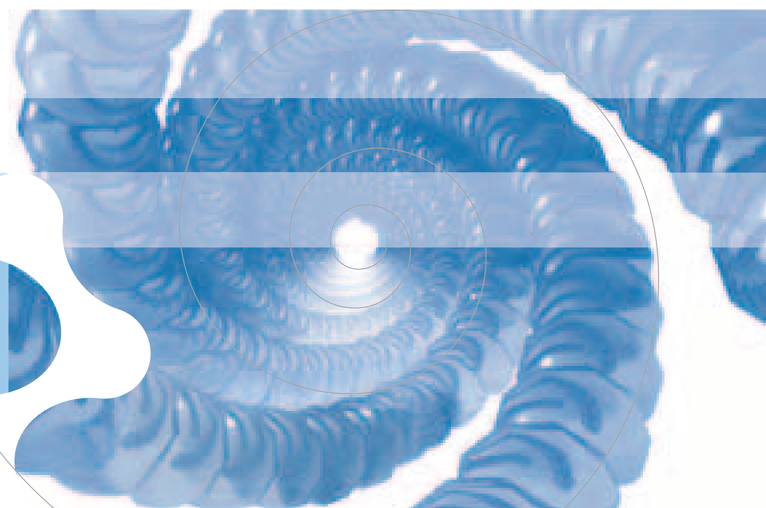
Biocon



A Dynamic Evolution

Corporate Profile

Our Vision

To become an integrated biopharmaceutical company of global distinction through proprietary products and technologies.

Contents

Highlights of 2003

Sales	Sales increased by 58% from Rs.1790mn in 2001-02 to Rs.2820mn in 2002-03. (Rs.2584mn for the period Apr - Sep 2003).	Exports increased to 48% of the total revenues in 2002-03 from 36% in 2001-02 (60% for the period Apr - Sep 2003).	API sales grew by 79% from Rs.1143mn in 2001-02 to Rs. 2047mn in 2002-03 (Rs.2093mn for the period Apr - Sep 2003). Custom research services contributed to 10% of the total revenues.	Simvastatin sales of Rs.682mn contributed to 27% of the total turnover in 2002-03 (Rs.989mn for the period Apr - Sep 2003).	Sales of APIs to European markets grew by 1342% from Rs.35mn in 2001-02 to Rs.505mn in 2002-03 (Rs.584mn for the period Apr - Sep 2003).
Profit	EBITDA increased from Rs.414mn in 2001-02 to Rs.745mn in 2002-03 increasing the EBITDA margin from 23% in 2001-02 to 26% in 2002-03 (34% for the period Apr - Sep 2003).	Profit after tax (PAT) grew from Rs.203mn in 2001-02 to Rs. 444mn in 2002-03. The PAT margin stood at 16% of the total turnover (PAT - Rs.603mn and PAT margin 23% for the period Apr - Sep 2003).	Return on capital employed (ROCE) increased from 16% in 2001-02 to 24% in 2002-03 (24% annualised for the period Apr - Sep 2003).	Return on networth (RONW) increased from 24% in 2001-02 to 34% in 2002-03 (62% annualised for the period Apr - Sep 2003).	Earning per share (EPS) grew from Rs.130 in 2001-02 to Rs.195 in 2002-03 (Rs.657 annualised for the period Apr - Sep 2003).
R&D	100th patent filed during the year.	Promoted a new joint venture which will engage in the manufacture of life saving drugs.			

Mapping the Biocon Genome

1978 Biocon India is incorporated as a joint venture between Biocon Biochemicals Ltd. Ireland and an Indian entrepreneur, Kiran Mazumdar.

1989 Unilever Plc. acquires Biocon Biochemicals Ltd. in Ireland and merges it with its subsidiary, Quest International.

1990 The company scales up its in-house research programme based on a proprietary solid substrate fermentation technology, from pilot to plant level.

1993 Biocon's R&D and manufacturing facilities receive ISO9001certification from RWTUV, Germany.

1994 Biocon India sets up Syngene International Pvt. Ltd. as a CRO, to cater to the growing need for outsourced R&D in the pharmaceutical sector.

1996 The commercial success of Biocon's proprietary fermentation plant leads to a 3-fold expansion.

1997 Biocon spearheads initiatives in human healthcare through a dedicated manufacturing facility.

1998 Unilever inks a deal with ICI to sell its speciality chemicals division of which Quest International is a part. Unilever agrees to sell its shareholding in Biocon India to the Indian promoters.

Biocon India becomes an independent entity.

2000 Biocon India commissions its first fully automated submerged fermentation plant to produce speciality pharmaceuticals.

Clinigene International is set up to pursue clinical research.

2001 Biocon India is the first Indian company to be approved by US FDA for the manufacture of lovastatin, a cholesterol lowering molecule.

Biocon's proprietary bioreactor, the PlaFractor™ is granted a US patent.

2002 Clinigene is the first Indian laboratory to receive CAP accreditation.

2003 Biocon aims to be the first company world-wide to develop Human Insulin on a Pichia expression system.

Biocon aims to be India's first company to venture into monoclonal antibodies.

A**Dynamic**Evolution

"A Dynamic Evolution" represents Biocon's growth story. It reflects our spiralling progress in biotechnology from an enzyme-manufacturing company to a fully integrated bio-pharmaceutical enterprise.

At Biocon, our core expertise is our fermentation skills. Over the past two decades, we have developed, diversified and scaled up our fermentation technologies to produce high value products. Simultaneously, we have acquired new knowledge in the adjacent domains of genetic engineering and gene expression, and translated it to commercial advantage. Today, we leverage our fermentation expertise and innovative research skills in drug synthesis to focus on the biopharmaceutical opportunity, from small molecules to biologicals. Our thrust for the future is to develop, manufacture and market leading edge drugs for human healthcare.

Symbolically, Biocon's dynamic evolution is reflected in the building block of life itself – the DNA. In its infinite, outward spiral, the double helix inspires our vision to grow into a leading biopharmaceutical enterprise of global distinction.

Chairman's Review

Dear Friends,

The year 2003 marks the 25th anniversary of our company. Over the last 25 years, Biocon has dynamically evolved from an enzyme manufacturer to a technology-driven biopharmaceutical company. Together with our subsidiaries, Syngene and Clinigene, we today constitute a truly integrated biopharmaceutical enterprise of global distinction.

An Ethos of Innovation and Intellect

At Biocon, our success has been our ability to develop innovative technologies and products, and to rapidly leverage them to adjacent domains. This has been made possible by the outstanding quality and capability of our people. Today, our intellectual capital is provided by 900+ bioscientists, engineers and business managers. Biocon's strong R&D focus on innovation and invention has created high value intellectual assets which have earned us a prominent position in PCT patent filings in the country. Our patented invention, the PlaFractor™ has been a resounding commercial success and has played a key role in Biocon's foray into the production of immunosuppressants – critical drugs for organ transplants.

Statins: A Quality Advantage

Statins, a group of cholesterol-lowering drugs, are referred to as "the wonder drugs of the 21st century" with an estimated market size of $20 billion. At Biocon, our capability to manufacture the complete range of statins has given us a vantage position to gain significant share in the US and European markets, as patents for these APIs expire. Furthermore, US FDA and EDQM qualifications of our statin facilities have raised our profile and propelled our market presence in the USA for lovastatin and Europe for simvastatin. Our strong statin strategy will provide us with robust growth in the foreseeable future.

The Road Ahead: Biologicals

Biocon's research programme on recombinant human insulin has made satisfactory progress and is in the process of being scaled up to plant level. In the very near future, we aim to establish the largest facility for recombinant human insulin in the Asia-Pacific region. We plan to enter the branded formulations market in India through a range of products for the diabetic segment, of which recombinant human insulin will be the carrier brand. An additional development in the insulin programme has been the initiation of a collaborative research project with a Scottish company, Ffast Solutions, to develop oral insulin. The past year has also seen encouraging progress being made on the Biologicals JV, Biocon Biopharmaceuticals.

Syngene

Biocon's flagship custom research company in drug discovery, Syngene International, has witnessed impressive growth both in terms of enrolling new customers as well as expanding its existing client business. Syngene has earned an enviable reputation of consistently providing its customers with high levels of value addition. The demand for additional research infrastructure has necessitated the construction of a 3-fold expansion of current facilities on a new site.

Clinigene

Biocon's clinical development arm, Clinigene International, has extended its research activities in Type II Diabetes. On the strength of its 3-year old diabetic registry, Clinigene signed two research collaborations with Strand Genomics and the Indian Institute of Science. Both collaborations have already seen early success by way of patents for predictive diagnosis of diabetic nephropathy. These programmes will now focus on validating their findings. Clinigene has also enabled Biocon to conduct its own clinical development programme for recombinant human insulin and other products.

R&D Investment

In keeping with our ethos of innovation, Biocon continues to invest incrementally in R&D programmes across the enterprise. Our commitment to intellectual asset creation has earned us a prominent position on the IP landscape where our R&D investment levels are amongst the highest in the country.

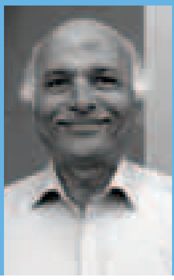
Finally, I am pleased to share with you the financial performance of our company for the year ended 31st March, 2003 and half yearly results for the period ended 30th September 2003. It demonstrates strong growth in biopharmaceuticals, driven largely by statins. I am confident that the coming year will witness dynamic growth in our business.

We celebrate our silver jubilee year with a sense of pride and accomplishment. We now look forward to the year ahead with a greater sense of confidence and determination.

Yours sincerely,

Kiran Mazumdar-Shaw
Chairman

Board of Directors

Ms. Kiran Mazumdar-Shaw Chairman & Managing Director
• First generation entrepreneur with more than 25 years experience in biotechnology and industrial enzymes
• Post Graduate in Malting and Brewing, Melbourne University, Australia
• Awarded the Padmashri, one of India's highest civilian awards, for her pioneering efforts in biotechnology, 1989

Mr. John Shaw Vice Chairman, International Business Development
• 27 years experience with Coats Viyella plc. • Served as Managing Director in various locations around the world

Dr. Neville Bain
• Chairman, Hogg Robinson plc. • Board Member, Scottish Newcastle plc. • Formerly Group CEO, Coats Viyella plc.
• Formerly Deputy Group Chief Executive, Cadbury Schweppes plc. • Author of several management books on corporate governance and people management

Prof. Charles L. Cooney
• Professor of Chemical & Biochemical Engineering at MIT, USA • Director, Genzyme Inc. and Cuno Inc. • Recipient of prestigious awards, including Gold Medal of the Institute of Biotechnology Studies and Distinguished Service Award from the American Chemical Society • PhD (MIT)

Mr. Suresh Talwar
• Partner, Crawford Bayley & Co. • Director of Cadbury India, Blue Star Ltd., BPL Communications Ltd. and several other companies of repute

Prof. Ravi Mazumdar
• Professor of Electrical and Computer Engineering, Purdue University, USA • Fellow of the Royal Statistical Society
• PhD (UCLA)

Prof. Catherine Rosenberg
• Professor of the School of Electrical and Computer Engineering, Purdue University, USA • Director, Center for Wireless Systems and Applications • PhD (Paris)

Ms. Ada K.H. Tse
• Managing Director, Direct Investment, AIG Global Investment Corporation (Asia) Limited • BA in Applied Mathematics, Harvard University and a JD, Harvard Law School • Alumna of the Stanford Business School Executive Program

Scientific Advisory Board

Prof. Charles L. Cooney Chairman, Scientific Advisory Board
Professor of Chemical & Biochemical Engineering, MIT, USA

Dr. C.N.R. Rao
Linus Pauling Research Professor
Honorary President, Jawaharlal Nehru Centre for Advanced Scientific Research, India

Dr. Sam Pasternack
PhD in Aeronautics from Stanford University, USA
Partner, Choate, Hall & Stewart – Patent Attorneys, USA

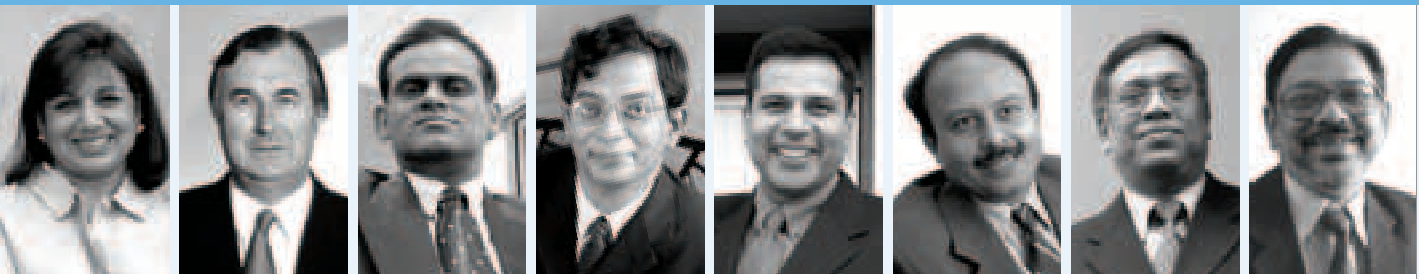
Dr. Bala Manian
Chairman and Co-Founder, Reametrix Inc.
Co-Founder, Quantum Dot Corporation and Surromed Corporation, USA

Dr. Ashok Ganguly
Director, ICICI Knowledge Park, Hyderabad, India
Director, WIPRO, India
Retired Worldwide Director of R&D, Unilever plc.

Dr. Anthony Allison
Distinguished Scientist at SurroMed Corporation, USA
Former Vice President Research Syntex Corporation
Inventor of Mycophenolate Mofetil

Ms. Kiran Mazumdar-Shaw Chairman & Managing Director, Biocon
Board Member of Science Foundation, Ireland

Key Management Team



Ms. Kiran Mazumdar-Shaw Chairman & Managing Director
Founder entrepreneur, 1978

Mr. John Shaw Vice Chairman, International Business Development
With Biocon since 1999

Mr. Murali Krishnan President, Finance
With Biocon since 1981

Mr. Shrikumar Suryanarayan President, Research & Development
With Biocon since 1984

Mr. Ajay Bhardwaj President, Marketing
With Biocon since 1986

Dr. Arun Chandavarkar President, Operations & Technology
With Biocon since 1990

Dr. Goutam Das Chief Operating Officer, Syngene
With Biocon since 1994

Dr. A.S. Arvind Chief Operating Officer, Clinigene
With Biocon since 2000

Dynamic Growth Story

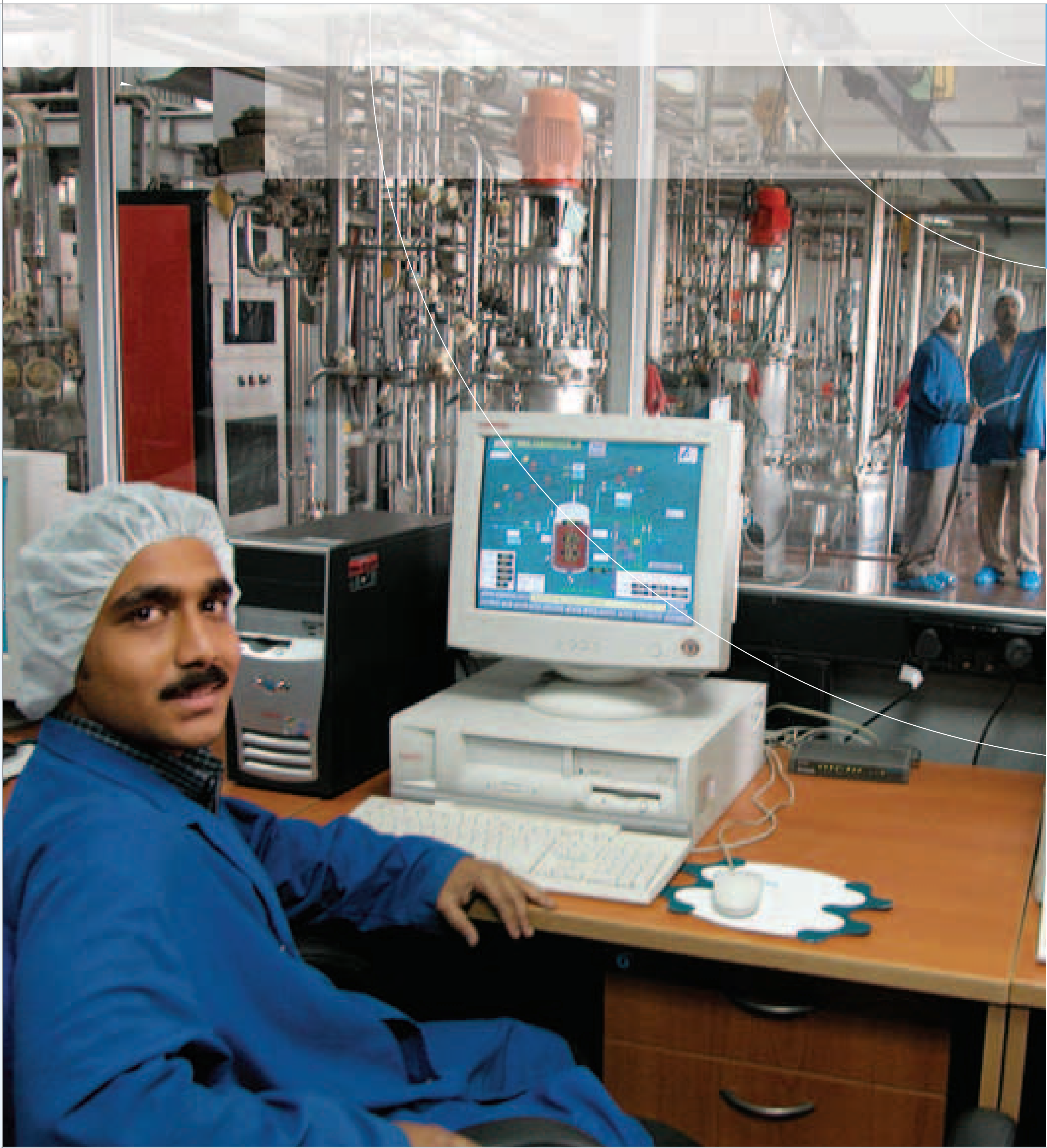
Building our Fermentation Expertise

Acquiring New Skills

Strengthening our R&D Platform

Benchmarking International Quality Standards

Generating a Pipeline of Innovation and Invention

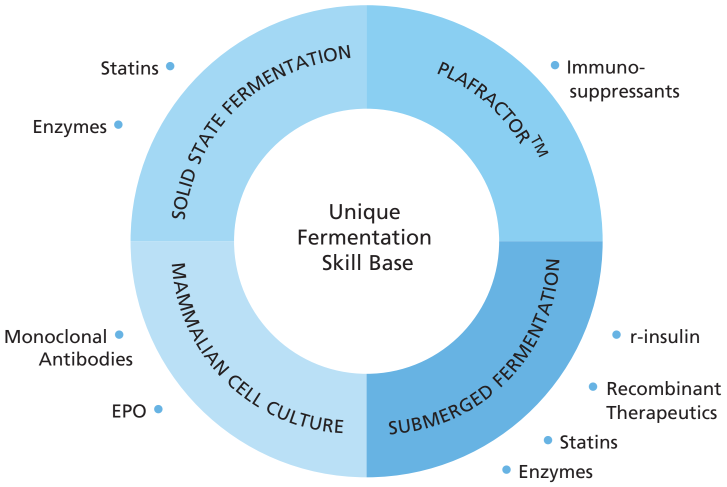


Building our Fermentation Expertise

From microbial fermentation to mammalian cell culture technologies

Biocon's strong expertise in fermentation technology has grown dramatically over two decades. We began by developing our skills in solid state fermentation for microbial enzyme production. A decade later, we leveraged our expertise to submerged fermentation and established a state-of-the-art facility for large scale microbial deep tank fermentation. Recognising the potential advantages of combining the best of both fermentation processes, Biocon initiated an R&D programme to develop a novel hybrid bio-reactor. The outcome, the PlaFractor^{TM}, was scaled up to plant level and has proven to be a commercial success. We now focus on developing a strong skill base in mammalian cell culture technology. Today, our unique array of fermentation platforms enables us to produce a variety of high value products, ranging from enzymes to small molecule drugs and biologicals.

Unique Fermentation Skill Base



From small molecules to rDNA proteins

Acquiring New Skills

From enzyme-fermentation to drug synthesis and recombinant technologies

While Biocon focused on developing a strong fermentation base for the production of enzymes, the advent of Syngene, India's first Custom Research Company (CRC), introduced new skills in chemical synthesis and recombinant technologies for drug development. This expertise allowed us to leverage our fermentation knowledge from enzymes to drug molecules. Today, Biocon produces fermentation-derived small molecules (statins and immunosuppressants) and recombinant proteins (human insulin).

Leveraging the Technology Base

1978

Enzymes
- Pectinases
- Hemi-cellulases
- Amylases
- Proteases

1998

Small Molecules
- Statins
- Immuno-suppressants

2001

rDNA Proteins
- r-human insulin
- Streptokinase
- GCSF
- HGH

2003

Mammalian Cell Culture
- h-R3 MAb
- EPO

Biopharmaceuticals: The Generics Strategy

- Non-infringing proprietary process technologies
- Globally competitive manufacturing base
- Benchmarking to highest international standards
- Market development with international partners
- New indications and drug delivery systems

Selecting Generics

- Products with large global markets
- High technology barriers
- Fermentation derived molecules
- Few potential suppliers

Strengthening our R&D Platform

From discovering novel fungal enzymes to researching recombinant technologies and human therapeutics

Biocon is a knowledge-driven company. Our continuous investment in R&D has enabled us to develop innovative processes, products and technologies. Supported by an outstanding scientific team, our R&D initiatives have been instrumental in our dynamic growth.

A landmark in the evolution of Biocon's R&D effort in fermentation is the PlaFractor™ – a patented, hybrid bioreactor that incorporates advanced features of contained fermentation.

Biocon's microbial biodiversity programme has also witnessed significant growth. This effort was initiated to discover enzymes for novel and diverse applications. Leveraging the biodiversity advantage, our R&D team has isolated new microbes for the production of proprietary biopharmaceuticals. An outcome of our biodiversity knowledge is the biotransformation programme. Our comprehensive library of unique micro-organisms has allowed us to investigate and discover novel enzymes which can substitute chemical synthesis, and catalyse reactions in a more specific and environment-friendly way. This area of research has strengthened our R&D activities by providing non-infringing routes for improved process development.

Another prominent R&D growth area is genetic engineering at our molecular biology division. Our highly qualified molecular biologists are focusing on the expression of heterologous genes using novel vectors and host systems. This has led to new and efficient routes for the development and production of recombinant therapeutics and monoclonal antibodies. Biocon will shortly produce human insulin based on a unique Pichia expression system.

Research and Development Strategy

Generic Biopharmaceuticals	• Develop non-infringing process technology • Focus on drug molecules coming off patent • Develop globally competitive process technologies
Biodiversity	• Create an expanding library of unique micro-organisms • Generate IPR and attain non-infringing status through novel production organisms • High thoroughput screening of novel drug molecules/lead compounds
Discovery	• PlaFractor™ • Oral Insulin • New Drug Molecules (small molecules and biologicals)

Research Productivity

- PlaFractor™ – novel bioreactor: US product patent 2001, 2003
- FDA approved a solid state process for the manufacture of lovastatin
- 3 process patents for manufacture of simvastatin: US patent grant, 2003
- Methods of producing esters of Mycophenolic Acid

Benchmarking International Quality Standards

From one quality dossier in 1999, to 96 regulatory submissions in 2003

Critical to Biocon's global success is our ability to meet international quality and regulatory benchmarks. What began as a quality control laboratory, is today a comprehensive chain across key functions of quality control, assurance and regulatory affairs. We follow good manufacturing, laboratory and documentation practices that assure consistent high quality results. Our professional team of 75+ technical specialists use state-of-the-art analytical facilities to analyse, approve and submit dossiers on the standards of all our products, ranging from enzymes to biopharmaceuticals. Biocon's lovastatin facility is US FDA approved while simvastatin and lovastatin have been granted the Certification of Suitability of Monographs of the European Pharmacopoeia by the European Directorate for the Quality of Medicines (EDQM).

International Quality Standards

- Clinigene is the first clinical reasearch laboratory in India to receive CAP (College of American Pathologists) accreditation
- CAP is widely known as the "gold standard"

- Biocon's lovastatin manufacturing facility receives US FDA approval in January 2001
- Approval on first submission

- Biocon is one of the first enzyme companies globally to receive the ISO9001 accreditation in 1993

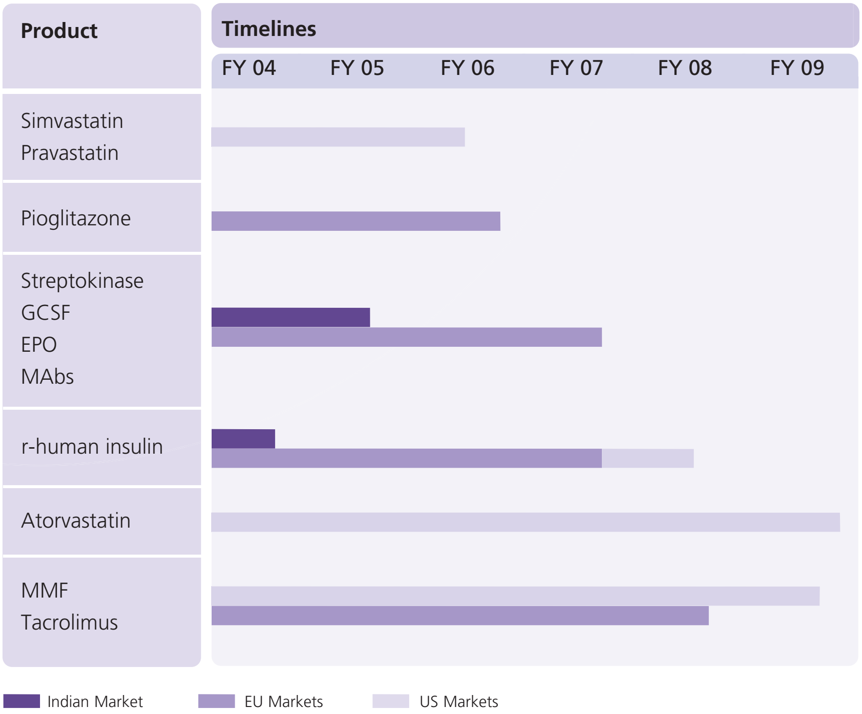
Generating a Pipeline of Innovation and Invention

From an invention patent in frontier fermentation technology to over a 100 patents to our credit

Biocon has generated a rich and diverse pipeline of products and processes from the invention of the PlaFractor^{TM} to the discovery and development of biopharmaceuticals.

Today, our exciting new product pipeline includes therapeutic biomolecules ranging from small molecules (statins, immunosuppressants) to recombinant proteins (human insulin) and monoclonal antibodies derived from microbial and mammalian cell culture-based fermentation technologies. Leveraging our drug development skills at Syngene, we continue to grow our product pipeline by partnering with global pharmaceutical and biotechnology companies in the discovery and development of new molecules for human health.

Potential Generic API Opportunities



Management Overview

- Finance
- Human Resource
- Operations & Technology
- Safety, Health & Environment
- Research & Development
- Intellectual Property
- Quality
- Marketing
- Custom Research - Syngene
- Clinical Research - Clinigene

Finance

Mr. Murali Krishnan President, Finance

1. Biocon's financial statements are prepared as per INDIAN and US GAAP. Audited financials are generally presented to The Board 2 weeks after reporting period.

2. Good profitability and very high retentions have kept borrowings under tight control, despite high levels of capital expenditure. Over the last five years our major expansion projects have delivered high returns with low gestation.

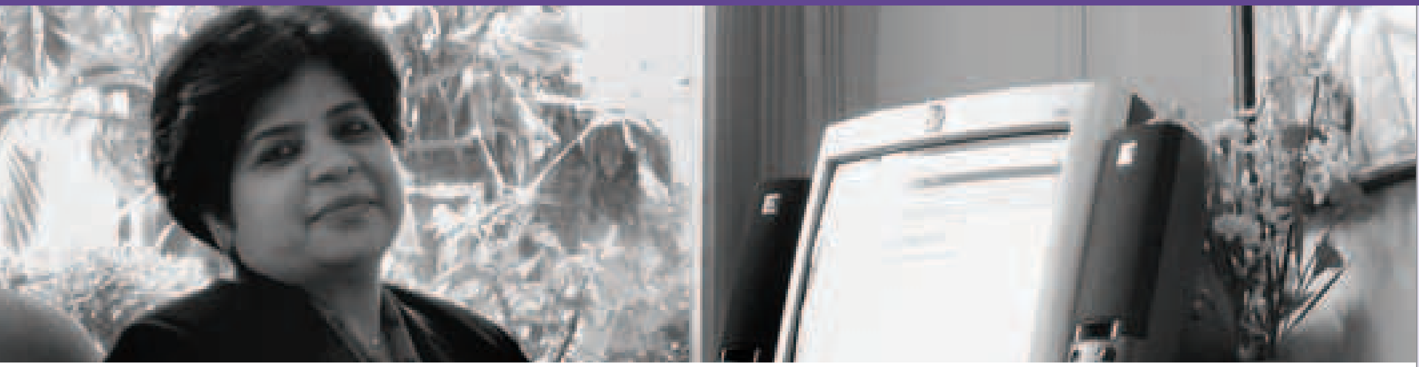
3. Exports represent over 60% of Biocon's total sales. We manage our currency exposures on a prudent basis. To accommodate the high levels of capital expenditure planned over the next two years, we are studying a modest level of medium-term dollar borrowing. Our approach to the related currency exposure will be conservative.

4. In discussions with our Audit Committee, we have taken steps to benchmark our risk management processes to global standards. Work on this will be completed in the coming financial year.

5. We manage our taxes in a pro-active manner, strictly complying with taxation legislation. Applicable export legislation has proven beneficial for tax planning.

Human Resource

Dr. Nirupa Bareja Head, HR



1. Biocon is a 900+ strong knowledge-driven enterprise with 500 scientists, of whom 60 are PhD qualified and 300 hold Masters Degrees. We have recruited India's best and brightest. A significant number of our employees have worked in the US before returning to India, bringing with them international exposure and a global work culture.

2. Our annual staff turnover is below 3%.

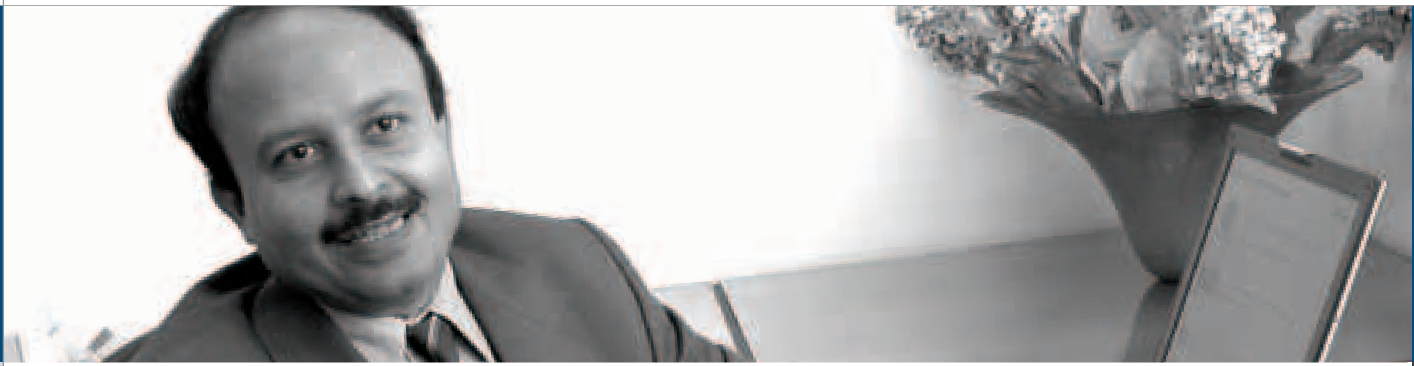
3. Our remuneration structure links rewards directly to performance. Performance-based recognition will progressively reinforce our work ethic.

4. We strongly encourage all aspects of self-development. Our organisational structure is open and flat, with minimal differentiation between positions.

5. All company managers have shares and/or share options. 7% of Biocon is owned directly by employees. A further 8% is held by the trust which administers a share option scheme. Employee ownership will continue to expand.

6. Fulfilling our commitment to corporate citizenship, we focus our efforts on primary education and child healthcare.

Operations & Technology



Dr. Arun Chandavarkar President, Operations & Technology

1. Biocon's manufacturing facilities are managed by a dedicated and highly qualified team of engineers and instrumentation specialists. Team members include a mix of Indian and international talent. The essence of our manufacturing philosophy is high manpower and machinery productivity together with flexibility and the highest regard for quality, safety and the environment.

2. We have established modern cGMP compliant manufacturing facilities to cater to our diverse product portfolio of highly specialised enzymes, active pharmaceutical ingredients and therapeutic proteins.

3. Our manufacturing expertise encompasses a wide range of manufacturing technologies including surface fermentation and solid state fermentation in our proprietary, patented PlaFractor™. Other technologies include chemical conversion and biotransformation.

4. Biocon's fermentation plant for lovastatin manufacture is US FDA approved. We also have EDQM approval for simvastatin and a ten year accreditation to the ISO9001 quality system.

5. To reinforce flexibility in our manufacturing processes, we have diverse purification technologies.

6. Given the growth in business over the last twelve months, we have focused on maximising the output from our existing production units.

7. Biocon is currently undertaking a major expansion of its manufacturing facilities. We expect to have large scale capabilities to manufacture recombinant human insulin in a short while. We are also establishing state-of-the-art mammalian cell culture facilities and capabilities to produce therapeutic proteins and monoclonal antibodies.

Safety, Health & Environment

Mr. Rajul Verma Manager, S.H.E.

1. At Biocon, we give critical importance to safety, health and environment norms. Our manufacturing techniques are environmentally safe and eco-friendly.

2. All production processes are ratified for safety, health and environmental impact and further validated for compliance through regular external audits.

3. All aspects of safety, health and environment are fully integrated into Biocon's standard work procedure. Our S.H.E. processes and supervision procedures are constantly updated and modernised.

4. We monitor the individual and collective health of our employees. By studying group trends, we are able to identify occupational risks. A mandatory, annual health check for all staff is an important feature of this department. While making employees aware of their state of health, this programme also addresses any medical concerns that may require urgent attention.

5. We have adopted a "reduce, recycle and reuse" policy. To that end, we have in place state-of-the-art equipment to treat effluence in the most suitable manner. Liquid waste is treated to recycle standards for secondary applications. Solid waste, which is biological in nature, is processed for utilisation in farming. Gaseous emissions are absent from our manufacturing processes. The only emissions are from machines that use diesel fuel to generate power and steam. All equipment comply with applicable pollution control norms.

Research & Development

Mr. Shrikumar Suryanarayan President, R&D

1. Biocon's R&D division currently has 90 scientists with specialisations spanning microbiology, strain isolation and development, fermentation optimisation, protein chemistry and downstream process development.

2. We source our molecular biology and synthetic organic chemistry skills from Syngene, and clinical development capabilities from Clinigene.

3. Biocon's R&D strategy for the next 3-5 years is to develop processes for generic pharmaceuticals and enzymes for the world markets. The revenue stream generated from these sales will be used to fund the development of platform technologies, infrastructure and skills needed for the discovery and commercialisation of pharmaceutically relevant New Chemical Entities (NCEs).

4. We also seek to leverage our manufacturing and process development skills by partnering with discovery organisations and companies with NCEs or products in advanced stages of discovery and development. We recognise an opportunity to partner with these organisations to scale-up and manufacture NCEs on a commercial scale, to cGMP standards.

5. Revenues for the next 3-5 years will be generated by generic products currently at various stages of commercialisation and development. Biocon's strategy is to develop efficient, patented, non-infringing processes for generic molecules.

6. Our strategy has enabled Biocon to become a preferred supplier of lovastatin in regulated markets. Examples of products commercialised in the recent past for which a Drug Master File is ready or under preparation include simvastatin, mycophenolate mofetil, compactin and pravastatin.

7. Products in the pipeline are Tacrolimus and human insulin which we expept to commercialise in the next 6-12 months.

Intellectual Property

Dr. Anindya Sircar Manager, IP

1. In 2002-03, Biocon has filed 30 patent applications as against 19 in the previous year. They include 12 PCT, 7 Indian, 5 US, 2 European, 2 Canadian, 1 Czech and 1 Japanese. The year 2003 also saw the grant of 3 Indian patents and publications of 7 PCT applications. Our applications have covered processes for important APIs such as simvastatin, mycophenolic acid, mycophenolate mofetil, cyclosporin A, and nateglinide. Also included are PCTs for enzyme applications in de-inking, and paper processing.

