A JUBILANT TOMORROW

Jubilant Organosys Ltd.

Annual Report 2003-2004

Jubilant Organosys Limited is one of the largest Custom Research and Manufacturing Services (CRAMS) companies and a leading manufacturer of Active Pharmaceutical Ingredients (APIs) in India, delivering products and services to the global life sciences industry by leveraging its R&D expertise, knowledge-driven operations and global scale manufacturing capacities.

Jubilant is also a leading manufacturer of a range of performance chemicals and industrial chemicals for use in industries such as pharmaceuticals, tyres, textiles, construction, paper and packaging, plant health and animal nutrition.

Jubilant Organosys is a partner of choice for the global life sciences industry. The Company has built capabilities to offer products and services across the value chain in generic as well as new drug processes right from early stage drug development to manufacturing of commercial volumes. The Company has high-ranking global positions in its products across all its operating categories.

2004	Acquisition of European pharma companies
2003	Launched drug discovery business
2002	Entered into the API business
1996	Entered into CRAMS business
1985	Ventured into performance chemicals business
1978	Incorporated for manufacture of Vinyl Acetate Monomer and other industrial chemicals

Contents

Corporate Information

Registered office	Bhartiagram, Gajraula, Dist. Jyotiba Phule Nagar, UP 244 223, India
Corporate office	1 A, Sector 16 A, Noida, UP 201 301, India.
Manufacturing locations	Gajraula: Bhartiagram, Gajraula, Dist. Jyotiba Phule Nagar, UP 244 223, India Nanjangud: 51-56, KIADB Industrial Area, Nanjangud, Mysore, Karnataka 571 301, India Nira: Nimbut, Nira, Dist. Pune, Maharashtra 412 102, India Samlaya : Block 133, Samlaya, Taluka Savli, Dist. Vadodara, Gujarat 391 520, India
Corporate R&D centre	C-26, Sector 59, Noida, UP 201 301, India
Jubilant Biosys Ltd	450, 12th Cross, Mahalakshmipuram, Bangalore-560 086
International offices	
US	700 Canal Street, 5th floor, Stamford, CT 06902, USA
China	G/16F Jui Shi Fuxing Mansion, 918 Huai Hai Zhong Road, Shanghai, PC 200020, China
Statutory auditors	K.N. Gutgutia & Co., 11K Gopala Tower, 25 Rajendra Place, New Delhi 110 048, India
US GAAP auditors	KPMG, 4B DLF Corporate Park, DLF City Phase III, Gurgaon 122 002, India
Cost auditors	J. K. Kabra & Co., 552/1B Arjun Street, Main Vishwas Road, Vishwas Nagar, Delhi 110 032, India
Registrars and transfer agents	Alankit Assignments Ltd, 205-208 Anarkali Complex, Jhandewalan Extension, New Delhi 110 055, India. Tel.: +91(11) 23610220-24

Shyam S Bhartia
Chairman and Managing Director

Hari S Bhartia
Co-Chairman and Managing Director

Dear Stakeholder,

We take pleasure in presenting our report for the financial year 2003-2004. It has been a period of transition and progress, achievements and recognition, complete with many initiatives that will facilitate the creation of value and mutual benefit for all our stakeholders in the future.

Business conditions are becoming increasingly positive

It is our belief that the economic environment in India is improving, leading to a better business outlook going forward.

GDP performance is expected to be higher, pushed by growth across all key economic segments comprising agriculture, industry and the services sector. It is after a long time that we are witnessing such all-round growth and improvement in sentiment. Urban and rural incomes are rising, leading to improved consumer demand.

India's international trade performance is significantly better, driven by knowledge-based sectors such as IT-enabled services, hi-tech manufacturing and pharmaceuticals, where we have demonstrated a sustainable competitive position at a global level. The country's forex position is now exceedingly comfortable, inflation is manageable, cost of capital is near historic lows and given the improvement in the overall operating efficiency in corporate India, we are confident about the prospects of Indian business in the future.

A year of transition and progress

A live definition and assessment of strategy enables the creation and recognition of opportunities as well as participation in areas of corporate competence and business growth. What has been constant is our endeavour to continuously move up the knowledge chain to enter into new segments and introduce products that have a greater value margin and growth prospects.

In the first wave of corporate re-definition, we very successfully achieved greater footprint across the value chain to become the leading provider of products and services to the global life sciences industry. Last year, we expanded our footprint even further to establish a strong presence in the Custom Research and Manufacturing Services (CRAMS) and the Active Pharmaceutical Ingredients (API) businesses, catering to the global life sciences sector. We now have plans to further move up the value chain by having a strong presence in the high potential areas of drug discovery, regulatory services and generic formulations. Jubilant Biosys, which recently became a subsidiary, and our Chemistry Services business have facilitated our entry into the drug discovery segment. We have also acquired two European pharmaceutical companies. These acquisitions are expected to accelerate our entry into the regulatory services and generic formulations businesses in regulated markets. The earlier acquisition of the pharmaceutical business acted as a catalyst that enabled rapid implementation of our plans and initiatives in APIs. The pharmaceuticals and life sciences businesses contribute to 37% of our revenues and 57% of our operating profits, making us a sizeable player in this segment.

With Jubilant Biosys as a subsidiary and the acquisition of the European pharma companies, our products and services will straddle the entire spectrum of user-segments in the life sciences sector, from drug discovery to CRAMS and APIs and upto generic formulations. We view these businesses as our growth engines and we are taking steps to enable their rapid development going forward.

In order to manage and grow our business better, we re-aligned our operating model into three distinct segments i.e. Pharmaceuticals and Life Science Chemicals, Performance Chemicals and Industrial Chemicals, comprising several growth units, covering key business lines in each of these areas. We implemented these initiatives to ensure that while we create the size and scale of a larger organisation, we do not lose the energy, responsiveness and business-motivating ability that is more pervasive in smaller operating entities. It is most heartening that while we were implementing such new initiatives, we continued to deliver a progressive performance without any recess during this period. Our net revenues for the year increased by 21% to Rs. 8.6 billion while our net earnings grew by 67% to Rs. 802 million.

Pharmaceuticals and Life Sciences businesses will be our growth drivers going forward

We have already established a strong operating capability and position in these businesses. To support our growth in this area of activity, we have substantially enhanced our R&D capabilities by setting up a new state-of-the-art centre in Noida, near Delhi, and we increased our R&D strength to over 175 people. To further enhance the growth we have planned to remove capacity constraints by making new capital expenditure in the areas of APIs and CRAMS.

In the API business we are already a key player in products such as Carbamazepine – where we are the world's largest generic manufacturer, Oxcarbazepine, Citalopram and Azithromycin. Our pipeline for the immediate future comprises products such as Risperidone, Lamotrigine and Simvastatin, where we intend to create a key global position for ourselves. Our focus in this business will be to build a clientele comprising global corporations in developed markets. In our opinion, what we have accomplished so far represents an encouraging beginning of what we consider an exciting opportunity for the future.

Our CRAMS business is demonstrating an exciting future potential, and we are engaged with most of the leading global pharmaceutical and agrochemical companies on projects both small and large with the potential to deliver substantial scalability in the future. We currently have a large pipeline of over 30 products that are under commercialisation.

Our subsidiary company, Jubilant Biosys, is an innovative bio/chemo informatics service provider, specializing in offering high quality databases and informatics solutions for pharmaceuticals and biotechnology companies. The Company, in its first few months of commercial operations during the last financial year, has built a client list of more than 30 global life sciences companies.

In Solid PVA, Jubilant is the third-largest producer in the world. This has been one of the fastest-growing units in the Company with a 94.4% increase in net sales in FY 2004.

Performance Chemicals and Industrial Chemicals will continue to better past performance and provide strong cash flows and operating base in the coming years.

We have created over the last few years global leadership positions across multiple categories in our Performance Chemicals and Industrial Chemicals businesses. These include VP Latex and Acetaldehyde where we are the sixth-largest producer in the world. In addition to that, we are among the top ten global producers of Choline Chloride, Ethyl Acetate and Acetic Anhydride.

In these businesses it will be our endeavour to better the operating performance of each of these segments. For us, these businesses provide continued earnings and cash flows and a strong operating backbone for the overall organisation, and we will therefore, not dilute our focus to achieve optimal results in each of these operations. For example, in line with our interest to maintain momentum, last year we launched an advertising campaign for our Performance Chemicals products to strengthen the brand equity that the Jivanjor range of products currently enjoy across all segments.

This effort was complemented with a strong manufacturing focus and the re-organisation of our distribution structure, aggressively targeting the customer. We increased our market share in a short frame of time.

These businesses collectively contributed to 63% of our revenues and 43% of our operating profits. Although we expect to deliver absolute growth in these businesses, their share of contribution to our overall revenues will diminish keeping in view the rapid growth that we expect to achieve in our Pharmaceuticals and Life Science Chemicals business.

The international markets will continue to be a thrust area for us with a focus on regulated markets comprising the USA, Europe and Japan, in our pharmaceuticals and life science chemicals segment. Within the unregulated markets, China will maintain its position as a market of prominence in our plans. We believe that the recent economic slowdown in China will not have a significant impact on our exports to that country as their current growth rate is sufficient to create sustainable demand for our products. Moreover, no significant capacity addition for products that we export to China, is likely to occur over the next few years.

Accessed global financial market for resource generation

We successfully completed an international issue of 1.5% Convertible Bonds of US$ 35 million. The funds generated through this issue will strengthen our capital base and will support our growth plans, including acquisitions and investments to increase capacities in the pharmaceuticals and life science chemicals segment. The Bonds are listed on the Singapore Stock Exchange and on conversion to GDSs, the GDSs can be traded on the Luxembourg Stock Exchange. This initiative represents our maiden quasi-equity issue in global markets, signifying the increasing maturity and acceptance of our business model.

Adopting the Corporate Sustainability model demonstrates our committment to long-term growth

We are the only company in our sector in India to have formally adopted such a sustainability model in line with our approach to embrace best corporate governance initiatives.

The corporate sustainability model is a comprehensive business case approach focussed on opportunities and risks. It is also referred to as the "Triple Bottom Line" approach as it is about meeting economic, ecological and social goals. It takes into account not only the economic bottom line that measures business profitability but also the benefits and impacts of our products and processes on the environment and the health and safety of our employees and our communities. This is very relevant to our business as it demonstrates the high quality of our operations, which in our business is essential to creating partnership-led relationships with large international corporations and also enhances our ability to create incremental value for all our stakeholders in the long term.

From a progressive past to "A Jubilant Tomorrow"

This has been a year of change and real progress. We move into the future with a defined business model that examines and captures value and opportunity across all our operating segments. We are efficient and profitable with active contribution from all our growth units. Our quality is comparable to the best globally, and this will be further reinforced through an organisation-wide Six Sigma programme, which is part of our 'Velocity' initiative launched in the last quarter of the fiscal year 2004. The market conditions are conducive and we remain more than ready to face challenges that may come our way.

The positive impact of our new initiatives will be visible in the near future. Our team is highly competent, comprising some of the most capable professionals in their respective fields. We are committed to cost efficiently delivering value to our customers, strengthening partnerships built in the past and initiating new relationships in the future. We remain greatly motivated and excited, given our business strength, plans and outlook for the future. Our values and business approach will enable mutually beneficial relationships with all our business associates. Our endeavour to create value for our shareholders is strong, and we look forward to their continued support and participation.

As we close our statement for the year, in summary we confidently state that we are enthusiastic about an exciting future and “A Jubilant Tomorrow”.

Shyam S Bhartia
Chairman and Managing Director

Hari S Bhartia
Co-Chairman and Managing Director

Dr J M Khanna, Executive Director

I take pleasure in stating that within a short period of time we have built a highly successful Pharmaceuticals and Life Sciences operation. We have achieved this progress by leveraging our acquisition of the Pharma business, increased focus on R&D and effectively utilising the already established strong manufacturing and operating base of our Company.

Outsourcing opens up global opportunities

Globally, India is increasingly seen as ideal destination for meeting the outsourcing needs of the global life sciences industry. India has a vast intellectual pool, strong chemistry skills and superior engineering skills to be a cost-efficient provider of products and services. This positions India to capture a US$ 14 bn outsourcing market which is expected to grow to US$ 27 bn by 2007. Jubilant by its presence across the pharma value chain is well set to be a major player in this area.

Acquisition provides an established operation with US FDA approved API plant

The success of any acquisition can only be measured by the extent of value that a company can derive from it.

The acquisition of the pharmaceutical business was very effectively leveraged to substantially reduce the establishment curve of this business. It came complete with people and experience, which we retained and utilized to rapidly implement plans for the future. The strong product profile has been revised to build a strong pipeline of new API introductions. The customer relationships have been extended to cover greater business activity. Most importantly, the US FDA approval for the existing plant has reduced our time-to-market when engaging with customers in developed regions.

At Jubilant, we believe that change offers an opportunity that we must capitalise upon quickly, and we have done precisely that by activating the opportunities provided by this acquisition.

