax	(33,224)
Adjustments	-
Operating Loss Before Working Capital changes	<u>(33,224)</u>
Adjustments for:	
Increase in Trade payable and Other Liabilities	33,224
Cash Generated from Operations	<u>-</u>
Direct taxes paid	<u>-</u>
Net Cash Generated from Operating Activities	(A) <u>-</u>
Net Cash Flow from Investing Activities	(B) <u>-</u>
Cash Flow From Financing Activities:	
Issue of Equity Shares	500,000
Net Cash Flow from Financing Activities	(C) <u>500,000</u>
Net Increase in Cash or Cash Equivalents	(A+B+C) <u>500,000</u>
Cash and Cash equivalents at the beginning of the period	-
Cash and Cash equivalents at the close of the Period	<u>500,000</u>

NOTES TO CASH FLOW STATEMENT FOR THE PERIOD MARCH 1, 2006 TO MARCH 31, 2006

- The above Cash Flow Statement has been prepared under the 'indirect Method' as set out in Accounting Standard-3 on Cash Flow Statements issued by the Institute Of Chartered Accountants Of India.
- The above cash flow statement is prepared for a period of one month i.e. from March 1, 2006 (the date of incorporation of the company) to March 31, 2006. The comparable figures for the preceeding year have not been presented, as this is the first occasion when Financial Statements have been presented by the Company.

As per our report of even date attached

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman

For Deloitte Haskins & Sells
Chartered Accountants

SUDHIR V. VALIA
Director

K.A.Katki
Partner

SAILESH T. DESAI
Director

Vadodara, 06th June, 2006

Vadodara, 06th June, 2006

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED

Schedules forming part of the Balance Sheet as at March 31, 2006

	As at March 31, 2006	
	Rupees	Rupees
1 Share Capital:		
Authorised:		
500,000 Equity Shares of Re. 1 each		<u>500,000</u>
Issued, Subscribed & Paid up		500,000
500,000 Equity Shares of Re. 1 each, fully paid up (All the above shares are held by Sun Pharmaceutical Industries Limited - The Holding Company and its nominees)		
 TOTAL		 <u>500,000</u>

SCHEDULE -2

SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS

A Significant Accounting Policies

I Basis of Accounting

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

II Use of estimates

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

XIII Provisions,Contingent Liabilities and Contingent Assets

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

IV Taxes on Income

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

B Notes to accounts

- 1 The Company was incorporated on March 1, 2006 as a innovative research and development company. As these are the first financial statements of the company for the period from March 1,2006 to March 31,2006, figures in respect of the previous year are not applicable.
- 2 The Board of Directors of Sun Pharmaceutical Industries Limited ('SPIL'),The Holding Company at their meeting held on February 9,2006 decided to demerge and transfer its innovative Research & Development business (including New Drug Delivery system) into the Company, so as to aid in focusing on manufacturing, including Reverse Reseach & Development activities by SPIL and innovative Reseach & Development activities by the Company.The said transfer of business is effective from April 1, 2006 subject to necessary regulatory approvals.
- 3 The Company proposes to engage in the business of innovative research and development. As at the year end, the Company has not commenced business operations. Hence information in respect of segment wise disclosure is not applicable to the company.
- 4 Disclosure with respect to Accounting Standard (AS-18) on related party disclosure, issued by the Institute of Chartered Accountants of India, is as per Annexure- "A" annexed.

ANNEXURE 'A' TO NOTES ON ACCOUNT

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

Particulars	
Note :	
Names of related parties and description of relationship	
1.Holding Company	Sun Pharmaceutical Industries Limited
2.Fellow Subsidiaries	Sun Pharma Global Inc. BVI. Milmet Pharma Ltd. (Upto October 25,2005) Sun Pharmaceutical (Bangladesh) Ltd. Sun Pharma De Mexico S.A. DE C.V. Sun Farmaceutica Ltda - Brazil Sun Pharmaceutical Industries Inc , USA Sun Pharmaceuticals UK Ltd ICN Hungary Ltd Caraco Pharmaceutical Laboratories Ltd - U.S.A Universal Enterprise Pvt. Ltd. Zao "Sun Pharma Industries Limited" Sun Pharmaceutical Peru S.A. C. SPIL De Mexi Co. S.A. DE C.V.
3.Other Related Parties (Partnership Firm)	Sun Pharma Exports Sun Pharmaceutical Industries
4.Key Management Personnel	Mr Dilip S Shanghvi Mr Sudhir V Valia Mr Sailesh T. Desai
5.Enterprise under significant Influence of Key Management Personnel	Sun Petrochemical Pvt Ltd Sun Speciality Chemicals Pvt Ltd Navjivan Rasayan (Gujarat) Pvt Ltd

Transaction during the period from March 1, 2006 to March 31,2006

Particulars	(Amount in Rs.)
	Holding Company
Reimbursement of Expenses	
Sun Pharmaceutical Industries Ltd	22,000
Issue of Equity share Capital	
Sun Pharmaceutical Industries Ltd	500,000

Outstanding Balance as at March 31,2006

Particulars	(Amount in Rs.)
	Holding Company
Current Liabilities	
Sun Pharmaceutical Industries Ltd	22,000