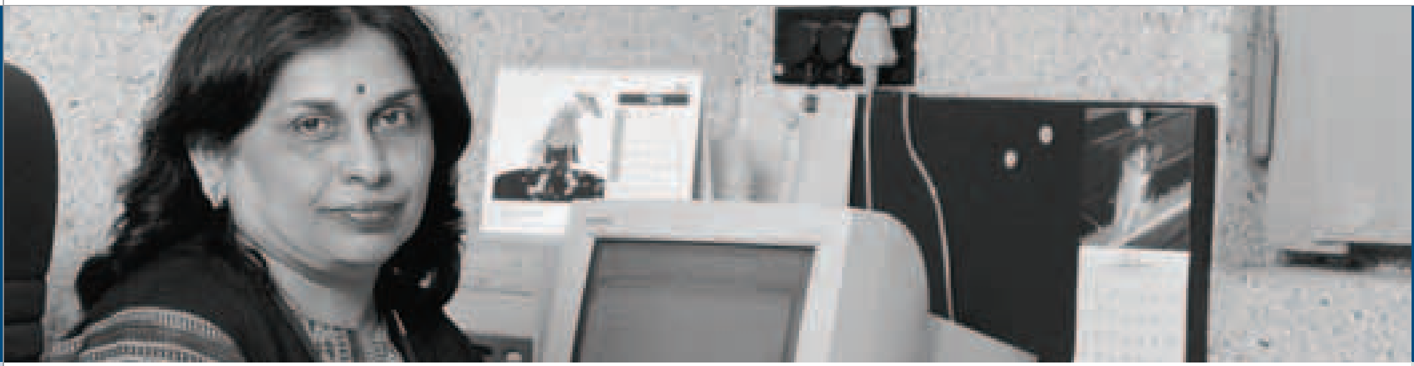
2. As on September 30, 2003, Biocon has a total of 115 filings, with 56 PCT, 31 Indian, 10 US, 5 European, 4 Canadian, 2 Czech, 1 Australian, 1 Brazilian, 1 Mexican, 1 Russian and 3 Japanese applications. The current total number of granted patents is 11.

3. The IP department and our overseas marketing team have played an important role in giving rapid and clear support on potential infringement issues.

4. The year 2004 will see a sizeable increase in patent filings, with considerable growth in PCT applications.

5. We believe the creation of IP is a key differentiator that will profile our intellectual capabilities on a global platform.

Quality



Dr. Tara Jayaram Head, Quality

1. Biocon's Quality department is divided into three functional areas – Quality Control, Quality Assurance and Regulatory Affairs. In meeting national and international quality requirements, we ensure the quality, safety and efficacy of all our products. We implement and monitor internationally benchmarked quality systems across Biocon.

2. We submit Drug Master Files and dossiers to various international regulatory authorities, thus enabling us to widen our international markets. As per the current European regulations, we have adopted the new Common Technical Document (CTD) format for our regulatory dossiers. We have also submitted 3 Drug Master Files in the new CTD format with Quality Overall Summary.

3. Our quality control laboratory has received accreditation as an approved test house by Drug Controller General of India.

4. We have developed analytical methods and specifications for our new recombinant DNA products.

5. At Biocon Limited, we have upgraded our RWTUV ISO9001 (1993) accreditation to ISO9001 (2000). Our facilities have also received WHO GMP certificates and our products are cGMP approved. Syngene International Private Limited has been awarded the ISO9001 (1994) certificate by RWTUV. Clinigene International Private Limited is accredited by College of American Pathologists (CAP) and National Accreditation Board for Testing and Calibration Laboratories (NABL).

6. We have conducted 8 successful customer audits.

7. Biocon's lovastatin and simvastatin have registered a Mutual Recognition Procedure (MRP) in Europe.

8. Our feed enzymes and additives have been registered in Thailand and Taiwan.

9. We are now focused on obtaining the Certificate of Suitability for our products through EDQM (European Directorate for the Quality of Medicines). We also look forward to inspection and acceptance by US FDA for simvastatin and pravastatin sodium.

10. We have received no customer complaints for the year 2002-03 indicating that the quality, safety and efficacy of our products meet all required specifications.

Marketing

Mr. Ajay Bhardwaj President, Marketing

1. Biocon's global statin strategy has made remarkable progress. With FDA approval of our lovastatin fermentation plant and the EDQM certificate of suitability for simvastatin, we are today, significant players in the US and European statin markets. Given our strong market position, we anticipate success across our statin portfolio.

2. The decision to establish a representative office in the US has paid rich dividend. Our ability to communicate with major US clients, in their respective time zones, has strengthened our relationship with them. Contact with our European customers continues via our Bangalore office. However, the effectiveness of the US initiative has prompted us to consider setting up an European office in the near future.

3. While our pharmaceutical actives have enjoyed outstanding success, we have also made substantial progress in our global enzyme business. Sales in the US and Europe have escalated. Effective manufacturing resources and creative R&D make us a preferred partner to the global speciality chemicals industry.

4. We have made significant progress in developing our distribution channels in the Indian market. The Biocon brand is recognised as offering global quality to Indian consumers. The addition of world class recombinant human insulin to our product portfolio will allow us to develop our Indian distribution network in new and exciting ways.

Custom Research – Syngene

Dr. Goutam Das Chief Operating Officer, Syngene

1. Syngene is a Custom Research Company (CRC) with 10 years of experience and expertise in designing and managing research projects for pharma and biotech companies. Our strengths lie in the areas of molecular biology and synthetic chemistry. Our biodiversity programme gives us a proprietary advantage in conducting research in microbial genomics. We derive our winning edge from a combination of state-of-the-art facilities and highly skilled manpower.

2. Syngene guarantees time-bound, high quality research and product development at a globally competitive cost. Our clients include large pharma and biotech companies in the USA and Europe. India's competitive edge in cost efficiency coupled with its intellectual talent pool in biosciences, synthetic chemistry and information technology has enabled Syngene to emerge as India's leading CRC.

3. Syngene offers custom research services to diverse pharmaceutical customers on a strong platform of confidentiality and intellectual property protection.

4. Syngene's major milestones in the past year include:
• ISO9001 accreditation
• 75% growth
• Inauguration of a new chemistry wing
• Syngene scientists were invited to client sites for training
• Some of the world's largest pharma concerns have enrolled as clients

Clinical Research – Clinigene

Dr. A.S. Arvind Chief Operating Officer, Clinigene

1. Established in 2000, Clinigene is a Clinical Research Organisation (CRO) that carries out clinical trials, research and studies. We are India's first CAP (College of American Pathologists) accredited and NABL certified laboratory.

2. Our core competencies enable us to conduct high quality, internationally-benchmarked clinical trials, meeting timelines in a cost-competitive manner. Clinigene's international and national clients now include pharma companies, biotech companies and global CROs.

3. Clinigene has outstanding e-format based ICH-GCP compliant disease specific databases in the diabetes, lipidemia, oncology and cardiovascular disease segments.

Syngene and Clinigene are 100% subsidiaries of Biocon Limited.

Corporate Governance

1. Biocon is committed to high standards of corporate governance and has in place appropriate structures and reporting systems. Our Board of Directors ensures good governance in practice and spirit.

2. Biocon's Board of Directors is headed by an Executive Chairman and comprises of one Executive Director and six Non-Executive Directors. It meets regularly through the year, at the head office in Bangalore, with ad hoc meetings when necessary. Its agenda includes approval of Company Strategy and the Annual Business Plan. Assisting The Board is an Audit and Remuneration Committee. Both operate under clear terms of reference which outline the authorities and duties of each Committee, allowing them to examine any information they consider relevant and take independent advice wherever necessary. Capital spend is authorised and subsequently monitored by The Board.

Board agendas are agreed upon by the Chairman and Directors. Board Members are free to raise other issues at board meetings. Directors bring their independent judgement to all matters affecting the Company. Non-executive Directors have access to the Chairman at any time.

3. The Board acknowledges responsibility for Biocon's systems of internal control and review of their effectiveness. The systems utilised are intended to manage rather than eliminate the risk of failure to achieve business objectives. Biocon recognises that such systems can provide reasonable, but not absolute, assurance against material mis-statement or loss.

4. The Audit Committee is chaired by Dr. Neville Bain and consists entirely of Non-Executive Directors. Its primary responsibility is to monitor the quality and reliability of the financial information used by The Board. In addition, it reviews the control environment, including the identification and management of Company risks. The Committee has written terms of reference and its findings and recommendations are reported directly to The Board by its Chairman. External auditors are invited to attend committee meetings. The Committee can meet with the auditors alone, if so desired by any party. In addition to reviewing the Company's annual financial statements, the Audit Committee also checks the effectiveness of accounting systems and internal control. It reviews the appointment and terms of reference of the external auditors, their fees, while also monitoring the effectiveness of the internal audit function. It keeps under review the level of non-audit services provided by external auditors.

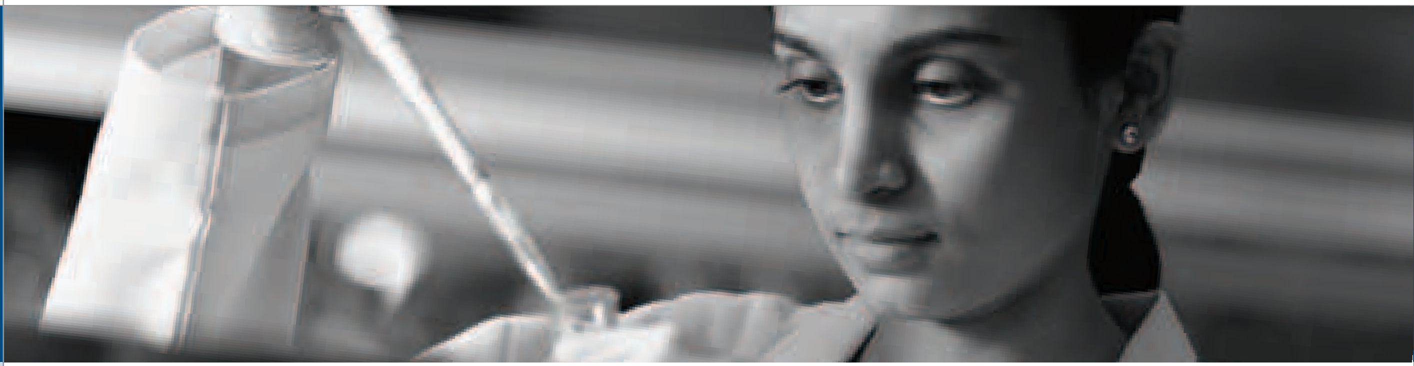
5. The Remuneration Committee is chaired by Prof. Charles Cooney and consists entirely of Non-Executive Directors. It has clear written terms of reference and its findings and recommendations are reported directly to The Board. The Committee has authority to undertake research on any compensation issue. The Company bears the expenses of such research.

In setting the remuneration package for Executive Directors, the Committee aims to ensure that the total package including benefits is competitive with companies of similar size, activity and complexity and that accordingly, it will attract, retain and motivate senior staff with the required skills to maximise returns for shareholders. The Committee receives advice from independent remuneration consultants including a comparability assessment against other companies of similar size and activity. It believes that a significant part of the remuneration package should be clearly linked to measurable company performance from which shareholders benefit. Accordingly, the package balances base salary with performance incentives. The Committee keeps the total remuneration package and the balance of its various elements under regular review.

6. The Directors have identified that Biocon has the resources to continue operating for the future. For this reason, the going concern basis was adopted in preparing the accounts.

7. Over the last 25 years, Biocon has developed a strong set of values where integrity is central. The Board believes that values are a key ingredient in good governance.

R&D Investment



Creating Intellectual Assets

Biocon's ethos of innovation is built on a strong foundation of Research & Development. Continual and incremental investment in R&D has created a powerful intellectual asset base across the enterprise. The chart below reflects our strategic initiative to differentiate ourselves through innovation.

R&D Investments FY 03	Biocon	Syngene	Clinigene	Total (Rs./mn)
Scientist Costs	71	163	16	250 ($5.3mn)
Patent Costs	6	1	–	7 ($0.2mn)
Capital Expenditure	34	71	3	108 ($2.3mn)
TOTAL COST	111	235	19	365 ($7.8mn)
Revenues	2550	261	11	2822 ($60mn)
Cost as % of Revenue				13%

Biocon in the Community

At Biocon, our efforts extend beyond the realm of biotechnology through our community-support initiatives and corporate citizenship programmes. We recognise our responsibility to India – her health, education and environment. Realising the importance of investing in children and their future, we particularly focus on primary education and healthcare.

Healthcare

In addition to partnering with the International Rotary Foundation in its polio vaccination drive, Biocon has initiated its own Hepatitis B vaccination programme in villages around Karnataka. To date, over 30,000 school children have received protection from this life-threatening disease. Our aim is to sustain the programme and extend it to the surrounding rural areas.

Education

As a company that is knowledge-driven, Biocon is committed to nurturing education at all levels. We offer scholarships, awards and practical assistance to economically disadvantaged children. We have also assisted in constructing schools, installing science laboratories, buying computers and providing free computer training for teachers in rural schools.

Environment

Within Biocon, we give environmental safety top priority by implementing rigorous guidelines at all levels of our manufacturing cycle. Extending our environmental consciousness to the community we live in, Biocon actively assists the Bangalore Agenda Task Force (BATF) in its garbage collection and traffic management initiatives. We have also played an active part in beautifying a considerable part of the Hosur highway, from Electronic City to the site where we are located.

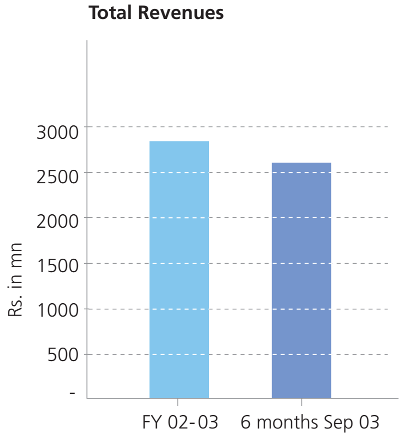
Financial Report

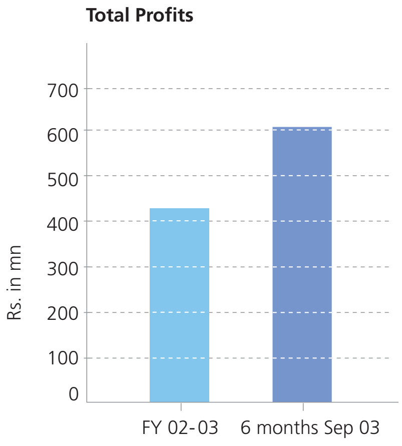
Consolidated Financial Statements (Indian GAAP)

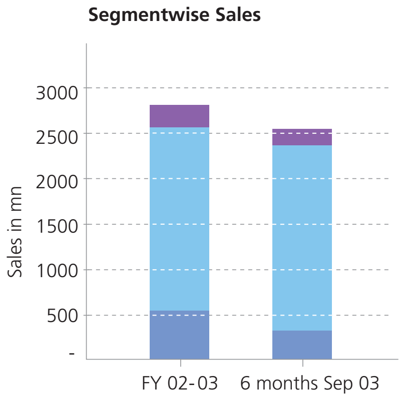
Consolidated Financial Statements (US GAAP)

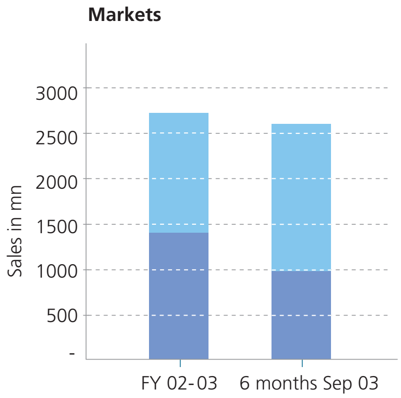
Consolidated Financial Statements (Indian GAAP)

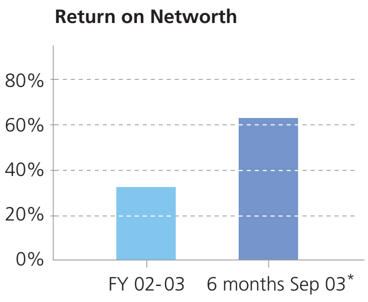
HIGHLIGHTS OF 6 MONTHS' PERFORMANCE



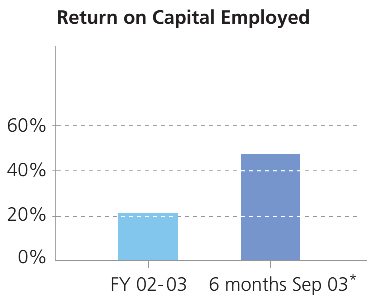








* Annualised



* Annualised

BIOCON LIMITED AND SUBSIDIARIES

BALANCE SHEET – SEPTEMBER 30, 2003

(All amounts in Indian Rupees 000's)

	Sep 30, 2003*	Mar 31, 2003*
SOURCES OF FUNDS		
Shareholders's Funds		
Share capital	18,377	18,377
Reserves and surplus	1,934,613	1,323,374
Minority interest	15	11
	1,953,004	1,341,761
Loan Funds		
Secured loans	484,884	582,109
Unsecured loans	138,708	103,545
	623,592	685,654
Deferred Tax Liability	149,355	143,057
	2,725,952	2,170,472
APPLICATION OF FUNDS		
Fixed Assets		
Cost	1,890,488	1,737,496
Less: Accumulated depreciation	456,473	378,367
Net book value	1,434,015	1,359,129
Capital work-in-progress	328,275	79,852
	1,762,290	1,438,981
Investments	100,109	50,001
Current Assets, Loans and Advances		
Inventories	440,355	479,055
Sundry debtors	1,285,409	753,302
Cash and bank balances	25,972	26,338
Loans and advances	180,228	152,423
	1,931,965	1,411,118
Less: Current Liabilities and Provisions	1,068,412	729,629
Net Current Assets	863,552	681,489
	2,725,952	2,170,472

* Based on Audited Financial Statement

BIOCON LIMITED AND SUBSIDIARIES

STATEMENT OF PROFIT AND LOSS FOR THE 6 MONTH PERIOD ENDED SEPTEMBER 30, 2003

(All amounts in Indian Rupees 000's)

	Apr-Sep, 2003*	Apr-Mar, 2003*
INCOME		
Gross sales	2,555,095	2,750,615
Less: Excise duty	139,482	208,216
Net sales	2,415,613	2,542,399
Contract research fees	168,875	277,481
Other income	6,643	7,076
	2,591,131	2,826,957
EXPENDITURE		
Manufacturing, contract research and other expenses	1,720,764	2,086,316
Interest and finance charges	12,035	49,811
	1,732,799	2,136,127
PROFIT BEFORE DEPRECIATION AND TAXES	858,332	690,830
Depreciation	78,106	139,098
Less: Amount transferred from revaluation reserve	836	1,667
	77,270	137,431
PROFIT BEFORE TAXES	781,061	553,399
Provision for income-tax		
Current taxes	171,462	83,846
Deferred taxes	6,299	34,398
PROFIT FOR THE PERIOD/YEAR	603,301	435,155
Minority interest	4	5
NET PROFIT FOR THE PERIOD/YEAR	603,297	435,150
Balance brought forward from previous year	647,336	212,186
BALANCE, END OF THE PERIOD/YEAR	1,250,633	647,336
Earnings per share (equity shares, par value Rs 10 each)		
Basic and diluted (in Rs)	328.30	237.02
Weighted average number of shares used in computing earnings per share		
Basic and diluted	1,837,650	1,835,954

BIOCON LIMITED AND SUBSIDIARIES

STATEMENT OF CASH FLOWS FOR THE 6 MONTH PERIOD ENDED SEPTEMBER 30, 2003

(All amounts in Indian Rupees 000's)

		Apr-Sep, 2003*	Apr-Mar, 2003*
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit before tax		781,061	553,399
Adjustments for			
Non cash item/items required to be disclosed separately:			
Depreciation	77,270		137,431
Amortisation of employee compensation cost	8,778		33,864
Provision for bad and doubtful debts	3,391		4,609
Interest expense	12,035		49,811
Interest income (gross)	(680)		(2,751)
Gain on sale of investment	–		(1,705)
Gain on assets sold, discarded etc.	–		(7)
		100,795	221,252
Changes in working capital and other provisions:			
Inventories	38,700		(236,404)
Sundry debtors	(535,498)		(110,475)
Loans and advances	(28,060)		(46,438)
Current liabilities and provisions	217,437		210,510
		(307,422)	(182,808)
		(206,627)	38,444
Cash generated from operations		574,434	591,843
Tax paid (net of refunds)		(63,802)	(97,787)
Net cash provided by operating activities		510,632	494,056
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Fixed assets			
Purchase	(385,156)		(407,570)
Sale	–		2,068
Interest received	4,052		2,081
Sale of investment	34,000		13
Purchase of investment	(84,108)		(50,000)
Net cash used for investing activities		(431,212)	(453,409)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of share capital	–		159
Short term borrowings from banks, net	57,181		(31,919)
Receipt/(Repayment) of secured loans, net	(154,406)		52,597
Deferred sales tax credit	35,162		47,512
Repayment of unsecured loans	–		(50,000)
Interest paid	(17,724)		(48,574)
Corporate dividend tax	–		(2,709)
Net cash used for financing activities		(79,786)	(32,934)
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		(366)	7,713
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR		26,338	18,625
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR (IV + V)		25,972	26,338

BIOCON LIMITED AND SUBSIDIARIES

BALANCE SHEET – MARCH 31, 2003

(All amounts in Indian Rupees 000's)

	2003*	2002*
SOURCES OF FUNDS		
Shareholder's Funds		
Share capital	18,377	18,218
Reserves and surplus	1,323,374	857,043
Minority interest	11	6
	1,341,761	875,267
Deferred Tax Liability	143,057	108,658
Loan Funds		
Secured loans	582,109	561,431
Unsecured loans	103,545	106,033
	685,654	667,464
	2,170,472	1,651,389
APPLICATION OF FUNDS		
Fixed Assets		
Cost	1,737,496	1,365,941
Less: Accumulated depreciation	378,367	239,269
Net book value	1,359,129	1,126,672
Capital work-in-progress	79,852	48,465
	1,438,981	1,175,137
Investments	50,001	7
Current Assets, Loans and Advances		
Inventories	479,055	242,651
Sundry debtors	753,302	647,436
Cash and bank balances	26,338	18,625
Loans and advances	152,423	105,314
	1,411,118	1,014,026
Less : Current Liabilities and Provisions	729,629	537,781
Net Current Assets	681,489	476,245
	2,170,472	1,651,390

BIOCON LIMITED AND SUBSIDIARIES

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees 000's)

	2003*	2002*
INCOME		
Sales	2,578,493	1,606,205
Contract research fees	241,388	36,712
Other income	25,276	11,752
	2,845,156	1,654,669
EXPENDITURE		
Manufacturing, contract research and other expenses	2,104,515	1,268,458
Interest and finance charges	49,811	46,665
	2,154,326	1,315,123
PROFIT BEFORE DEPRECIATION AND TAXES	690,830	339,546
Depreciation	139,098	80,304
Less: Amount transferred from revaluation reserve	1,667	1,667
	137,431	78,637
PROFIT BEFORE TAXES	553,399	260,909
Provision for income-tax		
Current taxes	83,846	54,481
Deferred taxes	34,398	21,493
PROFIT FOR THE YEAR	435,155	184,936
Minority interest	5	–
NET PROFIT	435,150	184,936
Balance brought forward from previous year	212,186	28,640
PROFIT AVAILABLE FOR APPROPRIATION	647,336	213,576
APPROPRIATIONS		
Transfer to general reserve	–	880
Dividend tax	–	510
Balance end of the year	647,336	212,186
	647,336	213,576
Earnings per share (equity shares, par value Rs.10 each)		
Basic and diluted (in Rs.)	237	119
Weighted average number of shares used in computing earnings per share		
Basic and diluted	1,835,954	1,556,293

BIOCON LIMITED AND SUBSIDIARIES

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees 000's)

		2003*	2002*
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit before tax		553,399	260,909
Adjustments for –			
Non cash item/items required to be disclosed separately:			
Depreciation	137,431		78,637
Amortisation of employee compensation cost	33,864		–
Provision for bad and doubtful debts	4,609		–
Interest expense	49,811		47,087
Interest income (gross)	(2,751)		(427)
Dividend earned (gross)	–		(1)
Dimunition in value of investments	–		100
Gain on sale of investment	(7)		–
Gain on assets sold, discarded etc.	(1,705)		(80)
		221,252	125,317
Changes in working capital and other provisions:			
Sundry debtors	(110,475)		(242,397)
Inventories	(236,404)		(15,371)
Loans and advances	(46,438)		(44,762)
Current liabilities and provisions	210,510		101,624
		(182,808)	(200,907)
		38,444	(75,590)
Cash generated from operations		591,843	185,319
Tax paid (net of refunds)		(97,787)	(32,936)
Net cash provided by operating activities		494,056	152,384
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Fixed assets			
Purchase	(407,570)		(413,297)
Sale	2,068		80
Interest received	2,081		427
Sale of investment	13		–
Purchase of investment	(50,000)		(420)
Net cash used for investing activities		(453,409)	(413,210)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of share capital	159		1,215
Short term borrowings from banks	(31,919)		156,924
Receipt/(Repayment) of secured loans	52,597		39,883
Deferred sales tax credit	47,512		40,040
Receipt/(Repayment) of unsecured loans	(50,000)		50,000
Interest paid	(48,574)		(47,968)
Corporate dividend tax	(2,709)		–
Net cash used for financing activities		(32,934)	240,094
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		7,713	(20,733)
V. ACQUISITION OF CASH AND CASH EQUIVALENTS ON ACQUISITION		–	39,233
VI. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		18,625	125
VII. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV+V+VI)		26,338	18,625

Consolidated Financial Statements (US GAAP)

BIOCON LIMITED AND SUBSIDIARIES

BALANCE SHEET (US GAAP)

	March 31, 2003* In US$ 000's	March 31, 2003* In Rs. 000's	March 31, 2002* In Rs. 000's
ASSETS			
Current assets			
Cash and cash equivalents	28	1,338	18,625
Time deposits	1,158	55,000	–
Restricted time deposits	421	20,000	–
Trade receivables, net	15,859	753,302	643,071
Employee receivables	131	6,213	4,489
Inventories	10,085	479,055	242,129
Deferred Income tax asset	143	6,789	–
Prepaid expenses and other current assets	2,462	116,931	74,234
Total current assets	30,288	1,438,629	982,548
Non-current assets			
Property, plant and equipment, net	29,318	1,392,625	1,122,624
Dues from related parties	202	9,600	15,727
Employee receivables	318	15,121	10,540
Goodwill	463	22,002	22,002
Other assets	66	3,145	779
TOTAL ASSETS	60,655	2,881,122	2,154,220
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	14,013	665,640	450,773
Advance from customer	582	27,656	7,761
Short term borrowings	5,829	276,888	380,384
Current portion of long term debt	2,931	139,234	68,451
Current portion of capital lease obligations	–	–	655
Accrued employee benefits	601	28,561	21,560
Deferred income taxes, net	–	–	136
Other current liabilities	132	6,268	5,031
Total current liabilities	24,089	1,144,247	934,750
Non-current liabilities			
Long term debt	3,502	166,339	184,525
Accrued employee benefits	24	1,152	37,421
Deferred income taxes, net	3,026	143,750	97,561
Other liabilities	2,180	103,545	56,033
TOTAL LIABILITIES	32,822	1,559,033	1,310,290
Stockholders' equity			
Common stock, par value Rs.10 per share, 2,000,000 shares authorised, (issued and outstanding Rs 1,837,650 shares at March 31, 2003 and 1,821,780 shares at March 31, 2002)	387	18,377	18,218
Additional paid-in capital	7,906	375,540	310,249
Deferred compensation cost	(662)	(31,427)	–
Loan to trust	(30)	(1,414)	(1,215)
Retained earnings	20,232	961,013	516,678
Total shareholders' equity	27,833	1,322,089	843,930
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	60,655	2,881,122	2,154,220

BIOCON LIMITED AND SUBSIDIARIES

STATEMENT OF INCOME (US GAAP)

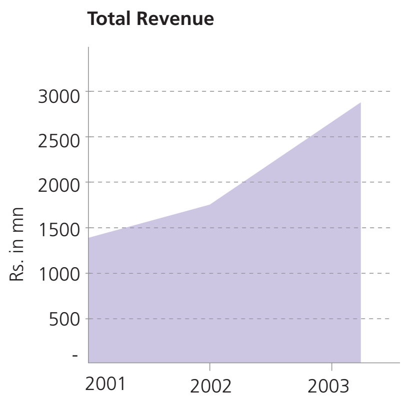
	March 31, 2003* In US$ 000's	March 31, 2003* In Rs. 000's	March 31, 2002* In Rs. 000's
Revenue			
Sale of products, net of excise duty of Rs.208,215,613 (2002 – Rs.164,941,141) and sales tax of Rs.63,077,156 (2002 – Rs.52,772,829)	54,284	2,578,493	1,606,205
Contract research services	5,082	241,388	183,742
Total revenues	59,366	2,819,880	1,789,948
Cost of revenues (excluding depreciation shown separately below)			
Cost of products sold	31,254	1,484,573	1,022,371
Cost of contract research services	3,579	169,990	124,121
Gross profit	24,533	1,165,317	643,455
Operating expenses			
Research and development expenses	1,683	79,957	44,432
Selling, general and administrative expenses	7,165	340,344	185,863
Depreciation	2,820	133,958	87,370
Income from operations	12,864	611,058	325,790
Interest expense	1,067	50,690	43,125
Interest income	(58)	(2,751)	(32)
Other (income)/expense, net	(91)	(4,325)	(7,424)
Income before income taxes and minority interest	11,946	567,444	290,122
Income taxes expense, net	2,592	123,109	79,794
Income before minority interest	9,354	444,335	210,328
Minority interest	–	–	(7,300)
Net income	9,354	444,335	203,028

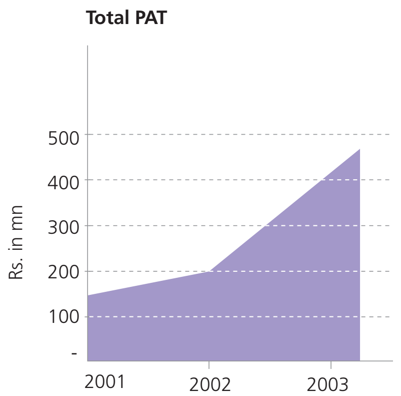
BIOCON LIMITED AND SUBSIDIARIES

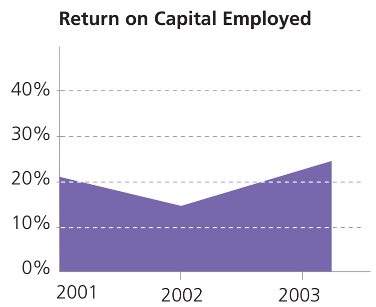
STATEMENT OF CASH FLOWS (US GAAP)

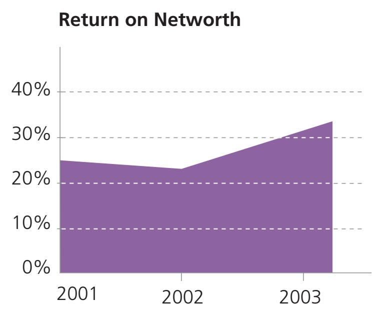
	March 31, 2003* In US$ 000's	March 31, 2003* In Rs. 000's	March 31, 2002* In Rs. 000's
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	9,354	444,335	203,028
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,820	133,958	87,370
Minority interest	–	–	7,300
Diminution in value of investments	–	–	200
Amortisation of employee compensation cost	713	33,864	–
Provision for bad and doubtful debts	97	4,609	–
Gain on assets sold, discarded etc.	(36)	(1,712)	(45)
Deferred tax assets and liabilities	827	39,264	23,358
Changes in assets and liabilities:			
Trade receivables	(2,418)	(114,840)	(237,965)
Inventories	(4,988)	(236,926)	(17,901)
Other assets	(953)	(45,248)	(43,036)
Current liabilities	4,478	212,691	115,395
Net cash provided by operating activities	9,895	469,995	137,703
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in time deposits	(1,579)	(75,000)	–
Purchase of property and equipment	(8,580)	(407,570)	(439,739)
Sale of property and equipment	44	2,068	245
Sale of marketable securities	0	13	–
Net cash used for investing activities	(10,116)	(480,489)	(439,494)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of share capital	–	159	1,215
Loan to Trust	–	(198)	(1,215)
Repayment of short-term borrowings	(2,179)	(103,495)	–
Receipt of short-term borrowings	–	–	247,777
Repayment of long term debt	(8,504)	(403,946)	(60,117)
Receipt of long term debt	9,611	456,542	100,000
Payment of capital lease obligations	(14)	(655)	(1,841)
Deferred sales tax credit	1,000	47,512	40,040
Cash dividends	(57)	(2,711)	(6,337)
Net cash (used)/generated for financing activities	(142)	(6,792)	319,521
Net change in cash and cash equivalents	(364)	(17,287)	17,731
Cash and cash equivalents at the beginning of the year	392	18,625	894
Cash and cash equivalents at the end of the year	28	1,338	18,625
SUPPLEMENTARY DISCLOSURE FOR CASH ACTIVITIES			
Cash paid for interest	1,023	48,574	48,911
Cash paid for income taxes	2,059	97,787	36,379
SUPPLEMENTARY DISCLOSURE FOR NON-CASH ACTIVITIES			
Net assets of Syngene acquired in exchange for BIL Shares	–	–	101,583

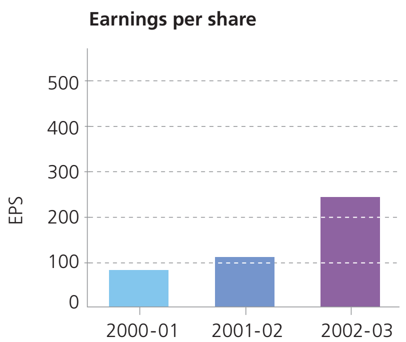
THREE YEARS AT A GLANCE (US GAAP)

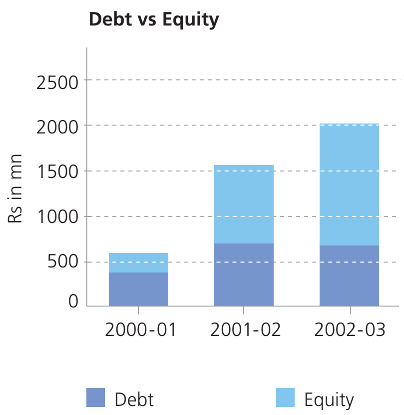


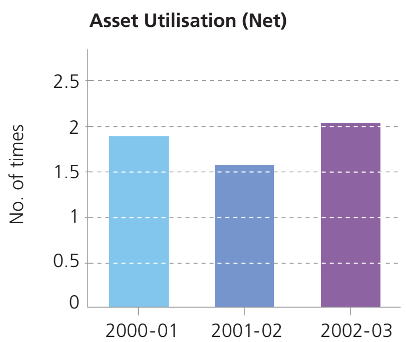


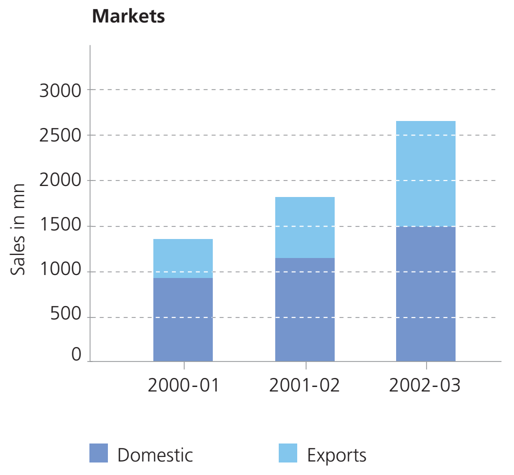


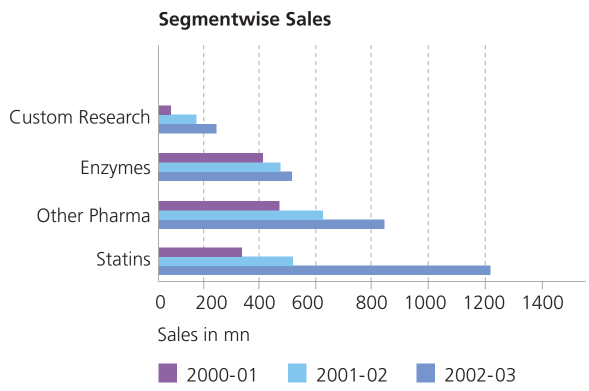


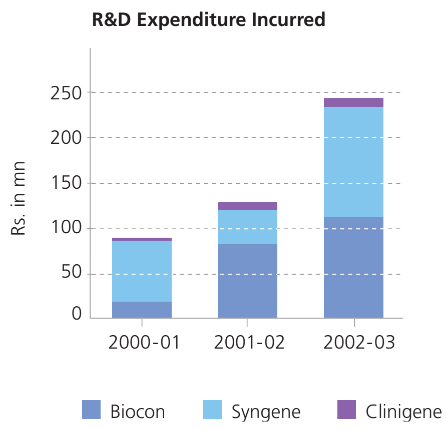












3 Year Compound Annual Growth Rate	
Sales	56%
EBITDA	79%
PAT	102%

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Biocon

TANIA KHOSLA DESIGN Photography by Pallon Daruwala Printed at Pragati

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Biocon

Annual Report

2002-2003

Contents

Biocon India Limited

DIRECTOR'S REPORT

Dear Shareholders,
Your Directors take great pleasure in bringing you this Twenty-fifth Annual Report, along with the Audited Accounts of the Company, for the year ended 31st March, 2003.