Strong API product portfolio and an equally encouraging pipeline

Our current portfolio comprises 9 APIs which are used in pharmaceuticals belonging to high growth therapeutic segments. Some of these include Carbamazepine, Citalopram and Azithromycin. Our existing product range is strong and offers a continued growth outlook going forward. For example, we are the largest generic manufacturer of Carbamazepine, an anti-epileptic API, with a market share of 15% which we intend to further increase over the next two years. In addition, we are working on about 20 more APIs, for most of which we are likely to file DMFs over the next 24 months. These include products such as Simvastatin, Esomeprazole, Pioglitazone, Aripiprazole and Sartans in categories such as CNS (central nervous system) and CVS (cardio-vascular system).

With regard to Oxcarbazepine, we estimate this API to be a key contributor to our revenues in the next few years. We were one of the earliest entrants in the US and European markets, and have now tied up with several leading generic players for this product. This anti-epileptic drug presents a robust market opportunity for us in regulated markets.

Dedicated R&D team and facilities enable success

Our success in the Pharmaceutical and Life Sciences business would not have been possible without a solid R&D backbone.

Jubilant has 175 people in the R&D team. Of this total, 130 people are dedicated to the Custom Research and Manufacturing Services (CRAMS) and API business, of which 46 hold PhD qualifications. Over the last few quarters, we have continuously enhanced our R&D team and capabilities and set up an advanced facility at Noida, near Delhi.

The R&D activities enable us to shape and plan our tomorrow. They add the value and comfort that we can provide to our customers, and make us a knowledge-leveraged organisation with a more sustainable future.

Consolidation of Jubilant Biosys to enhance customer delivery capabilities

During the year Jubilant Biosys, a group company providing innovative products and services in the field of bio-informatics and chemo-informatics, became a subsidiary. Jubilant Biosys has specialized in providing high-quality knowledge-based informatics solutions for pharmaceutical and biotechnology companies engaged in drug discovery. It already has more than 32 customers of which 7 are in the pharmaceuticals sector while 8 are in the biotech industry.

Jubilant Biosys has initiated several contracts from leaders in the life sciences industry, including the recent licensing of its product PathArt™ to a global pharma major. The activities of Jubilant Biosys complement Jubilant Organosys' focus on the Pharmaceutical and Life Sciences market, creating potential for greater synergies in the future. The consolidation of Jubilant Biosys into our operations will add to our existing R&D competencies and increase our customer delivery capabilities considerably.

Moving decisively and rapidly

The Pharmaceuticals and Life Science Chemicals business will be our key growth driver in the future. We have established strong customer relationships in the global life sciences industry. To grow rapidly we are investing in creating additional capacities for our key APIs. We have also completed the acquisition of European pharmaceutical companies which will enable rapid development of our business in high growth, regulated markets. The results of our strategy and efforts will be more evident in the near-term.

Without under-estimating the amount of effort and time that we will have to invest and the challenge that we will have to face, we are implementing our strategies in this business, decisively and potently to enable a complete bias towards rapid growth and delivering an outstanding performance in the future.

S N Singh, Executive Director

Jubilant Organosys is the largest speciality chemicals company in the country and we intend to strengthen our status in the future. We believe that we have the best-in-sector capabilities and strong portfolio of products that will enable us to maintain our leadership position in defined chemical categories.

The sector chemistry is changing

The Indian chemicals industry continues to be characterised by a high degree of fragmentation, small scale of operations that by virtue of their size have limited emphasis on R&D and exports.

It is our belief that only those players with a well-defined growth strategy, with resources to compete in a tough operating environment, with the strategic intent to invest in R&D and the ability to develop export markets are likely to emerge as domestic leaders and significant players in the global market.

We therefore, foresee a process of consolidation where competent players will be able to outpace the overall growth in the sector, thereby, naturally inflicting an end on marginal players in each chemical segment.

The global exports opportunity from India in the chemicals sector is substantial, especially in high-knowledge speciality chemicals where India brings a definitive cost advantage.

Higher value-added products and strong customer relationships

Jubilant has a constant focus to continuously introduce higher value added products that offer better user efficiencies and performance, thereby creating sustainable relationships with global customers. Over the last five years we introduced 131 new products across multiple categories.

Our product range comprises products such as Pyridine and its derivatives – where we are the second-largest player in the world, solid PVA, PU adhesives, and Vinyl Pyridine Latex that are supplied to over 1500 customers located in more than 60 countries.

We are inspired and we work hard to generate products that are unique to our customers' requirements, and they in turn have rewarded us with some prestigious contracts. Closely partnering with our customers, we better understand their dynamic demands and expectations. We use R&D and our experience of being able to handle a vast range of chemical reactions and deliver specific solutions. This approach has enabled us to become a key vendor and partner to large global corporations in our defined chemical categories.

CRAMS business outlook is very promising

There is a great deal of interest amongst global corporations to engage knowledge-led activities from Indian companies, keeping in view the cost-efficiency contribution they bring to the table. At Jubilant, we have been conducting such activity for global corporations over the last few years, and I am glad to share that we are witnessing the fructification of our initiatives in this area.

Our strength in this activity stems from a combination of factors that include low- cost R&D ability, our knowledge of chemistry, an efficient manufacturing establishment with global scale plants that are also eco-efficient and comply with international standards and most importantly, our strong customer relationships and partnerships.

We are providing end-to-end cost effective solutions to global pharmaceutical and agrochemical companies from gram scale to commercial scale through seamless scalability. We have a strong pipeline of 31 products in addition to 41 products that have already been commercialised.

Our chemistry is working

Results don't just happen. We have created a leadership position in the Speciality Chemicals business through a live evolution of the product profile with a clear strategy to add value and move ahead in the knowledge chain. We have focussed on keeping our competitive position strong by utilizing R&D and attaining higher operating efficiencies.

Our inherent strengths and chemistry expertise acquired over the years are also enabling us to successfully undertake custom research and manufacturing assignments for not just the Pharmaceuticals segment, but also for Agrochemicals and Performance Chemicals.

We have made a lot of progress, which is demonstrated in our performance. Moving ahead, we will continue to work harder to ensure that we extend our standing and status to always end stronger, compared with what we were at the beginning.

SHYAM BANG, EXECUTIVE DIRECTOR

We have one of the most complex and highly integrated manufacturing operations in the industry, with a multi-product facility that offers flexibility to meet market dynamics and requirements. Our manufacturing operations are capable of delivering a vast range of products specific to individual customer requirements, reliably and efficiently.

Managing complex and robust manufacturing processes

We manufacture over 500 products. This has largely been possible because of our ability to conceptualise, develop and test new product ideas in our R&D labs, take them through the pilot trials and right up to manufacturing and successful commercialisation. The key enablers for such capability are our R&D skills accumulated over the years, in-house engineering and project implementation strengths and globally benchmarked processes.

Our operations have a high level of backward integration as our business model is shaped to capture contribution at every stage of value addition. This increases the complexity of our manufacturing operations, but also provides us with the advantage of being able to maintain economies of scale throughout the value addition process. Over the years, we have learnt how to do this most efficiently ensuring maximum utilization of our manufacturing assets, thereby resulting in optimum level of revenue and earnings from the capital employed.

To meet rapidly growing outsourcing needs of the global life sciences industry, we plan to invest more than Rs.1 billion to double our manufacturing capacities in the high growth CRAMS business during the current fiscal. We intend to work our assets harder and therefore, we are not contemplating any major investments in our industrial chemicals business, which provides building blocks for our high value added products.

Jubilant Organosys has already established itself as a player of global stature across multiple product categories and, during the year, we have enhanced or maintained our global positions.

Energy is an important resource in our manufacturing operations. We have self sufficient power generation at our Gajraula facility. To bring better efficiency in power generation, we are setting up a new power generation unit which will be operational by the end of this year. This will further reduce the cost of power and fuel at our largest manufacturing location.

Efficiency is a key competitive tool

We are in a business where efficiency is a key to success, and we realize that we must never lose this focus while managing complex manufacturing operations.

Effective logistics and supply chain management are critical success factors for Jubilant given the diversity of its customer base, the multiplicity of its product lines and offerings and the complexity of its operations. In addition to greater operational efficiencies, prudent supply chain management also addresses resourceful working capital management and competent credit evaluation systems.

By constantly monitoring the supply and delivery chain efficiency we have been able to achieve real savings in our manufacturing costs, besides the optimisation of resources and capital. The benefits of such an initiative accrue not only to us by way of better earning margins, but also benefit our customers who obtain the advantages of better efficiencies and value that we bring to them.

Always at the top with quality

Our products are used in critical applications. Quality is an integral component of our operating strategy. Our endeavour, therefore, is to continuously evolve our quality capabilities. Recently, we started the implementation of a Six Sigma programme which is part of our 'Velocity' initiative to bring consistency and limit the deviations from optimum parameters across all manufacturing processes.

We are able to retain our customers because of the trust developed over a period of time through a timely delivery of quality products, and it is always our endeavour to outperform their expectations.

Operating strength adds to our business power

The markets in which we operate present attractive opportunities and tough challenges. A strong operating profile is respected by peers and valued by customers. Our ability to manage our operations most efficiently and our intent to create a sustainable business operation, creates value for all our business associates. We also understand that the quest for efficiency is not finite. It is a process that never ends, however better you get at it. With this approach, we remain confident that we will use the strength of our operations as a sustainable competitive advantage and as an active contributor to our performance at all times.

R Sankaraiah, Chief Financial Officer

I am glad to report a strong business and financial performance for the year. Our net sales have increased by 21% to Rs. 8.6 billion, our EBITDA is higher by 29% at Rs.1.7 billion and our net profit at Rs. 802 million has increased by 67%.

Revenue growth driven by key businesses

Increase in sales demonstrates the growth capabilities of our operations. The quality of revenue growth signifies the robustness of our business and its movement in line with our corporate strategy. The Pharmaceuticals and Life Sciences business, which is our key growth driver, achieved a topline growth of 61% to Rs. 3.2 billion. The contribution of this business also increased from 28% to 37%. The strategic focus on life sciences industry and the long term relationship with global customers will ensure sustainable rapid growth in this segment. The other businesses continued to deliver revenues in line with their stated objectives.

Operating profits driven by operating efficiencies

The increase in our operating profits has been a combined result of revenue growth and better operations management. Our EBITDA was higher by 29% at Rs 1.7 billion from Rs 1.3 billion. The Company's EBITDA margin expanded to 19.3%, indicating a 7.1% shift. This has been driven by higher value-added operations and a focus on the Pharmaceuticals and Life Science Chemicals business.

Pre-tax earnings supported by active financial management

Our pre-tax earnings increased by 53% to Rs. 979 million. We were able to extend the gains in the pre-tax earnings by active financial management that resulted in decreased cost of borrowings. Our average cost of debt reduced to 8.1% from 12.3%. We achieved this reduction by restructuring our debt portfolio. We replaced rupee debt with foreign currency borrowings that came to us at a significantly lower cost, and act as a natural hedge for our exports.

Post tax earnings show a substantial increase

Keeping in view all the initiatives discussed earlier, our net profits showed an increase of 67% resulting in earnings per share of Rs. 34.2 compared with Rs. 20.5 last year. In order to enable our shareholders participate in improved profits and to express our confidence in the future earnings capability of the Company, we raised the total dividend paid during the year to Rs. 5.00 per share from Rs. 4.50 per share, amounting to a payout of Rs. 95 million, representing 12% of our net profits. The retained earnings will be ploughed into our growth businesses and be utilized to strengthen our balance sheet and limit our debt requirements.

Balance sheet is strong and stable

By the year-end the net worth increased to Rs. 2.1 billion from Rs.1.4 billion implying a book value per share of Rs. 88.

In order to strengthen the financial structure, we have raised FCCB of US$ 35 million. Our debt to equity ratio is at 1.99: 1. We intend to strengthen this further over the next year. Importantly, our interest cover ratio is at 4.2 times, and the debt to operating profit is 2.5 times, implying complete comfort with regard to debt servicing. We have employed our debt to generate returns that are significantly higher than its cost, making it a resourceful contributor to our earnings capability. The return on capital employed increased to 21% from 19% and the return on networth to 39% from 34%.

Investments have been accretive to performance

Last year, we invested Rs. 856 million primarily in our pharmaceuticals and life science chemicals business and in strengthening our R&D capabilities.

These investments are evaluated based on their ROCE, which has to be in line with our corporate philosophy of being at least 10% higher than our cost of capital. All major investments made last year met this criterion. In many cases where the investments were in plant de-bottlenecking or related initiatives, the pay back period has been very attractive.

The performance outlook remains strong

We expect continued strong growth next year. This will be driven by higher contribution from our key businesses both in terms of revenues and earnings. Our financial position is strong and we expect to improve this further.