Financial Highlights

Financial Results for the year ending :

	March 31, 2003	March 31, 2002
		Rs in Millions
Total revenues	2,574	1,655
Total expenditure	1,928	1,256
Profit before interest depreciation and tax	646	399
Interest	49	47
Depreciation	120	78
Profit before tax	477	274
Provision for tax	118	71
Profit after tax	359	203
Write back of depreciation of earlier years	0	0
Surplus brought forward from previous year	232	29
Profit available for appropriation	591	232

Appropriated as follows:

	March 31, 2003	March 31, 2002
		Rs in Millions
Transfer to General Reserve	0	0
Balance carried to Balance Sheet	591	232

Performance Analysis

The Company celebrated its Silver Jubilee year with a sterling performance that has registered an impressive 55% growth in revenues with a 77% growth in retained profits. This has delivered a 5-year compounded annual growth of 52% at a sales level and 75% at the profit after tax level.

Lovastatin and Simvastatin sales to the regulated markets of USA and Europe have been the main drivers of growth. The setting up of the representative office in New Jersey, USA, has succeeded in enrolling a number of major US generic customers. Overall exports have grown by 137 % during the year under review.

A growth of 26 % in domestic sales is also an important highlight in the financial performance of the Company.

Future Growth Strategy

The surge in Statin sales worldwide together with patent expiry of Simvastatin, Pravastatin and Atorvastatin provides Biocon with attractive opportunities in the near term. Biocon expects its facilities to be inspected by USFDA in 2003-04 for Simvastatin and Pravastatin, as well as Lovastatin manufacture using Submerged Fermentation. The Company already has USFDA approval for its existing Solid State Fermentation facilities to manufacture Lovastatin. The Company has also drawn up capital expenditure plans to substantially increase the manufacturing capacity for Statins.

In addition, Biocon proffers to launch recombinant Human Insulin in the next year and other Biologicals in the near term, through a Joint Venture. These products will be an important segment for the Company to focus on in terms of providing an avenue for exponential growth.

Performance of Subsidiaries

Syngene International

Syngene International Pvt. Limited is a subsidiary of your Company, with Biocon holding 99.99% of its share capital. For the year 2002-03, Syngene registered a strong growth of 71 % in revenues from Rs. 153 million to Rs. 262 million and 202 % at the profit after tax level from Rs. 27 million to Rs. 82 million.

Syngene's reputation as a high quality custom research provider to American and European Pharmaceutical and Biotech Companies continues to grow. This has enabled the Company to enroll new clients in the current year. Syngene has also expanded its custom synthesis business generating additional revenues. To meet the growing demand for Syngene's R&D services, capital expenditure plans to substantially increase the capacity, have been drawn up. The new facility is likely to be operational in 2004.

Clinigene International

Clinigene International Pvt. Limited is also a wholly owned subsidiary of your Company.

For the current financial year, Clinigene has incurred a loss of Rs.6 million as against a profit of Rs.8 million in the previous year. This is due to the completion of the Diabetes study for Surromed Inc. and the self-sponsored continuation of the diabetic study. This study has enrolled two research partners viz. Strand Genomics and IISc and the program has generated several potentially high value patents for Clinigene in the area of new Biomarkers for Diabetic Nephropathy.

Clinigene is in the process of setting up a Human Pharmacology Unit to carry out Phase 1 to Phase 3 Clinical trials and BA/BE studies. Necessary applications for establishment of the same have been filed and the facility is expected to be operational by September 2003.

The report and accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956.

Joint Ventures

Biocon Bio Pharmaceuticals

This is a 51:49 JV with a Cuban Company, to manufacture monoclonal antibodies and EPO by animal cell culture and GCSF through E.coli. The Monoclonal antibody is a NBE (New Biological Entity) for the treatment of head and neck Cancer and is being regarded as the Company's foray into original molecules, which will also involve extensive clinical testing.
It is proposed to build a state of the art biological's facility for the above products over the next 2-3 years at a cost of approximately Rs: 1000 million. The facility will be a multi-product plant capable of handling several products in campaigns. The plant will also manufacture Streptokinase, a licensed technology.

Directors

Prof. Ravi R Mazumdar and Dr. Neville C Bain retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-election.

Mr. Suresh N. Talwar, appointed as an Additional Director of the Company on May 17, 2003, holds the office until the date of the forthcoming Annual General Meeting, and being eligible, offers himself for appointment afresh.

Auditors

The Company's Auditors M/s. S. R. Batliboi & Associates, Chartered Accountants, Bangalore, retire at the ensuing Annual General Meeting, and are eligible for re-appointment.

Corporate Governance

The Audit Committee chaired by Dr. Neville Bain met thrice during the year and has reviewed the audited accounts for the year. The Compensation Committee met twice during the year and reviewed the compensation policies of the Company, including remuneration paid to executive directors and senior management of the Company and the grant of Stock Options under the Biocon Employees Stock Option Plan 2000. Both Committees were satisfied with respect to the systems and procedures being followed by the Company in terms of governance.

Employee Stock Option Plan (ESOP)

Your Company has introduced a stock option plan for its employees and non-executive Directors. Details of these, including grants to senior management, are given below. Senior management includes directors of our company and members of the Core Management Committee

Biocon Employee Stock Option Plan(ESOP)

The company has issued 140,900 shares representing 7.66 % of the paid-up share capital of the Company to Biocon India Limited Employee Welfare Trust. This is for distribution of Stock Option to Employees and Non-Executive Directors of the Company and its subsidiaries as per the Biocon Stock Option Plan 2000.

During the year 2002-03 the Options granted were as under:

Description	**Details**
Total number of shares	140,900 shares of Rs. 10/- each
Pricing formula	Face Value of Rs. 10/- per Option
Options granted during the year	71,510 representing 71,510 shares
Options vested (as at March 31, 2003)	17,878 representing 17,878 shares
Options exercised during the year	Nil
Options forfeited during the year	Nil
Total number of options in force at the end of the year	71,510 representing 71,510 shares

Granted to senior management:

	No. of options		**No. of options**
Dr. Neville Bain	4,000	Muralikrishnan K. N.	4,000
Prof. C. Cooney	4,000	Dr. Goutam Das	4,000
Ajay Bharadwaj	4,000	Dr. Arvind Atingal	2,500
Dr. Arun Chandavarkar	4,000	Rakesh Bamzai	2,500
Shrikumar Suryanaraynan	4,000	Chinappa M. B.	2,500

Employees receiving 5% or more of the total number of options during the year: Nil

The related Employee stock compensation expense of Rs. 34 million has been charged to the Profit & Loss account based on weighted average cost method.

Scientific Advisory Board

The Scientific Advisory Board under the chairmanship of Prof. Charles Cooney met twice during the year under review. The Board has played an important role in evaluating and steering the Company's R&D programs in a pragmatic manner. Dr. Anthony Allison was inducted as an additional member of the Board in November 2002.

Personnel

Your Company places special emphasis on its employees whose meritorious efforts coupled with a sincere team spirit has enabled the Company to achieve the present growth. Your Company also continues to focus on training, development and performance management.

Fixed Deposits

Your Company has not accepted any fixed deposits and, as such, no principal or interest was outstanding as on date-of-balance sheet.

Particulars of Employees Under Section 217 (2A)

The information required to be furnished under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules, 1975 is annexed and is a part of this report.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby declare that:

i) in the preparation of the Annual accounts, the applicable accounting standards were followed along with proper explanations relating to material departures.

ii) the directors had 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 end of the financial year and of the profit of the Company for that year.

iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
iv) the Directors had prepared the annual accounts on a going concern basis.

Particulars of Research & Development, Conservation of Energy, Technology Absorption etc.

The Research & Development division continued to provide our Company with a continuous flow of innovative products and processes. Further to, significant improvements in yields on existing products, R&D provided several non-infringing processes for the manufacture of statins, immunosuppressants and enzymes. Thus leveraging the Company to a unique position to exploit the growing market. In addition, the Company is embarking on a drug discovery program through various initiatives. Screening its library of unique micro organisms is one such approach. All research projects continue to be conducted in conformance with ISO 9001 systems. During the year your Company filed 28 patents and has been ranked 4th in the Country by PCT for the number of PCT applications filed in the year 2002.

The Research & Development expenses incurred by the Company is eligible for weighted deduction in computation of tax on account of it being recognized as an approved Research & Development Centre by the Department of Science and Industrial Research.

The following is a summary of R&D expenditure for the year ended 31.03.2003:

Capital Expenditure	Rs. 34 million
Revenue Expenditure	Rs. 80 million
Total	Rs. 114 million

Total as a percentage of turnover – 4.48%

The Company is also committed to energy conservation and adhering to Good Manufacturing Practices especially in terms of safety and effluent control.

Foreign Exchange Earnings & Outflow

Your Company continued to focus on export initiatives and development of new markets. As a result, total exports increased from Rs.460 million to Rs.1,081 million. These exports are expected to significantly increase in the coming years as more and more products go off product patent.

Total earnings in foreign exchange	Rs. 1,085 million
Total out flow in foreign exchange	Rs. 817 million

For and on behalf of the Board

KIRAN MAZUMDAR SHAW
Chairman

Dated: May 17, 2003

ANNEXURE TO DIRECTORS' REPORT

Statement pursuant to Section 217 (2A) of the Companies Act, 1956 & Companies (Particulars of Employees) Rules 1975

Details of Remuneration paid during the year ended 31st March 2003

Sl. No.	Name & Designation	Age	Remuneration (Rs.)	Qualification & Experience	Date of Commence-ment of employment	Last employment
1	Mr. Ajay Bhardwaj President - Group Marketing	43	10,009,270	M.S (Chemical Engineering) 19 Years	1/1/86	Project Engineer Max India Ltd-New Delhi
2	Dr. Arun Chandavarkar President - Group Manufacturing	42	9,637,973	Ph.D (Chemical Engineering) 13 Years	8/11/90	-
3	Mr. Chinappa M B General Manager - Finance	35	2,514,130	B.Com., ACA 10 years	12/7/99	Manager - Finance ITC Limited, Calcutta
4	Mr. J M M Shaw Director - International Business Development	54	9,168,400	M.A (Hons) 32 Years	1/4/99	President- Berghaus International Fashion Group, Holland
5	Ms. Jyothi A Kamath Scientific Manager - R & D	52	2,410,953	M.S. (Food Science & Technology) 17 Years	22/5/86	-
6	Ms. Kiran Mazumdar Shaw Managing Director	50	10,138,366	B.Sc (Hons) PGD in Malting & Brewing 28 Years	1/12/78	Consultant Jupiter Breweries Ltd
7	Mr. Murali Krishnan K N President - Group Finance	47	9,367,377	B.Com., (C.A) 22 Years	9/11/81	-
8	Mr. Rakesh Bamzai Vice President - Marketing	42	6,265,494	B.Sc (Food & Fermentation Tech) 14 Years	19/4/95	Asst. G.M. - Marketing Advanced Biochemicals Ltd
9	Mr. Sandeep Rao Manager - Marketing	29	2,844,092	M.Sc, PGDM 4 Years	15/6/99	-
10	Mr. Shrikumar Suryanarayanan President - R & D	43	9,312,529	M.Tech(Chemical Engineering) 19 Years	2/5/84	-

Note:
1. Remuneration shown above inlcudes Salary, Allowances, Bonus, Company's contribution to P.F, Super Annuation and other perquisites valued as per Income Tax Rules, 1962.
2. Nature of employment in all cases is contractual. The other terms and conditions are as per Company's Rules.
3. Ms.Kiran Mazumdar & Mr.J M M Shaw are the Directors of the company and are related to each other. No other employee mentioned above is related to any Directors of the Company.

On behalf of Board of Directors

KIRAN MAZUMDAR SHAW
Chairman & Managing Director

Place: Bangalore
Date: May 17, 2003

No. of Company: 08-3417 Authorised Capital: Rs. 2 crores
FORM [See Rule 3]

COMPLIANCE CERTIFICATE

To: **The Members of Biocon India Limited**

I have examined the registers, records, books and papers of BIOCON INDIA LIMITED (the Company) as required to be maintained under the Companies Act, 1956 (the Act) and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2003. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made thereunder and all entries therein have been duly recorded;
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities within the time prescribed under the Act and the rules made thereunder;
3. The Company being public limited company, this clause is not applicable.
4. The Board of Directors duly met 4 times on 09-05-2002, 05-07-2002, 16-11-2002 and 18-01-2003 (dates) in respect of which meetings proper notices were given and proceedings were properly recorded and signed including the circular resolutions passed in the Minutes Book maintained for the purpose;
5. the Company has not closed its Register of Members, and/or Debentureholders.
6. the annual general meeting for the financial year ended on 31-03-2002 was held on 27-06-2002 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose; .
7. No extra ordinary meeting was held during the financial year.
8. the Company has not advanced any loan to its directors and/or persons or firms or companies referred in the Section 295 of the Act.
9. the Company has duly complied with the provisions of Section 297 of the Act in respect of contracts specified in that section;
10. the Company has made necessary entries in the register maintained under Section 301 of the Act; ,
11. there was no item of business or transaction requiring the Company to obtain any approval from the Board of Directors, members or previous approval of the Central Government under Section 314 of the Act.
12. the Company has not issued any duplicate share certificates during the financial year.
13. the Company has:
    (i) delivered all the certificates on allotment of securities and on lodgment thereof for transfer/transmission or any other purpose in accordance with the provisions of the Act,
    (ii) there was no declaration of dividend including interim dividend.
    (iii) As no dividend was declared, the question of posting/payment of dividend and transfer of unclaimed/unpaid dividend into a separate bank account did not arise.
    (iv) There was no amount in unpaid dividend account, application money due for refund, matured deposits, matured debentures and the interest accrued thereon which have remained unclaimed or unpaid for a period of seven years requiring such amounts to be transferred to Investor Education & Protection Fund.
    (v) Duly complied with the requirements of Section 217 of the Act;
14. the Board of Directors of the Company is duly constituted and the appointment of directors, additional directors, alternate directors and directors to fill casual vacancies have been duly made;
15. the appointment of Managing Director/Whole-time Director has been made in compliance with the provisions of Section 269 read with Schedule XIII of the Act.
16. There is no appointment of sole-selling agents.
17. There was no matter or item of business requiring the Company to obtain approvals of the Central Government, Company Law Board, Regional Director, Registrar or such other authorities as may be prescribed under the various provisions of the Act.
18. The directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made thereunder;
19. The Company has issued 15,870 shares during the financial year and complied with the provisions of the Act:
20. The Company has not bought back any shares during the financial year ending 31-03-2003.
21. The Company did not have any preference shares/debentures liable for redemption at any time during the financial year.
22. There was no case requiring the Company to keep in abeyance rights to dividend rights shares and bonus shares pending registration of transfer of shares. .
23. The Company has not accepted any deposits or unsecured loans requiring compliance with the provisions of

Section 58A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975/the applicable directions issued by the Reserve Bank of India/any other authority in respect of deposits accepted including unsecured loans taken,

24. The amount borrowed by the Company from directors, public, financial institutions, banks and others during the financial year ending 31-03-2003 are within the borrowing limits of the Company and that necessary resolutions as per Section 293(1)(d) of the Act had been passed in duly convened annual/extra ordinary general meeting in the earlier financial years;

25. The Company has made loans and investments or given guarantees or provided securities to other bodies corporate in compliance with the provisions of the Act and has made necessary entries in the register kept for the pupose;

26. The Company has not altered the provisions of the memorandum with respect to situation of the company's registered office from one state to another during the year under scrutiny.

27. The Company has not altered the provisions of the memorandum with respect to the objects of the Company during the year under scrutiny.

28. The Company has not altered the provisions of the memorandum with respect to name of the company during the year under scrutiny.

29. The Company has not altered the provisions of the memorandum with respect to share capital of the company during the year under scrutiny.

30. The Company has not altered its articles of association.

31. There was no instance of prosecution initiated against or show cause notices received by the Company for alleged offences under the Act.

32. The Company has not received any amount as security from its employees during the year under certification.

33. The Company has deposited both employee's and employer's contribution to Provident Fund with prescribed authorities pursuant to Section 418 of the Act.

Note: The qualification, reservation or adverse remarks, if any, may be stated at the relevant places.

Place: Bangalore	Signature: R. KRISHNA HARI
Date: 10-05-2003	Name of Company Secretary: R. KRISHNA HARI
	C.P. No. 1185

ANNEXURE 'A'

Registers as maintained by the Company

1. Register of Members	u/s 150 of the Act
2. Register of Directors	u/s 303 of the Act
3. Register of Directors' shareholdings	u/s 307 of the Act
4. Register of Transfers	u/s 108 of the Act
5. Register of Charges	u/s 143 of the Act
6. Minutes Book of Board Meetings	u/s 193 of the Act
7. Minutes Book of General Meetings	u/s 193 of the Act
8. Register of Contracts etc	u/s 301 of the Act
9. Register of investments, loans & guarantees	u/s 372A of the Act

ANNEXURE 'B'

Form and Returns as filed by the Company with Registrar of Companies, Regional Director, Central Government or other authorities during the financial year ending on 31st March 2003.

1. Form No.2 as on 09-05-2002	filed u/s 75(1) on	22-05-2002
2. Form No. 23 as on 09-05-2002	filed u/s 192 on	07-06-2002
3. Balance Sheet as on 31-03-2002	filed u/s 220 on	25-07-2002
4. Annual Return as on 27-06-2002	filed u/s 159 on	25-07-2002
5. Form No.8 and 13 as on 04-07-2002.	filed u/s 125 on	01-08-2002
6. Form No. 25C(2 nos.) as on 09-05-20'02	filed u/s 269 on	05-08-2002
7. Form No. 1AA as on 30-03-2002	filed u/s 5 on	05-08-2002
8. Form No. III as on 08-06-2002	filed u/s 187C on	08-08-2002
9. Form No.8 and 13 as on 11-10-2002	filed u/s 125 on	08-11-2002
10.Form No.8 and 13 as on 10-02-2003	filed u/s 125 on	13-02-2003
11.Form No. III as on 15-02-2003	filed u/s 187C on	21-03-2003

R. KRISHNA HARI
Company Secretary

Statement pursuant to Section 212 of the Companies Act, 1956 relating to subsidiary companies

Name of the subsidiary Company	**: Syngene International Private Limited**
1. The financial year of the Company ended on	: March 31, 2003.
2. (a) No.of equity shares held by Biocon India Ltd in the subsidiary as on March 31, 2003.	: 28,74,830 Equity shares of Rs.10/- each Fully paid up.
(b) Extent of interest of Biocon India Limited in the capital of the subsidiary	: 99.99 %
3. Net aggregate amount of Profit / (Losses) not dealt with the accounts of Biocon India Limited:	
(a) for the Subsidiary's financial year ended on March 31, 2003	: Rs. 81,978,721/-
(b) for the previous financial years since it became subsidiary of Biocon India Limited	: Rs. 27,171,024/-
4. Net aggregate amount of Profit / (Losses)dealt with the accounts of Biocon India Limited:	
(a) for the Subsidiary's financial year ended on March 31, 2003	: Nil
(b) for the previous financial years since it became subsidiary of Biocon India Limited	: Nil

For and on behalf of the Board

Kiran Mazumdar Shaw	J.M.M. Shaw
Managing Director	Director

Statement pursuant to Section 212 of the Companies Act, 1956 relating to subsidiary companies

Name of the subsidiary Company	**: Clinigene International Private Limited**
1. The financial year of the Company ended on	: March 31, 2003.
2. (a) No.of equity shares held by Biocon India Ltd in the subsidiary as on March 31, 2003.	: 50,000 Equity shares of Rs.10/- each Fully paid up.
(b) Extent of interest of Biocon India Limited in the capital of the subsidiary	: 100 %
3. Net aggregate amount of Profit / (Losses) not dealt with in the accounts of Biocon India Limited:	
(a) for the Subsidiary's financial year ended on March 31, 2003	: Rs.(5,565,919)/-
(b) for the previous financial years since it became subsidiary of Biocon India Limited	Rs.8,402,849/-
4. Net aggregate amount of Profit / (Losses) dealt with the accounts of Biocon India Limited:	
(a) for the Subsidiary's financial year ended on March 31, 2003	: Nil
(b) for the previous financial years since it became subsidiary of Biocon India Limited	: Nil

For and on behalf of the Board

Kiran Mazumdar Shaw	J.M.M. Shaw
Managing Director	Director

AUDITORS' REPORT

To
The Members of Biocon India Limited

1. We have audited the attached Balance Sheet of Biocon India Limited as at March 31, 2003 and also the Profit and Loss account and Statement of Cash Flows 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 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 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 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, the Profit and Loss Account and the Statement of Cash Flows dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the Statement of Cash Flows 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 the written representations received from the directors, as on March 31, 2003, and taken on record by the Board of Directors, we report that none of the directors are disqualified as on March 31, 2003 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, 2003;

b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

c) in the case of the Statement of Cash Flows, of the cash flows for the year ended on that date.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

Re: Biocon India Limited

1. The Company has maintained proper records showing full particulars, including quantitative details and situation, of fixed assets. Physical verification of fixed assets is performed by the management in accordance with a rotational plan, which is intended to cover all the fixed assets of the Company over a period of two years. We are informed that no material discrepancies were noted, during the course of such verification. In our opinion, the frequency of such verification is reasonable.

2. The fixed assets of the Company have not been revalued during the year.

3. The inventories of raw materials, work-in-progress, finished goods and packing materials (excluding goods-in-transit) of the Company have been physically verified by management during the year. In our opinion, the frequency of verification is reasonable.

4. In our opinion, the procedures for the physical verification of inventories followed by management are reasonable and adequate in relation to the size of the Company and the nature of its business.

5. The discrepancies between the physical and book inventories were not material and have been properly dealt with in the books of account.

6. In our opinion, the valuation of inventories is fair and proper, in accordance with generally accepted accounting principles and is on a basis consistent with the previous year.

7. The rate of interest and other terms and conditions of the loans granted by the Company during the year, to companies, listed in the register maintained under section 301 of the Companies Act, 1956 ('the Act') and to companies under the same management as defined under section 370(1B) of the Act are not prima facie prejudicial to the interests of the Company. The Company has not granted any loan to firms or other parties listed in the register maintained under section 301 of the Act.

8. The Company has given interest-free advances in the nature of loans to its employees, and is recovering the principal amounts as stipulated.

9. In our opinion, the internal control procedures of the Company relating to purchase of stores, raw materials, plant and machinery, equipment and other assets, and for the sale of goods, are adequate and commensurate with the size of the Company and nature of its business.

10. The Company has entered into transactions for the sale of services aggregating to Rs 50,000 or more during the year with parties listed in the register maintained under section 301 of the Act and the same has been made at prices which are reasonable having regard to prevailing market prices for such services. The Company has not entered into any transactions for the purchase or sale of goods and materials aggregating to Rs 50,000 or more during the year with parties listed in the register maintained under section 301 of the Act.

11. The Company does not have any unserviceable or damaged stores, raw materials, work-in-progress or finished goods.

12. The Company has not accepted any deposits from the public to which the provisions of section 58A of the Act and the rules framed thereunder apply.

13. In our opinion and according to the information and explanations provided to us, reasonable records for the sale and disposal of realisable scrap are being maintained by the Company. We are informed that the Company has no by-products.

14. In our opinion, the Company has an internal audit system commensurate with the size of the Company and the nature of its business.

15. The Central Government has not prescribed the maintenance of cost records by the Company under section 209(1)(d) of the Act.

16. The Company has been regular in depositing provident fund and employees' state insurance dues with the appropriate authorities during the year.

17. According to the records of the Company, there were no undisputed amounts outstanding at March 31, 2003 in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty which were due for a period of more than six months from the date they became payable.

18. During the course of our examination of the books of account, carried out in accordance with generally accepted auditing practices, we did not note any personal expenses charged to the statement of profit and loss, other than those payable under contractual obligations or in accordance with generally accepted business practices.

19. The Company is not a sick industrial company within the meaning of section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

In respect of service activities:

20. Due to the nature of services rendered by the Company, the clause in respect of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the relative jobs is not applicable to the Company.

21. According to the information and explanations given to us, the Company considers that a system of allocating man-hours utilised to the relative jobs is not necessary, having regard to the manner of billing.

22. In our opinion, and according to the information and explanations given to us, there is a reasonable system of authorisation at proper levels and an adequate system of internal controls, commensurate with the size of the Company and the nature of its business.

In respect of trading activities:

23. The Company does not have any damaged goods in respect of its trading activities.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

BIOCON INDIA LIMITED

BALANCE SHEET – MARCH 31, 2003

(All amounts in Indian rupees)

	Notes	2003	2002 (Note 27)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3	18,376,500	18,217,800
Reserves and surplus	4	1,248,721,368	858,806,767
		1,267,097,868	877,024,567
Deferred Tax Liability	2(i) & 5	143,056,613	100,330,456
Loan Funds			
Secured loans	6	582,108,708	558,630,212
Unsecured loans	7	103,545,391	106,033,378
		685,654,099	664,663,590
		2,095,808,580	1,642,018,613
APPLICATION OF FUNDS			
Fixed Assets	2(a), 2(h), 2(j) & 8		
Cost		1,555,461,850	1,256,408,233
Less: Accumulated depreciation		335,563,459	213,725,451
Net book value		1,219,898,391	1,042,682,782
Capital work-in-progress (including capital advances of Rs 12,798,834 (2002 – Rs 14,503,578))		79,843,625	37,130,787
		1,299,742,016	1,079,813,569
Long Term Investments	2(d) & 9	84,829,081	84,835,061
Current Assets, Loans and Advances			
Inventories	2(b) & 10	466,961,589	233,842,871
Sundry debtors	11	737,466,588	623,508,493
Cash and bank balances	12	10,217,256	952,877
Loans and advances	13	156,837,932	100,028,772
		1,371,483,365	958,333,013
Less: Current Liabilities and Provisions	2(e), 2(f) & 14	660,245,882	480,963,030
Net Current Assets		711,237,483	477,369,983
		2,095,808,580	1,642,018,613

The accompanying notes 1 to 27 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

For and on behalf of the Board of Directors

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Sudha Narayanan
Company Secretary

BIOCON INDIA LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian rupees)

	Notes	2003	2002 (Note 27)
INCOME			
Sales	2(c), 2(g) & 23	2,542,399,131	1,606,205,080
Contract research fees	2(c), 2(g) & 23	5,192,833	9,762,624
Other income	15	26,622,230	38,737,502
		2,574,214,194	1,654,705,206
EXPENDITURE			
Manufacturing and other expenses	2(g), 16 & 23	1,927,857,451	1,256,244,031
Interest and finance charges	18	48,919,767	46,686,880
		1,976,777,218	1,302,930,911
PROFIT BEFORE DEPRECIATION AND TAXES		597,436,976	351,774,295
Depreciation	2(a) & 8	121,838,008	79,463,605
Less: Amount transferred from revaluation reserve	2(a) & 4	1,667,011	1,667,011
		120,170,997	77,796,594
PROFIT BEFORE TAXES		477,265,979	273,977,701
Provision for income-tax			
Current taxes	2(i) & 20	75,806,254	50,000,000
Deferred taxes	2(i) & 5	42,726,157	20,882,253
NET PROFIT FOR THE YEAR		358,733,568	203,095,448
Balance brought forward from previous year		232,047,562	28,952,114
BALANCE, END OF THE YEAR		590,781,130	232,047,562
Earnings per share (equity shares, par value Rs 10 each)			
Basic and diluted (in Rs)	2(l)	195.39	130.50
Weighted average number of shares used in computing earnings per share			
Basic and diluted		1,835,954	1,556,293

The accompanying notes 1 to 27 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per **Prashant Singhal**
Partner

Bangalore
May 17, 2003

For and on behalf of the Board of Directors

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Sudha Narayanan
Company Secretary

BIOCON INDIA LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian rupees)

		2003	2002 (Note 27)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		477,265,979	273,977,701
Adjustments for -			
Non cash item/items required to be disclosed separately			
Depreciation	120,170,997		77,796,594
Amortisation of Employee Compensation Cost	33,863,779		-
Provision for bad and doubtful debts	4,609,125		-
Interest expense	48,919,767		46,686,880
Interest income (gross)	(2,957,725)		(426,772)
Dividend earned (gross)	-		(26,563,788)
Dimunition in value of investments	-		99,999
Gain on sale of investment	(6,987)		-
Loss/(gain) on assets sold, discarded etc.	(1,704,985)		(80,000)
		202,893,971	97,512,913
Changes in working capital and other provisions			
Sundry debtors	(118,567,220)		(234,102,411)
Inventories	(233,118,718)		(14,684,328)
Loans and advances	(55,124,768)		(44,760,056)
Current liabilities and provisions	198,111,226		97,232,344
		(208,699,480)	(196,314,451)
		(5,805,509)	(98,801,538)
Cash generated from operations		471,460,470	175,176,163
Tax paid (net of refunds)		(91,621,751)	(32,792,550)
Net cash provided by operating activities		379,838,719	142,383,613
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed assets			
Purchase	(348,408,965)		(407,504,991)
Sale	2,067,750		80,000
Interest received	2,286,881		426,772
Dividend received	-		26,563,788
Sale of investment	12,968		-
Purchase of investment	-		(419,545)
Net cash used for investing activities		(344,041,366)	(380,853,976)
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital	158,700		1,215,300
Short term borrowings from banks	(29,118,220)		178,644,308
Receipt/(Repayment) of secured loans	52,596,716		39,882,801
Receipt/(Repayment) of Inter-corporate loans	-		(22,915,341)
Deferred sales tax credit	47,512,013		40,039,573
Receipt/(Repayment) of unsecured loans	(50,000,000)		50,000,000
Interest paid	(47,682,183)		(47,567,101)
Net cash provided/(used) for financing activities		(26,532,974)	239,299,540
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		9,264,379	829,177
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		952,877	123,700
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		10,217,256	952,877

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

For and on behalf of the Board of Directors

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Sudha Narayanan
Company Secretary

BIOCON INDIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

1.Background

Biocon India Limited ('Biocon' or 'the Company'), promoted by Ms Kiran Mazumdar Shaw, was incorporated at Bangalore in 1978 for manufacture of biotechnology products. As at March 31, 2003, 68.6 per cent of the shareholding of the Company was held by Ms Kiran Mazumdar Shaw and Glentec International, Mauritius together with associated persons, 13.6 per cent by ICICI Venture Funds, 7.6 per cent by Biocon Employees Welfare Trust and the balance by employees and others.

The Company has its facilities at Hebbagodi and Bommasandra, Bangalore district, Karnataka and is engaged in manufacturing biotechnological products in the pharmaceutical and enzyme sectors through fermentation based technology.

Further, in March 2002, the Company acquired 99.9 per cent of the share capital of Syngene International Private Limited ('Syngene'), a contract research company. Syngene was also promoted and controlled by Ms Kiran Mazumdar Shaw and the consideration for such acquisition was the issue of 202,780 equity shares of Rs 10 each, determined on the basis of fair values as approved by the statutory authorities.

Also, the Company has another 99.99 per cent subsidiary, Clinigene International Private Limited ('Clinigene'), which was acquired by the Company on March 31, 2001 and undertakes clinical research activities.

The Company has entered into an Agreement on February 22, 2002 to set up a Joint Venture Company ('JVC') with CIMAB SA ('CIMAB'), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of Biopharmaceuticals, to manufacture and market products using technology and to carry out research activities. During the year, the Company has acquired land measuring 26.75 acres in Bommasandra, part of which would be used by the JVC to set up production facilities. The Company and CIMAB expects the JVC to commence production during the calendar year ending December 31, 2004.

2. Summary of significant accounting policies

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting and in accordance with the generally accepted accounting principles in India including the standards of accounting issued by the Institute of Chartered Accountants of India and referred to in section 211(3C) of the Companies Act, 1956 ('the Act'). The significant accounting policies are as follows:

a. Fixed assets and depreciation

Fixed assets are stated at cost, except for revalued freehold land and buildings, which are shown at, estimated replacement cost as determined by valuers, less accumulated depreciation. The Company capitalises all costs relating to the acquisition and installation of fixed assets.

Fixed assets, other than freehold land, but including revalued buildings, are depreciated pro rata to the period of use, on the straight line method at the annual rates prescribed in Schedule XIV to the Act or based on the estimated useful lives, whichever is higher.

	Per cent
Buildings	4.00
Plant and machinery	9.09 - 33.33
Research and development equipment	11.11
Furniture and fixtures	16.67
Vehicles	16.67

Leasehold land is depreciated over a period not exceeding that of the lease.

The charge over and above the depreciation calculation on the original cost of the revalued assets is transferred from the revaluation reserve to the profit and loss account.

b. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes all applicable overheads in bringing the inventories to their present location and condition. Excise duty arising on finished goods and customs duty on imported raw materials in stock (excluding stocks in the bonded warehouse) are treated as part of the cost of inventories.

c. Revenue recognition

(i) Sales are recognised on despatch of goods to customers and are recorded net of excise duty, sales tax and other levies.
(ii) Contract research fees are recognised as services are rendered, in accordance with the terms of the contracts.

d. Investments

Long term investments are stated at cost. Provision, where necessary, is made to recognise a decline, other than temporary, in the value of investments.

e. Retirement benefits

The Company has schemes of retirement benefits for provident fund, gratuity and superannuation, in respect of which, the Company's contributions are charged to the statement of profit and loss. The contributions towards provident fund are made to statutory authorities. The gratuity and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity and superannuation, the adequacy of the accumulated fund available with Birla Sunlife has been confirmed on the basis of an actuarial valuation made at year-end.

f. Compensated absences

Liability for compensated absences is provided at current encashable salary rates for the unutilised leave balance standing to the credit of employees as at the balance sheet date. Upto March 31, 2002, the Company provided for leave encashment on the basis of an actuarial valuation performed by an independent actuary. This change in accounting policy has resulted into an additional cost and liability of Rs 9,916,299 in the year ended March 31, 2003.

g. Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated current assets and liabilities are translated into rupees at the exchange rate prevailing on the date of the balance sheet. Where the Company has entered into foreign exchange contracts, the difference between the forward rates and the spot rates at the date of the transaction is recognised in the statement of profit and loss over the life of the contract. All exchange differences are dealt with in the statement of profit and loss, except those relating to the acquisition of fixed assets, which are adjusted to the cost of the assets.

h. Research and development costs

Research and development costs, including technical know-how fees, incurred for development of products are expensed as incurred, except for development costs which relate to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits. Research and development expenditure of a capital nature is added to fixed assets.

i. Income tax

Provision for tax is made for both current and deferred taxes. Provisions for current income tax is made on the current tax rates based on assessable income. The Company provides for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current tax provision. Deferred tax assets are recognised 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. The effect on deferred taxes of a change in tax rates is recognised in income in the year in which the change is substantially enacted.

j. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

k. Deferred employee stock compensation costs

Deferred employee stock compensation costs for stock options are recognised on the basis of generally accepted accounting principles and are measured as the excess of the fair value of the Company's stock on the stock options grant date over the amount an employee must pay to acquire the stock and recognised in a graded manner on the basis of weighted period of services over the vesting period of equity shares. The fair value of the options is measured on the basis of an independent valuation performed in respect of stock options granted.

l. Earnings per share

The earnings considered in ascertaining the Company's earnings per share comprise of the net profit after tax. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares. The number of shares and potentially dilutive equity shares are adjusted for the bonus shares and sub-division of shares.

m. Operating lease

Leases 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 recognized as an expense on a straight-line basis over the lease term.

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3. Share capital

	2003	2002
Authorised:		
2,000,000 (2002 – 2,000,000) equity shares of Rs 10 each	20,000,000	20,000,000
Issued, subscribed and paid-up:		
1,837,650 (2002 – 1,821,780) equity shares of Rs 10 each, fully paid	18,376,500	18,217,800

(a) Of the above equity shares:
(i) 30,800 equity shares of Rs 100 each were allotted as fully paid bonus shares by capitalisation of general reserve in the year ended March 31, 1997.
(ii) 23,471 equity shares of Rs 100 each were allotted as fully paid-up shares in the year ended March 31, 2000 pursuant to a contract for consideration other than cash .
(iii) On October 8, 2001, the Company issued 12,153 equity shares of Rs 100 each to Biocon India Limited Employee Welfare Trust ('the Trust') under an Employee Stock Option Plan ('ESOP Plan').
(iv) On March 30, 2002, the company acquired 99.9 per cent equity in Syngene through the issue of 202,780 equity shares of Rs 10 each. The consideration was determined on the basis of a fair valuation, as approved by the statutory authorities in India. The related share premium at Rs 403.8 per equity share has been credited to share premium account.
(v) On May 9, 2002, the company has further issued 15,870 equity shares of Rs 10 each to to the Trust under the ESOP Plan. The trust at March 31, 2003 holds 140,900 equity shares of Rs 10 each of which grants have been made for 71,510 equity shares of the company under the ESOP plan.

(b) The shareholders in the Extraordinary General Meeting of the company held on February 25, 2002, approved the sub-division of equity shares of face value of Rs 100 each into ten equity shares of face value of Rs 10 each. The Board of Directors in their meeting held on March 30, 2002 passed a resolution for effecting the sub-division. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000,000 has been divided into 2,000,000 equity shares of Rs 10 each and the issued, subscribed and paid-up capital of Rs 18,217,800 as at March 31, 2002 was divided into 1,821,780 equity shares of Rs 10 each.

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4. Reserves and surplus	2003	2002
Revaluation Reserve		
Balance, beginning of the year	21,809,784	23,476,795
Less: Transfer on sale and disposal of land	1,015,735	-
Less: Transfer to profit and loss account	1,667,011	1,667,011
	19,127,038	21,809,784
Share premium		
Balance, beginning of the year	339,889,570	258,009,035
Received during the year	-	81,880,535
	339,889,570	339,889,570
General reserve		
Balance, beginning of the year	265,059,851	344,508,054
Less: Deferred tax liability relating to prior years	-	79,448,203
	265,059,851	265,059,851
Stock compensation adjustment (see Note 19)		
Additions during the year	65,291,222	-
Less: Deferred employee stock compensation expense	(31,427,443)	-
	33,863,779	-
Balance in profit and loss account	590,781,130	232,047,562
	1,248,721,368	858,806,767

(i) Share premium includes an amount of Rs 81,880,535 received on the allotment of 202,780 equity shares of Rs 10 each on March 30, 2002 at a premium of Rs 403.8 per equity share.

(ii) Deferred employee stock compensation expense (see Note 19):

Opening balance of deferred employee stock compensation expense		
Stock options granted during the year	65,291,222	-
Stock compensation expense amortised during the year	(33,863,779)	-
Closing balance of deferred compensation expense	31,427,443	-

5. Deferred tax liability	Deferred tax (asset)/liability as at April 1, 2002	Current year charge/(credit)	Deferred tax (asset)/liability as at March 31, 2003
Depreciation	113,445,865	42,498,505	155,944,370
Employee retirement benefits	(11,735,977)	5,746,441	(5,989,536)
Amalgamation expenses	(330,918)	110,847	(220,071)
Disallowance under section 43B	(1,038,731)	(4,470,810)	(5,509,541)
Others	(9,783)	(1,158,826)	(1,168,609)
	100,330,456	42,726,157	143,056,613

6. Secured loans	2003	2002
From banks		
Cash credit, packing credit, etc.	276,536,086	305,654,306
Term loans		
Payable within one year	139,233,867	68,450,533
Others	166,338,755	184,525,373
	582,108,708	558,630,212

(a) Cash credit, packing credit, etc

(i) On January 16, 2002, the Company renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 130,000,000 (2002 – Rs 130,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debts and carry an interest rate of 2.1 per cent per cent per annum for foreign currency denominated loans and 7.5 to 12.25 per cent per annum for rupee loans. The Company has utilised Rs 39,650,178 (2002 – 130,000,000) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 39,596,571 (US$ 834,051) [2002 – Rs 19,470,000 (US$ 400,000)].

(ii) On February 7, 2003, the Company renewed its total rupee and foreign currency denominated working capital facilities with Hongkong and Shanghai Banking Corporation ('HSBC') for Rs 175,000,000 (2002 – Rs110,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and bookdebt and carry an interest rate of 2 per cent per annum for foreign currency denominated loans and 6 to 15 per cent per annum for rupee loans. The Company has utilised Rs 115,580,186 (2002 – Rs 110,000,000) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 90,255,512 (US$ 1,902,387) [2002 – Rs Nil (US$ Nil).

(iii) On February 25, 2003, the Company renewed its working capital facilities with Canara Bank ('CB') for Rs 130,000,000 (2002 – Rs 80,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.1 per cent for foreign currency denominated loans and 8 to 11.75 per cent per annum for rupee loans. The Company has utilised Rs 121,305,723 (2002 – Rs 65,654,306) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 117,435,931 (US$ 2,473,637) [2002 – Rs 14,937,350 (US$ 310,000)].

The above working capital loans, are further secured by the personal guarantee of the managing director.

(b) Term loans

(i) On April 9, 1999, the Company entered into a term loan facility with Export Import Bank of India ('EXIM bank') for Rs126,001,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans are repayable in 9 equal half yearly instalments commencing from December 10, 2000, and are secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 10.5 per cent per annum. The Company has repaid Rs 84,000,000 (2002 – Rs 42,000,000) as of March 31, 2003.

(ii) On November 5, 1999, the Company entered into a term loan facility with EXIM Bank of India for Rs 46,730,706 for funding its fixed assets acquisitions of the Plafractor Plant. These loans are repayable in 10 equal half yearly instalments commencing from December 10, 2000, secured by a charge on the fixed assets of the Company and carry an interest rate of 7 per cent per annum. The Company has repaid Rs 23,993,000 (2002 – Rs 14,395,800) as of March 31, 2003.

(iii) On May 5, 1999, the Company entered into a term loan facility with SBI for Rs 50,000,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans are repayable in 60 equal monthly instalments commencing from December 2000, are secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 2.99 per cent per annum for foreign currency denominated loan and 13 per cent per annum for the rupee loan. The Company has repaid Rs 23,332,750 (2002 – Rs 13,360,000) as of March 31, 2003. The total balance outstanding as at March 31, 2003 includes foreign currency denominated loan of Rs 20,665,425 (US$ 430,000) [2002 – Rs 36,476,200 (US$760,000)].

(iv) On February 7, 2003, the Company renewed its rupee and foreign currency denominated term loan facility with HSBC for Rs 170,000,000 (2002 – 100,000,000) for funding its fixed asset acquisitions during the year, of which it has utilised Rs 170,000,000 as of March 31, 2003. The loan is repayable in 44 monthly instalments commencing from November 2002, are secured by a pari passu charge over the fixed assets of the Company and carry an interest rate of 2.77 per cent per annum for foreign currency denominated loans and 6.6 per cent per annum for rupee loans. The Company has repaid Rs 20,833,334 (2002 – Rs Nil) as of March 31, 2003. The total balance outstanding as at March 31, 2003 includes foreign currency denominated loan of Rs 52,500,000) US$ 1,078,029 [2002 – Rs Nil].

(v) On July 3, 2002, the Company entered into a term loan facility with Technology Development Board ('TDB') for Rs 100,000,000 for funding its fixed asset acquisitions of the PlaFractor plant. These loans are repayable in 9 equal instalments commencing from February 2004, are secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 5 per cent per annum. At March 31, 2003, the Company had drawn Rs 65,000,000 from the above facility.

The above term loans are further secured by the personal guarantee of the Managing Director and pledge of 10,000 equity shares of the Company held by the Managing Director and some employees.

7. Unsecured loans	2003	2002
Short term loans from EXIM Bank	-	50,000,000
Deferred payment liability	103,545,391	56,033,378
	103,545,391	106,033,378

(a) Deferred payment liability

(i) Under the Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 8 years with respect to sales from its Bommasandra manufacturing facility of the Company. Under the Order, the deferment amount should not exceed Rs 24,375,000, of which at March 31, 2003, the Company had utilised Rs 863,624 (2002 – Rs 519,839).

(ii) Under the Agro Food Processing Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferrment of sales tax (including turnover tax) for a period upto 12 years with respect to sales from Hebbagodi manufacturing facility of the Company. Under the Order, the deferment amount should not exceed Rs 648,938,000 of which at March 31, 2003, the Company had utilised Rs 102,681,767 (2002 – 55,513,539).

(b) Loan from EXIM Bank

On March 19, 2002, the Company entered into a short term loan facility with EXIM Bank for Rs 50,000,000. This facility carried an interest rate of 8.75 per cent per annum and was repayable at the end of 90 days from the draw-down. The Company had given an undertaking that on the non-payment of the term loan at the due date, the loan would carry the same security as that of EXIM bank term loan or create charge over the fixed assets and the current assets of the Company. This loan was repaid on June 24, 2002.

8. Fixed assets

	Balance, beginning of year	Additions/charge	(Deletions)/ Adjustments	Balance, end of year
Cost/Valuation				
Land				
Freehold (revalued)	10,859,470	-	1,015,735	9,843,735
Freehold (others)	14,063,607	-	362,765	13,700,842
Leasehold	2,523,443	64,200,000	-	66,723,443
Buildings (revalued)	17,575,359	-		17,575,359
Buildings (others)	223,896,884	64,167,784	-	288,064,668
Plant and machinery	874,948,639	129,918,445	-	1,004,867,084
Research and development equipment	98,820,842	34,282,059	-	133,102,901
Furniture and fixtures	10,558,232	4,201,450	-	14,759,682
Vehicles	3,161,757	3,662,379	-	6,824,136
	1,256,408,233	300,432,117	1,378,500	1,555,461,850
Previous year	780,269,352	477,039,891	901,010	1,256,408,233
Accumulated depreciation				
Leasehold land	2,246,455	138,495	-	2,384,950
Buildings (revalued)	6,625,045	1,667,011	-	8,292,056
Buildings (others)	24,080,368	10,504,748	-	34,585,116
Plant and machinery	154,482,395	94,042,629	-	248,525,024
Research and development equipment	20,636,194	12,740,398	-	33,376,592
Furniture and fixtures	4,090,606	1,995,452	-	6,086,058
Vehicles	1,564,388	749,275	-	2,313,663
	213,725,451	121,838,008	-	335,563,459
Previous year	134,791,846	79,463,605	530,000	213,725,451
Net book value				
Land				
Freehold (revalued)	10,859,470			9,843,735
Freehold (others)	14,063,607			13,700,842
Leasehold	276,988			64,338,493
Buildings (revalued)	10,950,314			9,283,303
Buildings (others)	199,816,516			253,479,552
Plant and machinery	720,466,244			756,342,060
Research and development equipment	78,184,648			99,726,309
Furniture and fixtures	6,467,626			8,673,624
Vehicles	1,597,369			4,510,473
	1,042,682,782			1,219,898,391
Previous year	645,477,506			1,042,682,782

Notes:

(a). Certain freehold land and buildings were revalued on November 1, 1994, based on the estimated replacement cost after considering depreciation upto that date, as per valuers reports and the resultant surplus of Rs 34,528,673 was credited to revaluation reserve. Of this reserve, Rs 15,401,635 (2002 – Rs 12,718,889) has been transferred to the profit and loss account for depreciation on these assets or adjusted on the sale of these assets.

(b). The Company has capitalised foreign exchange gain/(losses) of Rs 102,010 [2002 – (Rs 351,693)] during the year.

(c). During the year, the Company has capitalised borrowing costs identifiable to qualifying assets of Rs 1,664,479 (2002 – Rs 7,267,567).

(d). On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') alloted land to the Company for Rs 64.2 million on a lease -cum sale basis for a period of 6 years. At the end of 6 years, the land is to be sold to the Company on the payment of the final price (to be determined by KIADB) and fulfilment of certain conditions. One of the key conditions include commencement of commercial operations by the Company within 24 months of possession ie December 2002. The Company is confident of fulfilling this condition.

9. Long term investments (At cost)	2003	2002
Long term Investments		
Non trade:		
Unquoted		
1,000 (2002 – 1000) equity shares of Rs 100 each of Xcyton Diagnostics Limited, fully paid	100,000	100,000
Less: Provision for other than temporary dimunition in value	99,999	99,999
	1	1
National savings certificates	1,200	1,200
	1,201	1,201
Quoted:		
Nil (2002 – 233) equity shares of Rs 10 each of ICICI Limited, fully paid	-	5,980
In subsidiary companies:		
50,000 (2002 – 50,000) equity shares of Rs 10 each of Clinigene	500,000	500,000
2,874,830 (2002 – 2,874,830) equity shares of Rs 10 each of Syngene	84,327,880	84,327,880
	84,827,880	84,827,880
	84,829,081	**84,835,061**
Aggregate amount of quoted investments Market value Rs Nil (2002 – Rs 14,201)	-	5,980
Aggregate amount of unquoted investments	84,829,081	**84,835,061**

Clinigene, incorporated on August 4, 2000, is engaged in undertaking clinical research activities and has entered into contracts with domestic and international companies to undertake research activities with respect to chronic diseases such as diabetes, osteoporosis, asthma etc and became a 100 per cent subsidiary of the Company on March 31, 2001. In the current year, Clinigene has incurred significant losses of Rs 5,565,919, resulting in a negative net worth of Rs 2,361,441 and a working capital deficiency of Rs 10,156,744 at March 31, 2003. The management of Clinigene is in the process of developing plans for the expansion of the clinical research activities and is confident that the Clinigene's activities during the year ending March 31, 2004 will earn revenues and profits. The Company therefore believes that this dimunition in the value of its investment is only temporary and, accordingly, no provision is made in these financial statements.

10. Inventories	2003	2002
Raw materials	238,010,561	113,398,943
Goods-in-transit	16,803,012	9,881,586
Packing materials	1,446,064	1,062,275
Work-in-progress	198,608,203	100,206,122
Finished goods	12,093,749	9,293,945
	466,961,589	**233,842,871**

11. Sundry debtors(unsecured)	2003	2002
Debts outstanding for a period exceeding six-months		
Considered good	32,639,883	38,304,983
Considered doubtful	4,609,125	-
Other debts		
Considered good	704,826,705	585,203,510
	742,075,713	623,508,493
Less: Provision for bad and doubtful debts	4,609,125	-
	737,466,588	**623,508,493**

The Company has written off bad and doubtful debts of Rs Nil (2002 – Rs 1,108,800) during the year.

12. Cash and bank balances	2003	2002
Cash on hand	179,149	91,800
Balances with scheduled banks:		
In current accounts	28,051	243,077
In Exchange Earners Foreign Currency Account	10,056	-
In deposit accounts	10,000,000	618,000
	10,217,256	952,877

13. Loans and advances (Unsecured and considered good)

Advances recoverable in cash or in kind or for value to be received	57,264,400	49,307,310
Deposits	18,650,152	13,559,670
Balances with Customs and Excise Authorities	78,496,135	35,906,792
Loan to Biocon India Limited Employee Welfare Trust	1,413,700	1,255,000
Advance income-tax, net of provision	1,013,545	-
	156,837,932	100,028,772

(a) Included under Advances recoverable in cash or in kind or for value to be received are amounts due from:

(i) Subsidiary companies		
Syngene	-	-
Maximum amount outstanding at any time during the year	19,057,487	4,271,064
Clinigene	9,793,779	-
Maximum amount outstanding at any time during the year	9,869,346	6,438,394
(ii) Ms Kiran Mazumdar Shaw (Managing Director)	9,600,000	9,600,000
Maximum amount outstanding at any time during the year	9,600,000	9,600,000

(b) The Company had given a loan of Rs 1,413,700 (2002 – 1,255,000) to the Trust for purchase of equity shares to be sold to the employees of the Company under the proposed ESOP Plan.

14. Current liabilities and provisions

Sundry creditors:		
Dues to small-scale industrial undertakings	8,204,766	4,833,706
Others	525,829,432	339,723,320
Advances from customers	9,650,699	982,512
Balance in current account with bank represents book overdraft	-	17,294,460
Interest accrued but not due	6,268,172	5,030,588
Other liabilities	84,572,854	56,558,579
	634,525,923	424,423,165
Provision for employee retirement benefits	1,151,856	31,583,839
Provision for compensated absences/leave encashment	24,568,103	10,154,074
Provision for taxation, net of advance tax	-	14,801,952
	660,245,882	480,963,030

(a) Other liabilities include Rs 970,443 (2002 – Rs 19,813) due to Ms Kiran Mazumdar Shaw, Managing Director and Rs 686,836 (2002 – Rs Nil) to JMM Shaw, Director. The maximum amount outstanding at any time during the year was Rs 1,085,040 (2002 – Rs 602,359) and Rs 1,500,000 (2002 – Rs Nil) respectively.

(b) During the year, the Company funded its retirement benefit liabilities by entering into an arrangement with Birla Sunlife for forming and managing a Trust to administer the Company's gratuity and superannuation schemes. Accordingly, the Company contributed the entire liability as at March 31, 2002 and made further contributions of Rs 20,837,832 based on the acturial valuation at March 31, 2003.

(c) The names of small-scale industrial undertakings to whom moneys are due are as follows:

	2003
a. Acme Synthetic Chemicals	486,720
b. Anil Agro Products Pvt. Ltd.	1,296,920
c. Avani Enterprise	505,440
d. Bangalore Paper Filter Co.	38,733
e. Bangalore Genei Private Limited	318,567
f. Bela Instruments	31,366
g. Cauvery Mineral Water Private Limited	31,160
h. Chikholi Chemicals Pvt. Ltd.	95,276
i. Crystal Blues	7,342
j. Crystal Engineering Systems	21,700
k. Drawcans Private Limited	57,165
l. Eskay Fine Chemicals	3,525,704
m. Gorwara Chemical Industries	150,016
n. International Fibre Glass Products (P) Ltd.	65,103
o. Mayura Analytical Private Limited	52,728
p. Millenium Chem Pharma Pvt. Ltd.	117,088
q. New Uma Engineering	38,060
r. NXL Flow Instruments	27,612
s. Quantum Drugs & Chemicals	464,456
t. Ragukul Industries	31,626
u. Senthil Papai and Food Products Ltd.	769,600
v. Speciality Organics Private Limited	72,384
	8,204,766

15. Other income

	2003	2002
Dividend income - non-trade (Gross)		
Subsidiaries	-	26,562,506
Others	-	1,282
Interest income [Gross of tax deducted at source Rs 237,069 (2002 – Rs 87,061)]	2,957,725	426,772
Duty drawback	18,199,657	4,325,259
Gain on fixed assets sold or discarded	1,704,985	80,000
Miscellaneous income	3,759,863	7,341,683
	26,622,230	38,737,502

16. Manufacturing and other expenses			2003	2002
Raw materials consumed			1,306,620,913	817,188,541
Purchase of goods for resale			11,266,792	19,668,273
Employee costs				
Salaries, wages, bonus, commission, etc		206,474,301		159,775,480
Contribution to provident fund		8,613,456		7,113,457
Gratuity, superannuation, leave encashment		36,994,775		16,277,445
Employee stock compensation expense (See Note 4 & 19)		33,863,779		-
Directors sitting fees		24,000		27,000
Welfare expenses		20,988,810		13,323,749
			306,959,121	196,517,131
Operating and other expenses:				
Royalty and technical know-how fees		38,458,273		1,077,000
Rent		2,610,264		1,595,950
Communication		12,762,000		9,470,009
Travelling and conveyance		33,241,628		25,192,793
Professional charges		14,364,140		10,855,491
Power and fuel		128,007,141		91,072,209
Insurance		8,564,661		4,126,510
Rates, taxes and fees		6,017,456		13,146,090
Repairs and maintenance				
Plant and machinery		40,192,458		19,253,724
Buildings		9,185,990		1,107,104
Others		16,381,765		11,785,157
Selling expenses				
Freight outwards and clearing charges		14,850,093		8,972,983
Sales promotion		16,894,662		4,776,309
Commission and brokerage		17,917,825		10,728,748
Bad and doubtful debts/ advances written off		-		1,108,800
Provision for bad and doubtful debts		4,609,125		-
Printing and stationery		7,491,507		5,230,448
General expenses		32,663,523		13,858,056
			404,212,511	233,357,381
(Increase)/decrease in inventories of finished goods and work-in-progress:				
Opening inventories				
Finished goods	9,293,945			7,303,194
Work-in-progress	100,206,121			91,709,578
		109,500,066		99,012,772
Closing inventories:				
Finished goods	12,093,749			9,293,945
Work-in-progress	198,608,203			100,206,122
		210,701,952		109,500,067
			(101,201,886)	(10,487,295)
			1,927,857,451	1,256,244,031

17. Research and development expenses

Research and development expenses aggregating Rs 114,241,332 (2002 – Rs 75,491,358) including Rs 34,282,059 (2002 – Rs 34,276,323) on capital account have been incurred by the Company which have been disclosed under the appropriate account heads.

18. Interest and finance charges	2003	2002
Interest paid on :		
Term loans	26,701,866	23,826,083
Others	15,802,623	18,215,398
Bank charges	6,415,278	4,645,399
	48,919,767	46,686,880

19. Employee stock compensation

On September 27, 2001, the Board of Directors approved the Biocon Employee Stock Option Plan ('ESOP Plan') for the grant of stock options to the employees of Biocon. A compensation committee has been constituted to administer the plan through the Trust.

The Trust purchases equity shares of the Company using the proceeds from the loan obtained from the Company and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 shares and shares transferred to each employee will not exceed 1,000 shares. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares. The options will vest with the employees equally over a four year period.

At March 31, 2003, the Trust has purchased 140,900 equity shares and a summary of the activity of the Trust is as follows:

Particulars	Exercise price	2003	2002
Opening balance of equity shares not granted to employees and available with the Trust		125,030	-
Add: Issued to the trust		15,870	125,030
Less: Options granted to employees	Rs 10	71,510	-
Closing balance of shares not granted to employees and available with the Trust		69,390	125,030
Options granted and eligible for exercise at year end		(17,878)	-
Options granted but not eligible for exercise at year end		(53,632)	-
Total employee stock compensation cost as at year end		65,291,222	-
Vesting period of options – Primarily progressively over four years			
Employee stock compensation expense – Amortised during the year		33,863,779	-

The estimated fair values of the equity shares have been determined by management on the date of the grant (April 1, 2002), based on a valuation by an independent appraiser.

20. Current taxes

The current tax charge of Rs 75,806,254 is after considering a write-back of Rs 13,149,604 as the Company on July 1, 2002, received an approval from the Department of Scientific and Industrial Research ('DSIR') to claim a weighted deduction on the expenditure incurred on scientific research or in-house research and development facility under section 35(2AB) of the Income-tax Act, 1961 retroactively from financial year 1999-2000.

21. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2002 to March 31, 2003	Balance as at March 31, 2003	April 1, 2001 to March 31, 2002	Balance as at March 31, 2002
1	Kiran Mazumdar Shaw	Managing Director	Rent expense	960,000	-	1,080,000	-
			Lease deposit	-	9,600,000	-	9,600,000
			Salary and perquisites	10,186,766	-	7,626,727	-
2	JMM Shaw	Director	Salary and perquisites	9,216,800	-	6,732,000	-
3	Syngene International Private Limited	Associate(upto March 2002)/ subsidiary company	Interest income/ (expense) on current account transactions	406,412	-	(5,250,149)	-
			Current account:				
			Due to Syngene	425,000	-	29,569,744	-
			Due from Syngene	19,057,487	-	4,271,064	-
			Sale of fixed assets	1,547,751	-	-	-
			Rent income	1,140,000	-	1,140,000	-
			Rent deposit	-	600,000	-	600,000
			Power charges	5,100,924	-	3,628,446	-
			Communication expenses	1,000,000	-	-	-
4	Clinigene International Private Limited	Subsidiary company	Power charges	480,000	-	480,000	-
			Interest income on unsecured loan	350,502	276,896	422,625	-
			Current account:				
			Due from Clinigene	9,869,346	9,516,883	6,438,394	-
			Due to Clinigene	-	-	616,243	-
5	Biocon India Limited Employee Welfare Trust	ESOP Trust	Administration of the ESOP plan Loan to the Trust	158,700	1,413,700	**1,255,000**	**1,255,000**

(a). Apart from the related party transactions disclosed above, the Company renders administrative and management assistance to its subsidiaries Syngene and Clinigene in respect of which no charges have been made by the Company.

(b). The total compensation cost as at year end includes Rs 14,420,259 incurred towards employee compensation cost for options granted to employees of Syngene. The corresponding compensation cost amortised during the year is Rs 7,415,841. The Company has not charged this amortisation to Syngene.

(c). The Company has given corporate guarantees of Rs 80,000,000 (2002 -- Rs 80,000,000) to the Customs and Excise department ('CED') on behalf of Syngene and Syngene has furnished a corporate guarantee of Rs 15,000,000 (2002 -- Rs 17,500,000) on behalf of the Company to the CED.

22. Supplementary profit and loss data

	2003	2002
(i). Payments to auditors (included in professional charges)		
a) Statutory audit	900,000	750,000
b) Tax audit	100,000	100,000
c) Other matters	-	987,211
d) Reimbursement of out-of-pocket expenses	-	43,802
	1,000,000	1,881,013
(ii). Managerial remuneration:		
a) Remuneration to Managing Director		
Salary	5,764,000	5,280,000
Perquisites	626,226	577,927
Contribution to provident and superannuation funds	778,140	712,800
Statutory bonus	576,400	528,000
Performance bonus	2,442,000	528,000
	10,186,766	7,626,727
b) Remuneration to whole-time Director		
Salary	5,764,000	5,280,000
Perquisites	2,100	-
Contribution to superannuation fund	432,300	396,000
Statutory bonus	576,400	528,000
Performance bonus	2,442,000	528,000
	9,216,800	6,732,000
c) Computation of net profits in accordance with Section 349 of the Act		
Net profit for the year before tax	477,265,979	273,977,701
Add:		
Depreciation provided in the accounts	120,170,997	77,796,594
Managerial remuneration	19,403,566	16,470,727
Directors sitting fees	24,000	27,000
(Profit)/loss on sale/disposal of assets	(1,704,985)	(80,000)
Provision for bad and doubtful debts	4,609,125	-
	619,768,682	368,192,022
Less:		
Depreciation under Section 350 of the Act	120,170,997	77,796,594
Profit on sale of investment	6,987	-
	120,177,984	77,796,594
Net Profit for Section 198 of the Act	499,590,698	290,395,428
Maximum remuneration payable to directors	49,959,070	29,039,543
Remuneration paid to Managing Director	10,186,766	7,626,727
Remuneration paid to whole time Director	9,216,800	6,732,000

As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amount pertaining to the directors is not ascertainable and, therefore, not included.

(iii). Information pursuant to the provisions of paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956 :

a) Licenced capacity, installed capacity and actual production :

Class of goods	Licenced Capacity Kg.	Installed Capacity Kg.	Actual Production Current year Kg.	Actual Production Previous year Kg.
Biochemicals:				
Enzymes	*	**	2,049,462	1,671,781
Pharmaceutical	*	**	1,879,443	1,225,896

* Exempted from the licensing provisions of the Industries (Development and Regulation) Act, 1951 in terms of notification No.S.O.477(E) dated July 25, 1991.

** Installed capacity has not been disclosed as these are variable and subject to changes in product mix, and utilisation of manufacturing facilities, given the nature of operations.

b) Inventories and sales

Description	Opening Stock Quantity Kg.	Opening Stock Value Rs.	Sales Quantity Kg.	Sales Value Rs.	Closing Stock Quantity Kg.	Closing Stock Value Rs.
2003						
Biochemicals						
Manufacturing:						
Enzymes	5,303	2,130,378	2,041,008	528,031,474	13,757	3,009,612
Pharmaceutical	485	2,043,937	1,870,188	2,001,321,579	9,740	5,896,878
Trading:						
Enzymes	7,103	1,378,134	29,433	4,416,610	4,457	611,231
Pharmaceutical	717	3,741,496	9,235	8,629,468	472	2,576,028
		9,293,945		2,542,399,131		12,093,749
2002						
Biochemicals						
Manufacturing:						
Enzymes	7,422	3,198,590	1,673,900	459,555,243	5,303	2,130,378
Pharmaceutical	12,126	3,265,460	1,237,537	1,127,482,372	485	2,043,937
Trading:						
Enzyme	2,294	346,009	15,740	3,722,615	7,103	1,378,134
Pharmaceutical	60	493,135	2,290	15,444,850	717	3,741,496
		7,303,194		1,606,205,080		9,293,945

c) Purchase of traded goods:

	2003		2002	
	Quantity Kg.	Value	Quantity Kg.	Value
Biochemicals	35,777	11,266,792	23,496	19,668,273

d) Details of consumption of raw materials, packing materials and stores:

	2003		2002	
	Quantity Kg.	Amount	Quantity Kg.	Amount
Fish maws	40,152	15,771,193	50,013	19,747,182
Enzymes & Chemicals	10,478,652	1,243,497,554	7,222,394	766,807,417
Packing materials	-	10,685,315	-	9,785,676
Others	-	36,666,851	-	20,848,266
	10,518,804	1,306,620,913	7,272,407	817,188,541

Consumption quantities and values have been derived on the basis of opening stock plus purchases less closing stock and therefore include adjustments ascertained during physical count, write off of obsolete items etc.

	2003		2002	
	Value	Percent	Value	Percent
Imported	825,157,256	63.15	535,298,024	65.50
Indigenous	481,463,657	36.85	281,890,517	34.50
	1,306,620,913		817,188,541	

(iv) Value of imports calculated on C.I.F. basis :	2003	2002
Raw materials	696,568,886	419,474,615
Packing materials	31,688	-
Capital goods	40,548,748	16,877,687
	737,149,322	436,352,302

(v) Earnings in foreign currency:	2003	2002
Export of goods on FOB basis	1,081,004,069	459,623,929
Research and development fees	2,442,833	9,362,624
Recovery of freight, insurance etc on exports	1,818,061	5,087,674
	1,085,264,963	474,074,227

(vi) Expenditure in foreign currency :		
Technical fees	38,058,273	-
Sales commission	6,727,131	2,993,108
Interest on Foreign Currency Non-Resident loans	2,962,072	7,917,662
Others	32,236,339	21,502,455
	79,983,815	32,413,225

23. Foreign exchange differences

Sales and contract research fees, and purchases include foreign exchange gain/(loss) of Rs 4,205,586 [2002 – Rs 5,309,356] and Rs 4,476,345 [2002 – Rs (1,576,083)], respectively.

24. Commitments	2003	2002
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	257,730,301	14,313,970
(b) Operating lease commitments		
(i) Rent The Company has entered into a lease agreement which expires in January 2011. Gross rental expenses for the period ended March 31, 2003 aggregated to Rs 960,000 (March 31, 2002 – Rs 960,000). The committed lease rental in the future are:		
Not later than one year	960,000	960,000
Later than one year and not later than five years	3,840,000	3,840,000
Later than five years	2,190,000	3,150,000
(ii) Vehicles The Company has taken vehicles for certain employees under operating leases, which expire in March 2007. Gross rental expenses for the period ended March 31, 2003 aggregated to Rs 220,060 (March 31, 2002 – Rs Nil). The committed lease rental in the future are:		
Not later than one year	477,911	-
Later than one year and not later than five years	1,516,986	-
25. Contingent liabilities		
(a) Taxation matters under appeal	7,629,192	11,124,372
(b) Corporate guarantee given in favour of Customs and Excise Department in respect of certain performance obligations of Syngene. The Company is informed that the necessary terms and conditions have been complied with and no liability has arisen.	80,000,000	95,000,000
(c) Claims against the Company not acknowledged as debts	2,373,750	5,126,631

26. Segmental information

Business segments

The primary reporting of the Company has been performed on the basis of business segment. The Company is organised into two business segments, enzymes and active pharmaceutical ingredients ('Pharma'). Segments have been identified and reported based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems.

March 31, 2003

Particulars	Enzyme	Pharma	Unallocated	Eliminations	Total
Revenues					
External sales	532,448,085	2,009,951,046	-	-	2,542,399,131
Inter-segment transfers	55,497,389	-	-	(55,497,389)	-
Total revenues	587,945,474	2,009,951,046	-	-	2,542,399,131
Costs					
Segment costs	356,377,038	1,155,087,553	-	-	1,511,464,591
Inter-segment transfers	-	(55,497,389)	-	55,497,389	-
Result					
Segment result	231,568,436	799,366,104	-	-	1,030,934,540
Corporate expenses	-	-	416,392,858	-	416,392,858
Other income	-	-	28,857,336	-	28,857,336
Interest income	-	-	2,957,725	-	2,957,725
Operating profit					646,356,743
Depreciation	17,971,112	59,949,046	42,250,839	-	120,170,997
Interest expense	-	15,096,700	33,823,067	-	48,919,767
Income taxes - Current and deferred	-	-	118,532,411	-	118,532,411
Net profit					358,733,568
Other information					
Segment assets	479,692,430	1,827,844,623	-	-	2,307,537,053
Unallocated corporate assets	-	-	448,517,408	-	448,517,408
Total assets					2,756,054,461
Segment liabilities	6,437,726	326,722,194	-	-	333,159,920
Unallocated corporate liabilities	-	-	1,155,796,674	-	1,155,796,674
Total liabilities					1,488,956,594
Capital expenditure	63,719,838	111,552,245	125,160,034	-	300,432,117

March 31, 2002

Particulars	Enzyme	Pharma	Unallocated	Eliminations	Total
Revenues					
External sales	463,277,858	1,142,927,222	-	-	1,606,205,080
Inter-segment transfers	48,181,264	4,618,524	-	(52,799,788)	-
Total revenues	511,459,122	1,147,545,746	-		1,606,205,080
Costs					
Segment costs	323,591,467	699,795,142	-	-	1,023,386,609
Inter-segment transfers	(4,618,524)	(48,181,264)		(52,799,788)	-
Result					
Segment result	183,249,131	399,569,340	-	-	582,818,471
Corporate expenses	-	-	232,777,452	-	232,777,452
Other income	-	-	47,993,384	-	47,993,384
Interest income	-	-	426,772	-	426,772
Operating profit					398,461,175
Depreciation	16,941,662	42,224,694	18,630,238	-	77,796,594
Interest expense	-	20,070,361	26,616,519	-	46,686,880
Income taxes - Current and deferred	-	-	70,882,253	-	70,882,253
Net profit					203,095,448
Other information					
Segment assets	398,654,592	1,332,935,427	-	-	1,731,590,019
Unallocated corporate assets	-	-	391,391,623	-	391,391,623
Total assets					2,122,981,642
Segment liabilities	8,336,549	269,023,955	-	-	277,360,504
Unallocated corporate liabilities	-	-	968,596,572	-	968,596,572
Total liabilities					1,245,957,076
Capital expenditure	53,468,661	366,857,364	56,713,866	-	477,039,891

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Company comprise exports contributing to approximately 43 percent of its annual sales. The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Company's sale by geographical markets

Revenues	2003	2002
India	1,470,749,574	1,176,225,720
Exports (including export benefits)	1,103,464,620	478,399,486
Total	2,574,214,194	1,654,625,206

Assets and additions to fixed assets by geographical area - The following is the carrying amount of segment assets and additions to fixed assets by geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to fixed assets	
	2003	2002	2003	2002
India	2,496,244,641	1,969,010,760	300,432,117	477,039,891
Outside India (including export benefits)	259,809,821	153,970,882	-	-
	2,756,054,461	2,122,981,642	300,432,117	477,039,891

Carrying amount of segment assets outside India represents receivables from export debtors and export benefits recoverable.

Segment revenue and result

The expenses that are not directly attributable and that cannot be allocated to a business segment on a reasonable basis are shown as unallocated corporate expenses.

Inter-segment transfers

Segment revenue, segment costs and results include transfers between business segments. Such transfers have been made at cost. The inter-segment transfers have been eliminated have been eliminated on consolidation.