Board of Directors

Shyam S Bhartia
Chairman and Managing Director

Hari S Bhartia
Co-Chairman and Managing Director

Arabinda Ray
Independent Director

Bodhishwar Rai
Independent Director

H K Khan
Independent Director

Dr Naresh Trehan
Independent Director

Surendra Singh
Independent Director

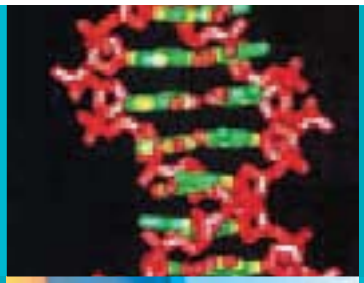
Dr J M Khanna
Executive Director

S N Singh
Executive Director

Shyam Bang
Executive Director

Chief Financial Officer
R Sankaraiah


Bodhishwar Rai
Hari S Bhartia
H K Khan
R Sankaraiah
S N Singh
Shyam Bang
Arabinda Ray
Shyam S Bhartia
Surendra Singh
Dr Naresh Trehan
Dr J M Khanna



MANAGEMENT DISCUSSION AND ANALYSIS

- Growth strategy - focus on the life sciences industry
- Global scale, high efficiencies and stable costs drive earnings
- Strengthening global footprint
- A Jubilant outlook

Growth strategy

Jubilant has, in recent years, successfully evolved into a research and knowledge-led global player manufacturing high-value products, primarily for the life sciences industry worldwide. This ascent up the value chain was enabled by the Company's strategy to leverage its established technical know-how and chemistry expertise, accumulated over the years through pioneering investments in R&D and technology, for creating leading positions in its chosen businesses internationally.

Jubilant Organosys continues to concentrate on its three key business drivers in order to build a platform for sustainable future growth:

- Focus on the life sciences industry
- Thrust on exports to regulated markets (US, Europe, and Japan)
- Efficiency maximisation, operationally and financially

Focus on the life science industry: CRAMS and APIs to drive future growth

Jubilant Organosys, on the back of its R&D strengths and presence across all key touch-points in the life sciences value chain, is ideally positioned to, and intends to, become the partner of choice for the global life sciences industry. It already has capabilities to offer advance intermediates, fine chemicals and APIs right from lab scale (milligrams) to commercial (tonnes) quantities to companies engaged in drug discovery and generic formulations. Through its newly formed subsidiary, Jubilant Biosys, which offers innovative bio-informatics and chemo-informatics products and services to pharmaceutical and biotech companies, Jubilant Organosys is now able to offer drug discovery services as well. The Company will also be able to offer regulatory services for the developed markets of Europe and formulated dosage forms to generic companies through the proposed acquisition of two European pharma companies.

As a result of sustained R&D efforts, the Company has accumulated significant intellectual property. Jubilant currently holds 7 patents and has 22 applications for new patents pending in the United States and other countries. The Company has also demonstrated R&D capability in over 30 complex chemical processes and reactions that require international levels of expertise.

The Company's R&D efforts will also continue to lead to new, innovative processes that can increase the production efficiencies for products which have already been commercialised as well as address opportunities that have been identified in the global market.

Jubilant's investment in R&D more than doubled from Rs. 34 million in fiscal 2002 to Rs. 84 million in fiscal 2003, further tripled to Rs. 267 million in fiscal 2004. This progressive trend is expected to continue in the coming years with an expected investment of Rs. 700 million over the next 2 years.

Jubilant currently has a team of over 175 scientists, including 54 PhDs. Jubilant has a dedicated team of 74 scientists exclusively for new APIs selection and research for regulated markets to provide first-to-file competitive advantage.

Jubilant's CRAMS business includes R&D and the manufacture of advance intermediates and fine chemicals for the pharmaceuticals and agrochemical industries. The Company's CRAMS strategy is to create a basket of basic building blocks (intermediates) for the global pharmaceuticals industry by identifying advance intermediates for in-market APIs and agrochemicals. In the advance intermediates segment, the Company intends to further strengthen its market share in the pyridine based market by offering products on competitive terms. The Company is also working on developing other building blocks similar to pyridines, which could open up a host of new opportunities. Jubilant has also taken initiatives towards establishing strong customer relationships to offer them advance intermediates and fine chemicals for phase I, II, and III drugs as well.

The large number of APIs that are going out of patent in the coming decade and the growing demand for low cost generics in regulated markets offer distinct and fast growing opportunities for Indian companies with strong R&D capabilities. Jubilant Organosys is in a position of advantage to capitalize upon these opportunities due to its strong chemistry expertise and knowledge base. In APIs, the Company's strategy is to focus on high-growth, high margin segments.

In recent years, almost all of Jubilant's capital expenditures have been in the Pharmaceuticals and Life Science Chemicals business. The Company plans to continue to allocate much of its future capital expenditure on further expanding this business segment and ramping up its API and CRAMS capacities to meet increasing demand in the export markets. The total capital expenditure on the API and CRAMS capacity enhancement is likely to be around Rs 2.5 billion during FY 2005 and FY 2006. The Company plans to create capacities to meet the growing demand for the Company's CRAMS products and remove the existing bottleneck of capacity constraints, leading to CRAMS capacity increasing from current 158 m3 to 311 m^3, an increase of 97%.

As a result, Jubilant's Pharmaceuticals and Life Science Chemicals business is expected to record high growth and become the most important component of its business in terms of revenues, profitability, growth and a source of a core competency in the development of knowledge-driven pharmaceuticals and agrochemicals products.

The Company also has plans for new US FDA standard API manufacturing facilities. This is likely to entail fresh investments of around Rs. 900 million over the next 2 years, and will result in expansion of API capacity from current 153 m^3 to 175 m^3 by end of FY05.

Strong exports and direct customer relationships will support business growth

Jubilant intends to continue to focus on increasing exports to the regulated markets, comprising the United States, Europe and Japan, while also leveraging its position in the unregulated markets such as China which accounted for 38% of Jubilant's exports to the unregulated markets. The regulated markets are the primary markets for higher margin, knowledge-driven products. In FY 2004, contribution of the regulated markets to Jubilant's exports increased to 55% from 41% in the preceding year. Exports to regulated markets in the pharmaceuticals and life sciences segment comprised 69% of the exports of this segment.

The Company enjoys direct customer relationships with leading pharmaceutical and agrochemical players worldwide, and has consistently recorded a robust export performance which continues in the current fiscal as well, with exports contributing a healthy 27% to net sales. During FY 2004, the Company added 52 new international customers, primarily in CRAMS and API. In addition to that, Jubilant also scaled-up sales to many of its existing customers.

Thrust on efficiency maximisation to ensure sustainable competitive edge

At Jubilant Organosys, manufacturing is a competitive strength, derived from vertically integrated processes and innovative supply chain management initiatives aimed at maximising efficiencies and lowering costs. Jubilant continuously seeks to enhance its operating efficiencies in order to provide customers with high-quality customized solutions at competitive prices. This strategy continued to deliver results during fiscal 2004, with the Company's operating margin expanding to 19% from 18% in FY 2003 and 15% in FY 2002.

The Company is also in the process of augmenting its captive power generation capacity at an estimated cost of Rs 300 million. The new power plant is expected to go on stream by end of FY 2005 and will reduce the Company's overall cost profile.

The Company will continue to develop global-scale manufacturing facilities where it perceives market opportunities to exist. As an integral part of its overall strategy, Jubilant continuously examines ways to improve efficiencies in all aspects of its business, including manufacturing, logistics, procurement, and sales and marketing. Through manufacturing efficiency initiatives, Jubilant has been able to improve process yields, shorten cycle times, and reduce energy and water consumption.

Jubilant, enabled by a sound growth strategy that envisages it becoming a global composite supplier with the ability to deliver end-to-end high-quality products and services to the pharmaceuticals and life sciences industry, is well-positioned to enter its next phase of growth. The additional R&D resources and manufacturing facilities being established will allow the Company to capitalise on unfolding opportunities in the global marketplace.

Economy and Industry Overview

Macroeconomic Overview

The fiscal year 2004 has been an encouraging period for most Indian businesses, with all the key components of the domestic economy revealing positive trends.

The performance of all the three key sectors – agriculture, industry, and services – has been strong in FY 2004, indicating a broad-based economic recovery. Good monsoons resulted in the agricultural sector posting robust growth during the year while the services sector continued its uptrend this year as well. Domestic industrial growth was spearheaded by the manufacturing sector. Low interest rates, expanding foreign exchange reserves and rising equity markets indicate growing confidence in the Indian economy.

While the macroeconomic growth scenario in India continues to be optimistic, the global economy is still showing some signs of weakness although the outlook is now more positive. The US and Japanese economies, which managed a tepid growth rate during the first half of calendar year 2003, have started showing signs of a gradual recovery. Europe, however, is yet to develop a decisive growth momentum, with a weakening dollar posing additional barriers to European exports.

Looking ahead, the outlook for the Indian economy appears to be bright while the overall global economy is expected to exhibit gradual recovery. Such an emerging global scenario holds strong potential for efficient Indian businesses having quality and cost advantages on a global scale.

Industry Overview

Pharmaceuticals and life sciences industry

The Pharmaceuticals and Life Science chemicals business, which will be one of Jubilant's key growth drivers in the coming years provides products and services across the life science value chain. Growing global outsourcing needs have made CRAMS a fast-growing sector with significant opportunities for countries such as India that have a large talent pool of trained scientists and chemists.

The estimated global market size for outsourcing in the pharmaceutical and agrochemical sectors is around US$14 billion currently, and is expected to increase to US$ 27 billion by the year 2007. Rapidly changing dynamics of the global pharmaceuticals industry and the pressure on global pharma players to lower the costs of medicines without compromising on quality is opening up new opportunities in the area of custom research and manufacturing for Indian companies with a strong track record of IPR compliance and R&D capabilities.

Active Pharmaceutical Ingredients (APIs) are the key ingredients responsible for the growth and success of generic pharmaceutical drugs. The API industry in India has grown rapidly, at an average annual growth rate of approximately 20% from 1991 to 2001, and even more rapidly in the last three years. This growth has been fuelled in large part by India's relatively low manufacturing and capital costs and large, highly skilled talent pool with scientific and technical expertise. The recent growth has also benefited from the global trend among pharmaceuticals manufacturers to outsource the production of APIs. One indication of this is that more than 80% of the APIs produced in India are exported to overseas buyers.

Performance chemicals industry

This industry, from Jubilant's perspective, caters to four core end-use segments in vinyl pyridine latex, industrial emulsions (including textiles, coatings, paper and packaging), consumer products and speciality gases. Due to the application-based nature of this industry's products, technical expertise and the ability to innovate and quickly adapt to shifting end-user preferences is key to long-term sustainability.

Each of these vertical segments has its own dynamics, and on an overall basis this industry is expected to grow in line with the economy, with certain segments growing faster than others.

Industrial chemicals industry

This is a fragmented industry with only a few large players and several small ones. The customers for organic intermediates are typically large corporates seeking consistently high volumes and high product quality. As a result, players with large-scale manufacturing capabilities and high operational efficiencies tend to have a competitive advantage.

Growth in the industrial chemicals sector will be led by players capable of affecting continuous process improvements through R&D and developing strong market intelligence to identify demand specialities. The Organic Intermediates business unit is experiencing a global upcycle with noticeable increase in realisations, of about 10%-25%, during the last few months as compared to average prices during the previous financial year.

On an overall basis, the Pharmaceuticals, Biotechnology and Speciality Chemicals segments are seen as high potential areas both globally and in India. While the Indian chemicals industry continues to be comprised mostly of basic and bulk chemicals players, there is a visible shift towards value-added, knowledge-based Speciality Chemicals. A combination of features such as efficient manufacturing, global scale, reliability and R&D capabilities are seen as the key factors for competitiveness in the international marketplace.

- **Growth driven by Pharmaceuticals and Life Science Chemicals business**
- **High efficiencies and stable costs result in better earnings**
- **Growing global presence**

Jubilant's FY 2004 financial results are strong and encouraging. The quality of these results reflect the Company's evolution into a CRAMS and API-focused player. The performance in past years had demonstrated the Company's successful implementation of the strategy to increase contributions from knowledge-led businesses.

The Company's performance in FY 2004, propelled by increasingly higher contributions from value added products in Pharmaceuticals and other Speciality Chemicals along with strong growth in export earnings, points towards an exciting and growth-oriented future.

Excellent operating metrics demonstrate quality growth

Jubilant's focus on the higher value-added Pharmaceuticals and Life Science Chemicals business and exports continued to gain momentum and deliver results in FY 2004. The Company registered strong customer and revenue growth across all its businesses, particularly in CRAMS and API. This enabled it to deliver a progressive performance during the year under review, with net sales advancing by 21% to Rs. 8.6 billion from Rs. 7.1 billion in FY 2003. Jubilant's net sales have grown at a CAGR of 20 % over the last 3 years. This was driven by enhanced focus on value-added products and exports, and sustained marketing and distribution efforts. Gross sales during fiscal 2004 were 21% higher at Rs. 11.8 billion than the previous year.

Revenues from the Pharmaceuticals and Life Science Chemicals business increased 61% and now contribute to 37% of the Company's net sales, higher than last year's figure of 28%. Revenues for fiscal 2004 include 12 months performance of the API business that was acquired last year. Fiscal 2003 results had included only the 7-month (September 2002 – March 2003) performance of the API business.

Jubilant's exports also registered a strong growth in FY 2004. The Company's export sales increased by 16%, contributing 27% of net sales. Exports to the regulated markets of US, Europe and Japan increased 57% while exports to unregulated markets declined by 12%. China has emerged as an important export destination for Jubilant, accounting for 38% of the Company's exports to the unregulated markets recording a growth of 26% over the previous year. CRAMS and API exports increased 43% and 198%, respectively. This was enabled by the launch of 32 new products and the acquisition of 52 new customers during the year. Some of the Company's other products performed exceptionally well in the global markets. Export of Solid PVA increased 4 times. VP Latex exports increased 46% in fiscal 2004. Over the last 3 years, the Company's exports have grown at a CAGR of 44%.

Global scale, high efficiencies and stable costs translate into better earnings

Jubilant enjoys global scale of operations in all its key product categories. This, in turn, results in higher efficiencies. The Company's integrated processes reduce sensitivity to movements in raw material costs. Jubilant's operating profit margin increased to 19% of net sales in FY 2004 from 18% in the preceding year.

The Company continued to actively manage its financial resources during the year under review. Innovative debt management initiatives including replacement of high cost rupee debt with low cost debts both in foreign currency and rupees enabled Jubilant to reduce its average cost of borrowings from 12.3% last year to 8.1% in fiscal 2004. This was achieved despite a marginal increase in the Company's debt.

US GAAP financial reporting reflects policy to proactively adopt global best practices

Last year, Jubilant Organosys had taken the initiative of disclosing its results as per both Indian and US Generally Accepted Accounting Principles (GAAP). The Company continued with this best practice and has reported its financial performance in the same manner in FY 2004. For the fiscal year 2004, Jubilant's revenues as per US GAAP are US$ 214.8 million and net profit after taxes is at US$ 17 million compared to US$157.7 million and US$6.1 million respectively for fiscal 2003.

Consistent and consecutively higher dividend payouts

Jubilant Organosys' goal is to reward shareholders and in keeping with this, the total dividend recommended by the Board of Directors of the Company for the year under review is 100%, subject to the shareholders' approval at the forthcoming AGM. This is inclusive of an interim dividend of 75% announced after the third-quarter results this fiscal. The total proposed dividend payout for FY 2004, which is inclusive of dividend tax, would amount to Rs. 95 million and is 28% higher than the FY 2003 dividend payout.

In its Silver Jubilee year, the Company rewarded shareholders for their continued support and facilitated their participation in the Company's further growth by issuing bonus shares in the ratio of three shares at par for every five shares during FY 2004.

Growing global footprint

Jubilant's global footprint continued to widen in fiscal 2004. The Company also launched new products and increased its customer base in sophisticated markets such as North America, Europe and Asia-Pacific.

The Company has been operating in the Chinese market for over 4 years now and has established a strong presence there. To enable Jubilant to further strengthen its position in China by providing it a more robust extensive distribution network, the Company has decided to establish a wholly-owned subsidiary in China in fiscal year 2005. This subsidiary will be located in China's Free Trade Zone.

The economic slowdown in China is unlikely to have any significant impact on Jubilant's operations. From the raw material perspective, with global petrochemical prices still considerably low compared to the last cycle and few new capacities being added, it is likely that prices will move up further. Jubilant, being an integrated manufacturer with captive capacities for its basic raw material, anyway has a significant competitive advantage over its global peers.

A Jubilant outlook

Jubilant's performance over the past year is a result of having a clear strategy and a steely determination to implement it. It is today one of India's largest CRAMS companies and a leader in the API segment.

During fiscal 2004, the Company consolidated the operations of Jubilant Biosys Limited by making it a subsidiary.

The activities of Jubilant Biosys complement Jubilant Organosys' focus on the pharmaceutical and life sciences market, creating a potential for greater synergies. This will considerably increase Jubilant's customer delivery capabilities.

Operating Highlights

Consolidation of Jubilant Biosys – adding Drug Discovery Services to product portfolio

Jubilant Biosys, an innovative bio-informatics and chemo-informatics service provider, became a subsidiary of Jubilant Organosys during the year under review. Jubilant Biosys, which started operations in November 2003, has made significant inroads into the global marketplace and has entered into multiple engagements with leading R&D and pharmaceutical organisations. Jubilant Biosys currently has more than 32 international customers, of which 7 are pharmaceutical companies and 8 are in the biotechnology sector.

In February 2004, Jubilant Organosys' Board of Directors approved the conversion of the Company's holdings of 778,000 optionally convertible non-cumulative redeemable preference shares of Jubilant Biosys, an affiliated company in which it had ownership of 49% of the outstanding equity shares, into 155,600 equity shares. Consequent to shareholder approval of the same at the extraordinary general meeting (EGM) convened on February 28, 2004, Jubilant Biosys became a subsidiary of Jubilant Organosys. Jubilant Organosys now holds 66.98% of the outstanding equity share capital of Jubilant Biosys.

Going forward, Jubilant Organosys will leverage this new subsidiary which offers drug discovery databases and search services, to further complement its own value chain in the life science industry and create synergies with other existing life science business segments in APIs and CRAMS, including the enhancement of customer relationships and contacts.

The Velocity Initiative – translating organisational goals into reality

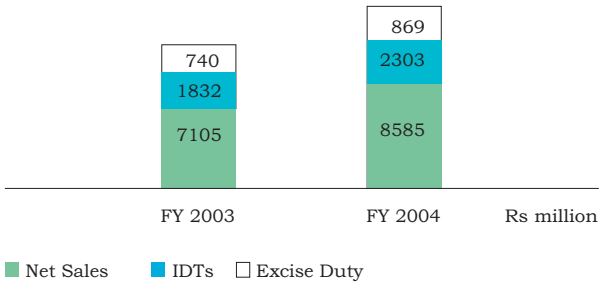
As Jubilant Organosys consolidates its leadership position across multiple product categories in the global, knowledge-driven pharmaceuticals and life science chemicals industry, it seeks to re-orient its people and processes, aligning them with the best global benchmarks. Towards that end, the Company launched a new organisation-wide initiative, Velocity, during fiscal 2004.

Jubilant's Velocity initiative is aimed at bringing about a positive cultural change within the organisation, with a sharp focus on customer-centricity, speed, quality, and cost. This will entail implementation of process improvement methodologies and globally-accepted best practices such as Total Quality Management (TQM), Six Sigma, cGMP and GLP throughout the value chain.

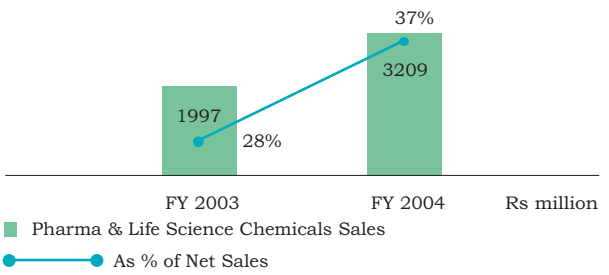
This initiative involves every individual in the organisation, and has the active support and participation of the senior management team and functional heads and encompasses all key functions. Jubilant has already recruited master black belts and black belts, and is also providing training to employees across the organisation at all levels with the help of international experts in Six Sigma. The Company has identified more than 150 projects for cost reduction, quality, process and system improvement, which is expected to yield encouraging results in the near future.

With an equal thrust on people, products and processes, the Velocity initiative at Jubilant is a means to translate long-term corporate goals into reality through the creation of new business leaders from within the organisation. This is enabled by encouraging better second-line initiative, ensuring higher process efficiencies, better defect prevention through predictable processes, and improved customer retention rate.

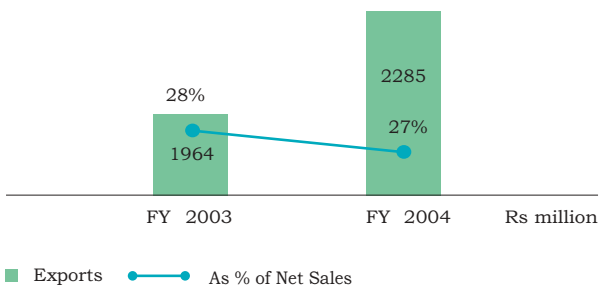
Healthy growth in sales...



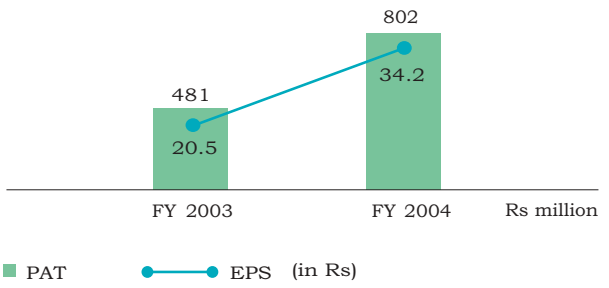
...driven by increasing contribution from Pharmaceuticals and Life Science Chemicals business...



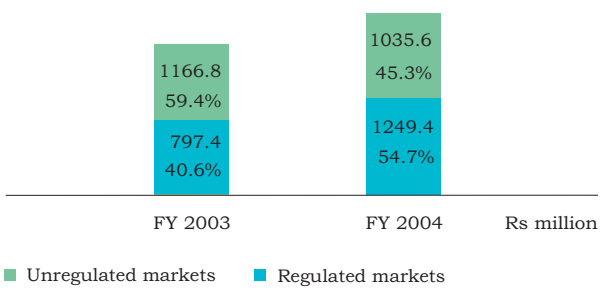
... robust exports through strengthening global footprint



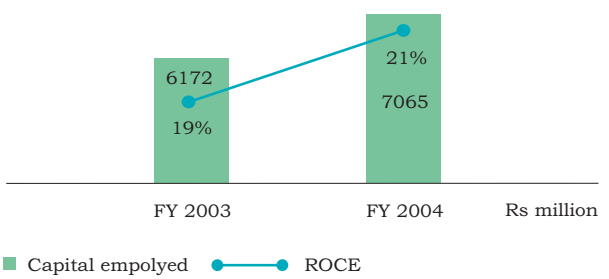
...and strong overall business performance results in a 67% growth in net profit.



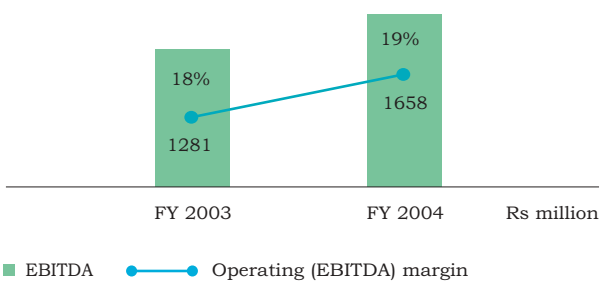
... and focus on exports to regulated market reflecting the quality of exports.



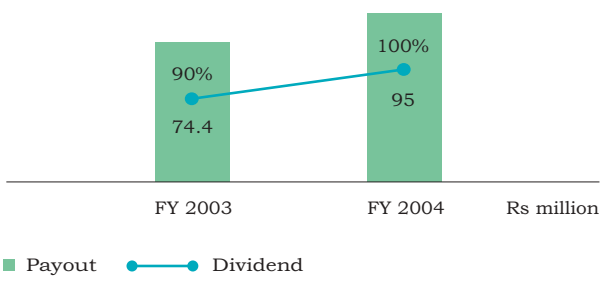
ROCE continues to be higher than cost of capital and reflects ability to implement strategy...



High levels of business efficiencies yield expanding operating margins...



Consistent dividend payouts enable shareholder participation in progressive performance.

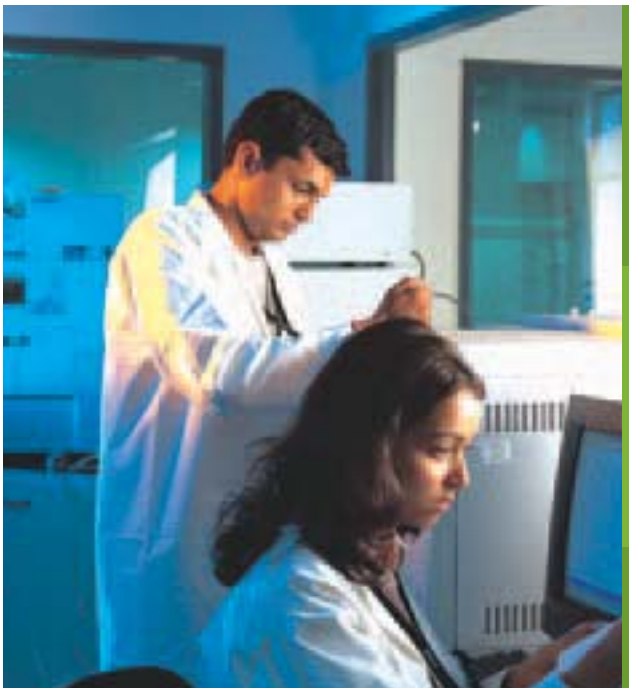


The Company is structured into three core businesses that are vertically integrated. Each of these three business divisions comprises multiple Growth Units (GUs). These GUs act as independent profit centres. Summarised below are the Company's business divisions, their respective GUs, and the end-use industries they serve.