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments,receivables and inventories. Segment libilities comprise of long term debts which can be identified directly against the respect segment assets and liabilities. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

27. Prior year comparatives

The financial statements as at March 31, 2002, were audited by another firm of chartered accountants and have been reclassified, where necessary, to conform with the current year's presentation.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in thousands of Indian Rupees)

(a) Registration Details	
Registration No.	**3417**
State Code	**08**
Balance Sheet Date	**March 31, 2003**
(b) Capital raised during the year	
Public Issue	Nil
Right Issue	Nil
Bonus Issue	Nil
Private Placement	159
(c) Position of mobilisation and deployment of funds	
Total Liabilities and shareholders funds	2,756,054
Total Assets	2,756,054
Sources of Funds	
Paid up Capital	18,377
Reserves	1,248,721
Deferred tax liability	143,057
Secured Loans	582,108
Unsecured Loans	103,545
Application of Funds	
Net Fixed Assets	1,219,898
Capital work in progress	79,844
Long term Investments	84,829
Net Current Assets	711,237
(d) Performance of the Company	
Turnover	2,574,214
Total expenditure	2,096,948
Profit / loss before tax	477,266
Profit / loss after tax	358,734
Earnings per share in Rupees	195
Dividend rate %	N/A
(e) Generic Name of principal products/services of Company	
Item Code No (ITC Code)	350790
Product Description	Enzymes for Pharmaceutical use
Item Code No.(ITC Code)	280000 & 290000
Product Description	Organic & Inorganic Chemicals

Syngene International Private Limited

DIRECTOR'S REPORT

Dear Shareholders,
Your Directors take great pleasure in bringing you this Tenth Annual Report, along with the Audited Accounts of the Company, for the year ended 31st March, 2003.

Financial Highlights

Financial Results for the year ending :

	March 31, 2003	March 31, 2002 Rs in Millions
Total revenues	262	153
Total expenditure	163	112
Profit before interest depreciation and tax	99	41
Interest	1	1
Depreciation	16	11
Profit before tax	82	29
Provision for tax	0	2
Profit after tax	82	27
Surplus brought forward from previous year	5	5
Profit available for Appropriation	87	32

Appropriated as follows:

	March 31, 2003	March 31, 2002 Rs in Millions
Transfer to General Reserve	-	3
Dividend – interim	-	22
Dividend – proposed	-	0
Corporate tax on proposed dividend	-	2
Balance carried to Balance Sheet	87	5

Performance Analysis

Syngene registered a strong growth of 71 % in revenues and 202 % in Profit after tax. The Company continues to consolidate its strong relationship with major pharmaceutical and Biotechnology Companies in USA and Europe.

Syngene's reputation as a high quality custom research provider to American and European Pharmaceutical and Biotech Companies has enabled the Company to enroll new clients in the current year. The expansion of its Custom Synthesis business has also generated additional revenues. To meet the growing demand for Syngene's R&D services, capital expenditure plans to substantially increase the capacity, have been drawn up. The new facility is likely to be operational in 2004.

During the year Syngene received recognition by the Department of Scientific & Industrial Research, Government of India as an approved Research Company entitling the Company to a 10 year Tax Holiday under the Indian Income Tax Act.

Personnel
Syngene places special emphasis on its employees whose meritorious efforts and team spirit have enabled the Company to sustain its growth and build a strong international reputation. In recognition of this meritorious performance, the Company has increased salary scales and the performance bonus component. The Company continues to focus on training and development and performance management.

Directors
Dr. Neville C. Bain and Prof. Catherine Rosenberg retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-election.

Auditors
The Company's Auditors M/s. S.R.Batliboi & Associates, Chartered Accountants, Bangalore, retire at the ensuing Annual General Meeting, and are eligible for re-appointment.

Fixed Deposits
The Company has not accepted any fixed deposits and, as such, no principal or interest was outstanding on the date of the balance sheet.

Particulars of Employees Under Section 217 (2A)
The information required to be furnished under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules, 1975 is annexed and is a part of this report.

Directors' Responsibility Statement
Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby declare that:
i) in the preparation of the Annual accounts, the applicable accounting standards were followed along with proper explanations relating to material departures.
ii) the directors had 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 end of the financial year and of the profit of the Company for that year.
iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
iv) the Directors had prepared the annual accounts on a going concern basis.

Particulars of Research & Development, Conservation of Energy, Technology Absorption etc.
Syngene's primary business is Contract Research. The Company is a certified ISO 9001 company and all research projects are conducted in conformance with ISO 9001 systems

The Company is also committed to energy conservation and adheres to Good Laboratory Practice especially in terms of safety, health, environment, pollution control etc.,

The Company has not bought any technology for absorption.

Foreign Exchange Earnings & Outflow

Total earnings in foreign exchange	Rs. 261 million
Total out flow in foreign exchange	Rs. 58 million

For and on behalf of the Board

KIRAN MAZUMDAR SHAW
Chairman

Dated: May 17, 2003

ANNEXURE TO DIRECTORS' REPORT

Statement pursuant to Section 217 (2A) of the Companies Act, 1956 & Companies (Particulars of Employees) Rules 1975

Details of Remuneration paid during the year ended 31st March 2003

Sl. No.	Name & Designation	Age	Remuneration (Rs.)	Qualification & Experience	Date of Commence-ment of employment	Last employment
1	Dr. Goutam Das Chief Operating Officer	47	7,222,760	Ph. D 15 years	01.08.1994	Astra Research Centre Bangalore
2	Dr. Sambasivam Ganesh Chief Scientific Manager	38	2,821,822	Ph. D 9 Years	16.05.1994	-

Note :
1. Remuneration shown above inlcudes Salary, Allowances, Bonus, Company's contribution to P.F, Super Annuation and other perquisites valued as per Income Tax Rules, 1962.
2. Nature of employment in all cases is contractual. The other terms and conditions are as per Company's Rules.
3. None of the employees mentioned above is related to any Directors of the Company.

On behalf of Board of Directors

KIRAN MAZUMDAR SHAW
Chairman

Place: Bangalore
Date: May 17, 2003

AUDITORS' REPORT

To
The Members of Syngene International Private Limited

1. We have audited the attached Balance Sheet of Syngene International Private Limited as at March 31, 2003 and also the Profit and Loss account and 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 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 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 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, the Profit and Loss Account and the Cash flow Statement dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the 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 the written representations received from the directors, as on March 31, 2003, and taken on record by the Board of Directors, we report that none of the directors are disqualified as on March 31, 2003 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, 2003;

b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

c) in case of the Cash flow Statement, of the cash flows for the year ended on that date.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

Re: Syngene International Private Limited

1. The Company has maintained proper records showing full particulars, including quantitative details and situation, of fixed assets. Physical verification of fixed assets is performed by the management in accordance with a rotational plan, which is intended to cover all the fixed assets of the Company over a period of two years. We are informed that no material discrepancies were noted, during the course of such verification. In our opinion, the frequency of such verification is reasonable.

2. The fixed assets of the Company have not been revalued during the year.

3. The inventories of chemicals and reagents of the Company have been physically verified by management during the year. In our opinion, the frequency of verification is reasonable.

4. In our opinion, the procedures for the physical verification of inventories followed by management are reasonable and adequate in relation to the size of the Company and the nature of its business.

5. The discrepancies between the physical and book inventories were not material and have been properly dealt with in the books of account.

6. In our opinion, the valuation of inventories is fair and proper, in accordance with generally accepted accounting principles and is on a basis consistent with the previous year.

7. The rate of interest and other terms and conditions of the loans taken by the Company during the year, from companies listed in the register maintained under section 301 of the Companies Act, 1956 ('the Act') and from companies under the same management as defined under section 370(1B) of the Act are not prima facie prejudicial to the interests of the Company. The Company has not granted any loan to firm or other parties listed in the register maintained under section 301 of the Act.

8. The Company has given interest free loans to its employees, and is recovering the principal amounts as stipulated.

9. In our opinion, the internal control procedures of the Company relating to purchase of stores, raw materials, plant and machinery, equipment and other assets, and for the sale of goods, are adequate and commensurate with the size of the Company and nature of its business.

10. The Company has entered into transactions for the sale and purchase of services aggregating to Rs 50,000 or more during the year with parties listed in the register maintained under section 301 of the Act and the same has been made at prices which are reasonable having regard to prevailing market prices of such services.

11. The Company does not have any unserviceable or damaged stores, raw materials, work-in-progress or finished goods.

12. The Company has not accepted any deposits from the public to which the provisions of section 58A of the Act and the rules framed thereunder apply.

13. The Company's activities do not generate any by-products or scrap.

14. In our opinion, the Company has an internal audit system commensurate with the size of the Company and the nature of its business.

15. The Central Government has not prescribed the maintenance of cost records by the Company under section 209(1)(d) of the Act.

16. The Company has been regular in depositing provident fund dues with the appropriate authorities during the year. We are informed that the provisions of the Employees' State Insurance Act, 1948 are not applicable to the Company.

17. According to the records of the Company, there were no undisputed amounts outstanding at March 31, 2003 in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty which were due for a period of more than six months from the date they became payable.

18. During the course of our examination of the books of account, carried out in accordance with generally accepted auditing practices, we did not note any personal expenses charged to the statement of profit and loss, other than those payable under contractual obligations or in accordance with generally accepted business practices.

19. The Company is not a sick industrial company within the meaning of section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

In respect of service activities:

20. The Company has a reasonable system of recording receipts, issues and consumption of materials and stores, allocating materials consumed to the relative jobs, commensurate with its size and nature of its business.

21. According to the information and explanations given to us, the Company considers that a system of allocating man-hours utilised to the relative jobs is not necessary, having regard to the manner of billing.

22. In our opinion, and according to the information and explanations given to us, there is a reasonable system of authorisation at proper levels and an adequate system of internal controls, commensurate with the size of the Company and the nature of its business.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

SYNGENE INTERNATIONAL PRIVATE LIMITED

BALANCE SHEET – MARCH 31, 2003

(All amounts in Indian Rupees)

	Notes	2003	2002 (Note 23)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3	28,750,000	28,750,000
Reserves and surplus	4	133,102,440	51,115,520
		161,852,440	79,865,520
Deferred Tax Liability	2(h) & 5	-	7,840,795
Loan Funds			
Secured loans	6	-	2,800,500
		-	2,800,500
		161,852,440	90,506,815
APPLICATION OF FUNDS			
Fixed Assets	2(a) & 7		
Cost		171,076,087	102,374,940
Accumulated depreciation		39,641,072	24,276,855
Net book value		131,435,015	78,098,085
Capital work-in-progress		8,833	11,333,938
		131,443,848	89,432,023
Investments	2 (b) & 8	50,000,001	1
Current Assets, Loans And Advances			
Inventories	2(c) & 9	12,093,433	8,121,207
Sundry debtors	10	10,696,798	15,632,862
Cash and bank balances	11	16,120,180	17,669,530
Loans and advances	12	4,244,649	6,132,593
		43,155,060	47,556,192
Less: Current Liabilities And Provisions	2(e), 2(f) & 13	62,746,469	46,481,401
Net Current Assets/(Liabilities)		(19,591,409)	1,074,791
		161,852,440	90,506,815

The accompanying notes 1 to 23 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

per Prashant Singhal
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

J Sridevi
Company Secretary

SYNGENE INTERNATIONAL PRIVATE LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

	Notes	2003	2002 (Note 23)
INCOME			
Contract research fees	2(d)(i) & 21	225,153,306	136,563,698
Sale of compounds	2(d)(ii) & 21	36,093,555	10,464,853
Interest income [gross of tax deducted at source - Rs 80,675 (2002 – Rs 1,074,058)]		550,667	5,278,168
Other income		-	658,309
		261,797,528	152,965,028
EXPENDITURE			
Contract research and other operating expenses	15 & 21	161,948,290	111,385,446
Interest and finance charges	16	1,292,903	943,542
		163,241,193	112,328,988
PROFIT BEFORE DEPRECIATION AND TAX		98,556,335	40,636,040
Depreciation	2(a) & 7	16,370,756	11,119,136
PROFIT BEFORE TAX		82,185,579	29,516,904
Provision for taxation			
Current	2(h) & 14	8,039,454	1,955,468
Deferred	2(h) & 5	(7,840,795)	387,695
NET PROFIT FOR THE YEAR		81,986,920	27,173,741
Balance brought forward from previous year		5,322,166	4,810,300
PROFIT AVAILABLE FOR APPROPRIATION		87,309,086	31,984,041
APPROPRIATIONS			
Transfer to general reserve	4	-	2,900,000
Dividend – interim		-	21,562,500
Corporate tax on dividend		-	2,199,375
BALANCE, END OF THE YEAR		87,309,086	5,322,166
Earnings per share (equity shares, par value Rs 10 each)	2(h)		
Basic and diluted (in Rs)		28.52	9.45
Weighted average number of shares used in computing earnings per share, basic and diluted		2,875,000	2,875,000

The accompanying notes 1 to 23 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

per **Prashant Singhal**
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

J Sridevi
Company Secretary

SYNGENE INTERNATIONAL PRIVATE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

		2003	2002 (Note 23)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		82,185,579	29,516,904
Adjustments for -			
Non cash item/items required to be disclosed separately :			
Depreciation	16,370,757		11,119,136
Interest and finance charges	1,292,903		943,542
Interest income gross	(550,667)		(5,278,168)
Provision for dimunition in value of investments	-		99,999
Loss on disposal of assets	-		34,866
		17,112,993	6,919,375
Changes in working capital and other provisions :			
Sundry debtors	4,936,064		4,432,284
Inventories	(3,972,226)		(1,513,834)
Loans and advances	996,440		(1,157,469)
Current liabilities and provisions	15,299,187		12,587,930
		17,259,465	14,348,911
Cash generated from operations		116,558,037	50,785,190
Tax paid			
Current taxes	(3,316,324)		(2,308,395)
Prior year taxes (Refer Note 14)	(797,272)	(4,113,596)	(1,135,537)
Net cash provided by operating activities		112,444,441	47,341,258
II. CASH FLOWS FROM INVESTING ACTIVITIES :			
Fixed assets			
Purchase	(59,799,494)		(26,793,061)
Sale	1,547,752	(58,251,742)	165,000
Purchase of investments		(50,000,000)	
Net cash used for investing activities		(108,251,742)	(26,628,061)
III. CASH FLOWS FROM FINANCING ACTIVITIES :			
Receipts/(repayments) of secured loans	(2,800,500)		(1,969,464)
Interest paid	(1,292,903)		(943,542)
Receipts/(repayment) of loans	-		21,720,743
Interest received	550,667		5,278,168
Interim dividend paid	-		(21,562,500)
Final dividend for the year ended March 31, 2001	-		(5,750,000)
Corporate tax on dividend	(2,199,313)		(586,562)
Net cash used for financing activities		(5,742,049)	(3,813,157)
IV. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)		(1,549,350)	16,900,040
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		17,669,530	769,490
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		16,120,180	17,669,530

S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

For and on behalf of the Board of Directors

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

J Sridevi
Company Secretary

SYNGENE INTERNATIONAL PRIVAT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

1.Background

Syngene International Private Limited ('Syngene' or 'the Company') was promoted by Ms Kiran Mazumdar Shaw, a promoter of Biocon India Limited ('BIL'), and was incorporated at Bangalore in 1993. At March 30, 2002, 99.99 per cent of the equity shares of the Company were transferred to BIL and, resultantly, the Company became the subsidiary of BIL.

The Company was formed with an objective of providing contract research services to overseas customers in the field of synthetic chemistry and molecular biology. The Company sells products arising from research activities carried out on behalf of its customers.

During the year, the Company expanded its operations by almost doubling its capacity for undertaking the contract research activities by commercializing its second 100 per cent Export Oriented Unit (approved by Cochin Export Processing Zone) at Bommasandra, Bangalore, Karnataka.

2.Summary of significant accounting policies

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting and in accordance with the generally accepted accounting principles in India including the standards of accounting issued by the Institute of Chartered Accountants of India and referred to in section 211(3C) of the Companies Act, 1956 ('the Act'). The significant accounting policies are as follows:

a. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The Company capitalises all costs relating to the acquisition and installation of fixed assets. Fixed assets are depreciated pro rata to the period of use, on the straight line method at the annual rates prescribed in Schedule XIV to the Act or based on the estimated useful lives, whichever is higher.

	Per cent
Buildings	4.00
Plant and machinery	11.11 - 33.33
Furniture and fixtures	16.67
Vehicles	16.67

b. Investments

Long-term investments are stated at cost. Provision, where necessary, is made to recognize a decline, other than temporary, in the value of investments. Current investments are stated at the lower of cost and fair market value.

c. Inventories

Inventories comprise chemicals and reagents, and are valued at the lower of cost and net realisable value, on a first in first out basis.

d. Revenue recognition

(i) Contract research fee

Contract research fees are recognized as services are rendered, in accordance with the terms of the contracts.

(ii) Sale of compounds

Sales are recognised on dispatch of goods to customers, and comprise amounts invoiced for goods sold.

e. Retirement benefits

The Company has schemes of retirement benefits for provident fund, gratuity and superannuation, in respect of which, the Company's contributions are charged to the statement of profit and loss. The contributions towards provident fund are made to statutory authorities. The gratuity and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity and superannuation, the adequacy of the accumulated fund available with Birla Sunlife has been confirmed on the basis of an actuarial valuation made at year-end.

f. Compensated absences

Liability for compensated absences is provided at current encashable salary rates for the unutilized leave balance standing to the credit of employees as at the balance sheet date. Upto March 31, 2002, the Company provided for leave encashment on the basis of an actuarial valuation performed by an independent actuary. This change in accounting policy does not have any significant effect on the profit of the year.

g. Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated current assets and liabilities are translated into rupees at the exchange rate prevailing on the date of the balance sheet. Where the Company has entered into foreign exchange contracts, the difference between the forward rates and the spot rates at the date of the transaction is recognised in the statement of profit and loss over the life of the contract. All exchange differences are dealt with in the statement of profit and loss, except those relating to the acquisition of fixed assets, which are adjusted to the cost of the assets.

h. Income tax

Provision for tax is made for both current and deferred taxes. Provisions for current income tax is made on the current tax rates based on assessable income. The Company provides for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current tax provision. Deferred tax assets are recognised and carried forward only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. The effect on deferred taxes of a change in tax rates is recognised in income in the year in which the change is substantially enacted.

i. Earnings per share

The earnings considered in ascertaining the Company's earnings per share comprise of the net profit after tax. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, which would have been issued on the conversion of dilutive potential equity shares, if any.

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3. Share capital	2003	2002
Authorised:		
3,500,000 (2002 – 3,500,000) equity shares of Rs 10 each	35,000,000	35,000,000
Issued, subscribed and paid-up:		
2,875,000 (2002 – 2,875,000) equity shares of Rs 10 each fully paid	28,750,000	28,750,000

Of the above, 2,874,830 (2002 – 2,874,830) equity shares are held by BIL.

4. Reserves and surplus	2003	2002
General reserve		
Balance, beginning of the year	45,600,304	50,153,404
Less: Deferred tax expense of earlier years	-	(7,453,100)
Add:Transfer from Profit and loss account	-	2,900,000
Balance, end of the year	45,600,304	45,600,304
Share premium account	193,050	193,050
Balance in Profit and loss account	87,309,086	5,322,166
	133,102,440	51,115,520

5. Deferred tax liability	Deferred tax (asset)/liability as at April 1, 2002	Current year charge/(credit)	Deferred tax (asset)/liability as at March 31, 2003
Depreciation	7,840,795	(7,840,795)	-

The Company, constituting two 100 per cent Export Oriented Units (approved by the Cochin Export Processing Zone on December 14, 1998 and the Cochin Special Economic Zone on August 24, 2001), claims exemption under section 10B of the Income-Tax Act, 1961 ('the Act'). The Company had created a deferred tax liability in the previous year as the timing difference was expected to reverse after the respective tax holiday periods.

On February 24, 2003, the Company obtained an approval from the Department of Scientific and Industrial Research for exemption of profits under section 80-IB (8A) of the Act. Based on the above, the Company, during the current year, has not recognised any deferred tax liability/asset on account of timing differences as the Company expects it to reverse during the tax holiday/tax deduction period.

6. Secured loans	2003	2002
From Bank		
Packing credit	-	2,800,500

The Company had an aggregate cash credit and packing credit facility of Rs 6,500,000, repayable on demand and secured against inventories, receivables and plant and machinery. These facilities carried interest at 7.5 per cent to 13.25 per cent per annum, respectively, and were discontinued in March 2003.

7. Fixed assets

	Balance, beginning of year	Additions/charge	Deletions/	Balance, end of year
Cost				
Buildings	18,758,528	-	2,201,677	16,556,851
Plant and machinery	76,435,863	68,009,268	352,613	144,092,518
Furniture and fixtures	5,427,785	3,246,169	-	8,673,954
Vehicles	1,752,764	-	-	1,752,764
	102,374,940	71,255,437	2,554,290	171,076,087
Prior year	86,335,634	16,438,596	399,290	102,374,940
Accumulated depreciation				
Buildings	1,967,889	755,002	696,241	2,026,650
Plant and machinery	20,103,042	14,096,641	310,298	33,889,385
Furniture and fixtures	1,768,134	1,226,986	-	2,995,120
Vehicles	437,790	292,127	-	729,917
	24,276,855	16,370,756	1,006,539	39,641,072
Prior year	13,357,143	11,119,136	199,424	24,276,855
Net book value				
Buildings	16,790,639			14,530,201
Plant and machinery	56,332,821			110,203,133
Furniture and fixtures	3,659,651			5,678,834
Vehicles	1,314,974			1,022,847
	78,098,085			131,435,015
Prior year	72,978,491			78,098,085

Notes:

(a) The Company has capitalised foreign exchange losses of Rs 370,476 (2002 – Rs 95,940) during the year.

(b) On March 31, 2003, the Company transferred one of its buildings and related electrical equipment (See Note 17) to BIL, the holding company, at its book value of Rs 1,547,751.

8. Investments	2003	2002
Long term and non-trade		
Unquoted:		
1,000 equity shares (2002 – 1,000 equity shares) of Rs 100		
each of Xcyton Diagnostics Limited, fully paid	100,000	100,000
Less: Provision for other than temporary dimunition in value	99,999	99,999
	1	1
Current at lower of cost and fair market value		
5,000,000 units (2002 – Rs Nil) of Rs 10 each in IL&FS Fixed Maturity Plan	50,000,000	-
Aggregate amount of unquoted investments	50,000,001	1
9. Inventories		
Chemicals and reagents	12,093,433	8,121,207
10. Sundry debtors		
Unsecured and considered good:		
Debts outstanding for a period exceeding six-months	996,103	-
Other debts	9,700,695	15,632,862
	10,696,798	15,632,862
11. Cash and bank balances		
Cash on hand	6,991	14,037
Balances with scheduled banks in:		
Cash credit account	12,706	-
Current account	1,100,483	17,629,493
Deposit account	15,000,000	26,000
	16,120,180	17,669,530

Deposit account includes Rs 10,000,000 (2002 – Rs Nil) used as a lien executed for availing an overdraft facility of Rs 10,000,000 to finance working capital, repayable on demand, carrying an interest rate of 2 per cent above the time deposit rate, per annum. Though the Company has utilised the facility during the year, there are no overdrawn balances at March 31, 2003.

12. Loans and advances (unsecured and considered good)	2003	2002
Advances recoverable in cash or in kind or for value to be received	3,553,149	4,554,589
Deposits	691,500	686,500
Advance income-tax, net of provision	-	891,504
	4,244,649	6,132,593

The maximum amount outstanding during the year from BIL was Rs 425,000 (2002 – Rs 51,290,488).

13. Current liabilities and provisions

	2003	2002
Current liabilities:		
Sundry creditors		
Dues to small-scale industrial undertakings	276,398	218,444
Others	18,589,973	17,504,608
Advances from customers	18,005,084	6,778,264
Other liabilities	18,922,486	12,749,828
	55,793,941	37,251,144
Provisions:		
For compensated absences/leave encashment	3,918,174	1,234,574
For retirement benefits	-	5,796,370
Corporate tax on dividend	-	2,199,313
Taxation, net of advance tax	3,034,354	-
	6,952,528	9,230,257
	62,746,469	46,481,401

(a) The names of small-scale industrial undertakings to whom an amount is outstanding are:

	2003	2002
(a) Bangalore Genei Private Limited		
(b) Millenium Chem Pharma Private Limited	118,781	
(c) Prince Chemicals	50,000	
(d) Hermes Laboratories	13,607	
	94,010	
	276,398	

(b) During the year, the Company funded its retirement benefit liabilities by entering into an arrangement with Birla Sunlife for forming and managing a trust to administer the Company's gratuity and superannuation schemes. Accordingly, the Company contributed the entire liability as at March 31, 2002 and made further contributions of Rs 4,878,797 based on the actuarial valuation at March 31, 2003.

14. Taxation (current taxes)

The Company claims exemption under Section 10B of the Act for a period of ten years from the date of set-up/approval by Cochin Export Processing Zone of its 100 per cent Export Oriented Units (See Note 5).

Current tax provision comprise tax on the Company's other taxable income at applicable tax rates, tax on 10 per cent of export profits under section 10B and provision of Rs 2,041,992 with respect to earlier assessment years as a result of claims made by the Tax Authorities in the assessment orders of the earlier years.

15. Contract research and other operating costs	2003	2002
Research material costs		
Chemicals and reagents consumed	67,514,574	41,928,001
Employee costs		
Salaries, wages, allowances and incentives	59,803,612	41,365,017
Contribution to provident fund	2,567,735	1,999,211
Gratuity, superannuation and compensated absences	7,562,397	3,580,207
Welfare expenses	1,846,212	1,386,567
Director's remuneration	24,000	24,000
Selling, general and administrative expenses		
Rent	900,000	900,000
Communication	1,153,798	2,026,052
Travelling and conveyance	4,793,181	2,911,564
Professional charges	842,567	686,379
Power	5,100,924	3,628,446
Insurance	253,609	218,434
Rates, taxes and fees	42,067	68,369
Repairs and maintenance		
Plant and machinery	3,265,479	5,357,420
Buildings	823,081	893,556
Others	2,661,190	1,964,942
Selling expenses		
Freight outwards and clearing charges	974,005	545,174
Sales Promotion	223,339	147,719
Printing and stationery	600,542	531,064
Loss on sale of assets (net)	-	34,866
Miscellaneous expenses	995,978	1,188,458
	161,948,290	111,385,446

16. Interest and finance charges		
Interest expense	651,914	358,526
Bank charges	640,989	585,016
	1,292,903	943,542

17. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2002 to March 31, 2003	Balance as at March 31, 2003	April 1, 2001 to March 31, 2002	Balance as at March 31, 2002
1.	Biocon India Limited	Holding/ Associate company (Upto March 30, 2002)	Interest income/ (expense) on current account transactions	(406,412)	-	5,250,149	-
			Current account:				
			Due from BIL	425,000	-	29,569,744	-
			Due to BIL	19,057,487	-	4,271,064	-
			Rent expense	1,140,000	-	1,140,000	-
			Rent deposit	-	600,000	-	600,000
			Power charges	5,100,924	-	3,628,446	-
			Communication expense	1,000,000			
			Sale of fixed assets	1,547,751	-	-	-
2.	Clinigene International Private Limited	Associate company	Rent income	240,000	-	240,000	-
3.	Ms Kiran Mazumdar Shaw	Director	Personal guarantee for cash credit and packing credit facilities	-	-	9,000,000	-

4. Apart from the transactions specified above:
(i) The Company receives assistance from its holding company, BIL in the areas of senior management services in respect of which no charges have been made by BIL.

(ii) BIL has given corporate guarantees of Rs 80,000,000 (2002 – Rs 80,000,000) to the Customs and Excise department ('CED') on behalf of the Company and the Company has furnished a corporate guarantee of Rs 15,000,000 (2002 – Rs 17,500,000) on behalf of BIL to the CED.

(iii) BIL has given stock options in BIL to certain employees of the Company in respect of which no charges have been made by BIL.

18. Supplementary profit and loss data

	2003	2002
a. Payment to auditors (included in professional charges)		
Statutory audit	175,000	197,500
Tax audit	50,000	50,000
Taxation matters	-	78,600
Other matters	-	3,056
	225,000	329,156

b. Consumption of laboratory chemical	2003		2002	
	Quantity	Amount	Quantity	Amount
Chemicals and reagents	*	67,514,574	*	41,928,001
	Per cent	Amount	Per cent	Amount
Imported	27	18,195,482	34	14,235,787
Indigenous	73	49,319,091	66	27,692,214
		67,514,573		41,928,001

* Due to numerous items classified thereunder, it is not practical to quantify consumption of individual items.

Consumption values have been derived on the basis of opening stock plus purchases less closing stock and therefore include adjustments ascertained during physical count, write off of obsolete items, etc.

	2003	2002
c . Value of imports on CIF basis		
Chemicals and reagents	17,100,416	13,082,842
Capital goods	38,045,436	18,864,054
	55,145,852	31,946,896
d. Expenditure in foreign currency		
Travel	2,208,455	1,125,387
Others	504,326	726,023
	2,712,781	1,851,410
e. Earnings in foreign exchange		
Exports on FOB basis	35,975,176	10,464,853
Recovery of freight, insurance etc on exports	118,379	-
Contract research fees	225,153,306	136,563,698
	261,246,861	147,028,551

19. Remittances during the year in foreign currency on account of dividends to non-resident shareholders	2003	2002
Interim dividend		
Number of shareholders	-	8
Number of equity shares (shares of Rs 10 each)	-	80
Amount remitted for the year ended March 31, 2002	-	600
Final dividend paid for previous year		
Number of shareholders	-	18
Number of equity shares (shares of Rs 10 each)	-	2,117,250
Amount remitted for the year ended March 31, 2001	-	4,234,500
20. Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for	1,186,065	4,392,014

21. Foreign exchange differences

Income from contract research and sale of compounds and research and material costs include foreign exchange (gain)/loss of Rs 710,659 [(2002 – (Rs 1,533,401)] and (Rs 1,094,264) [2002 – Rs 765,048], respectively.

22. Contingent liabilities

The Company has given two corporate guarantees in favour of Customs and Excise Department in respect of certain performance obligations of BIL aggregating to Rs 15,000,000 (2002 – Rs 17,500,000). The Company is informed that the necessary terms and conditions have been complied with and no liability has arisen till date (See Note 17).

23. Prior year comparatives

The financial statements for the prior year ended March 31, 2002, were audited by another firm of chartered accountants and have been reclassified, where necessary, to conform to the current year presentation.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in thousands of Indian Rupees)

(a) Registration Details	
Registration number	**14937**
State code	**08**
Balance Sheet date	**March 31, 2003**
(b) Capital raised during the year	
Public issue	-
Right issue	-
Bonus issue	-
Private placement	-
(c) Position of mobilisation and deployment of funds	
Total liabilities	224,599
Total assets	224,599
Sources of funds	
Paid up capital	28,750
Reserves & surplus	133,102
Deferred tax liability	-
Secured loans	-
Unsecured loans	-
Application of funds	
Net fixed assets	131,435
Investments	50,000
Capital work-in-progress	9
Net current assets	(19,591)
(d) Performance of the Company	
Turnover	261,798
Total expenditure	179,612
Profit before tax	82,186
Profit after tax	81,987
Earnings per share (in Rupees)	29
Dividend rate	-
(e) Generic Name of principal products/services of Company	
Product description	Item Code No (ITC code)
Catalytic Preparations	381500
Other Organic Compounds	294200

Clinigene International Private Limited

DIRECTOR'S REPORT

Dear Shareholders,
Your Directors take great pleasure in bringing you this Third Annual Report, along with the Audited Accounts of the Company, for the period ended 31st March, 2003.

Financial Highlights

Financial Results for the year ending :

	March 31, 2003	March 31, 2002
		Rs in Millions
Total revenues	11.07	26.70
Total expenditure	15.88	11.97
Profit / (Loss) before interest depreciation and tax	(4.81)	14.73
Interest	0.35	0.40
Depreciation	0.89	0.84
Profit / (Loss) before tax	(6.05)	13.49
Provision for tax	(0.49)	5.09
Profit / (Loss) after tax	(5.56)	8.40
Surplus brought forward from previous year	1.70	(0.31)
Profit available for appropriation	(3.86)	8.09

Appropriated as follows:

	March 31, 2003	March 31, 2002
		Rs in Millions
Transfer to General Reserve	-	0.88
Dividend – interim	-	5.00
Dividend – proposed	-	-
Corporate tax on proposed dividend	-	0.51
Balance carried to Balance Sheet	-	1.70

Financial Analysis

For the current financial year, the Company has incurred a loss of Rs. 5.56 million as against a profit of Rs. 8.4 million in the previous year. This is due to the completion of the Diabetes study for Surromed Inc and the continuation of the self-sponsored diabetic study. This study has enrolled two research partners viz. Strand Genomics and IISc and the program has generated several potentially high value patents for Clinigene in the area of new Biomarkers for Diabetic Nephropathy.

The Company is also in the process of setting up a Human Pharmacology Unit to carry out Phase 1 to Phase 3 Clinical trials and BA/BE studies. Necessary applications for establishment of the same have been filed and the facility is expected to be operational by September 2003.

The Company has the distinction of being the first laboratory in India to receive accreditation by the College of American Pathologists. This accreditation will enhance the business prospects of the Company.

Personnel
The Company acknowledges the sincere and committed efforts of the Clinigene team in successfully implementing the various activities of the company.

Directors
Mr. J.M.M. Shaw retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-election.

Auditors
The Company's Auditors M/s. S.R.Batliboi & Associates, Chartered Accountants, Bangalore, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Fixed Deposits
The Company has not accepted any fixed deposits and, as such, no principal or interest was outstanding on the date of the balance sheet.

Particulars of Employees Under Section 217 (2A)
As there were no employees, in receipt of remuneration in excess of the limit specified u/s 217 (2A) of the Companies Act, 1956, no details are being submitted.

Directors' Responsibility Statement
Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby declare that:

i) in the preparation of the Annual accounts, the applicable accounting standards were followed along with proper explanations relating to material departures.

ii) the directors had 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 end of the financial year and of the profit of the Company for that year.

iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv) the Directors had prepared the annual accounts on a going concern basis.

Particulars of Research & Development, Conservation of Energy, Technology Absorption etc.
The Company's primary business is Clinical Research and all tests are being carried out as per the College of American Pathologists (CAP) specifications.

The Company is committed to energy conservation and adheres to international standards in terms of hygiene, health, safety, environment, and pollution control.

The Company has not bought any technology for absorption.

Foreign Exchange Earnings & Outflow

Total earnings in foreign exchange	Rs. 8 Million
Total out flow in foreign exchange	Rs. 1.4 Million

For and on behalf of the Board of Directors,

KIRAN MAZUMDAR SHAW
Chairman

Dated: May 17, 2003

AUDITORS' REPORT

To
The Members of Clinigene International Private Limited

1. We have audited the attached Balance Sheet of Clinigene International Private Limited as at March 31, 2003 and also the Profit and Loss and the Cash flow Statement account 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 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 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 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, the Profit and Loss Account and the Cash flow Statement dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the 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 the written representations received from the directors, as on March 31, 2003, and taken on record by the Board of Directors, we report that none of the directors are disqualified as on March 31, 2003 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, 2003;

b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

c) in case of the Cash flow Statement, of the cash flows for the year ended on that date.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

Re: Clinigene International Private Limited

1. The Company has maintained proper records showing full particulars, including quantitative details and situation, of fixed assets. Physical verification of fixed assets is performed by the management in accordance with a rotational plan, which is intended to cover all the fixed assets of the Company over a period of two years. We are informed that no material discrepancies were noted, during the course of such verification. In our opinion, the frequency of such verification is reasonable.

2. The fixed assets of the Company have not been revalued during the year.

3. The inventories of research materials of the Company have been physically verified by management during the year. In our opinion, the frequency of verification is reasonable.

4. In our opinion, the procedures for the physical verification of inventories followed by management are reasonable and adequate in relation to the size of the Company and the nature of its business.

5. The discrepancies between the physical and book inventories were not material and have been properly dealt with in the books of account.

6. In our opinion, the valuation of inventories is fair and proper, in accordance with generally accepted accounting principles and is on a basis consistent with the previous year.

7. The rate of interest and other terms and conditions of the loans taken by the Company during the year, from a company listed in the register maintained under section 301 of the Companies Act, 1956 ('the Act'), is not prima facie prejudicial to the interests of the Company. The Company has not taken/ (granted) any other loans from/ (to) companies, firms or other parties listed in the register maintained under Section 301 of the Act, or companies under the same management defined under Section 370 (1B) of the Act.

8. In our opinion and according to the information and explanation given to us, the internal control procedures of the Company relating to purchase of equipment and other similar assets are adequate and commensurate with the size of the Company and nature of its business.