Business Divisions	Growth Units (GUs)	End Use Industry Segments
Pharmaceuticals & Life Science Chemicals	Active Pharmaceutical Ingredients (APIs) Drug Discovery Services Custom Research & Manufacturing Services (CRAMS) Food Polymers	Pharmaceuticals, Agrochemicals Food
Performance Chemicals	Industrial Products Consumer Products	Construction Paper & Packaging Textiles Tyres Footwear Beverages
Industrial Chemicals	Organic Intermediates Agrovet	Pharmaceuticals, Agrochemicals, Textiles, Animal Health, Packaging, Construction

The financial performance of these business divisions during the year under review, and in the preceding fiscal year, appear below:

Business Division	Net Sales		Operating Profit Before Interest & Tax (PBIT)	
(Rs. million)	FY 2003	FY 2004	FY 2003	FY 2004
Pharmaceuticals & Life Science Chemicals	1,997	3,209	549	854
Performance Chemicals	1,358	1,578	62	38
Industrial Chemicals	3,751	3,799	610	609
Total	7,105	8,585	1,221	1,501



Pharmaceuticals and Life Science Chemicals

Overview

This segment is a high value-added business with robust opportunities for Jubilant Organosys. The Company has, over the years, created specialization and expertise in this fast-growing area. This allows it to be much ahead of its peers in India and be a competitive, well-regarded player globally. The strategy adopted by Jubilant has delivered results and this segment's net sales have consistently increased year-on-year.

The Company aims to be the partner of choice for the global life sciences industry through the businesses under this segment, APIs, Drug Discovery services through Jubilant Biosys, Custom Research and Manufacturing Services and new businesses like regulatory affairs, generic formulations and chemistry services either through organic or inorganic growth.

The Pharmaceuticals and Life Science Chemicals business contributed 37% to the Company's total revenues and 57% to PBIT during FY 2004. This division's revenues increased 61% from Rs. 1.9 billion in FY 2003 to Rs. 3.2 billion in fiscal 2004.

Active Pharmaceutical Ingredients (APIs)

APIs are the class of products that go into the making of formulations for specified ailments. This business was acquired by Jubilant Organosys in September 2002 and has since been integrated with its existing businesses.

Jubilant's API business offers a range of bulk actives in the high growth, therapeutic categories of the central nervous, cardiovascular, gastro intestinal, anti-infective and respiratory systems. Jubilant's API net sales advanced 125.2% during the year under review to Rs. 992.2 million from Rs. 440.5 million in FY 2003. During FY 2004, this business received 48.5% of its sales from exports income.

Jubilant Organosys currently has a total of nine APIs commercialised for production and is a leading global manufacturer in select APIs. It is the second largest in Carbamazepine and third largest in Citalopram. It is an exclusive supplier of Carbamazepine to Novartis in India. Its other major products include Oxcarbazepine, Azithromycin, Roxithromycin, Lamotrigine, Tramadol, Risperidone, and Pinavarium Bromide.

Carbamazepine and Oxcarbazepine are anti-epileptic drugs and Jubilant has developed non-infringing processes for both these products and is the only manufacturer of Bromine-free Carbamazepine in India. Carbamazepine, which has a growth rate of 3%, is already off-patent worldwide while the much faster growing Oxcarbazepine, with a growth rate of 42%, is off-patent in all markets except the US (where it goes off-patent in January 2005). While Jubilant Organosys is one of the world's largest generic manufacturers of Carbamazepine with a capacity of 200 TPA, it has also built capacities in the high-growth Oxcarbazepine category and has a capacity of 20 TPA compared to the global market demand of 160 TPA. The Company is already implementing a capacity expansion programme to have 75 TPA capacity for this product by the end of fiscal year 2005. Process patents have already been filed by the Company for both products and it already has been granted a patent in the US for Carbamazepine. The Company continues to work closely with generic drug companies in both the US and Europe to further strengthen its strong market position in these products.

Citalopram, which is an anti-depressant, has a growth rate of 35% with a global demand of 65 TPA and a formulation market size of US$ 2 billion. The patent for Citalopram has expired worldwide. Jubilant is more than doubling its capacities for this product to 12 TPA from the current 5 TPA, with a non-infringing manufacturing process. In line with its strategy to focus on high-growth, high-margin segments, the increased capacities for Citalopram will be utilised to cater to emerging opportunities in the US markets. Jubilant commenced the supply to European market during the third quarter of fiscal year 2004. The Company has developed a dossier for Citaloram and has given authorisation to multiple companies in Europe. Jubilant is well poised to capitalise upon the opportunities unfolding in the US market as well, with 2 companies in the United States having already filed their ANDAs for Citalopram based upon Jubilant's DMFs and the Company has also tied up with 4 other generic companies.

Azithromycin Dihydrate and Roxithromycin, semi synthetic antibiotics belonging to the macrolide family, have a growth rate of 21% and 5% respectively, with a combined formulation market size of over US$ 2.6 billion. Azithromycin Dihydrate has a global demand of 183 TPA while the demand for Roxithromycin is around 125 TPA. Jubilant has a combined capacity, for both Azithromycin Dihydrate and Roxithromycin, of 80 TPA and has developed non-infringing processes for both these products. In an example of result-oriented R&D efforts aligned to market dynamics, Jubilant has been able to develop a niche market for masked Azithromycin. The Company has also developed Azithromycin Monohydrate and is currently in the process of entering into marketing tie-ups with generic companies to market the product in regulated markets following the expiry of patents in the year 2007.

Jubilant has a modern, fully-equipped API manufacturing facility spread over a 38 acre site at Nanjangud near Mysore (Karnataka) that is already certified for ISO 9002, 14000 and WHO cGMP. In addition to being an US FDA approved plant for Carbamazepine, the facility also has CoS–Europe approvals for Carbamazepine and Roxithromycin, and TGA Australia approval for Citalopram.

The Company has plans to further enhance its existing capabilities by making new investments to the tune of Rs. 900 million in the next 2 years for a new US FDA compliant API manufacturing facility.

Outlook

The large number of Active Pharmaceutical Ingredients (API) that are going out of patent in the coming decade and the growing demand for low cost generics in regulated markets offer distinct and fast-growing opportunities for Indian companies with strong R&D capabilities.

Jubilant Organosys is in a position of advantage to capitalize upon these opportunities due to its strong chemistry expertise and knowledge base. The Company has a dedicated team of 74 scientists for the pharmaceuticals business with R&D facilities at Noida and Nanjangud.

The timing of its entry into the API business is very conducive for the Company's rapid growth in this business as it is now uniquely positioned to leverage upon its strong relationships with leading global pharmaceutical majors.

Like in its other businesses, Jubilant has built a strong domestic and global position in major product categories of its API business. Jubilant has the size, resources and people to successfully drive growth in its API business, enabled by its already established strengths. The Company enjoys direct relationships with its global customers, and is establishing new ones, in the pharma sector. The Company therefore expects contribution from the API business to continuously grow in the future.

Drug Discovery Services

Jubilant offers services to drug discovery companies in the pharmaceutical and biotechnology sector through its subsidiary Jubilant Biosys Ltd.

Jubilant Biosys specializes in providing high-quality databases and informatics solutions to meet the R&D requirements of leading pharmaceutical and biotechnology companies, globally. It is located at Bangalore, employing over 250 researchers and scientists, and spread over an office area of 25,000 sq. ft. It is recognized by the Department of Scientific and Industrial Research (DSIR) as an R&D company. The Company focuses on providing bio-informatics research services throughout the drug discovery and development process, and has a modern bio- & chemo-informatics centre, including a software development facility, for aiding biotechnology research.

Jubilant Biosys further developed its innovative knowledge-based products that provide bio- and chemo-informatic services during fiscal 2004. Some of these products are Kinase ChemBioBase, GPCR Annotator, Caspase database, Pathways database, Nitrilase and Nitrile Hydratase database. These databases help accelerate drug discovery processes across various steps on the value chain such as lead identification, lead optimisation and prioritization, target validation, development of inhibitors for Alzheimer's disease, Arthritis and Cancer, and optimisation of reaction mechanisms and new enzyme discovery. The Company has also initiated discussions with leading international pharma and biotech companies for drug discovery knowledge-based projects.

During FY 2004, Jubilant Biosys successfully initiated engagements with leading global pharmaceutical and research organisations. One of the world's largest pharma majors, Novartis, licensed PathArt™ from Jubilant Biosys. Novartis will be leveraging PathArt™ in its global drug discovery programmes. Jubilant Biosys also licensed PathArt™ to The Systems Biology Institute, Tokyo, which would help their researchers generate better systems biology models. The Company also integrated PathArt™ with Spotfire DecisionSite, which gives Spotfire users access to a range of Pathway data that will enable them to dynamically map the results of data analysis onto pathways.

Going forward, Jubilant Organosys will leverage this new subsidiary which offers drug discovery databases and search services, to further complement its own value chain in the life sciences industry and create synergies with other existing life sciences business segments in APIs and CRAMS, including the enhancement of customer relationships and contacts.

Outlook

With the growing trend towards outsourcing the drug discovery services by the life sciences companies to reduce their drug discovery time, Jubilant is rightly positioned to grow at a fast pace in the drug discovery services business. Jubilant Biosys has a strong intellectual base to develop databases and customise them as per the requirements of life sciences companies. As per an independent industry estimate, the bio-informatics industry in India is expected to be worth US$ 3 billion by 2010, with a major focus on the global life sciences industry. To meet the growing demand, the Company has plans to increase its employee strength from the existing 250 scientists to more than 350 scientists during fiscal 2005.

The Company plans to introduce chemistry services in fiscal 2005, whereby it will outsource teams of scientists and researchers to customers on an exclusive basis to conduct R&D as directed by the customer. These R&D teams will be based at Jubilant's new R&D facility of 75,000 sq. ft. at Noida which is currently being implemented, providing customers with experienced, highly skilled researchers at relatively low cost. Going forward, this business is expected to continue to post a robust performance and grow at a rapid pace.

Custom Research and Manufacturing Services (CRAMS)

The CRAMS business unit develops and manufactures fine chemicals and advance intermediates (AIs), which are the molecular building blocks that are only a few processing steps removed from APIs, as well as certain other end-use chemical products, such as agrochemicals and vitamins.

Net sales from this Growth Unit (GU) increased 40% in FY 2004 compared to the preceding year. The Company added 39 new customers and 22 new products to its portfolio during the year under review. Exports accounted for 56% of CRAMS revenues for Jubilant in FY 2004, which is 43% higher than last year.

The growth of this business has added significantly to the Company's overall results of operations. Jubilant's CRAMS business generated net sales of Rs. 1.5 billion and Rs. 2.1 billion, equal to 21% and 24% of total net sales for fiscal years 2003 and 2004 respectively.

CRAMS is a promising sector with significant opportunities for countries such as India that have a large talent pool of trained scientists and chemists. The estimated global market size for CRAMS is around US$14 billion currently, and is expected to almost double to US$27 billion by the year 2007.

Jubilant Organosys is the outsourcing partner of choice for more than 150 global and domestic pharmaceuticals and agrochemical companies. The Company is a cost effective composite industry player for providing pharmaceutical and agrochemical companies with a range of services, right from early stage development phase to commercial production. Jubilant undertakes product development, process development and technology scale-up with in-house research and integrated engineering capabilities complying quality and environmental regulations.

Jubilant enjoys a significant competitive advantage for many of its CRAMS products because they are highly refined derivatives of pyridine, a chemical that the Company processes internally from renewable bio-mass in a vertically integrated production process. Such vertical integration enables the Company to produce pyridines more cost effectively, and from a more sustainable and readily available source. As a result, Jubilant is the lowest cost producer in the world and the second largest global player for pyridines and its derivatives.

This business offers Custom Synthesis and Product Development work for advance intermediates and APIs in grams and kilograms from a state-of-the-art kilo lab and tonne-level quantities from a commercial scale multipurpose plant operating strictly under international standards. The Company has an impeccable track record in ensuring intellectual property protection and confidentiality, which is highly valued by its global customers.

Today, Jubilant manufactures 41 pyridine-derived fine chemicals used by both global and domestic pharma and agrochem companies as the building blocks for 85 APIs and 11 Agrochemicals. The Company also has 31 fine chemicals which are either under development or awaiting commercialisation. The fine chemicals supplied by Jubilant to pharmaceutical companies are used in APIs for a wide range of therapeutic segments, including anti-ulcer, anti-tuberculosis, anti-AIDS, anti-infectives and anti-arthritis. In agrochemicals, the Company supplies products that are ultimately used to manufacture herbicides, insecticides, fungicides and plant growth hormones.

The advance intermediates manufactured by Jubilant, in the form of pyridine and its derivatives, include Niacin and Niacinamide, which are formulated into Vitamin B3 for human, pharmacological, and animal feed consumption.

The Company's facilities and processes are in strict compliance of cGMP, ISO9000, ISO 14001 norms. The Company also has a patent under filing based upon its expertise in Bio-conversion (Enzymatic process). Jubilant, being the second-largest global player in pyridines, had its facilities visited and approved by the team from the Clinton Foundation HIV/AIDS Initiative, as anti-aids drugs are made on the pyridine platform.

Outlook

The CRAMS business holds high sales and earnings potential. Jubilant Organosys is taking measures aimed at realising this potential. In addition to focusing on custom synthesis that entails manufacturing commercial products for specific customers for in-market, the Company plans to continuously strengthen its product line through its processes and capabilities accruing from pyridine-based forward integration. The Company expanded the capacity of its pyridine and cyano pyridine plants at Gajraula during fiscal 2004 to cater to increasing global demand. This is expected to result in further revenue and earning upsides. The Company is implementing its plans to establish two new multipurpose plants at Gajraula to manufacture a range of fine chemicals for the pharmaceutical industry. This capacity expansion will enable high growth in the CRAMS business in the next few years.

Food polymers

The Food Polymers growth unit manufactures and markets solid poly vinyl acetate (Solid PVA), which is used as the base in chewing gums and bubble gums. Jubilant Organosys is the only manufacturer of Solid PVA in India and the third largest in the world. This business has been one of the best performing growth units in the Company, registering a growth of 94% in net sales with Solid PVA exports increasing four times during FY 2004.

The global demand for solid PVA is around 36,000 TPA, which is expected to increase to 40,000 TPA by 2007. In India, Jubilant is the largest player and the only manufacturer in this particular segment. The Indian market is growing at a CAGR of 7%. In view of these opportunities, the Company is further expanding its Solid PVA capacities.

Outlook

Jubilant is currently focusing on the confectionery segment, where it enjoys a 78 % market share in India and is aggressively expanding its international presence in this segment. Jubilant has a very strong R&D team in place, giving it the capability to provide customised grades to global customers.

Jubilant doubled its Solid PVA capacity from 3,000 TPA to 6,000 TPA in FY 2004, and plans to double it again in FY 2005 to 12,000 TPA. This will make Jubilant the second-largest manufacturer of Solid PVA in the world and drive growth in the coming years. The Company believes that these initiatives will result in the continued growth of its Food Polymers business.

Performance Chemicals

Overview

Jubilant's Performance Chemicals Division is a leading manufacturer of high quality polymer-based applications designed to deliver user-specific products and solutions. Our performance chemicals are characterised by high value-added technology platforms, customised solutions and services to a wide variety of end-use like tire cord, textiles, packaging and lamination, paints and beverages.

This division has re-positioned itself as a developer of customised chemical technology solutions enabling its customers to be more competitive in the market place. In this manner, the division aims to provide application-based services and solutions, instead of providing products. This has enabled Jubilant to be in a position where it markets applications and solutions instead of 'chemicals', which in turn makes it easier for the Company to acquire new business, grow existing ones, and seek higher realisations.

Net sales of this business increased 16% in FY 2004 to Rs. 1.6 billion from Rs. 1.4 billion in FY 2003. This division contributed to 18% of the Company's net sales in FY 2004. The operating profit before interest and taxes (PBIT) of this business witnessed a decline in the year under review, from Rs. 62 million to Rs. 38 million mainly due to additional investment made in building brand equity for Jivanjor through advertising in the electronic media. Exports, at Rs. 127 million, accounted for 8% of this business division's revenues in FY 2004.

Jubilant's Performance Chemicals business is structured into two Growth Units (GUs): Industrial products and Consumer products. Each of these business units focuses on a high performance and application intensive end use, and is briefly discussed in the following paragraphs.

Industrial products

Industrial adhesives

This business offers applications and solutions aimed primarily at the paper and packaging industry. Jubilant provides a range of adhesives and emulsions for various adhesive solutions that make paper amenable for future use. Due to its focus on the packaging industry, this growth unit's performance is, to an extent, linked to the FMCG sector. This growth unit's growth is likely to be driven by introduction of new products, aggressive marketing, competitive pricing, and excellent technical support to customers.

Textile chemicals

The textile chemicals group offers a complete range of solutions for the pure and blended fabric industry. The growth strategy of this GU is to focus on high-margin segments such as printing, non-wovens, and other new products, for which it can provide finishing agents and binders. The Company has taken a conscious decision to move out of the low-end finishing business, which is becoming commoditised and does not offer a technology premium. Future growth is expected to be driven by new products in the high-margin segments and exports.

Coatings

This growth unit manufactures a range of polymer-based coatings for use by the paint and construction industry. The domestic market for paint has shown healthy growth over the past few years due to rapid growth in housing construction and urban development. Growth in this business was driven by the strong performance of the domestic paint industry and the shift in market preferences from traditional low quality and environment unfriendly solvent-based paints to more durable water-based paint products. The Company expects to achieve future growth from value-added products such as paint thickeners and dispersants that have been introduced recently.

VP Latex

Latex is a basic input to the tyre and tyre cord industry where it is used to create an adhesive fabric between the exterior component and load-bearing element. This GU recorded an impressive performance during FY 2004, driven by increase in market share in domestic market. Jubilant was able to forge relationships with global leaders such as Michelin during the year under review. Such new international approvals will form the basis for this unit's future growth.

Speciality gases

This is one of the fastest growing and most profitable units in the Performance Chemicals Division. It serves the beverages, engineering and medical sectors. Capacity expansions, that are likely to occur in the new financial year, will be the key growth drivers for this unit.

Consumer products

This growth unit caters to the woodworking solutions and house adhesives market. It has been able to register double-digit growth in market share in a mature market. The Company's "Jivanjor" brand has been able to quickly establish itself and is finding ready acceptance in the marketplace. During fiscal 2004, the Company successfully launched a communications campaign which included an extensive advertising and market place activities to support the "Jivanjor" brand. This GU is expected to post healthy returns in the years ahead.

Industrial Chemicals

The Industrial Chemicals division manufactures and markets a range of acetyls and agri products. This division has been formed by combining the Company's erstwhile organic intermediates and agrovet business divisions, based upon the end-use of their products.

This division contributed 44% of the Company's total net sales in FY 2004, with net sales increasing marginally to Rs. 3.79 billion from Rs. 3.75 billion in FY 2003. This reflects output from this division being increasingly consumed captively to produce value-added products. PBIT is Rs. 610 million as compared to Rs. 609 million in FY 2003.

Jubilant's Industrial Chemicals division is organised into 2 growth units – Organic Intermediates and Agrovet.

Organic intermediates

This growth unit manufactures multiple acetyls, such as acetic acid, acetic anhydride, ethyl acetate and VAM. It has enabled Jubilant to vertically link all its other businesses. Jubilant's organic intermediates products are primarily used for internal consumption, with approximately 31% of production in fiscal year 2004 used to manufacture value-added fine chemicals, advance intermediates and performance chemicals products. Coinciding with Jubilant's steady ascent up the value chain, the contribution of this business to total net sales has been consecutively declining from 42% in fiscal 2002 to 35% in FY 2004.

The export revenues of this growth unit adjusted to the Company's decision to sell higher volumes of ethyl acetate in the domestic market where price realisations were higher, instead of international markets. Revenues from organic intermediates exports therefore declined in FY 2004.

In order to offset the commodity-like nature of the acetyls business, Jubilant's strategy is to develop speciality grade products, maximise asset utilisation and enhance profitability by increasing operational efficiencies. Jubilant is among the top 2 players in India across all its 4 acetyl products, and among the top ten manufacturers globally in all its acetyl products (except acetic acid). The Company also has developed speciality grade products for specific end-use purposes, such as acetic anhydride for paracetamol and aspirin and food grade acetic acid.

A substantial part of this division's output continues to be consumed internally to yield high value-added pharmaceuticals and other life science chemicals, in line with Jubilant's strategy to move up the value chain.

Molasses and alcohol form a major part of this business' raw material consumption, and cost 29% of the gross sales of this business. Molasses is a seasonal product that is derived from the sugar industry. During the latter part of the season, availability of molasses was impacted, resulting in a significant increase in procurement prices. However, Jubilant was affected only marginally by this change as the Company has large storage capacities for molasses and alcohol that are sufficient to meet the Company's needs through most of the year. This storage capacity is backed up by comprehensive procurement arrangements for alcohol from Brazil, a major producer of alcohol from renewable sources. The Company believes that the future performance of this growth unit will be in accordance with this trend. Jubilant is also expected to benefit from the upturn in the commodity cycle with prices of all the acetyls firming up in the global and Indian marketplace which will result in better price realisation and profitability for this growth unit.

Agrovet

The Agrovet growth unit is a niche business, focusing on plant and animal health products, that manufactures and markets select agrochemicals, fertilizers, and animal feed additives.

During the year under review, this growth unit continued to grow in line with the Company's stated objectives and strategy, with net sales advancing 6.5% over the previous year to Rs. 825 million.

Jubilant's plant health products – plant growth regulators, agrochemicals and Single Super Phosphate (SSP) fertilizer – are leaders in their respective markets. The Company has an estimated 45% share of the fertilizer market in the state of Uttar Pradesh, which is where the fertilizer plant is located at Gajraula. Jubilant is also the fifth largest producer of SSP in India. The Company's products for the animal nutrition market include animal feed additives for the poultry, dairy and aquaculture industries.

During FY 2004, Jubilant increased this growth unit's product offering and sales staff to enhance geographical coverage and strengthen distribution. The Company plans to expand the business segment's global range of markets by entering the markets of Central and East European countries. In concurrence with these initiatives, aggressive marketing of newly-launched products, strategic distribution alliances, sustained cost competitiveness, enhanced utilisation of its choline plant, and performance of its organic manure business will spearhead this unit's growth in the coming years.

International Business

Exports is a key growth driver for Jubilant. The Company expects strong exports growth in its Pharmaceuticals and Life Science Chemicals business with regulated markets contributing a higher proportion. In FY 2004, exports to regulated markets were 55% of total exports, compared to 41% in the previous year. Regulated markets include USA, Europe and Japan.

In the unregulated markets, China is a key export destination for Jubilant, contributing one-third of the Company's exports to unregulated markets.

Geographic break up of exports:

Rs million

	FY 2004	FY 2003
Europe	843 (36.9%)	694 (35.2%)
Americas	472 (20.6%)	129 (6.5%)
China	391 (17.1%)	311 (15.8%)
Asia (excluding China) and others	582 (25.4%)	840 (42.5%)

The Company will leverage its extensive portfolio of offerings, R&D strengths and cost competitiveness as the platform to enter new global markets, with a focus on strengthening its presence in the regulated markets. The proposed acquisition of two European pharma companies is expected to considerably accelerate the Company's growth in regulated markets.

People

Jubilant's people are its single most important resource. The Company employs dedicated, enthusiastic people with the maturity, in-depth knowledge, training, and experience to consistently deliver as a team.

The people at Jubilant come from diverse backgrounds with varied specialisations. They include engineers, chemists, physicists, economists, MBAs, CAs, technicians, and specialists in operations research, marketing & communications, public health, environmental policy, and information technology.

The continuous development of competence is at the core of Jubilant's strategic business planning. The need to improve the Company's competitiveness and profitability involves greater demand in terms of the ability of its people to accept and manage change. During the year under review, a number of programmes for enhancing competence were implemented in such areas as leadership, quality control, IT, marketing and manufacturing.

At Jubilant, people are encouraged to be creative and empowered to take considered decisions. Their multiple talents help ensure that customers receive high-quality products at all times. Innovation, knowledge-sharing and quality and cost-consciousness are values that pervade the entire organisation. The Company received the prestigious Golden Peacock Award 2003 for innovation management.

Learning from each other and from the customers that they serve, stretching themselves to be efficient, and focusing on flawless delivery, the people at Jubilant have enabled the Company to create and provide best value to its customers time and again. The Company aims to effectively utilise the experience, skills and creativity of its people as it embarks upon its next phase of growth.

Risk Management

In the course of its domestic and international operations in the field of pharmaceuticals and life science chemicals, Jubilant Organosys is subject to some risks that can affect its business performance. Risk management is an essential aspect of all business processes at Jubilant. The management team continuously studies the operating environment in order to identify the opportunities and risks inherent in Jubilant's operations.

The risk management system of the Company employs a number of processes, guidelines and instruments based on the nature of risk to insulate its business operations from unforeseen threats. In pursuing their corporate goals and objectives, Jubilant's management team endeavours to identify risks at an early stage, evaluate their consequences and take appropriate derisking measures.

Jubilant is alert to product portfolio risks that may emanate from excessive dependence on a few products and accordingly has been developing and introducing new products in the marketplace. Such efforts are backed by a strong R&D establishment. Moreover, the Company's business model is such that its operations are not entirely dependent on any one sector of the economy.

The manufacture of APIs' advance intermediates and performance chemicals involves complex chemical reactions and processes that may result in liquid, gaseous or solid waste. Jubilant Organosys proactively addresses issues pertaining to safety and environment on high priority. The Company's facilities and processes meet various environmental norms and it has a comprehensive policy and set of practices stringently followed at its manufacturing plants and by its operational staff to alleviate environmental risks. Jubilant has pioneered multiple waste management and recycling practices that reduce its energy costs while contributing to a cleaner environment.

Jubilant has over 130 customers worldwide, spread over 61 countries, providing it with geographical and customer diversification. This mitigates risks associated with excessive dependence on income from specific geographic locations or customers.

The Company's result-oriented R&D base enables it to remain at the fore-front of emerging technologies and techniques, enabling it to mitigate risks from technology obsolescence. Jubilant has, over the years, developed capabilities in-house that allows it to conceptualise and develop ideas and products and take from the R&D stage to manufacturing and commercialisation.