9. The Company has entered into transactions for purchase of services aggregating to Rs 50,000 or more during the year with parties listed in the register maintained under section 301 of the Act and the same has been made at prices which are reasonable having regard to prevailing market prices of such services. The Company has not entered into transaction for the sale of goods, materials and services aggregating to Rs 50,000 or more during the year with parties listed in the register maintained under section 301 of the Act.

10. The Company does not have any unserviceable or damaged stores, raw materials, work-in-progress or finished goods.

11. The Company has not accepted any deposits from the public to which the provisions of section 58A of the Act and the rules framed thereunder apply.

12. The Company's activities do not generate any by-products or scrap.

13. The clause in respect of internal audit is not applicable to the Company.

14. The Central Government has not prescribed the maintenance of cost records by the Company under section 209(1)(d) of the Act.

15. The provisions of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 and Employees' State Insurance Act, 1948 are not applicable to the Company.

16. According to the records of the Company, there were no undisputed amounts outstanding at March 31, 2003 in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty which were due for a period of more than six months from the date they became payable.

17. During the course of our examination of the books of account, carried out in accordance with generally accepted auditing practices, we did not note any personal expenses charged to the statement of profit and loss, other than those payable under contractual obligations or in accordance with generally accepted business practices.

18. The Company is not a sick industrial company within the meaning of section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

In respect of service activities:

19. Due to the nature of services rendered by the Company, the clause in respect of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the relative jobs is not applicable to the Company.

20. According to the information and explanations given to us, the Company considers that a system of allocating man-hours utilised to the relative jobs is not necessary, having regard to the manner of billing.

21. In our opinion, and according to the information and explanations given to us, there is a reasonable system of authorisation at proper levels and an adequate system of internal controls, commensurate with the size of the Company and the nature of its business.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

CLINIGENE INTERNATIONAL PRIVATE LIMITED

BALANCE SHEET – MARCH 31, 2003

(All amounts in Indian rupees)

	Notes	2003	2002 (Note 17)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3	500,000	500,000
Reserves and surplus	4	1,003,244	2,704,478
		1,503,244	3,204,478
Deferred Tax Liability	2(g) & 5	-	487,010
		-	487,010
		1,503,244	3,691,488
APPLICATION OF FUNDS			
Fixed Assets	2(a) & 6		
Cost		9,639,578	6,845,751
Less: Accumulated depreciation		1,844,275	954,803
Net book value		7,795,303	5,890,948
Current Assets, Loans and Advances			
Inventories	2(b) & 7	-	687,155
Sundry debtors	8	5,138,679	8,294,428
Cash and bank balances	9	858	2,727
Loans and advances	10	2,147,626	44,033
		7,287,163	9,028,343
Less: Current Liabilities and Provisions	2(d), 2(e) & 11	17,443,907	11,227,803
Net Current Liabilities		10,156,744	2,199,460
Profit and loss account		3,864,685	-
		1,503,244	3,691,488

The accompanying notes 1 to 17 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Per Prashant Singhal
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

CLINIGENE INTERNATIONAL PRIVATE LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

	Notes	2003	2002 (Note 17)
INCOME			
Contract research fees	2(c)	11,072,704	26,697,302
		11,072,704	26,697,302
EXPENDITURE			
Contract research and other operating expenses	12	15,880,701	11,962,114
Interest and finance charges	13	355,460	400,488
		16,236,161	12,362,602
PROFIT/(LOSS) BEFORE DEPRECIATION AND TAXATION		(5,163,457)	14,334,700
Depreciation	2(a) & 6	889,472	840,655
PROFIT/(LOSS) FOR THE YEAR		(6,052,929)	13,494,045
Provision for taxation			
Current	2(g)	-	4,480,942
Deferred	2(g) & 5	(487,010)	610,254
PROFIT/(LOSS), AFTER TAXES		(5,565,919)	8,402,849
Balance brought forward from previous year		1,701,234	(311,615)
APPROPRIATIONS			
Transfer to general reserve		-	880,000
Dividend - interim		-	5,000,000
Corporate tax on proposed dividend		-	510,000
BALANCE, END OF THE YEAR		(3,864,685)	1,701,234
Earnings/(loss) per share (equity shares, par value Rs 10 each)	2(h)		
Basic and diluted (in Rs)		(111.32)	168.06
Weighted average number of shares used in computing earnings per share, basic and diluted		50,000	50,000

The accompanying notes 1 to 17 form an integral part of this statement.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

per Prashant Singhal
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

CLINIGENE INTERNATIONAL PRIVATE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

		2003	2002
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) before tax		(6,052,929)	13,494,045
Adjustments for -			
Non cash item / items required to be disclosed separately			
Depreciation and amortisation	889,472		840,655
Interest expense	355,460		400,488
		1,244,932	1,241,143
Changes in working capital and other provisions			
Inventories	687,155		(687,155)
Sundry debtors	3,155,749		(8,294,428)
Loans and advances	(2,103,593)		(1,968)
Current liabilities and provisions	(2,900,615)		4,391,488
		(1,161,304)	(4,592,063)
		83,628	(3,350,920)
Cash generated/(used) from/(in) operations		(5,969,301)	10,143,125
Taxes paid		(2,051,557)	(142,965)
Net cash generated/(used) from/(in) operations		(8,020,858)	10,000,160
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(909,330)		(5,792,466)
Net cash (used) in investing activities		(909,330)	(5,792,466)
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt/(Repayment) of Inter-corporate loans	9,793,779		1,194,587
Dividends paid	-		(5,000,000)
Interest paid	(355,460)		(400,488)
Coporate dividend tax	(510,000)		
Net cash provided by financing activities		8,928,319	(4,205,901)
IV. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)		(1,869)	1,793
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		2,727	934
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		858	2,727

S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

per Prashant Singhal
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

CLINIGENE INTERNATIONAL PRIVATE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

1. Background

Clinigene International Private Limited ('Clinigene or 'the Company') was incorporated on August 4, 2000 and became a subsidiary of Biocon India Limited ('BIL') on March 31, 2001. Prior to the acquisition of the controlling interest, the entire share capital of the Company was held by Ms Kiran Mazumdar Shaw and Mr JMM Shaw, the promoters of BIL.

The Company was formed to undertake clinical research activities on discovering new biomarkers and is extending its activity to discovering new diseases subsets and novel data based on pharmacogenomics. The Company has entered into contracts with domestic and international companies to undertake these activities with respect to chronic diseases such as diabetes, osteoporosis, asthma etc, and commenced commercial operations effective December 2000.

During the year, the Company has incurred significant losses of Rs 5,565,919, resulting in a negative net worth of Rs 2,361,441 and a working capital deficiency of Rs 10,156,744 at March 31, 2003. The Company is making aggressive marketing efforts to sell clinical research and is in the process of setting up a human pharmacology unit in association with a leading hospital in India to expand its clinical research activities and is confident of generating profits in its immediate future. BIL, the holding company, has committed to fund capital and operating expenditure requirements of the Company until the Company achieves its planned growth and profitability.

2. Summary of significant accounting policies

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting and in accordance with the generally accepted accounting principles in India including the standards of accounting issued by the Institute of Chartered Accountants of India and referred to in section 211(3C) of the Companies Act, 1956 ('the Act'). The significant accounting policies are as follows:

a. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The Company capitalises all costs relating to the acquisition and installation of fixed assets. Fixed assets are depreciated pro rata to the period of use, on the straight line method at the annual rates prescribed in Schedule XIV to the Act or based on the estimated useful lives, whichever is higher.

	Per cent
Plant and machinery	9.09
Air conditioners	16.67
Furniture and fixtures	16.67
Computers	33.33

b. Inventories

Inventories comprise of research material, and are valued at the lower of cost and net realisable value.

c. Revenue Recognition

The Company enters into two types of contract research arrangements and the revenues therefrom are recognized on the following basis:
(i) Time and material management
Revenues are recognized as services are rendered, in accordance with contractual agreements.
(ii) Fixed price arrangements
Revenues relating to fixed price contracts are recognized based on the percentage of completion method.

d. Retirement benefits

The Company has schemes of retirement benefits for gratuity and superannuation, in respect of which, the Company's contributions are charged to the statement of profit and loss. The gratuity and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity and superannuation the adequacy of the accumulated fund available with Birla Sunlife has been confirmed on the basis of an actuarial valuation made at year-end.

e.Compensated absences

Liability for compensated absences is provided at current encashable salary rates for the unutilized leave balance standing to the credit of employees as at the balance sheet date.

f. Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated current assets and liabilities are translated into rupees at the exchange rate prevailing on the date of the balance sheet. Where the Company has entered into foreign exchange contracts, the difference between the forward rates and the spot rates at the date of the transaction is recognised in the statement of profit and loss over the life of the contract. All exchange differences are dealt with in the statement of profit and loss, except those relating to the acquisition of fixed assets, which are adjusted to the cost of the assets.

g. Income tax

Provision for tax is made for both current and deferred taxes. Provisions for current income tax is made on the current tax rates based on assessable income. The Company provides for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current tax provision. Deferred tax assets resulting from tax losses carried forward are recognised and carried forward only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. The effect on deferred taxes of a change in tax rates is recognised in income in the year in which the change is substantially enacted.

h. Earnings/(loss) per share

Earnings/(loss) considered in ascertaining the Company's earnings/(loss) per share comprise of the net profit/(loss) after tax. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of dilutive potential equity shares, if any.

i. Operating lease

Leases 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 recognized as an expense on a straight-line basis over the lease term.

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3. Share capital

	2003	2002
Authorised:		
500,000 (2002 – 500,000) equity shares of Rs 10 each	5,000,000	5,000,000
Issued, subscribed and paid-up:		
50,000 (2002 – 50,000) equity shares of Rs 10 each, fully paid	500,000	500,000

At March 31, 2003, the entire share capital of the Company was held by BIL, the holding Company and its nominee.

4. Reserves and surplus

	2003	2002
General reserve		
Balance, beginning of the year	1,003,244	-
Deferred tax income of earlier period	-	123,244
Transfer from Profit and Loss account	-	880,000
	1,003,244	1,003,244
Balance in Profit and Loss account	-	1,701,234
	1,003,244	2,704,478

5. Deferred tax liability

	Deferred tax (asset)/liability as at April 1, 2002	Current year charge/(credit)	Deferred tax (asset)/liability as at March 31, 2003
Depreciation	511,834	(511,834)	-
Preliminary expenses	(24,824)	24,824	-
	487,010	(487,010)	-

During the year ended March 31, 2003, the Company has incurred losses of Rs 5,565,919 resulting into a tax loss carry forward situation. The Company has not recognised the net deferred tax asset resulting from the tax loss carry forward, though confident of achieving profits in the immediate future (see Note 1), there is currently no convincing evidence of virtual certainty that it would reverse the tax loss carry forwards. However, deferred tax liability at the beginning of the year has been written back in these financial statements on account of the tax loss carried forward.

6. Fixed assets

	Balance, beginning of year	Additions/charge	Balance, end of year
Cost			
Plant and machinery	6,108,931	1,979,940	8,088,871
Air conditioners	40,000	191,570	231,570
Furniture and fixtures	184,000	622,317	806,317
Computers	512,820	-	512,820
	6,845,751	2,793,827	9,639,578
Prior year	5,766,899	1,078,852	6,845,751
Accumulated depreciation			
Plant and machinery	763,426	676,901	1,440,327
Air conditioners	10,576	6,754	17,330
Furniture and fixtures	20,999	34,877	55,876
Computers	159,802	170,940	330,742
	954,803	889,472	1,844,275
Prior year	114,148	840,655	954,803
Net book value			
Plant and machinery	5,345,505		6,648,544
Air conditioners	29,424		214,240
Furniture and fixtures	163,001		750,441
Computers	353,018		182,078
	5,890,948		7,795,303
Prior year	5,652,751		5,890,948

(a) The Company has capitalised foreign exchange losses of Rs 6,316 (2002 – Rs Nil) during the year.

7. Inventories	2003	2002
Testing kits	-	687,155

8. Sundry debtors (unsecured, considered good)		
Outstanding for more than six months	4,883,119	-
Others	255,560	8,294,428
	5,138,679	8,294,428

9. Cash and bank balances		
Cash on hand	858	2,727

10. Loans and advances (unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	174,302	42,033
Prepaid expenses	901,267	-
Deposits	1,072,057	2,000
	2,147,626	44,033

11. Current liabilities and provisions		
Current liabilities		
Sundry creditors	2,601,798	370,085
Balance due to BIL	9,793,779	-
Balance in current account with bank represents book overdraft	352,144	4,634,459
Other liabilities	2,334,743	1,330,124
	15,082,464	6,334,668
Provisions		
For compensated absences/leave encashment	75,023	4,435
For retirement benefits	-	40,723
Corporate tax on dividend	-	510,000
Taxation, net of advance tax	2,286,420	4,337,977
	2,361,443	4,893,135
	17,443,907	11,227,803

(a) There are no amounts due to Small Scale Industrial undertakings.

(b) The maximum amount outstanding/(receivable) during the year from BIL was Rs 9,869,346 [2002 – (Rs 1,194,586)]. As per the agreement between BIL and Clinigene, interest will be paid at 7 per cent per annum on current account transactions.

(c) During the year, the Company funded its retirement benefit liabilities by entering into an arrangement with Birla Sunlife for forming and managing a trust to administer the Company's gratuity and superannuation schemes. Accordingly, the Company contributed the entire liability as at March 31, 2002 and made further contributions of Rs 157,354 based on the actuarial valuation at March 31, 2003.

12. Contract research and other operating expenses

	2003	2002
Research Material Costs		
Chemicals and reagents consumed	2,544,559	3,522,865
Consultancy fees	7,124,440	5,651,280
Employee costs		
Salaries, wages, allowances and incentives	2,717,665	652,693
Contribution to gratuity, superannuation funds and compensated absences	227,947	36,360
Welfare expenses	27,728	14,045
Power	480,000	480,000
Rent	300,000	286,000
Communication	224,224	151,930
Travelling and conveyance	453,773	77,552
Professional charges	493,475	441,595
Insurance	9,034	671
Rates and taxes	14,004	11,759
Lease rentals	163,400	-
Exchange differences	31,242	(252,117)
Repairs and maintenance		
Buildings	19,530	181,375
Others	335,182	192,720
Sales promotion	38,511	1,619
Printing and stationery	94,186	109,726
Miscellaneous expenses	581,801	402,041
	15,880,701	11,962,114

13. Interest and finance charges

	2003	2002
Interest expense	350,502	394,392
Bank charges	4,958	6,096
	355,460	400,488

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14. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 01, 2002 to March 31, 2003	Balance as at March 31, 2003	April 01, 2002 to March 31, 2002	Balance as at March 31, 2002
1.	Biocon India Limited	Holding company	Interest expense on current account transactions	350,502	276,896	422,625	-
			Current account:				
			Due from	-	-	616,243	-
			Due to	9,869,346	9,516,883	6,438,394	-
			Power expense	480,000	-	480,000	-
2.	Syngene International Private Limited	Associate company	Rent	240,000	-	240,000	-

Apart from the transactions specified above, the Company receives assistance from its holding company, BIL, in the areas of general administration, accounting and senior management assistance in respect of which no charges have been levied by BIL.

15. Supplementary profit and loss data	2003	2002
a. Payments to auditors (included in professional charges)		
Statutory audit	60,000	60,000
Tax audit	15,000	22,500
Taxation matters	-	25,000
Other matters	-	1,986
	75,000	109,486
b. Value of imports on CIF basis		
Capital goods	1,210,953	-
c. Earnings in foreign currency		
Contract research fees	8,346,905	21,188,482
d. Expenditure in foreign currency		
Travel expenses	91,350	-
Others	96,727	63,425
	188,077	63,425
16. Commitments		
a. Capital Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for	97,740	-

b. Operating lease commitments

The Company has taken a vehicle for an employee under operating lease, which expires in November 2006. Gross rental expenses for the period ended March 31, 2003 aggregated to Rs 163,400 (March 31, 2002 – Rs Nil). The future committed lease rental at March 31, 2003:

Not later than one year	238,126
Later than one year and not later than five years	635,002

17. Prior year comparatives

The financial statements for the prior year ended March 31, 2002 were audited by another firm of chartered accountants and have been reclassified, where necessary, to conform to the current year's presentation.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in thousands of Indian Rupees)

(a) Registration details	
Registration No.	**27566**
State Code	**08**
Balance Sheet Date	**March 31, 2003**
(b) Capital raised during the year	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
(c) Position of mobilisation and deployment of funds	
Total liabilities and shareholders funds	18,947
Total assets	18,947
Sources of funds	
Paid up capital	500
Reserves & surplus	1,003
Application of funds	
Net fixed assets	7,795
Capital work in progress	-
Net current liabilities	10,157
Accumulated losses	3,865
(d) Performance of the Company	
Turnover	11,073
Total expenditure	17,126
Profit/(Loss) before Tax	(6,053)
Profit/(Loss) after Tax	(5,566)
Earnings per share in Rupees	(111)
Dividend rate	-

(e) Generic names of three principal products/services of the Company

The Company is principally engaged in providing contract research services in the field of medical research.

Biocon India Limited and Subsidiaries INDIAN GAAP

AUDITORS' REPORT

To
The Board of Directors of Biocon India Limited

1. We have examined the attached consolidated balance sheet of Biocon India Limited ('Biocon') and its subsidiaries, Syngene International Private Limited ('Syngene') and Clinigene International Private Limited ('Clinigene'), (collectively, 'the Group') as at March 31, 2003, the consolidated profit and loss account and consolidated cash flow statement for the year then ended prepared in accordance with accounting principles generally accepted in India.

2. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

3. We report that the consolidated financial statements have been prepared by the Group in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of Biocon and its subsidiaries, Syngene and Clinigene, included in the consolidated financial statements.

4. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Biocon and its aforesaid subsidiaries, we are of the opinion that in conformity with the accounting principles generally accepted in India:

a. the consolidated balance sheet gives a true and fair view of the consolidated state of affairs of Biocon India Limited and its subsidiaries as at March 31, 2003;

b. the consolidated profit and loss account gives a true and fair view of the consolidated results of operations of Biocon India Limited and its subsidiaries for the year then ended; and

c. the consolidated cash flow statement gives a true and fair view of the consolidated cash flows of Biocon India Limited and its subsidiaries for the year then ended.

5. This report is solely for the information and internal use of Biocon India Limited and its subsidiaries and should not be used or referred in any document without our prior written consent.

S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET – MARCH 31 , 2003

(All amounts in Indian Rupees)

	Notes	2003	2002 (Unaudited & Note 27)
SOURCES OF FUNDS			
Shareholders' Funds			
Share capital	3	18,376,500	18,217,800
Reserves and surplus	2(a) & 4	1,323,373,636	857,042,886
Minority interest	5	10,845	5,997
		1,341,760,981	875,266,683
Deferred Tax Liability	2(j) & 6	143,056,613	108,658,261
Loan Funds			
Secured loans	7	582,108,709	561,430,712
Unsecured loans	8	103,545,391	106,033,378
		685,654,100	667,464,090
		2,170,471,694	1,651,389,034
APPLICATION OF FUNDS			
Fixed Assets	2(b), 2(i), 2(k) & 9		
Cost		1,737,495,665	1,365,940,538
Less: Accumulated depreciation		378,366,962	239,268,724
Net book value		1,359,128,703	1,126,671,814
Capital work-in-progress, [including capital advances of Rs 12,798,834 (2002 – Rs 14,503,578)]		79,852,448	48,464,725
		1,438,981,151	1,175,136,537
Investments	2(e) & 10	50,001,202	7,182
Current Assets, Loans and Advances			
Inventories	2(c) & 11	479,055,022	242,651,232
Sundry debtors	12	753,302,064	647,435,783
Cash and bank balances	13	26,338,294	18,625,134
Loans and advances	14	152,422,901	105,313,894
		1,411,118,281	1,014,026,043
Less: Current Liabilities and Provisions	2(f), 2(g) & 15	729,628,940	537,780,730
Net Current Assets		681,489,341	476,245,313
		2,170,471,694	1,651,389,032

The accompanying notes 1 to 27 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Per Prashant Singhal
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

	Notes	2003	2002 (Unaudited & Note 27)
INCOME			
Sales	2(d),2(h) & 23	2,578,492,686	1,606,205,080
Contract research fees	2(d),2(h) & 23	241,387,602	36,712,043
Other income	16	25,275,983	11,752,371
		2,845,156,271	1,654,669,494
EXPENDITURE			
Manufacturing, contract research and other expenses	2(h),17 & 23	2,104,515,203	1,268,458,257
Interest and finance charges	19	49,811,215	46,664,743
		2,154,326,418	1,315,123,000
PROFIT BEFORE DEPRECIATION AND TAXES		690,829,853	339,546,494
Depreciation	2(b) & 9	139,098,238	80,304,260
Less: Amount transferred from revaluation reserve	2(b) & 4	1,667,011	1,667,011
		137,431,227	78,637,249
PROFIT BEFORE TAXES		553,398,626	260,909,245
Provision for income-tax			
Current taxes	2(j) & 21	83,845,708	54,480,942
Deferred taxes	2(j) & 6	34,398,353	21,492,507
PROFIT FOR THE YEAR		435,154,565	184,935,795
Minority interest	5	4,848	-
NET PROFIT		435,149,717	184,935,795
Balance brought forward from previous year		212,186,294	28,640,499
PROFIT AVAILABLE FOR APPROPRIATION		647,336,011	213,576,294
APPROPRIATIONS			
Transfer to general reserve	4	-	880,000
Dividend tax		-	510,000
BALANCE END OF THE YEAR	4	647,336,011	212,186,294
		647,336,011	213,576,294
Earnings per share (equity shares, par value Rs 10 each)	2(m)		
Basic and diluted (in Rs)		237.02	118.83
Weighted average number of shares used in computing earnings per share			
Basic and diluted		1,835,954	1,556,293

The accompanying notes 1 to 27 form an integral part of this balance sheet.

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Per **Prashant Singhal**
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

		2003	2002 (Unaudited & Note 27)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		553,398,626	260,909,245
Adjustments for -			
Non cash item/items required to be disclosed separately:			
Depreciation	137,431,227		78,637,249
Amortisation of employee compensation cost	33,863,779		-
Provision for bad and doubtful debts	4,609,125		-
Interest expense	49,811,215		47,087,368
Interest income (gross)	(2,751,478)		(426,772)
Dividend earned (gross)	-		(1,282)
Dimunition in value of investments	-		99,999
Gain on sale of investment	(6,987)		-
Gain on assets sold, discarded etc.	(1,704,985)		(80,000)
		221,251,896	125,316,562
Changes in working capital and other provisions :			
Sundry debtors	(110,475,407)		(242,396,839)
Inventories	(236,403,790)		(15,371,483)
Loans and advances	(46,438,160)		(44,762,024)
Current liabilities and provisions	210,509,804		101,623,832
		(182,807,553)	(200,906,514)
		38,444,343	(75,589,952)
Cash generated from operations		591,842,969	185,319,293
Tax paid (net of refunds)		(97,786,904)	(32,935,515)
Net cash provided by operating activities		494,056,065	152,383,778
II. CASH FLOWS FROM INVESTING ACTIVITIES :			
Fixed assets			
Purchase	(407,570,018)		(413,297,461)
Sale	2,067,750		80,000
Interest received	2,080,631		426,772
Sale of investment	12,967		-
Purchase of investment	(50,000,000)		(419,545)
Net cash used for investing activities		(453,408,670)	(413,210,234)
III. CASH FLOWS FROM FINANCING ACTIVITIES :			
Proceeds from issuance of share capital	158,700		1,215,300
Short term borrowings from banks	(31,918,719)		156,923,553
Receipt/(Repayment) of secured loans	52,596,715		39,882,801
Deferred sales tax credit	47,512,013		40,039,573
Receipt/(Repayment) of unsecured loans	(50,000,000)		50,000,000
Interest paid	(48,573,631)		(47,967,589)
Corporate dividend tax	(2,709,313)		-
Net cash used for financing activities		(32,934,235)	240,093,638
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		7,713,160	(20,732,818)
V. ACQUISITION OF CASH AND CASH EQUIVALENTS ON ACQUISITION		-	39,233,318
VI. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		18,625,134	124,634
VII. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V+VI)		26,338,294	18,625,134

As per our report of even date
S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

For and on behalf of the Board of Directors

Per Prashant Singhal
Partner

Kiran Mazumdar Shaw
Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

(All amounts in Indian Rupees)

1.Background

a. Incorporation and history

Biocon India Limited ('Biocon') promoted by Ms Kiran Mazumdar Shaw ('KMZ'), was incorporated at Bangalore in 1978. As at March 31, 2003, 68.6 per cent of the shareholding of Biocon is held by Ms Kiran Mazumdar Shaw and Glentec International, Mauritius together with associated persons, 13.6 per cent by ICICI Venture Funds, 7.6 per cent by Biocon Employees Welfare Trust and the balance by employees and others. Syngene International Private Limited ('Syngene') promoted by KMZ, was incorporated at Bangalore in 1993. At March 30, 2002, Biocon acquired 99.99 per cent of the equity shares of Syngene and, resultantly, the Company became the subsidiary of Biocon. Clinigene International Private Limited ('Clinigene') was incorporated on August 4, 2000 and became a wholly owned subsidiary of Biocon on March 31, 2001.

Biocon, together with its subsidiaries, Syngene and Clinigene, hereinafter collectively referred to as 'the Group'.

b. Operations

Biocon is engaged in the manufacture of biotechnology products in the pharmaceutical and enzyme sectors through fermentation based technology; Syngene is primarily engaged in providing contract research services to overseas customers in the field of synthetic chemistry and molecular biology, it also sells products arising from research activities carried out on behalf of its customers; and Clinigene undertakes clinical research activities on discovering new biomarkers and is extending its activity to discovering new diseases subsets and novel data based on pharmacogenomics.

Biocon has entered into an Agreement on February 22, 2002 to set up a Joint Venture Company ('JVC') with CIMAB SA ('CIMAB'), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of Biopharmaceuticals, to manufacture and market products using technology and to carry out research activities. During the year, Biocon has acquired land measuring 26.75 acres in Bommasandra, part of which would be used by the JVC to set up production facilities. Biocon and CIMAB expect the JVC to commence production during the calendar year ending December 31, 2004.

During the year, the Group expanded its operations through Syngene by almost doubling its capacity for undertaking contract research activities by commercializing its second 100 per cent Export Oriented Unit (approved by Cochin Export Processing Zone) at Bommasandra, Bangalore, Karnataka. The Group is making aggressive marketing efforts through Clinigene to sell clinical research and is in the process of setting up a human pharmacology unit in association with a leading hospital in India to expand its clinical research activities.

The Group has its facilities located at Hebbagodi and Bommasandra, Bangalore district, Karnataka.

2. Summary of significant accounting policies

a. Principles of consolidation

The financial statements of the Group are prepared under the historical cost convention on accrual basis of accounting, and in accordance with accounting principles generally accepted in India.

As these financial statements are not statutory financial statements they are presented in the general format specified by Schedule VI of the Companies Act, 1956 ('the Act') and hence do not reflect all the disclosure requirements of the Act.

The consolidated financial statements of the Group have been prepared based on a line-by-line consolidation of the balance sheet, statement of profit and loss and cash flows of Biocon, Syngene and Clinigene as at March 31, 2003. All material intercompany transactions and balances between the entities are eliminated on consolidation. The significant accounting policies adopted by the Group, in respect of the consolidated financial statements are detailed as follows:

b. Fixed assets and depreciation

Fixed assets are stated at cost, except for revalued freehold land and buildings, which are shown at, estimated replacement cost as determined by valuers, less accumulated depreciation. The Group capitalises all costs relating to the acquisition and installation of fixed assets.

Fixed assets, other than freehold land, but including revalued buildings, are depreciated pro rata to the period of use, on the straight line method based on the estimated useful lives.

	Per cent
Buildings	4.00
Plant and machinery	9.09 - 33.33
Research and development equipment	11.11
Furniture and fixtures	16.67
Vehicles	16.67

Goodwill is amortised over a period of 5 years and assessed for impairment at each balance sheet date. Leasehold land is depreciated over a period not exceeding that of the lease.

The charge over and above the depreciation calculation on the original cost of the revalued assets is transferred from the revaluation reserve to the profit and loss account.

c. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes all applicable overheads in bringing the inventories to their present location and condition. Excise duty arising on finished goods and customs duty on imported raw materials in stock (excluding stocks in the bonded warehouse) are treated as part of the cost of inventories.

d. Revenue recognition

(i) Sale of pharmaceuticals, enzymes and compounds
Sales are recognised on despatch of goods to customers and are recorded net of excise duty, sales tax and other levies.

(ii) Contract research agreements
The Group enters into two basic types of contract research agreements and the revenues therefrom are recognised on the following basis:

(a) Time and material management
Revenues are recognized as services are rendered, in accordance with contractual agreements.

(b) Fixed price arrangements
Revenues relating to fixed price contracts are recognized based on the percentage of completion method.

e. Investments

Long-term investments are stated at cost. Provision, where necessary, is made to recognise a decline, other than temporary, in the value of investments. Current investments are stated at lower of cost and fair market value.

f. Retirement benefits

The Group has schemes of retirement benefits for provident fund, gratuity and superannuation, in respect of which, the Group's contributions are charged to the statement of profit and loss. The contributions towards provident fund are made to statutory authorities. The gratuity and superannuation fund benefits of the Group are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity and superannuation, the adequacy of the accumulated fund available with Birla Sunlife has been confirmed on the basis of an actuarial valuation made at year-end.

g. Compensated absences

Liability for compensated absences is provided at current encashable salary rates for the unutilised leave balance standing to the credit of employees as at the balance sheet date. Upto March 31, 2002, the Group provided for leave encashment on the basis of an actuarial valuation performed by an independent actuary. This change in accounting policy has resulted into an additional cost and liability of Rs 11,471,932 in the year ended March 31, 2003.

h. Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated current assets and liabilities are translated into rupees at the exchange rate prevailing on the date of the balance sheet. Where the Group has entered into foreign exchange contracts, the difference between the forward rates and the spot rates at the date of the transaction is recognised in the statement of profit and loss over the life of the contract. All exchange differences are dealt with in the statement of profit and loss, except those relating to the acquisition of fixed assets, which are adjusted to the cost of the assets.

i. Research and development costs

Research and development costs, including technical know-how fees, incurred for development of products are expensed as incurred, except for development costs which relate to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits. Research and development expenditure of a capital nature is added to fixed assets.

j. Income tax

Provision for tax is made for both current and deferred taxes. Provisions for current income tax is made on the current tax rates based on assessable income. The Company provides for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current tax provision. Deferred tax assets resulting from tax losses carried forward are recognised and carried forward only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. The effect on deferred taxes of a change in tax rates is recognised in income in the year in which the change is substantially enacted.

k. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

l. Deferred employee stock compensation costs

Deferred employee stock compensation costs for stock options are recognised on the basis of generally accepted accounting principles and are measured as the excess of the fair value of Biocon's stock on the stock options grant date over the amount an employee must pay to acquire the stock and recognised in a graded manner on the basis of weighted period of services over the vesting period of equity shares. The fair value of the options is measured on the basis of an independent valuation performed in respect of stock options granted.

m. Earnings per share

The earnings considered in ascertaining the Group's earnings per share comprise of the net profit after tax. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares. The number of shares and potentially dilutive equity shares are adjusted for the bonus shares and sub-division of shares.

n. Operating lease

Leases 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 recognized as an expense on a straight-line basis over the lease term.

3. Share capital	2003	2002
Authorised:		
2,000,000 (2002 – 2,000,000) equity shares of Rs 10 each	20,000,000	20,000,000
Issued, subscribed and paid-up:		
1,837,650 (2002 – 1,821,780) equity shares of Rs 10 each, fully paid	18,376,500	18,217,800

(a) Of the above equity shares:
(i) 30,800 equity shares of Rs 100 each were allotted as fully paid bonus shares by capitalisation of general reserve in the year ended March 31, 1997.
(ii) 23,471 equity shares of Rs 100 each were allotted as fully paid-up shares in the year ended March 31, 2000 pursuant to a contract for consideration other than cash .
(iii) On October 8, 2001, the Company issued 12,153 equity shares of Rs 100 each to Biocon India Limited Employee Welfare Trust ('the Trust') under an Employee Stock Option Plan ('ESOP Plan').
(iv) On March 30, 2002, Biocon acquired 99.9 per cent equity in Syngene through the issue of 202,780 equity shares of Rs 10 each. The consideration was determined on the basis of a fair valuation, as approved by the statutory authorities in India. The related share premium at Rs 403.8 per equity share has been credited to share premium account.
(v) On May 9, 2002, Biocon has further issued 15,870 equity shares of Rs 10 each to to the Trust under the ESOP Plan. The trust at March 31, 2003 holds 140,900 equity shares of Rs 10 each of which grants have been made for 71,510 equity shares of Biocon under the ESOP plan.

(b) The shareholders in the Extraordinary General Meeting of Biocon held on February 25, 2002, approved the sub-division of equity shares of face value of Rs 100 each into ten equity shares of face value of Rs 10 each. The Board of Directors in their meeting held on March 30, 2002 passed a resolution for effecting the sub-division. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000,000 has been divided into 2,000,000 equity shares of Rs 10 each and the issued, subscribed and paid-up capital of Rs 18,217,800 as at March 31, 2002 was divided into 1,821,780 equity shares of Rs 10 each.

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4. Reserves and surplus	2003	2002
Capital Reserve		
As per last balance sheet	17,094,143	-
Adjustment during the year	-	17,094,143
	17,094,143	17,094,143
Revaluation Reserve		
As per last balance sheet	21,809,784	23,476,795
Less: Transfer on sale and disposal of land	1,015,735	-
Less: Transfer to profit and loss account	1,667,011	1,667,011
	19,127,038	21,809,784
Share Premium		
As per last balance sheet	339,889,570	258,009,035
Received during the year	-	81,880,535
	339,889,570	339,889,570
General Reserve		
As per last balance sheet	266,063,095	344,508,054
Add: Transfer from Profit and Loss Account	-	880,000
Less: Deferred tax liability relating to prior years, net	-	79,324,959
	266,063,095	266,063,095
Stock compensation adjustment (See note 20)		
Additions during the year	65,291,222	-
Less: Deferred employee stock compensation expense	(31,427,443)	-
	33,863,779	-
Balance in profit and loss account	647,336,011	212,186,294
	1,323,373,636	857,042,886

(i) Biocon acquired 99.99 per cent in Syngene on March 30, 2002, through the issue of 202,780 equity shares of Rs 10 each. Biocon's shares were fair valued at Rs 907 at the transaction date. Further, as of March 30, 2002 the net assets of Syngene were Rs 101,422,023 resulting in a capital reserve of Rs 17,094,143.

(ii) Share premium includes an amount of Rs 81,880,535 received on the allotment of 202,780 equity shares of Rs 10 each on March 30, 2002 at a premium of Rs 403.8 per equity share.

(iii) Deferred compensation expense:	2003	2002
Opening balance of deferred compensation expense		
Stock options granted during the year	65,291,222	-
Stock compensation expense amortised during the year	(33,863,779)	-
Closing balance of deferred compensation expense	31,427,443	-

5. Minority interest

Minority interest represents that part of the net results of operations and of the net assets of Syngene to the extent of 170 shares (0.01 per cent), which are attributable to interests which are not owned, directly or indirectly by Biocon.

The share of the net results of operations attributabe to the minority shareholders is on account of the following:

	2003	2002
As per last balance sheet	5,997	-
Adjustment during the year	4,848	5,997
	10,845	5,997

6. Deferred tax liability	Deferred tax (asset)/liability as at April 1, 2002	Current year charge/(credit)	Deferred tax (asset)/liability as at March 31, 2003
Depreciation	121,798,494	34,145,876	155,944,370
Employee retirement benefits	(11,735,977)	5,746,441	(5,989,536)
Amalgamation expenses	(330,918)	110,847	(220,071)
Disallowance under section 43B	(1,038,731)	(4,470,810)	(5,509,541)
Others	(34,607)	(1,134,002)	(1,168,609)
	108,658,261	34,398,352	143,056,613

(I). Syngene, constituting two 100 per cent Export Oriented Units (approved by the Cochin Export Processing Zone on December 14, 1998 and the Cochin Special Economic Zone on August 24, 2001), claims exemption under section 10B of the Income-Tax Act, 1961 ('the Act'). Syngene had created a deferred tax liability in the previous year as the timing difference was expected to reverse after the respective tax holiday periods. On February 24, 2003, Syngene obtained an approval from the Department of Scientific and Industrial Research for exemption of profits under section 80-IB (8A) of the Act. Based on the above, Syngene, during the current year, has not recognised any deferred tax liability/asset on account of timing differences as the Company expects it to reverse during the tax holiday/tax deduction period.