Jubilant Organosys derives a significant part of its revenues from exports, which are growing. The rupee has recently appreciated significantly against the US dollar, and continued appreciation of the rupee may have unfavourable effects on export earnings and cost of foreign borrowings. The Company has taken steps to mitigate such risks by engaging in currency hedging in order to decrease foreign exchange exposure.

The Company conducts a strategy meet on annual basis to frame and fine-tune growth strategy by identifying emerging risks and opportunities. The strategy meet is comprehensive in nature and covers all business and functional units. Business and functional heads attend the meet and present detailed plans for the next three years and report on the progress made during the current year. The Board of Directors actively participates in these sessions and reviews the business plans, following which the overall corporate strategy is discussed, re-shaped or fine-tuned.

Internal Control Systems

Jubilant Organosys has a set of advanced internal control mechanisms designed to ensure optimal use of resources, accurate compilation of accounts and compliance with laws and regulations. The Company has established an integrated ERP system that provides a high level of system-based checks and controls and ensures speedy access to latest business information.

The Company has an internal audit staff with experienced people, and in addition to that it employs external audit firms to conduct regular audit at all its facilities and plants. All audit plans, internal audit reports, significant risk areas, assessment and adequacy of internal controls are also periodically reviewed by the Audit Committee of the Board of Directors.

Committees, constituted to monitor implementation of the Company's internal control systems, include the Supply Chain Committee, which meets on a weekly basis, and the Capex Committee, which meets every month. These meetings enable effective monitoring and control of the operational and investment decisions and identification of any shortcomings at an early stage, making it possible to take necessary remedial action.

The Supply Chain Committee meets every week to initiate, review monitor and approve key aspects of operational effectiveness. It has a very important role in leading and enabling company-wide improvement initiatives, all of which directly impact the Company's profitability and responsiveness to customers. The focus areas for the committee include credit policy and control, pricing policy, planning and procurement. Additionally, the committee also provides strategic guidance for sourcing and improving cash flow through more efficient management of working capital.

The Purchase Committee meets twice in a week to review the Company's procurement strategy and purchase orders with the objective of ensuring high efficiencies in the entire procurement process.

The Capex Committee is focused on ensuring prudent investment of resources in a manner that will generate adequate return on capital employed. The committee reviews all Capex investments, continually monitors and reviews the performance of all projects, and meets at least twice a month.

In addition to these committees, the CMDs, executive directors and CFO also review the performance of each growth unit every month. The performances of the Company's functional divisions – manufacturing, finance, HR etc – are reviewed every quarter. These review meetings provide direction and inputs, as necessary, to the business and functional units.

Corporate Sustainability

Jubilant Organosys continuously strives to be a globally benchmarked organization with the best people, processes and management practices. Towards that end, Jubilant Organosys had adopted, in FY 2003, a new approach to ensure sustained value creation – that of corporate sustainability. In FY 2004, the Company continued to make progress towards its objective of achieving long-term business sustainability.

Jubilant has been a pioneer in adopting and promoting business practices that are environment-friendly and ensure greater industrial safety. From using molasses, a replenishable bio-mass obtained as a by-product of the sugar industry, as its main feedstock to working towards improving the quality of life of the community around its manufacturing facilities, the Company has made considerable progress in strengthening its economic as well as environmental and social bottom lines.

The nature of Jubilant's operations makes industrial safety a key priority at all its manufacturing facilities and in all of its transportation processes. The Company has a comprehensive set of safety norms and practices stringently followed at its facilities and by its operational and transportation staff as well contractual workers at its premises. The Company provides training and periodic reviews for its staff and workers on hazardous material management and other aspects of industrial safety.

Jubilant views its people as key enablers of business and has implemented systems to ensure their health and well being through regular health check-ups and related programmes. The Company has also taken steps to reduce noise and dust levels at and around its facilities.

The Company considers the local population around its operations an important group of stakeholders, and is committed to minimizing the environmental impact of its operations on neighbouring communities and positively improving their quality of life through multiple medical and skills development programs.

Having adopted a structured approach for implementation of its corporate sustainability policy, Jubilant Organosys became one of a handful of Indian companies, and the first in its sector, to issue a public report on corporate sustainability in fiscal 2003. The Company has reported on the progress made during FY 2004 in its second public report on corporate sustainability report this year, prepared in line with globally accepted GRI guidelines.

Creating a comprehensive portfolio of products and services for life sciences industry

Jubilant's acquisition of two European pharmaceutical companies – Pharmaceutical Services Incorporated n.v. and PSI Supply n.v. (both companies collectively referred to as 'PSI'), has enabled the Company to strengthen and enhance its position as a comprehensive provider of products and services to the global life science industry. It will enhance the strength of Jubilant's Life Sciences business in the high-opportunity European market.

PSI is engaged in Regulatory Affairs Services, Dossier Development, Formulation Development and Licensing and Supply of Finished Dosage Form. The company has a sizeable portfolio of 19 dossiers, 3 more dossiers are to be filed shortly and 28 dossiers are under preparation, comprising a total of 50 APIs including many first to market generics. PSI has entered into various long-term supply contracts for the mentioned dossiers for generic products and has arranged the market authorization for these products for its customers in the European continent. PSI also manages complete logistics for the supply of products including EU release.

This acquisition will enable Jubilant to develop new off-patent APIs and market formulated products to generic companies. Jubilant's ability to prepare dossiers through PSI will also help to utilise third party APIs for selling formulated products in the European continent, thus further augmenting its product portfolio.

The acquisition is highly synergistic to Jubilant's business and is in line with the Company's strategic intent of augmenting its presence in the high opportunity European market. While the region is an emerging market for generic products with several new patents expiring, it also has a complex regulatory compliance procedure.

Improving focus on Chinese market by forming a subsidiary

China is an important export destination for our life sciences products. Jubilant entered that market four years ago and has established a strong presence in the Chinese market. China now accounts for 17% of Jubilant's total exports. To cope with the significant increase in business and capitalize on new opportunities, Jubilant has expanded its presence in China by setting up a wholly-owned subsidiary in the country's Free Trade Zone with an investment of upto US$ 250,000.

In addition to serving as a high potential market, China will also be a hub for procurement and a platform from where Jubilant's products can be further exported to areas of strategic interest such as the Russian and other CIS/East European markets, as well as to the US (west coast). and South American markets, due to the comparatively lower freight costs involved.

Cautionary statement: In this Annual Report, statements describing the Company's objectives, projections, estimates and expectations may be 'forward-looking' statements within the meaning of applicable laws and regulations. Actual results may differ materially or substantially from those expressed or implied. Important factors that could affect the Company's operations include global and domestic demand and supply conditions, raw material pricing and availability, currency fluctuations and significant changes in the political, economic environment in India or key markets abroad and any litigations.

- Presence across entire spectrum of user segments in the life science sector, from drug discovery to CRAMS and APIs and up to generic formulations
- Strengthening global market position and R&D capabilities
- Delivering progressive performance and returns to shareholders
- Excited about "A Jubilant Tomorrow"

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Twenty Sixth Annual Report and Audited Accounts for the year ended 31st March, 2004, reporting a strong performance driven by your Company's strategy to focus on high value added Custom Research and Manufacturing Services (CRAMS) and Active Pharmaceutical Ingredients (API), delivering products and services to the global life sciences industry.

FINANCIAL RESULTS

	Year ended 31st March 2004 [Rs/Million]	Year ended 31st March 2003 [Rs/Million]
Sales and Other Income	**11856.4**	9716.4
Net Sales (Excluding Excise Duty & Inter Divisional Transfer)	**8585.2**	7105.3
Profit before Interest and Depreciation	**1658.4**	1281.1
Interest	**357.5**	402.5
Gross Profit	**1300.9**	878.6
Depreciation	**322.0**	237.4
Profit before Taxation	**978.9**	641.2
Provision for Taxation	**176.9**	160.2
Net Profit	**802.0**	481.0
Profit brought forward from previous year	**457.0**	97.2
Proposed dividend reversed	-	3.2
Profit available for appropriation	**1259.1**	581.4
Which the Directors have appropriated as follows :		
- Proposed Dividend on Equity shares	**84.3**	66.0
- Tax on Dividend on Equity Shares	**10.8**	8.5
- Transfer to General Reserve	**100.0**	50.0
- Transfer to Capital Redemption Reserve	**0**	0
Balance to be carried forward	**1064.0**	457.0

DIVIDEND

Your Board had declared and paid an interim dividend of 75% i.e. Rs. 3.75 per equity shares of Rs.5 each fully paid up in the month of January 2004.

Your Directors now recommend a final dividend of 25% on fully paid up equity shares of Rs. 5 each, for the year ended 31st March 2004, fortifying the Company's tradition of enabling shareholders to participate in its progressive performance.

BONUS SHARES

During the year under review, a sum of Rs. 4,39,90,695 standing to the credit of the Capital Redemption Reserve Account was capitalized for Issue of 87,98,139 fully paid equity shares of Rs.5 each, allotted as Bonus Shares in ratio of 3 (three) new equity shares for every 5 (five) equity shares held. The Record Date for entitlement to the Bonus was March 15, 2004 and the allotment of Bonus Shares was made on March 18, 2004.

The Bonus shares shall be eligible for the final dividend to be declared pursuant to the recommendation made by the Board of Directors.

OPERATIONS

The financial year 2003-2004 has been a year of impressive growth, the significant improvement in the result of operations being primarily driven by increased contribution from the CRAMS business, the first full year of operations of the API business acquired in September 02 and increased exports. Net sales recorded a growth of 20.8% to Rs. 8585 million in FY 2004 as compared to Rs. 7105 million in the previous year. Revenues from Exports increased 16.3% to Rs. 2285 million from Rs. 1964 million, with the exploration of new export markets and expansion of existing ones in the US, Europe and China. Operating margins increased to 19.3% from 18% last year, supported by improved operating efficiencies, active supply chain management, and higher sales of value added products in addition to exports.

Profit before tax improved to Rs.979 Million (11.4% of net sales) from Rs. 641 million (9% of net sales) an increase of 52.7%. Profit after tax, increased to Rs. 802 million (9.3% of net sales) from Rs. 481 million (6.8% of net sales), an increase of 66.7%.

FUTURE BUSINESS

Your Company's goal is to become a composite Pharma industry player for the global life sciences industry. This is to be achieved by focusing on Pharma and CRAMS, leveraging R&D innovations, maximizing operational efficiencies, using exports to lead sales growth and striving to be globally benchmarked and locally responsible.

SEGMENT REPORTING

In line with international reporting and segmentation norms and the changing profile of business, your Company's business is currently organized into three business segments - Pharmaceuticals and Life Science Chemicals, Performance Chemicals and Industrial Chemicals.

INTELLECTUAL PROPERTY RIGHTS (IPR)

IPRs are of critical importance to knowledge led organizations such as Jubilant. Your Company has developed several novel processes in fine chemicals, API and performance chemicals and has applied for patents for these IPRs. Presently, your Company owns 7 patents and has filed 22 more patent applications in various countries.

SUBSIDIARY

During the year, Jubilant Biosys Limited became a subsidiary of the Company w.e.f. February 03, 2004 consequent upon the conversion of the Company's holding of 778,000 Optionally Convertible Non cumulative Preference Shares of Rs. 100 each in the said company into 155,600 Equity Shares of a face value Rs.10 each.

Jubilant Biosys Ltd., focuses on bio-informatics and chemo-informatics services to the pharmaceutical and bio-technology companies to accelerate the drug discovery and development process. Jubilant Biosys Ltd., enjoys significant edge over current and future competitors due to its cost advantage, in terms of India's low cost, highly skilled scientific and technical talent pool and its timing advantage in mining data sources and compiling data bases.

Your Board has also decided to have an international subsidary in China as the hub for its South Asian business. A Provisional Certificate for the Company's name - Jubilant Organosys (Shanghai)Ltd. with an investment of US$ 200,000 was granted by Shanghai Business Administration Bureau on March 25, 2004.

NEW BUSINESSES

Your Company has embarked into the Chemistry Services business during fiscal 2004 and will provide services to global drug discovery companies through chemical synthesis of compounds and scientists services on Full Time Equivalent basis. It will be possible to realize synergies in customer relationships as the Company's pharmaceuticals and life sciences business share the same base of customers with Jubilant Biosys Ltd.

ACQUISITIONS

The acquisition of the bottling facility of UDV India Limited at Nira, Maharashtra (located within our existing Nira facility) referred to in the report last year has been completed on February 09, 2004.

Your Company has signed an MOU with respect to the purchase of 80% equity shares of two European pharmaceutical companies (both under the same management), subject to due diligence and regulatory approvals. One of the companies is engaged in Regulatory Affairs Services, Dossier Development, Formulation Development and Licensing while the other company undertakes supply of Finished Dosage Forms.

ISSUE OF FRESH CAPITAL

In February 2004, members have approved proposals for fresh issue of capital in India or abroad, within an aggregate amount not exceeding US$ 55 million equivalent to Rs. 2500 million. Your Board has considered the matter and approved the issuance of Foreign Currency Convertible Bonds.