(II). During the year ended March 31, 2003, Clinigene has incurred losses of Rs 5,565,919 resulting into a tax loss carry forward situation. Clinigene has not recognised the net deferred tax asset resulting from the tax loss carry forward, though confident of achieving profits in the immediate future, there is currently no convincing evidence of virtual certainty that it would reverse the tax loss carry forwards. However, deferred tax liability at the beginning of the year has been written back in these financial statements on account of the tax loss carried forward.

7. Secured loans

	2003	2002
From banks		
Cash credit, packing credit, etc.	276,536,087	308,454,806
Term loans		
Payable within one year	139,233,867	68,450,533
Others	166,338,755	184,525,374
	582,108,709	561,430,712

a. Cash credit, packing credit, etc

(i) On January 16, 2002, Biocon renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 130,000,000 (2002 – Rs 130,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debts and carry an interest rate of 2.1 per cent per annum for foreign currency denominated loans and 7.5 to 12.25 per cent per annum for rupee loans. Biocon has utilised Rs 39,650,178 (2002 – 130,000,000) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 39,596,571 (US$ 834,051) [2002 – Rs 19,470,000 (US$ 400,000)].

(ii) On February 7, 2003, Biocon renewed its total rupee and foreign currency denominated working capital facilities with Hongkong and Shanghai Banking Corporation ('HSBC') for Rs 175,000,000 (2002 – Rs 110,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and bookdebt and carry an interest rate of 2 per cent per annum for foreign currency denominated loans and 6 to 15 per cent per annum for rupee loans. Biocon has utilised Rs 115,580,186 (2002 – Rs 110,000,000) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 90,255,512 (US$ 1,902,387) [2002 – Rs Nil (US$ Nil).

(iii) On February 25, 2003, Biocon renewed its working capital facilities with Canara Bank ('CB') for Rs.130,000,000 (2002 – Rs 80,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.1 per cent for foreign currency denominated loans and 8 to 11.75 per cent per annum for rupee loans. Biocon has utilised Rs 121,305,723 (2002 – Rs 65,654,306) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 117,435,931 (US$ 2,473,637) [2002 – Rs 14,937,350 (US$ 310,000)].

(iv) Syngene had a cash credit and packing credit facility of Rs 6,500,000 with SBI, repayable on demand and secured against its inventories receivables and plant and machinery. These facilities carried interest at 7.5 per cent per to 13.25 per cent per annum respectively, and were discontinued in March 2003.

The above working capital loans, are further secured by the personal guarantee of the Managing Director.

b. Term loans

(i) On April 9, 1999, Biocon entered into a term loan facility with Export Import Bank of India ('EXIM bank') for Rs126,001,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans are repayable in 9 equal half yearly instalments commencing from December 10, 2000, and are secured by a first pari passu mortgage and charge on the fixed assets of Biocon and carry an interest rate of 10.5 per cent per annum. Biocon has repaid Rs 84,000,000 (2002 – Rs 42,000,000) as of March 31, 2003.

(ii) On November 5, 1999, Biocon entered into a term loan facility with EXIM bank of India for Rs 46,730,706 for funding its fixed assets acquisitions of the Plafractor Plant. These loans are repayable in 10 equal half yearly instalments commencing from December 10, 2000, secured by a charge on the fixed assets of Biocon and carry an interest rate of 7 per cent per annum. Biocon has repaid Rs 23,993,000 (2002 – Rs 14,395,800) as of March 31, 2003.

(iii) On May 5, 1999, Biocon entered into a term loan facility with SBI for Rs 50,000,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans are repayable in 60 equal monthly instalments commencing from December 2000, are secured by a first pari passu mortgage and charge on the fixed assets of Biocon and carry an interest rate of 2.99 per cent per annum for foreign currency denominated loan and 13 per cent per annum for the rupee loan. Biocon has repaid Rs 23,332,750 (2002 – Rs 13,360,000) as of March 31, 2003. The total balance outstanding as at March 31, 2003 includes foreign currency denominated loan of Rs 20,665,425 (US$ 430,000) [2002 – Rs 36,476,200 (US$760,000)].

(iv) On February 7, 2003, Biocon renewed its rupee and foreign currency denominated term loan facility with HSBC for Rs 170,000,000 (2002 – 100,000,000) for funding its fixed asset acquisitions during the year, of which it has utilised Rs 170,000,000 as of March 31, 2003. The loan is repayable in 44 monthly instalments commencing from November 2002, are secured by a pari passu charge over the fixed assets of Biocon and carry an interest rate of 2.77 per cent per annum for foreign currency denominated loans and 6.6 per cent per annum for rupee loans. Biocon has repaid Rs 20,833,334 (2002 – Rs Nil) as of March 31, 2003. The total balance outstanding as at March 31, 2003 includes foreign currency denominated loan of Rs 52,500,000) (US$ 1,078,029) [2002 -Rs Nil].

(v) On July 3, 2002, Biocon entered into a term loan facility with Technology development Board ('TDB') for Rs 100,000,000 for funding its fixed asset acquisitions of the PlaFractor plant. These loans are repayable in 9 equal instalments commencing from February 2004, are secured by a first pari passu mortgage and charge on the fixed assets of Biocon and carry an interest rate of 5 per cent per annum. At March 31, 2003, Biocon had drawn Rs 65,000,000 from the above facility.

The above term loans are further secured by the personal guarantee of the Managing Director and pledge of 10,000 equity shares of Biocon held by the Managing Director and some employees.

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8. Unsecured loans	2003	2002
Short term loans from EXIM Bank	-	50,000,000
Deferred payment liability	103,545,391	56,033,378
	103,545,391	106,033,378

a. Deferred payment liability

(i) Under the Industrial Policy of the Government of Karnataka, Biocon on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 8 years with respect to sales from its Bommasandra manufacturing facility of Biocon. Under the Order, the deferment amount should not exceed Rs 24,375,000, of which at March 31, 2003, Biocon had utilised Rs 863,624 (2002 – Rs 519,839).

(ii) Under the Agro Food Processing Industrial Policy of the Government of Karnataka, Biocon on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferrment of sales tax (including turnover tax) for a period upto 12 years with respect to sales from Hebbagodi manufacturing facility of Biocon. Under the Order, the deferment amount should not exceed Rs 648,938,000 of which at March 31, 2003, Biocon had utilised Rs 102,681,767 (2002 – 55,513,539).

b. Loan from EXIM Bank

On March 19, 2002, Biocon entered into a short term loan facility with EXIM Bank for Rs 50,000,000. This facility carried an interest rate of 8.75 per cent per annum and was repayable at the end of 90 days from the draw-down. Biocon had given an undertaking that on the non-payment of the term loan at the due date, the loan would carry the same security as that of the EXIM bank term loan or create charge over the fixed assets and the current assets of Biocon. This loan was repaid on June 24, 2002.

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9. Fixed assets

	Balance, beginning of year	Additions/charge	Deletions/ Adjustments	Balance, end of year
Cost/Valuation				
Goodwill	311,615	-	-	311,615
Land				
Freehold (revalued)	10,859,470	-	1,015,735	9,843,735
Freehold (others)	14,063,607	-	362,765	13,700,842
Leasehold	2,523,443	64,200,000	-	66,723,443
Buildings (revalued)	17,575,359	-	-	17,575,359
Buildings (others)	242,655,412	62,662,348	-	305,317,759
Plant and machinery	958,046,252	200,056,907	-	1,158,103,160
Research and development equipment	98,820,842	34,282,059	-	133,102,901
Furniture and fixtures	16,170,017	8,069,936	-	24,239,952
Vehicles	4,914,521	3,662,377	-	8,576,898
	1,365,940,538	372,933,627	1,378,500	1,737,495,665
Accumulated depreciation				
Goodwill	311,615	-		311,615
Leasehold land	2,246,455	138,495	-	2,384,950
Buildings (revalued)	6,625,045	1,667,011	-	8,292,056
Buildings (others)	26,048,257	11,259,750		37,308,007
Plant and machinery	175,519,241	108,993,865		284,513,106
Research and development equipment	20,636,194	12,740,398	-	33,376,592
Furniture and fixtures	5,879,739	3,257,315	-	9,137,054
Vehicles	2,002,178	1,041,403	-	3,043,581
	239,268,724	139,098,238	-	378,366,962
Net book value				
Goodwill	-			-
Land				
Freehold (revalued)	10,859,470			9,843,735
Freehold (others)	14,063,607			13,700,842
Leasehold	276,988			64,338,493
Buildings (revalued)	10,950,314			9,283,303
Buildings (others)	216,607,155			268,009,752
Plant and machinery	782,527,011			873,590,054
Research and development equipment	78,184,648			99,726,309
Furniture and fixtures	10,290,278			15,102,898
Vehicles	2,912,343			5,533,317
	1,126,671,814			1,359,128,703

Notes:
(a) Certain freehold land and buildings of Biocon were revalued on November 1, 1994, based on the estimated replacement cost after considering depreciation upto that date, as per valuers reports and the resultant surplus of Rs 34,528,673 was credited to revaluation reserve. Of this reserve, Rs 15,401,635 (2002 - Rs 12,718,889) has been transferred to the profit and loss account for depreciation on these assets or adjusted on the sale of these assets.

(b) The Group has capitalised foreign exchange losses of Rs 274,782 (2002 - Rs 447,633) during the year.

(c) During the year, the Group has capitalised borrowing costs identifiable to qualifying assets of Rs 1,664,479 (2002 - Rs 7,267,567).

(d) On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') alloted land to Biocon for Rs. 64.2 million on a lease - cum sale basis for a period of 6 years. At the end of 6 years, the land is to be sold to the Company on the payment of the final price (to be determined by KIADB) and fulfilment of certain conditions. One of the key conditions include commencement of commercial operations by Biocon within 24 months of possession ie December 2002. Biocon is confident of fulfilling this condition.

(e) Biocon acquired 100 per cent in Clinigene on March 31, 2001, at a consideration of Rs 500,000. Further, as of March 31, 2001 the net assets of Clinigene were Rs 188,385 resulting in a goodwill of Rs 311,615. The goodwill was fully amortised during the year ended March 31, 2001, as the management believes that the same was fully impaired.

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	2003	2002
10. Investments (At cost)		
Long term investments		
Non trade:		
Unquoted		
2,000 (2002 – 2000) equity shares of Rs 100 each of Xcyton Diagnostics Limited, fully paid	200,000	200,000
Less: Provision for other than temporary dimunition in value	199,998	199,998
	2	2
National Savings Certificates	1,200	1,200
	1,202	1,202
Quoted:		
233 (2002 – 233) equity shares of Rs 10 each of ICICI Limited, fully paid [Aggregate market value of quoted investments - Rs Nil (2002 – Rs 14,201)]	-	5,980
	-	5,980
Current at lower of cost and fair market value		
IL&FS Fixed Maturity Plan 5,000,000 (2002 – Nil) units [Aggregate market value of unquoted investments - Rs 50,086,986 (2002 – Rs Nil)]	50,000,000	-
	50,001,202	7,182
11. Inventories		
Raw materials	250,103,994	122,207,305
Goods-in-transit	16,803,012	9,881,585
Packing materials	1,446,064	1,062,275
Work-in-progress	198,608,203	100,206,122
Finished goods	12,093,749	9,293,945
	479,055,022	242,651,232

12. Sundry debtors (unsecured)	2003	2002
Debts outstanding for a period exceeding six-months		
Considered good	38,519,105	38,304,983
Considered doubtful	4,609,125	-
Other debts		
Considered good	714,782,959	609,130,800
	757,911,189	647,435,783
Less: Provision for bad and doubtful debts	4,609,125	-
	753,302,064	647,435,783

The Group has written off bad and doubtful debts of Rs Nil (2002 - Rs 1,108,800) during the year.

13. Cash and bank balances		
Cash on hand	186,998	108,564
Balances with scheduled banks:		
In current accounts	1,141,240	17,872,570
In Exchange Earners Foreign Currency Account	10,056	-
In deposit accounts	25,000,000	644,000
	26,338,294	18,625,134

Deposit account includes Rs 10,000,000 (2002 -- Rs Nil) used as a lien executed for availing an overdraft facility of Rs 10,000,000 to finance working capital, repayable on demand, carrying an interest rate of 2 per cent above the time deposit rate, per annum. Though, Syngene has utilised the facility during the year, there are no overdrawn balances at March 31, 2003.

14. Loans and advances (Unsecured and considered good)	2003	2002
Advances recoverable in cash or in kind		
or for value to be received	52,099,357	53,903,932
Deposits	20,413,709	14,248,170
Balances with Customs and Excise Authorities	78,496,135	35,906,792
Loan to Biocon India Limited Employee Welfare Trust	1,413,700	1,255,000
	152,422,901	105,313,894
(a) Ms Kiran Mazumdar Shaw (Managing Director)	9,600,000	9,600,000
Maximum amount outstanding at any time during the year	9,600,000	9,600,000

(b) Biocon had given a loan of Rs 1,413,700 (2002 – 1,255,000) to the Trust for purchase of equity shares to be sold to the employees of the Company under the proposed ESOP Plan.

15. Current liabilities and provisions	2003	2002
Sundry creditors:		
Dues to small-scale industrial undertakings	8,481,164	5,052,150
Others	547,021,208	357,598,013
Advances from customers	27,655,783	7,760,776
Balance in current account with bank represents book overdraft	352,144	21,928,919
Interest accrued but not due	6,268,172	5,030,588
Other liabilities	105,830,083	70,638,531
	695,608,554	468,008,977
Provision for employee retirement benefits	1,151,856	37,420,932
Provision for compensated absences/leave encashment	28,561,300	11,393,083
Corporate tax on dividend	-	2,709,313
Provision for taxation, net of advance tax	4,307,230	18,248,425
	34,020,386	69,771,753
	729,628,940	537,780,730

(a) Other liabilities include Rs 970,443 (2002 - Rs 19,813) due to Ms Kiran Mazumdar Shaw, Managing Director and Rs 686,836 (2002 - Rs Nil) to JMM Shaw, Director. The maximum amount outstanding at any time during the year was Rs 1,085,040 (2002 - Rs 602,359) and Rs 1,500,000 (2002 – Rs Nil) respectively.

(b) During the year, the Group funded its retirement benefit liabilities by entering into an arrangement with Birla Sunlife for forming and managing a Trust to administer the Group's gratuity and superannuation schemes. Accordingly, the Group contributed the entire liability as at March 31, 2002 and made further contributions of Rs 25,873,983 based on the acturial valuation at March 31, 2003.

16. Other income	2003	2002
Dividend income - non-trade (Gross)	-	1,282
Interest income (Gross) [tax deducted at source Rs 317,744 (2002 - Rs 87,061)]	2,751,478	4,147
Duty drawback	18,199,657	4,325,259
Gain on sale of fixed assets sold or discarded (net)	1,704,985	80,000
Miscellaneous income	2,619,863	7,341,683
	25,275,983	11,752,371

17. Manufacturing, contract research and other expenses

		2003	2002
Raw materials consumed		1,376,680,048	820,711,407
Purchase of goods for resale		11,266,792	19,668,273
Payments to and provision for employees:			
Salaries, wages, bonus, commission, etc	268,995,579		160,428,173
Company's contribution to provident fund	11,181,191		7,113,457
Gratuity, superannuation, leave encashment	44,785,119		16,313,805
Employee stock compensation expense (See Note 4 & 20)	33,863,779		
Directors Sitting Fees	48,000		27,000
Welfare expenses	22,862,749		13,337,794
		381,736,417	197,220,229
Operation and other expenses:			
Royalty and technical fees	38,458,273		1,077,000
Rent	2,670,264		1,881,950
Communication expenses	14,140,021		9,621,939
Travelling and conveyance	38,488,583		25,270,345
Professional charges	22,824,622		16,948,366
Power and fuel	133,588,065		91,552,209
Insurance	8,827,304		4,127,181
Rates, taxes and fees	6,073,527		13,157,849
Repairs and maintenance			
Plant and machinery	43,528,030		19,350,559
Buildings	10,028,602		1,288,479
Others	19,308,044		11,881,040
Selling expenses			
Freight outwards and clearing charges	15,824,098		8,972,983
Sales promotion expenses	17,156,511		4,777,928
Commission and brokerage	17,917,825		10,728,748
Bad and doubtful debts/advances written off	-		1,108,800
Provision for bad and doubtful debts	4,609,125		-
Printing and Stationery	8,186,236		5,340,174
General expenses	34,404,702		14,260,092
		436,033,832	241,345,643
(Increase)/decrease in inventories of finished goods and work-in-progress:			
Opening inventories			
Finished goods	9,293,945		7,303,194
Work-in-progress	100,206,121		91,709,578
	109,500,066		99,012,772
Closing inventories:			
Finished goods	(12,093,749)		9,293,945
Work-in-progress	(198,608,203)		100,206,122
	(210,701,952)		109,500,067
		(101,201,886)	(10,487,295)
		2,104,515,203	1,268,458,257

18. Research and development expenses

Research and development expenses aggregating Rs 114,241,332 (2002 - Rs 75,491,358) including Rs 34,282,059 (2002 - Rs 34,276,323) on capital account have been incurred by the Company which have been disclosed under the appropriate account heads.

19. Interest and finance charges	2003	2002
Interest paid on :		
Term loans	26,701,866	23,826,083
Others	16,048,125	18,187,165
Bank charges	7,061,224	4,651,495
	49,811,215	46,664,743

20. Employee stock compensation

On September 27, 2001, the Board of Directors approved the Biocon Employee Stock Option Plan ('ESOP Plan') for the grant of stock options to the employees of Biocon. A compensation committee has been constituted to administer the plan through the Trust.

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from the Company and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 shares and shares transferred to each employee will not exceed 1,000 shares. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares. The options will vest with the employees equally over a four year period.

At March 31, 2003, the Trust has purchased 140,900 equity shares and a summary of the activity of the Trust is as follows:

Particulars	Exercise price	2003	2002
Opening balance of equity shares not granted to employees and available with the Trust		125,030	-
Add: Issued to the trust		15,870	125,030
Less: Options granted to employees	Rs 10	71,510	-
Closing balance of shares not granted to employees and available with the Trust		69,390	125,030
Options granted and eligible for exercise at year end		(17,878)	-
Options granted but not eligible for exercise at year end		(53,632)	-
Total compensation cost as at year end		65,291,222	-
Vesting period of options – Primarily progressively over four years			
Compensation cost amortised during the year		33,863,779	-

The estimated fair values of the equity shares have been determined by management on the date of the grant (April 1, 2002), based on a valuation by an independent appraiser.

21. Current taxes

The current tax charge of Rs 83,845,708 for the Group is after considering a write-back of Rs 13,149,604 as Biocon on July 1, 2002, received an approval from the Department of Scientific and Industrial Research ('DSIR') to claim a weighted deduction on the expenditure incurred on scientific research or in-house research and development facility under section 35(2AB) of the Income-tax Act, 1961 retroactively from financial year 1999-2000.

Syngene, claims exemption under Section 10B of the Act for a period of ten years from the date of set-up/approval by Cochin Export Processing Zone of its 100 per cent Export Oriented Units (See Note 6). Current tax provision of Syngene comprise tax on its other taxable income at applicable tax rates, tax on 10 per cent of export profits under section 10B and provision of Rs 2,041,992 with respect to earlier assessment years as result of claims made by the Tax Authorities in the assessment orders of the earlier years.

22. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2002 to March 31, 2003	Balance as at March 31, 2003	April 1, 2001 to March 31, 2002	Balance as at March 31, 2002
1	Kiran Mazumdar Shaw	Managing Director	Rent expense	960,000	-	1,080,000	-
			Lease deposit	-	9,600,000	-	9,600,000
			Salary and perquisites	10,186,766	-	7,626,727	-
2	JMM Shaw	Director	Salary and perquisites	9,216,800	-	6,732,000	-
3	Biocon India Limited Employee Welfare Trust	ESOP Trust	Administration of the ESOP plan				
			Loan to the Trust	158,700	1,413,700	1,255,000	1,255,000

23. Foreign exchange differences

Sales and contract research fees, and purchases include foreign exchange gain/(loss) of Rs 3,463,685 [2002 – Rs 5,561,473] and Rs 5,570,609 [2002 – Rs (1,576,083)], respectively.

24. Commitments

	2003	2002
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	259,014,106	18,705,984

(b) Operating lease commitments

(i) Rent :
The Company has entered into a lease agreement which expires in January 2011. Gross rental expenses for the period ended March 31, 2003 aggregated to Rs 960,000 (2002 – Rs 960,000). The committed lease rental in the future are:

	2003	2002
Not later than one year	960,000	960,000
Later than one year and not later than five years	3,840,000	3,840,000
Later than five years	2,190,000	3,150,000

(ii) Vehicles :
The Company has taken vehicles for certain employees under operating leases, which expire in March 2007. Gross rental expenses forthe period ended March 31, 2003 aggregated to Rs 383,460 (2002 – Rs Nil). The committed lease rental in the future are:

	2003	2002
Not later than one year	716,037	-
Later than one year and not later than five years	2,151,988	-

25. Contingent liabilities

	2003	2002
(a) Taxation matters under appeal	7,629,192	11,124,372
(b) Corporate guarantee given in favour of Customs and Excise Department in respect of certain performance obligations of Syngene. The Group is informed that the necessary terms and conditions have been complied with and no liability has arisen.	95,000,000	97,500,000
(c) Claims against the Group not acknowledged as debts	2,373,750	5,126,631

26. Segmental information

Business segments

The primary reporting of the Group has been performed on the basis of business segment. The Group is organised into three business segments, enzymes, active pharmaceutical ingredients ('Pharma') and contract research services. Segments have been identified and reported based on the nature of the products, the risks and returns, the organisation structure and the internal financial reporting systems.

Particulars	Enzyme	Pharma	Contract Research	Unallocated	Eliminations	Total
Revenues						
External sales	532,448,085	2,046,044,601	241,387,602	-	-	2,819,880,288
Inter-segment transfers	55,497,389	-	-	-	(55,497,389)	-
Total revenues	587,945,474	2,046,044,601	241,387,602	-	(55,497,389)	2,819,880,288
Costs						
Segment costs	356,377,038	1,147,671,713	169,990,431	-	-	1,674,039,181
Inter-segment transfers	-	(55,497,389)	-	-	55,497,389	-
Result						
Segment result	231,568,436	842,875,499	71,397,171	-	-	1,145,841,106
Corporate expenses	-	-	-	430,476,021	-	430,476,022
Other income	-	-	-	22,524,505	-	22,524,505
Interest income	-	-	-	2,751,478	-	2,751,478
Operating profit						740,641,068
Depreciation	17,971,112	59,949,046	17,260,230	42,250,839	-	137,431,227
Interest expense	-	15,096,700	-	34,714,516	-	49,811,215
Income taxes - Current and deferred	-	-	-	118,244,061	-	118,244,061
Minority interest	-	-	-	4,848	-	4,848
Net profit						435,149,717
Other information						
Segment assets	479,692,430	1,827,844,623	173,560,336	-	-	2,481,097,389
Unallocated corporate assets	-	-		419,003,245	-	419,003,245
Total assets						2,900,100,634
Segment liabilities	6,437,726	326,722,194	64,723,678	-	-	397,883,598
Unallocated corporate liabilities	-	-		1,160,456,055	-	1,160,456,055
Total liabilities						1,558,339,653
Capital expenditure	63,719,838	111,552,245	74,049,263	123,612,281	-	372,933,627

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Company comprise exports contributing to approximately 48 percent of its annual sales. The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Company's sale by geographical markets.

Revenues	2003
India	1,472,129,126
Exports (including export benefits)	1,373,027,145
Total	2,845,156,271

Assets and additions to fixed assets by geographical area - The following is the carrying amount of segment assets and additions to fixed assets by geographical area in which the assets are located:

	Carrying amount of segment assets	Additions to fixed assets
India	2,624,710,897	372,933,627
Outside India (including export benefits)	275,389,737	-
	2,900,100,634	372,933,627

Carrying amount of segment assets outside India represents receivables from export debtors and export benefits recoverable.

Segment revenue and result

The expenses that are not directly attributable and that cannot be allocated to a business segment on a reasonable basis are shown as unallocated corporate expenses.

Inter-segment transfers

Segment revenue, segment costs and results include transfers between business segments. Such transfers have been made at cost. The inter-segment transfers have been eliminated have been eliminated on consolidation.

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments, receivables and inventories. Segment lribilities comprise of long term debts which can be identified directly against the respective segment assets aqnd liabilities. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

27. Prior year comparatives

The consolidated financial statements as at March 31, 2002, have not been audited and have been reclassified, where necessary, to conform with the current year's presentation.

Biocon India Limited and Subsidiaries US GAAP

REPORT OF INDEPENDENT AUDITORS

To
The Board of Directors of Biocon India Limited

We have audited the accompanying consolidated balance sheet of Biocon India Limited, a company incorporated in India, and its subsidiaries (collectively referred to as the 'Group') as of March 31, 2003, and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Biocon India Limited and its subsidiaries as of and for the year ended March 31, 2002 were audited by other auditors who have ceased operations and whose report dated June 17, 2002 expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2003 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERNST & YOUNG

New Delhi
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Expressed in Indian rupees, except share data and unless otherwise stated)

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
ASSETS			
Current assets			
Cash and cash equivalents	28,175	1,338,294	18,625,134
Time deposits	1,157,895	55,000,000	-
Restricted time deposits	421,053	20,000,000	-
Trade receivables, net	15,858,991	753,302,064	643,070,783
Employee receivables	130,794	6,212,721	4,488,956
Inventories	10,085,369	479,055,022	242,129,176
Deferred income taxes, net	142,926	6,788,997	-
Prepaid expenses and other current assets	2,461,716	116,931,499	74,234,073
Total current assets	30,286,919	1,438,628,597	982,548,122
Non-current assets			
Property, plant and equipment, net	29,318,418	1,392,624,860	1,122,624,380
Dues from related party	202,105	9,600,000	15,727,104
Employee receivables	318,336	15,120,946	10,539,965
Goodwill	463,199	22,001,959	22,001,959
Other assets	66,215	3,145,237	778,602
TOTAL ASSETS	60,655,192	2,881,121,599	2,154,220,132
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	14,013,467	665,639,684	450,772,936
Advance from customers	582,227	27,655,783	7,760,776
Short term borrowings	5,829,226	276,888,231	380,383,725
Current portion of long term debt	2,931,239	139,233,867	68,450,533
Current portion of capital lease obligations	-	-	655,182
Accrued employee benefits	601,291	28,561,300	21,559,915
Deferred income taxes, net	-	-	136,249
Other current liabilities	131,961	6,268,172	5,030,588
Total current liabilities	24,089,411	1,144,247,037	934,749,904
Non-current liabilities			
Long term debt	3,501,869	166,338,755	184,525,373
Accrued employee benefits	24,250	1,151,856	37,420,932
Deferred income taxes, net	3,026,314	143,749,925	97,560,888
Deferred sales taxes liability	2,179,903	103,545,391	56,033,378
TOTAL LIABILITIES	32,821,747	1,559,032,964	1,310,290,475
Stockholders' equity			
Common stock, par value Rs 10 per share, 2,000,000 shares authorized, (issued and outstanding 1,837,650 shares at March 31, 2003 and 1,821,780 shares at March 31, 2002)	386,874	18,376,500	18,217,800
Additional paid-in capital	7,906,108	375,540,147	310,248,925
Deferred compensation cost	(661,630)	(31,427,443)	-
Loan to Trust	(29,762)	(1,413,700)	(1,215,300)
Retained earnings	20,231,855	961,013,131	516,678,232
Total stockholders' equity	27,833,445	1,322,088,635	843,929,657
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	60,655,192	2,881,121,599	2,154,220,132

The accompanying notes are an integral part ofthese consolidated financial statements.

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Expressed in Indian rupees, except share data and unless otherwise stated)

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Revenues			
Sale of products, net of excise duty of Rs 208,215,613 (2002 – Rs 164,941,141) and sales tax of Rs 63,077,156 (2002 – Rs 52,772,829)	54,284,057	2,578,492,686	1,606,205,080
Contract research services	5,081,844	241,387,601	183,742,479
Total revenues	59,365,901	2,819,880,287	1,789,947,559
Cost of revenues			
(excluding depreciation shown separately below)			
Cost of products sold	31,254,176	1,484,573,344	1,022,371,014
Cost of contract research services	3,578,746	169,990,431	124,121,209
Gross profit	24,532,979	1,165,316,512	643,455,336
Operating expenses			
Research and development expenses	1,683,308	79,957,119	44,432,165
Selling, general and administrative expenses	7,165,127	340,343,567	185,862,792
Depreciation	2,820,171	133,958,105	87,370,266
Income from operations	12,864,373	611,057,721	325,790,113
Interest expense	1,067,150	50,689,648	43,124,835
Interest income	(57,926)	(2,751,478)	(32,166)
Other income	(91,049)	(4,324,847)	(7,424,246)
Income before income taxes and minority interest	11,946,198	567,444,398	290,121,690
Income tax expense	2,591,779	123,109,499	79,794,010
Income before minority interest	9,354,419	444,334,899	210,327,680
Minority interest	-	-	(7,299,547)
Net income	9,354,419	444,334,899	203,028,133

The accompanying notes are an integral part of these consolidated financial statements.

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Expressed in Indian rupees, except share data and unless otherwise stated)

Particulars	Common Stock		Additional	Deferred		Retained	
	Shares	Amount	paid-in capital	compensation cost	Loan to Trust	earnings	Total
Balances as of March 31, 2001	1,646,090	16,460,900	261,667,405	-	-	316,360,750	594,489,055
Common stock issued	121,530	1,215,300			(1,215,300)		-
Shares issued in connection with the acquisition of minority interest in Syngene International Private Limited (Refer Note 3)	54,160	541,600	48,581,520				49,123,120
Net income for the year						203,028,133	203,028,133
Cash dividends						(2,710,651)	(2,710,651)
Balances as of March 31, 2002	1,821,780	18,217,800	310,248,925	-	(1,215,300)	516,678,232	843,929,657
Loan to Trust					(39,700)		(39,700)
Common stock issued for cash	15,870	158,700			(158,700)		-
Compensation related to stock option grants (Refer Note 16)			65,291,222	(65,291,222)			-
Amortization of compensation costs				33,863,779			33,863,779
Net income for the year						444,334,899	444,334,899
Balances as of March 31, 2003	1,837,650	18,376,500	375,540,147	(31,427,443)	(1,413,700)	961,013,131	1,322,088,635
In US$ (Refer Note 2 b)		386,874	7,906,108	(661,630)	(29,762)	20,231,855	27,833,445

The accompanying notes are an integral part of these consolidated financial statements.

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Indian rupees, except share data and unless otherwise stated)

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	9,354,419	444,334,899	203,028,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,820,171	133,958,105	87,370,266
Minority interest	-	-	7,299,547
Diminution in value of investments	-	-	199,998
Amortization of stock compensation cost	712,922	33,863,779	-
Provision for bad and doubtful receivables	97,034	4,609,125	-
Gain on assets sold	(36,042)	(1,711,975)	(45,134)
Deferred tax expense, net	826,606	39,263,792	23,357,600
Changes in assets and liabilities:			
Trade receivables	(2,417,693)	(114,840,406)	(237,964,555)
Inventories	(4,987,913)	(236,925,846)	(17,900,911)
Prepaid expenses and other current assets	(952,583)	(45,247,684)	(43,036,072)
Current liabilities and non current liabilities	4,477,705	212,690,969	115,394,550
Net cash provided by operating activities	9,894,626	469,994,758	137,703,422
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in time deposits	(1,578,948)	(75,000,000)	-
Purchase of property, plant and equipment	(8,580,421)	(407,570,017)	(439,738,827)
Sale of property, plant and equipment	43,532	2,067,750	245,000
Sale of marketable securities	273	12,967	-
Net cash used in investing activities	(10,115,564)	(480,489,300)	(439,493,827)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the issuance of share capital	3,341	158,700	1,215,300
Loan to Trust	(4,177)	(198,400)	(1,215,300)
Repayment of short-term borrowings	(2,178,853)	(103,495,494)	-
Receipt of short-term borrowings	-	-	247,776,685
Repayment of long term debt	(8,504,118)	(403,945,610)	(60,117,199)
Receipt of long term debt	9,611,417	456,542,325	100,000,000
Payment of capital lease obligations	(13,793)	(655,181)	(1,841,143)
Deferred sales tax liability	1,000,254	47,512,013	40,039,571
Cash dividends	(57,066)	(2,710,651)	(6,336,500)
Net cash (used)/generated for financing activities	(142,995)	(6,792,298)	319,521,414
Net change in cash and cash equivalents	(363,933)	(17,286,840)	17,731,009
Cash and cash equivalents at the beginning of the year	392,108	18,625,134	894,125
Cash and cash equivalents at the end of the year	28,175	1,338,294	18,625,134
SUPPLEMENTARY DISCLOSURE FOR CASH ACTIVITIES			
Cash paid for interest	1,022,603	48,573,631	48,911,131
Cash paid for income taxes	2,058,672	97,786,904	36,379,447
SUPPLEMENTARY DISCLOSURE FOR NON-CASH ACTIVITIES			
Net assets of Syngene acquired in exchange for Biocon common shares	-	-	101,583,337

The accompanying notes are an integral part of these consolidated financial statements.

Kiran Mazumdar Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 17, 2003

BIOCON INDIA LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2003 AND MARCH 31,2002

(Expressed in Indian rupees, except share data and unless otherwise stated)

1. Background, Organisation and Business

a. Incorporation and history

Biocon India Limited ('Biocon', 'BIL' or 'the Company') was incorporated in 1978 under the laws of India and controlled by Ms Kiran Mazumdar Shaw ('KMZ'), along with her husband Mr John M Shaw ('JMM') and her brother Mr Ravi Mazumdar ('RM') directly and through Glentec International Limited ('Glentec'), a company incorporated under the laws of Mauritius and controlled by the above persons. KMZ, JMM, RM and Glentec are collectively hereinafter referred to as 'the Control Group'. BIL has been controlled by the Control Group from incorporation through to March 31, 2003. The Company has its registered office at 20th KM, Hosur Road, Electronic City PO, Bangalore, India.

At March 31, 2003, the Company has a controlling interest in the following entities:

- Syngene International Private Limited ('Syngene'), a 99.99 per cent owned subsidiary company incorporated in November 1993 under the laws of India by KMZ. The Company acquired its 73 per cent ownership in Syngene from the Control Group (which the Control Group acquired in March 2000) and an additional 27 per cent ownership interest from minority shareholders (Refer Note 3), both transactions taking place on March 30, 2002.

- Clinigene International Private Limited ('Clinigene'), a 100 per cent owned subsidiary company incorporated in August 2000 under the laws of India by KMZ and JMM. BIL acquired an ownership interest of 100 per cent in Clinigene in March 31, 2001 by way of a cash payment towards additional issuance of shares by Clinigene.

Biocon has entered into an Agreement on February 22, 2002 to set up a Joint Venture Company ('JVC') to be located in India, with CIMAB SA ('CIMAB'), a company organized and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of biopharmaceuticals. The JVC is expected to manufacture and market products using CIMAB technology and to carry out research activities. During the year, Biocon has acquired land measuring 26.75 acres in Bommasandra, part of which would be used by the JVC to set up production facilities. Biocon and CIMAB expect the JVC to commence production during the calendar year ending December 31, 2004. As at March 31, 2003, Biocon has not made any investment in the JVC.

b. Reorganisation

As at April 1, 2001 the Control Group had an effective ownership interest in Syngene of 73 per cent. In March 2002, the Control Group transferred its 73 per cent ownership interest in Syngene to BIL in exchange for BIL shares and the Company acquired the balance 27 per cent from the minority shareholders (Refer Note 3). Since Syngene was under the control of the Control Group, the consolidated financial statements retroactively reflect the transfers in ownership interests which took place during the year ended March 31, 2002 at their historical costs in a manner similar to pooling of interests for all periods the acquired businesses were under common control.

The acquisition of the ownership interest by Control Group has been accounted for under the Purchase method of accounting on the date the Control Group acquired control. The statement of stockholders' equity in the consolidated financial statements reflects the equity capitalization of Syngene to the extent of the Company's ultimate ownership interest as acquired from the Control Group adjusted for the share exchange ratio.

c. Operations

The Group's principal areas of operation are as follows:

Pharmaceuticals

The pharmaceuticals business comprises the manufacture and development of bulk drugs, with focus on products involving fermentation and/or synthetic conversion. The pharmaceuticals business primarily seeks to leverage off the expiry of product patents for Simvastatin, Lovastatin, Atorvastatin and Pravastatin (' Statins') that will expire between 2001 and 2009, through research capabilities and fermentation and synthetic chemistry skills that have been developed over the last 15 years within the Group.

Enzymes

The enzymes business comprises the development, manufacture and sale of single component enzymes, proprietary formulations and enzyme systems to cater to the demand of a number of diverse industries including food and beverages, textiles, starch, brewing, distilling etc. The Group sells 180 types of enzymes across 15 broad enzyme families.

Contract Research

The Group provides contract research services to overseas and domestic customers and is primarily engaged in the following areas of such research:

- Molecular biology;
- Synthetic chemistry;
- Bio informatics; and
- Clinical research on well-defined and characterized patients suffering from chronic diseases such as, diabetes, osteoporosis, asthma etc.

2. Significant Accounting Policies

a. Principles of consolidation

The accompanying consolidated financial statements of the Group are prepared in conformity with accounting principles generally accepted in the United States of America ('US GAAP') to reflect the financial position and the results of operations of the Group. All material transactions and balances between the Group entities have been eliminated.

The equity and net profit attributable to minority shareholders' interest as at March 31, 2003 are Rs 10,845 and Rs 4,848 respectively.

b. Basis of presentation

For the convenience of readers, the balance sheet as of March 31, 2003 and the income statement for the year then ended have been translated into United States Dollars ('US$') using the telex transfer average rate as prescribed by Hong Kong and Shanghai Banking Corporation ('HSBC') as at March 31, 2003 which was 1US$ = Rs 47.5. The convenience translation should not be construed as a representation that the Rs amounts or the US$ amounts referred to in these financial statements have been, could have been, or could in the future be, converted into US$ or Rs, as the case may be, at this or at any other rate of exchange, or at all.

In accordance with the resolution passed in the Board of Director's meeting held on March 30, 2002, the equity shares of Biocon with a par value of Rs 100 each has been spilt into 10 equity shares of par value of Rs 10 each. The stock split has been retroactively reflected in the financial statements.

The Group also separately prepares its consolidated financial statements for the same period in accordance with accounting principles generally accepted in India.

The significant accounting policies adopted by the Group, in respect of the financial statements are set out below.

c. Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management of the Group 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 results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates.

d. Foreign currency

The functional currency of each entity in the Group is its respective local currency. Monetary assets and liabilities in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the date of the transaction. All foreign exchange gains and losses are recorded in the consolidated income statements. Sales and contract research fees, and purchases include foreign exchange gain/(loss) of Rs 3,463,685 [2002 – Rs 5,561,473] and Rs 5,570,609 [2002 – Rs (1,576,083)], respectively.

e. Revenue recognition

The Group has two revenue streams, sale of products and conducting of contract research studies. The respective accounting policies are as follows:

(i) Revenue from sale of products

Revenue is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer. Revenue is recognized when the following criteria are met:
– Persuasive evidence of an arrangement exists;
– The price to the buyer is fixed and determinable; and
– Collectibility of the sales price is reasonably assured.

Revenue from domestic sales is recognized on despatch of the products to customers, from the factories of the Company. Revenue from export sales is recognised on shipment of products.

(ii) Contract Research Revenues

Revenues from Contract research services comprise fees received for research activities carried out for customers in the fields of molecular biology and synthetic chemistry. Research activities are based on contracts that specify the nature of activity to be carried out, basis of billings, manner of payments and are typically in the nature of time and material contracts. Revenues are recognised on a monthly basis, as services are rendered, in accordance with the terms of the contracts. Revenues relating to fixed price contracts are recognized based on the percentage of completion method.

Percentage of completion is determined based on the proportion of efforts spent to total efforts to complete or on the basis of contractually determined milestones as certified by the customer. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on current contract estimates.

f. Cost of revenues

Cost of products sold comprises employee costs of direct labour, amortisation of deferred stock compensation, material costs and other direct costs incurred in producing bulk drugs and enzymes. Costs of contract research services comprise employee costs of direct labour, amortisation of deferred stock compensation, material costs and other direct costs related to the Groups' research activities.

g. Research and development costs

Research and development costs are expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, is capitalized as property, plant and equipment and depreciated over its economic useful life. Cost of acquired technology/know-how having no alternate use are expensed as incurred.

h. Cash and cash equivalents

All highly liquid investments with original maturities of ninety days or less are considered to be cash equivalents.

(i) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined on a first in first out basis for all categories of inventories. Cost in the case of raw materials and packing materials comprises the purchase price and attributable direct costs, less trade discounts. Cost in the case of work-in-progress and finished goods comprises direct labour, material costs and production overheads.

Inventories are reviewed on an annual basis for identification of slow-moving and obsolete inventory, which are written down in the year of identification and are included in cost of goods sold.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Equipment held under capital leases is stated at the present value of minimum lease payments at the inception of the leases. Advances paid towards acquisition of property and equipment and the cost of property and equipment not put to use before the financial year-end are classified as capital work-in-progress.

The interest cost incurred for funding an asset during its construction period is capitalized based on the actual investment in the asset and the average cost of funds. The capitalized interest is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of assets. Depreciation of equipment held under capital leases is computed using the straight-line method over the shorter of the assets' estimated lives and the lease term.

Costs of normal repairs and maintenance are charged to income as incurred. Major replacements or betterment of property, plant and equipment are capitalised. During the year the Group has incurred Rs 53,556,632 (2002 – Rs 21,639,038) towards normal repairs and maintenance.

k. Impairment of long-lived assets

The Group reviews long-lived assets for impairment, whenever an event or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The carrying values of long-lived assets are assessed for recoverability by reference to the estimated future undiscounted cash flows associated with them. Where this assessment indicates a deficit, the assets are written down to market value. For assets, which do not have a readily determinable market value, the assets are written down to their estimated market value, calculated by reference to the estimated future discounted cash flows. Assets to be disposed are reported at the lower of the written down value or the fair value, less the cost to sell.

l. Goodwill

Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Effective April 1, 2002, the Group adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under SFAS No. 142, goodwill arising on business combinations consummated after June 30, 2001 will not be amortised to expense, but is instead subjected to a periodic impairment test at least annually.

The impairment test is conducted at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. Fair value is primarily determined by computing the future discounted cash flows expected to be generated by the reporting unit. If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, the fair value of the reporting unit is then allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. This implied fair value is then compared with the carrying amount of the reporting unit goodwill, and if it were less, the Group would then recognize an impairment loss. No goodwill impairment losses have been recognized in any of the periods presented herein.

m. Operating leases

Lease rental expenses on operating leases are charged to expense over the lease term as it becomes payable. Rental expense for these leases is being recognized on a straight-line basis over the lease term.

n. Employee benefits

In accordance with Indian law, all employees of the Group, are entitled to receive benefits under the Provident Fund, a defined contribution plan in which both the employee and the Group, contribute monthly at a determined rate (currently 12 per cent of the employees' base salary). These contributions are made to the Government Provident Fund.

The Superannuation Plan is a defined contribution pension plan for all employees of the Group. The Group contributes to employees' superannuation fund at 20 per cent of the employee's base salary. The superannuation schemes of the Group are administered in the current year by a trust formed for this purpose through the superannuation scheme with Birla Sunlife Insurance Company Limited ('Birla Sunlife').

The Group has no further obligation under the Provident Fund or Superannuation Plan, beyond its contributions. Contributions to defined contribution plans are charged to income in the year in which they accrue.

In accordance with Indian law, the Group provides for gratuity, a defined benefit retirement plan ('the Gratuity Plan') covering all its employees. The Gratuity Plan provides a lump sum payment to vested employees on retirement or on termination of employment of an amount based on the respective employees' salary and the years of employment with the Group. The gratuity plan fund benefits of the Group are administered by a trust formed for this purpose and managed by Birla Sunlife. Gratuity benefit cost for the year is calculated on an actuarial basis. Current service costs for the Gratuity Plan are accrued in the year to which they relate. Actuarial gains or losses or prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

Accrual for vacation pay is determined on the full liability method for the unavailed leave balance standing to the credit of the employees at year end at current encashable salary rates.

o. Income taxes

The Group records income taxes in accordance with the liability method of accounting. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity in the Group. Deferred income taxes are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment date. Deferred tax assets are recognized in full subject to a valuation allowance for any tax benefit, the future realization of which is uncertain.

p. Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income" establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. The Group does not have any items of comprehensive income for the years ended 2002 and 2003.

q. Stock-based compensation

The Group accounts for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost for stock options is measured as the excess of the fair value of the Company's stock on the stock options grant date over the amount an employee must pay to acquire the stock and is recognized in a graded manner on the basis of weighted period of services. The fair value of the options is measured on the basis of an independent valuation performed in respect of stock options granted.

SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Group has elected its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No.148, "Accounting for Stock-Based Compensation – Transition and Disclosure", an amendment of SFAS No.123.

Had compensation cost for the Group's stock based compensation been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the impact on the Group's net income of Rs 444,334,899 for the year ended March 31, 2003 would be negligible.

For purposes of applying SFAS No. 123, the estimated fair value of stock options granted during 2003 was Rs 911. The fair value of options was estimated at the date of grant using the minimum value method with the following assumptions:

Expected volatility	0.0%
Expected dividend yield	0.0%
Risk-free interest rate	8%
Expected life	2.5 years

r. Derivative instruments and hedging activities

The Group enters into forward foreign exchange contracts where the counter party is generally a bank. The Group purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS 133 as amended. Accordingly, these instruments are marked to market with the difference being recognised in earnings immediately. Though the Group adopted the provision of SFAS No. 133 at April 1, 2001, no transition adjustment was recorded, as the amounts were immaterial.

3. Acquisition of Minority Interest in Syngene

On March 30, 2002, the Company acquired a 27 per cent ownership interest in Syngene from the minority shareholders in exchange of its 54,160 equity shares with a par value of Rs 10 each. The transaction was accounted for under the purchase method of accounting. The fair value of the purchase consideration based on the fair value of BIL's equity shares was determined to be Rs 49,123,120, based on a per share value of Rs 64 per share which was higher than the fair value of the corresponding share of net assets acquired of Rs 27,121,161. This resulted in goodwill of Rs 22,001,959 being created as part of this acquisition.

The Company has identified Syngene's contract research business as the reporting level unit and has assigned assets acquired and liabilities assumed to this unit. The fair value of the reporting unit is determined based on future cash flows of the business, discounted at the rate of 9 per cent per annum, for 4 years on an unleveraged basis, projecting a future likely growth rate of 10 per cent per annum. As of March 31, 2003, management believes that such goodwill is not impaired.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of cash, cheques on hand and balances available in current accounts and deposits with banks. Deposits are interest-bearing deposits for periods ranging from 30 to 90 days. The details of cash and cash equivalents are as follows:

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Cash in hand	3,937	186,998	108,564
Bank balances			
- current account	24,238	1,151,296	17,872,570
- deposit account	-	-	644,000
	28,175	1,338,294	18,625,134

5. Restricted and other Time Deposits

Restricted time deposits account as at March 31, 2003 and March 31, 2002 includes Rs 20,000,000 and Rs Nil, respectively, maturing over the next 5 to 8 months used as a lien executed for availing an overdraft facility of Rs 20,000,000 to finance working capital, repayable on demand, carrying an interest rate of 2 per cent above the time deposit rate, per annum. Though, Group has utilised the facility during the year, there are no overdrawn balances at March 31, 2003.

Other time deposits includes Rs 50,000,000 being 5,000,000 units with a par value of Rs 10 each of the Industrial Leasing & Financial Services Limited ('IL&FS') fixed maturity plan purchased by the Group during the year. These units are unquoted and mature on June 25, 2003 and bear an interest of 6.35 per cent. The remaining time deposits of Rs 5,000,000 are held with HSBC.

6. Trade Receivables, Net	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Trade receivables	15,956,025	757,911,189	643,070,783
Less: Provision for doubtful receivables	97,034	4,609,125	-
	15,858,991	753,302,064	643,070,783

During the year ended March 31, 2002, the Group had written off Rs 1,108,800 being irrecoverable amount from identified customers.

7. Inventories	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Raw materials	5,619,095	266,907,006	132,088,891
Packing materials	30,443	1,446,064	1,062,275
Work-in-process	4,181,225	198,608,203	99,684,065
Finished goods	254,606	12,093,749	9,293,945
	10,085,369	479,055,022	242,129,176

During the year, the Group has written off Rs 8,503,611 (2002 – Rs 3,577,750), towards identified obsolete and slow moving inventory.

8. Property, Plant and Equipment, Net	Estimated useful life (In years)	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Land		336,391	15,978,578	16,341,343
Advance paid towards acquisition of Land		1,351,579	64,200,000	-
Buildings	25	6,369,831	302,566,956	239,904,609
Plant, machinery and equipment	3 – 11	24,502,122	1,163,850,776	963,793,868
Research and development equipment	9	2,756,540	130,935,651	96,653,591
Furniture and fixtures	6	506,282	24,048,403	15,978,467
Vehicles	6	220,364	10,467,277	6,804,900
Capital work-in-progress		1,681,103	79,852,440	48,464,726
		37,724,212	1,791,900,081	1,387,941,504
Accumulated depreciation		(8,405,794)	(399,275,221)	(265,317,124)
Property, plant and equipment, net		29,318,418	1,392,624,860	1,122,624,380

Property, plant and equipment, net above includes the following assets held under capital leases:

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Computers (included in plant, machinery and equipment)	93,099	4,422,217	4,422,217
Vehicles	42,105	2,000,000	2,00 000
	135,204	6,422,217	6,422,217
Less: Accumulated depreciation	135,204	6,422,217	4,858,124
	-	-	1,564,093

During the year, the Group has capitalised borrowing costs identifiable to property, plant and equipment of Rs 1,664,479 (2002 – Rs 7,267,567).

On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted 26.75 acres of land to Biocon for Rs 64,200,000 on a lease - cum sale basis for a period of 6 years with an annual lease rental of Rs 26,750. At the end of 6 years, the land is to be sold to the Company on the payment of the final lease rental and fulfillment of certain conditions, as defined. Further, the Company has committed to purchase an additional 41.5 acres at a cost of Rs 99,600,000 of which 20 acres would be handed over by October 2003 and the balance 21.5 acres by April 2004. The Company has given the KIADB an undertaking confirming that if the Company fails to pay for the 41.5 acres of land it will be liable to pay 25 per cent of the cost of the additional 41.5 acres amounting to Rs 24,900,000 as a cancellation fee.

The Company is required to comply with conditions as defined, which include a condition to commence commercial operations within 24 months of possession ie by December 2004 and the Group is confident of fulfilling all the defined conditions as per the agreement with KIADB and accordingly, the payment has been reflected as 'Advance paid towards acquisition of Land' and included in property, plant and equipment above.

9. Financial Instruments

9.1 Fair value of financial instruments

SFAS 107 requires the Group to disclose the fair value of all financial instruments in the financial statements. However, this does not change any requirements for recognition, measurement, or classification of the financial instruments in the financial statements.

The fair values of the Group's current assets and current liabilities approximate their carrying values because of their short maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months.

Long-term rental deposits aggregating Rs 9,600,000, included under dues from related party, represent interest free deposits given for the factory premises taken on lease from the managing director. These deposits are repayable on termination of such lease agreements. The fair value of these long-term rental deposits is Rs 5,510,224 (2002 – Rs 4,192,005).

Long-term employee receivables are loans given to employees to acquire assets such as property and cars. Such loans are repayable over fixed periods ranging from three to eight years and are interest-free in nature. The fair value, determined using market rates of interest, of loans to employees of Rs 15,120,946 (2002 – Rs 10,539,965) is Rs 11,404,637 (2002 – Rs 8,579,816).

Long-term loans are repayable over fixed periods ranging from three to six years. The Group pays interest on such loans at rates, which closely approximate the market rates. Hence, the fair value of the long-term loans closely approximate their carrying value in the financial statements of Rs 166,338,755 (2002 – Rs 184,525,373).

As more fully discussed in Note 14, deferred sales taxes liability represents deferment of the sales tax liability of the Company for a period of 8 to 12 years. These amounts are interest free in nature and are repayable over a 5 year term after the end of the deferment period. The fair value, determined using market rates of interest, of the amount of deferred sales tax, carried in the financial statements at Rs 103,545,391 (2002 – Rs 56,033,378), determined using market rates of interest is approximately Rs 39,967,690 (2002 – Rs 18,978,646).

9.2 Concentration of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash equivalents, time deposits and trade receivables. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties.

The Group's cash equivalents and bank deposits are invested with banks with high investment grade credit ratings. As at March 31, 2003, 83 per cent of cash equivalents and 33 per cent of time deposits were placed with an Indian Branch of the HSBC respectively. The remaining 67 per cent of the time deposits amounting to Rs 50,000,000 are held with IL&FS, a financial institution. The entire restricted time deposits are placed with HSBC.

Trade receivables are typically unsecured and are derived from revenues earned from customers. The Group monitors the credit worthiness of its customers to which it grants credit terms in the normal course of the business. As at March 31, 2003, no single customer accounted for more than 10 per cent of trade receivables. The Company has one customer based in China, who accounted for over 12 per cent of the total revenues during the year ended March 31, 2003.

In management's opinion, as of March 31, 2003, there was no significant risk of loss in the event of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

10. Short term Borrowings	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	**March 31, 2002 In Rs**
Cash credit and packing credit from banks	5,821,812	276,536,087	308,454,806
Loan from EXIM bank	-	-	50,000,000
Current account overdraft	7,414	352,144	21,928,919
	5,829,226	276,888,231	**380,383,725**

a) Cash credit and packing credit from banks

(i) On January 16, 2002, Biocon renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 130,000,000 (2002 – Rs 130,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and receivables and carry an interest rate of 2.1 per cent per annum for foreign currency denominated loans and 7.5 to 12.25 per cent per annum for rupee loans. Biocon as of March 31, 2003 has utilised Rs 39,650,178 (2002 – 130,000,000), inclusive of foreign currency denominated loans of Rs 39,596,571 (US$ 834,051) [2002 – Rs 19,470,000 (US$ 400,000)] respectively.

(ii) On February 7, 2003, Biocon renewed its total rupee and foreign currency denominated working capital facilities with Hongkong and Shanghai Banking Corporation ('HSBC') for Rs 175,000,000 (2002 – Rs 110,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and receivables and carry an interest rate of 2 per cent per annum for foreign currency denominated loans and 6 to 15 per cent per annum for rupee loans. Biocon as of March 31, 2003 has utilised Rs 115,580,186 (2002 – Rs 110,000,000) inclusive of foreign currency denominated loans of Rs 90,255,512 (US$ 1,902,387) [2002 – Rs Nil (US$ Nil)].

(iii) On February 25, 2003, Biocon renewed its working capital facilities with Canara Bank ('CB') for Rs 130,000,000 (2002 – Rs 80,000,000). These facilities are repayable on demand, secured by the hypothecation of inventories and receivables and carry an interest rate of 2.1 per cent for foreign currency denominated loans and 8 to 11.75 per cent per annum for rupee loans. Biocon has utilised Rs 121,305,723 (2002 – Rs 65,654,306) as of March 31, 2003 inclusive of foreign currency denominated loans of Rs 117,435,931 (US$ 2,473,637) [2002 – Rs 14,937,350 (US$ 310,000)].

(iv) Syngene had a cash credit and packing credit facility of Rs 6,500,000 with SBI, repayable on demand and secured against its inventories receivables and plant and machinery. These facilities carried interest at 7.5 per cent to 13.25 per cent per annum respectively, and were discontinued in March 2003.

b) Loan from EXIM bank

During the current year, the Company repaid its short term loan facility from EXIM Bank amounting to Rs 50,000,000. This facility carried an interest rate of 8.75 per cent per annum and was repayable at the end of 90 days from the draw-down.

The total interest expense incurred for the total short term borrowings for the years ended March 31, 2003 and 2002 were Rs 23,987,782 and Rs 19,298,752 respectively.

11. Long Term Debt	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
EXIM Bank loan	1,362,921	64,738,706	116,335,906
SBI Bank loan	561,416	26,667,250	36,640,000
HSBC Bank loan	3,140,351	149,166,666	100,000,000
Technology Development Board	1,368,420	65,000,000	-
	6,433,108	305,572,622	252,975,906
Less Current portion of long term debt	(2,931,239)	(139,233,867)	(68,450,533)
	3,501,869	166,338,755	184,525,373

(i) On April 9, 1999, Biocon entered into a term loan facility with Export Import Bank of India ('EXIM bank') for Rs 126,001,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans are repayable in 9 equal half yearly instalments commencing from December 10, 2000, and are secured by a first pari passu mortgage and charge on the property, plant and equipment of the Company and carry an interest rate of 10.5 per cent per annum. As of March 31, 2003 the Company has repaid Rs 84,000,000 (2002 – Rs 42,000,000), which includes a prepayment of Rs 14,000,000 in order to reduce the interest rates to 10.5 per cent (2002 – 14 per cent) in the current year.

(ii) On November 5, 1999, Biocon entered into a term loan facility with EXIM bank for Rs 46,730,706 for funding its property, plant and equipment acquisitions of the Plafractor Plant. These loans are repayable in 10 equal half yearly instalments commencing from December 10, 2000, secured by a charge on the property, plant and equipment of the Company and carry an interest rate of 7 per cent per annum. The Company has repaid Rs 23,993,000 (2002 – Rs 14,395,800), as of March 31, 2003.

(iii) On May 5, 1999, Biocon entered into a term loan facility with SBI for Rs 50,000,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans are repayable in 60 equal monthly instalments commencing from December 2000, are secured by a first pari passu mortgage and charge on the property, plant and equipment of the Company and carry an interest rate of 2.99 per cent per annum for foreign currency denominated loan and 13 per cent per annum for the rupee loan. The Company has repaid Rs 23,332,750 (2002 – Rs 13,360,000), as of March 31, 2003. The total balance outstanding as at March 31, 2003 includes foreign currency denominated loan of Rs 20,665,425 (US$ 430,000) [2002 – Rs 36,476,200 (US$760,000)] respectively. The foreign currency denominated loan is repayable at a pre-determined exchange rate.

(iv) On February 7, 2003, Biocon renewed its rupee and foreign currency denominated term loan facility with HSBC for Rs 170,000,000 (2002 – 100,000,000), for funding its fixed asset acquisitions during the year, of which it has utilised Rs 170,000,000 as of March 31, 2003. The loan is repayable in 44 monthly instalments commencing from November 2002, are secured by a pari passu charge over the property, plant and equipment of the Company and carry an interest rate of 2.77 per cent per annum for foreign currency denominated loans and 6.6 per cent per annum for rupee loans. The Company has repaid Rs 20,833,334 (2002 – Rs Nil), as of March 31, 2003. The total balance outstanding as at March 31, 2003 includes foreign currency denominated loan of Rs 52,500,000) US$ 1,078,029 [2002 – Rs Nil] respectively. The foreign currency denominated loan is repayable at a pre-determined exchange rate.

(v) On July 3, 2002, Biocon entered into a term loan facility with Technology development Board ('TDB'), a Government of India undertaking, for Rs 100,000,000 for funding its fixed asset acquisitions of the PlaFractor plant. These loans are repayable in 9 equal instalments commencing from February 2004, are secured by a first pari passu mortgage and charge on the property, plant and equipment of the Company and carry an interest rate of 5 per cent per annum. At March 31, 2003, the Company had drawn Rs 65,000,000 from the above facility.

The above term loans are further secured by the personal guarantee of the Managing Director and pledge of 10,000, equity shares of the Company held by the Managing Director and some employees.

The total interest expense incurred for the total long term borrowings for the years ended March 31, 2003 and 2002 were Rs 26,701,866 and Rs 23,826,083 respectively, which excludes the interest capitalised and referred to in Note 8.

The maturity profile of the long-term debt is as follows:

	In US$ (Refer Note 2 b)	In Rs
Year ending March 31,		
2004	2,931,239	139,233,867
2005	2,525,997	119,984,867
2006	777,977	36,953,888
2007	197,895	9,400,000
	6,433,108	305,572,622

The significant loan covenants are as follows:

(i) Any change in capital structure, schemes of amalgamation/reconstruction must be agreed by the Bank prior to being undertaken.

(ii) The Company must not invest by way of share capital in or lend/advance funds to place deposits with or undertake guarantee obligations on behalf of any other concern.

(iii) The Company is required at all times to maintain sufficient long term funds to cover all long term assets and a minimum of 25 per cent of current assets.

(iv) Inter locking of funds between Biocon and the sister concerns will not be permitted.

(v) The capital invested in the business by the directors should not be withdrawn during the tenure of the loan.

(vi) No fee/commission shall be paid to the guarantors for having guaranteed the credit facilities sanctioned by the Company. The Company and the guarantors shall furnish an undertaking to this effect.

As at March 31, 2003, the Group has complied with all the loan covenants.

12. Employee Benefit Plans

The Group has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees. The Group's cost related to defined contribution plans and vacation pay is as follows:

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	**March 31, 2002 In Rs**
Provident fund	217,182	10,316,139	9,112,668
Superannuation	252,355	11,986,840	10,381,300
Vacation pay	151,622	7,202,042	7,210,234
	621,159	29,505,021	26,704,202

As the projected benefit obligation, relating to the gratuity plan, during the year ended March 31, 2002 was not material, the Group had not provided the computed the disclosure requirements of SFAS 132.

The change in benefit obligation and funded status of the gratuity plan for the year ended March 31, 2003 is as follows:

Change in benefit obligation	
Benefit obligation at the beginning of the year	20,654,147
Service cost	9,866,574
Interest cost	1,239,337
Benefits paid	(276,058)
Benefit obligation at the end of the year (A)	**31,484,000**
Change in plan assets	
Fair value of plan assets at beginning of year	16,026,836
Return on plan assets	657,162
Actual contribution	15,537,267
Benefits paid	(276,058)
Fair value of plan assets at end of year (B)	**31,945,207**
Funded status (A-B)	461,207
Excess of actual over estimated return	**(304,448)**
Accrued benefit cost	**156,759**

Net gratuity cost for the year ended March 31, 2003 includes the following components:

Components of net yearly benefit cost	
Service cost	9,866,574
Interest cost	1,239,337
Return on planned assets	(657,162)
Net gratuity cost (2002 – Rs 6,481,180)	**10,448,749**

The assumptions used in accounting for the gratuity plan for the year ended March 31, 2003 are set out below:

Discount rate	6 %
Expected return on planned assets	6 %
Rate of compensation increase	6 %

The Group evaluates these assumptions based on its long-term plans of growth and industry standards.

13. Income Taxes	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Current taxes	1,765,173	83,845,707	56,436,410
Deferred taxes	826,606	39,263,792	23,357,600
Income tax expense	2,591,779	123,109,499	79,794,010

The components of the deferred tax liability are as follows:

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Deferred tax assets:			
Provision for employee benefits	126,095	5,989,536	15,367,120
Technical know how fees	94,122	4,470,810	-
Others	51,103	2,427,412	1,670,291
Total deferred tax assets	271,320	12,887,758	17,037,411
Deferred tax liabilities:			
Property, plant and equipment	3,154,708	149,848,686	114,096,583
Others	-	-	637,965
Total deferred tax liabilities	3,154,708	149,848,686	114,734,548
Net deferred tax liability	2,883,388	136,960,928	97,697,137

The net deferred tax asset/(liability) is presented in the balance sheet as follows:

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Net current deferred tax asset/(liability):			
Deferred tax asset	153,341	7,283,694	345,803
Deferred tax liability	(10,415)	(494,697)	(482,052)
	142,926	6,788,997	(136,249)
Net non-current deferred tax asset/(liability):			
Deferred tax asset	128,395	6,098,761	16,691,608
Deferred tax liability	(3,154,709)	(149,848,686)	(114,252,496)
	(3,026,314)	(143,749,925)	(97,560,888)
Net deferred tax liability	2,883,388	136,960,928	(97,697,137)

The following is a reconciliation of the income tax at the statutory tax rate under the Indian Income-tax Act, 1961 and the income tax expense:

	March 31, 2003 In US$ (Refer Note 2 b)	March 31, 2003 In Rs	March 31, 2002 In Rs
Net income before taxes and minority interest	11,946,198	567,444,398	290,121,690
Enacted tax rates in India	36.75%	36.75%	35.70%
Computed tax expense	4,390,228	208,535,816	103,573,443
Effect of tax rate change	(11,305)	(536,983)	(6,860,876)
	4,378,923	207,998,833	96,712,567
Permanent Differences			
Non taxable export income	(1,453,482)	(69,040,377)	(20,044,092)
Stock compensation costs	261,999	12,444,939	-
Weighted deduction on research and development expenses	(615,462)	(29,234,434)	-
Interest on delayed payment of tax	28,289	1,343,734	2,165,755
Others	(8,488)	(403,196)	959,780
Income tax expense	2,591,779	123,109,499	79,794,010

BIL, Syngene and Clinigene file separate tax returns as per the applicable tax laws in India.

On July 1, 2002, Biocon received an approval from the Department of Scientific and Industrial Research to claim a weighted deduction of 150 per cent on the expenditure incurred on scientific research or in-house research and development facility under section 35(2AB) of the Indian Income-tax Act, 1961 retroactively from financial year 1999-2000. Accordingly, the Company has received a credit relating to such research and development expenditure including a credit of Rs 13,149,604 relating to the previous year.

Under the Indian Income-tax Act, 1961, the profits of Syngene and a unit of Biocon are exempt from income taxes being profits attributable to earnings from a 100 per cent export oriented unit. Under this tax holiday, Syngene can utilize the deduction for a period of 10 consecutive years starting from April 1, 1998. Syngene has opted for this exemption for the years ended March 31, 1999 to March 31, 2008. Further each of the constituent entities in the Group shall be able to utilize a deduction from Indian income taxes for profits attributable to export operations. The aggregate rupee effect of the tax holiday is Rs 41,997,923 as on March 31, 2003.

Business tax losses of a constituent entity have been carried during the years ended March 31, 2002 and March 31, 2001 and offset against business profit for the year ended March 31, 2002 of the same entity, as no such offset is possible between the constituent entities inter-se.

Temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases arose due to difference in depreciation rates of property, plant and equipment and provision for gratuity and leave encashment which are allowable on a payment basis under the Indian Income-tax Act. Since export turnover of the Group qualifies for a deduction from taxable income, a substantial portion of the temporary differences would not have any tax consequences as they will reverse within the tax holiday period.

14. Deferred Sales Tax Liability

The Company has availed the benefit of deferring its sales tax liability for its manufacturing facilities in Bommasandra and Hebbagodi, to an extent of Rs 24,375,000 and Rs 648,938,000, in accordance with the Agro Food Processing Industrial Policy of the Government of Karnataka, for a period of 8 year and 12 years respectively. In accordance with the Government Order, the Group has deferred its sales tax liabilities aggregating Rs 103,545,391 (2002 – Rs 56,033,378).

15. Stockholders' Equity

The Company has only one class of common stock referred to herein as equity shares and each holder of equity shares is entitled to one vote per share. Final dividends proposed by the Board of Directors are payable when formally approved by the shareholders, who have the right to decrease but not increase the amount of the dividend recommended by the Board of Directors. In the event of liquidation of the Company, the holders of equity shares shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the shareholders.

16. Employee Stock Option Plan (ESOP)

On September 27, 2001, the Board of Director's approved the Biocon ESOP 2000 (the plan) for the grant of stock options to the employee's of Biocon. A compensation committee has been constituted to administer the plan through the Biocon India Ltd Employee Welfare Trust ('the Trust').

The Trust purchases equity shares of the Company using the proceeds from the loan obtained from the Company and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 shares and shares transferred to each employee will not exceed 1,000 shares. The Compensation Committee shall determine the exercise price, which will not be less than the face value of the shares. The options will vest with the employees equally over a four year period.

In accordance with the plan the Company has granted 71,510 options to the eligible employees of the Company and its subsidiaries at an exercise price of Rs 10 per share. 25 per cent of the total options granted under the plan will vest to the eligible employees on the completion of 12, 24, 36 and 48 months and is subject to the continued employment of the employee with the Company or its subsidiaries.

The Group applied APB Opinion 25 and related Interpretations in accounting for this plan. In accordance with APB Opinion 25, the compensation cost has been recognised for the differential between the exercise price and the fair value of value of the shares on the date of the grant, which was Rs 919 per share.

At March 31, 2003, the Trust has purchased 140,900 equity shares (including 3,500 equity shares from nominee shareholders) and a summary of the activity of the Trust is as follows:

Particulars	March 31, 2003	March 31, 2002
Opening balance of unallocated shares	125,030	-
Shares acquired by the Trust	15,870	125,030
Shares allocated to employees	(71,510)	-
Shares forfeited and expired	-	-
Closing balance of unallocated shares	69,390	125,030
Options granted and exercised at year end	(17,878)	-
Options granted but not eligible for exercise at year end	(53,632)	-
	(71,510)	-
Weighted average exercise price	Rs 10	-

The total stock compensation cost recognised in the income statement is as follows:

	In US$ (Refer Note 2 b)	In Rs
Cost of products sold	265,216	12,597,752
Cost of contract research services	156,123	7,415,841
Selling, general and administrative expenses	291,583	13,850,186
	712,922	33,863,779

17. Leases

The Group leases vehicles and computers under capital leases for periods ranging from three to five years. Future minimum lease payments under capital leases are as at March 31, 2003 and March 31, 2002 are Rs Nil and Rs 678,472 respectively and the present value at March 31, 2003 and March 31, 2002 are Rs Nil and Rs 655,181 respectively.

The Company has entered into an operating lease agreement for certain land for the factory, which expires in January 2011 (Refer Note 18). Gross rental expenses for the year ended March 31, 2003 aggregated to Rs 960,000 (2002 – Rs 960,000). The committed future minimum lease rental payments are:

	In US$ (Refer Note 2 b)	In Rs
Year ending March 31,		
2004	20,211	960,000
2005	20,211	960,000
2006	20,211	960,000
2007	20,211	960,000
2008	20,211	960,000
Thereafter	46,105	2,190,000
	147,160	6,990,000

The Group has taken vehicles for certain employees under operating leases, which expire in March 2007. Gross rental expenses for the period ended March 31, 2003 aggregated to Rs 383,460 (2002 -- Rs Nil). The committed future minimum lease rental payments are:

	In US$ (Refer Note 2 b)	In Rs
Year ending March 31,		
2004	13,501	641,311
2005	15,659	743,790
2006	15,659	743,790
2007	15,560	739,134
	60,379	2,868,025

18. Related Party Transactions

The Group has entered into transactions with the principal shareholder KMZ, for the lease of a portion of the factory land. The rental expense paid to KMZ for the lease of land amounts to Rs 960,000 (2002 – 1,080,000). In addition, the Company has given KMZ, a refundable deposit for the land, the balance of which at March 31, 2003 is Rs 9,600,000 (2002 – Rs 9,600,000).

The remuneration paid to KMZ and JMM in accordance with the agreement entered into by them with the Company was Rs 19,403,566 (2002 – Rs 14,358,727).

19. Commitments and Contingencies

a. Capital commitments

The Group had committed to spend approximately Rs 259,014,106 as at March 31, 2003
(2002 – Rs 18,705,984), under agreements to purchase property, plant and equipment. This amount is net of advances paid in respect of these purchases.

Further, as described in Note 8 and included above, the Group has committed to purchase 41.5 acres of land costing Rs 99,600,000 over the next two years.

b. Guarantees

Guarantees provided by banks on behalf of the Group amounted to Rs 95,000,000
(2002 – Rs 97,500,000), which mature over periods upto September 2006. The guarantees are primarily in the nature of performance guarantees and were provided to Indian Government agencies. The Group has concluded that the risk of the guarantees being called is remote and accordingly no provision has been made.

c. Claims against the Group

The Group accounts for loss contingencies when the likelihood of the underlying adverse event occurring is probable and the loss can be reasonably estimated.

(i) Taxation matters under appeal

Biocon has received demand notices from the Income tax authorities in respect of assessments made in the years 1993 to 1998 aggregating Rs 7,629,192 in March 31, 2003 (2002 – Rs 11,124,372). Biocon has appealed these assessments and management does not anticipate incurring a liability in respect of these amounts.

(ii) Other claims against the Group not acknowledged as debts amount to Rs 2,373,750 in March 31, 2003 (2002 – Rs 5,126,631).

d. Other commitments

The Group's operations are carried out from two units registered as a 100 per cent export oriented unit under the Special Economic Zone ('SEZ') scheme. Under this scheme the registered units have export obligations, which are based on the formula provided by the notifications/circulars issued by the SEZ authorities from time to time.

The consequence of not meeting the above commitments would be a retroactive levy of import duty on items previously imported duty free for these units. Additionally the respective authorities have rights to levy penalties for any defaults on a case-by-case basis. Management believes that it would meet the required export obligations.