ADDITIONAL INFORMATION TO SHAREHOLDERS

In keeping with its continued commitment to high standards of Corporate Governance, your Company has voluntarily decided to compile and present financial statements that conform to US GAAP.

In line with the "Promise" of "Caring, Sharing, Growing", and bring transparency in reporting, your Company brought the reporting of Corporate Sustainability Management System in line with GRI standard in key focus areas. Your Company during the year worked closely with PWC to expand the topic covered for Global Reporting Initiatives (GRI). The Company has come out with its second Corporate Sustainability Report which has been duly audited by Ernst & Young. The Corporate Sustainability approach would enable your Company to reduce industrial risks, improve operating efficiencies and enhance innovative capabilities, thereby minimizing overall business risk and adding to shareholder value.

Your Company has launched a new organisation-wide initiative, Velocity, during the year to re-orient its people and processes, aligning them with best global benchmarks. This initiative is aimed at bringing about a positive cultural change within the organisation, with sharp focus on customer-centricity, speed, quality, and cost. This will entail implementation of process improvement methodologies and globally accepted best practices such as Total Quality Management (TQM), Six Sigma, cGMP and GLP throughout the value chain.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance of Section 217 (2AA) of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000, the Directors of your Company confirm:

- That in the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.

- That the Directors have adopted 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 as on 31st March 2004 and of the profit and loss of the Company for the year ended 31st March 2004.

- That the Directors have 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.

- That the Directors have prepared the annual accounts on a going concern basis.

FIXED DEPOSITS

The total amount of Fixed Deposits held as on 31st March 2004 was Rs. 246.2 million. There were no overdue deposits. There were, however, 897 unclaimed deposits amounting to Rs. 13.7 million. Of these, 289 deposits amounting to Rs. 4.4 million have since been repaid/claimed.

DIRECTORS

During the year, Mr. J B Dadachanji, ceased to be a Director on the Board by resignation. The Board places on record its appreciation of the advice and guidance received from Mr. Dadachanji during his tenure as a Director.

Mr. Shyam S Bhartia, Mr. Bodhishwar Rai and Mr. Arabinda Ray Directors of the Company, retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment.

During the year Mr. H K Khan, who has held several key positions in the Government of India and Government of Gujarat, joined the Board as Independent Director.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The Report required to be made pursuant to section 217(1)(e) of the Companies Act, 1956 read with Companies [Disclosure of Particulars in the Report of Board of Directors] Rules, 1988 is annexed as Annexure - A

EMPLOYEES

As required under the provisions of section 217(2A) of the Companies Act 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended is attached as Annexure - B.

MANAGEMENT DISCUSSION & ANALYSIS AND CORPORATE GOVERNANCE

Notes on Management Discussion & Analysis and Corporate Governance are annexed to this report as Annexures - C and D.

AUDITORS

K N Gutgutia & Co., Chartered Accountants, Auditors of the Company retire at the ensuing Annual General Meeting and offer themselves for re-appointment. They have confirmed that they are eligible for appointment in terms of Section 224 of the Companies Act, 1956 .

ACKNOWLEDGMENTS

Your Directors acknowledge with gratitude the co-operation and assistance received from the Central and State Government Authorities, Financial Institutions, Banks and other Lenders. Your Directors thank the Shareholders, Depositors, Customers, Vendors and other business associates for their continued support. The Board wishes to place on record its appreciation of the contribution made by the employees at all levels.

FOR AND ON BEHALF OF THE BOARD

NOIDA
April 28, 2004

Shyam S Bhartia
Chairman & Managing Director

Annexure - A

ANNEXURE TO THE DIRECTORS' REPORT

DISCLOSURE UNDER SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

A. CONSERVATION OF ENERGY

(a) Energy conservation measures taken:

1. Reduction in power consumption in the secondary treatment of Distillery effluent by utilising part of Post Methanated Effluent for Bio-composting.

2. Optimisation of Bio-gas plant operation to reduce power consumption by stopping blower of BG-II plant.

3. Reduction in fresh water pumping by utilising Ethyl Acetate plant effluent for molasses dilution.

4. Reduction in LDO consumption by replacing DM water with steam in water-based reactor at 3-Cyanopyridine plant.

5. Utilisation of exhaust steam from carbon filter of CO_2 plant to Distillery

6. Optimisation of high pressure and low pressure cooling water distribution system at pyridine plant to save power of cooling tower pumps.

7. Improvement in power consumption norms by replacing agitator with stripper in one reactor of Solid PVA plant.

8. Replacement of raw water with cooling water in Altas Copco compressor resulting in conservation of raw water.

9. Replacement of electrical heating system by steam heating system for lube oil separators of one Wartsila DG set resulting in reduction in power consumption.

10. Optimisation of pulley sizes of compressors at Pyridine and 3-Cyanopyridine plant and of the blowers of Acetaldehyde plant to conserve energy.

11. Upgradation of one coal fired FBC boiler to reduce RFO based steam generation.

12. Improvement in operation and maintenance controls to reduce steam and power consumption in Distillery, Acetaldehyde, Acetic acid, Pyridine and Solid PVA plants.

13. Trimming of the impeller of cooling water pump in Acetyl area to save power.

14. Installation of Float Valves in two cooling towers.

15. Optimisation of speed of Ethylene compressor.

16. Effective utilisation of biogas to replace fossil fuel by maximising bio-gas load on one boiler.

17. Reduction in steam and power consumption in Carbamazepine plant.

b) Additional investment and proposals, if any, being implemented for reduction of consumption of energy:

S.No	Proposal for reduction of consumption of energy	Investment Planned (Rs. million)
1	Installation of back pressure turbine for energy conservation through pressure reduction of steam from 8.0 to 2 kg/cm².	5.48
2	Replacement of cooling water pumps and modification of cooling water piping network (280 kWH saving)	2.40
3	Installation of photo censors (timers) on streetlight network, conversion of existing MV lamps to CFL. (65 kWH saving)	1.20
4	Installation of variable frequency drives on cooling tower fans (65 kWH saving)	2.50
5	Replacement of electrical heater with steam for FO heating of Wartsila DG (10kWH saving)	0.25
6	Replacement of ID & FD fans of boiler (67 kWH saving)	2.60
7	Installation of dedicated feed water pumps for the incinerator instead of feeding through boiler feed water pumps. (6 kWH saving)	0.15
8	Improvement of heat recovery of spent wash at distillery (2 MT/hour steam saving)	3.00
9	Improve bio-gas reactor efficiency to stop one biogas plant (150 kWH saving)	1.00
10	Optimisation of blower speed in Aldehyde plant (146 kWH saving)	0.80
11	Utilisation of Ammonia vaporiser of Pyridine plant for generation of chilled water (70 kWH saving)	1.50
12	Replacement of the air blower of Sulphuric acid plant with energy efficient blower (60 kWH saving)	1.30
13	Installation of auto ON/OFF switch for plant lighting (16 kWH saving)	0.30
14	Revamping of Waste Heat Recovery Boiler (WHRB-3) to produce 1 MT/hour steam	1.80
15	Optimisation of the speed of air compressors of Pyridine , 3-Cyanopyridine & instrument air plant (95 kWH saving)	0.90
16	Replacement of raw water pumps with energy efficient pump to meet process requirement (28 kWH Power saving)	0.40
17	Replacement of circulation pumps of the fermenters with higher efficiency pumps	0.25
18	Utilisation of exhaust steam from activated carbon filters of CO_2 plant to distillery (1.5MT /day steam saving)	0.10
19	Preheating alcohol feed to vaporiser by exhaust gases from ethylene reactor (10 MT/day steam saving)	0.50
20	Replacement of cooling tower pumps with higher efficiency pumps (10 kWH saving)	0.12
	Grand Total	**26.55**

c) Impact of measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.

- Reduction in steam & power consumption norms.
- Reduction in steam & power cost.
- Reduction in specific fuel consumption on most products.

1. Saving due to Conservation of Energy : Rs. 9.54 million per annum
2. Saving due to the proposal b(1) to b(20) : Rs. 47.91 million per annum

(d) Total energy consumption and energy consumption per unit of production:

S.No	Particulars		April 2003 to March 2004	April 2002 to March 2003
	Power and Fuel Consumption			
	I. Electricity			
	(a) Purchased			
	(i) Unit	KWH	43202641	39523057
	(ii) Total amount	Rs.million	165.09	152.13
	(iii) Rate/Unit	Rs/KWH	3.82	3.85
	(b) Own Generation			
	- Through Diesel Generator			
	(i) Unit	KWH	76787974	72456110
	(ii) Units per Ltr of Diesel/FO	KW/Ltr.	3.85	4.16
	(iii) Cost/Unit	Rs/KWH	2.99	2.70
	- Through Steam Turbine Generator Unit	KWH	53176380	51486420
	II. Coal *			
	(i) Quantity	MT	201253.16	177005
	(ii) Total Cost	Rs.million	386.03	325.78
	(iii) Avg. Rate	Rs./MT	1918.13	1840.51
	III.Furnace Oil			
	(i) Quantity	MT	24266.87	17413.71
	(ii) Total Cost	Rs.million	272.68	195.97
	(iii) Avg. Rate	Rs./MT	11236.64	11253.78
	IV. Any Other		Nil	Nil

* E grade coal is used for power generation and C/D grades coal is used for steam generation.

Consumption per unit of Production

		Current Year	Previous Year
A. Pharmaceuticals and Life Science Chemicals			
Electricity	KWH/MT	775.66	787.67
Steam	MT/MT	6.62	5.78
Furnace Oil	L/MT	64.78	53.23
B. Performance Chemicals			
Electricity	KWH/MT	232.27	214.50
Steam	MT/MT	0.17	0.19
Furnace Oil	L/MT	5.09	10.44
C. Industrial Chemicals			
Electricity	KWH/MT	140.97	144.00
Steam	MT/MT	1.17	1.14
Furnace Oil	L/MT	2.41	2.35

B. TECHNOLOGY ABSORPTION:

(a) Research and Development

The Company has R&D centers at Noida, Gajraula, Nanjangud and Samalaya. The Noida R&D Center was started this year and has state-of-art infrastructure and facilities. The Company has 175 R & D employees out of which 54 are doctorates and others are post graduate and graduates. R&D supports the activities of various business groups through new product development, diversification, process development, absorption of technology and establishing the technology on plant scale.

1. Specific areas in which R&D carried out by the Company:

(i) Pharmaceuticals

- Process development of Active Pharmaceutical Ingredients (APIs) and intermediates.
- Improvements in the processes for the manufacture of APIs
- Creation of intellectual property through development of new synthetic routes

(ii) Biotechnology

- Creation of Microbial processes for the treatment of industrial effluents
- Bio composting
- Develop processes for the manufacture of speciality and fine chemicals using bioconversion routes

(iii) CRAMS

- Product/process developments in the field of pyridine and its derivatives and heterocyclic chemistry
- Process improvements in the manufacture of key products
- Chiral compounds
- Other Fine Chemicals

(iv) Contract Research

- Advance intermediates for pharmaceuticals and agrochemicals.
- Synthesis of new compounds for drug discovery, pre-clinical and clinical studies

(v) Performance Chemicals

- Development of emulsion polymers for use in coating, textile and other industries
- Development of speciality polymers
- Development of various adhesives e.g. water based, hotmelts, polyurethane etc.
- Development of specialised wood finishing systems
- Development of ethoxylates & emulsifiers
- Development of vinyl pyridine latex and SBR latex

(vi) Agrochemicals

- Development of processes for the manufacture of agrochemicals

(vii) Animal Health & Nutrition

- Developments in the field of choline chloride and its salts
- Development of premixes of vitamins, trace minerals, antibiotics etc. for the animal health and nutritional requirements

2. Benefits derived as a result of the above R&D

- Strong position in Science Active, Knowledge based businesses
- Global leadership in select segments of our business
- Major growth in export of our products
- National leadership position in most of the segments of our business
- Competitiveness in cost and quality

3. Future action plan

- Process developments for identified active pharmaceutical ingredients
- Process development of new derivatives of Pyridine and other heterocyclic chemicals
- Development of advanced pharmaceutical/agrochemical intermediates
- Bio transformations for the manufacture of fine and speciality chemicals
- Synthesis of chiral compounds
- Development of research chemicals for pharma/agrochemical industry
- Improvements in the fermentation technology and effluent treatment
- Development of new products in the field of polymers and adhesives for application in coating, textile, footwear, paper, auto, electronic and other industries

- Development of various surfactants, emulsifiers, and ethoxylates.
- Development of VP latex & SBR latex for different applications
- Development of various Choline salts and animal nutrition products
- Development of various plant health chemicals

4. Expenditure on R&D	Rs. million
(a) Capital	175.05*
(b) Recurring (R&D expenses/chemicals)	91.69**
(c) Total	**266.74**
(d) Total R & D expenditure as a percentage of total turnover	3.11%

*Rs. 175.05 million is for the divisions approved for Income Tax rebate

**Rs. 82.83 million is approved for Income Tax rebate by DSIR under Section 35 (2AB) of Income Tax Act

(b). Technology absorption, adaptation and innovation:

1. Efforts, in brief, made towards technology absorption, adaptation and innovation

Technologies developed for manufacturing the products have been commercialized very quickly through in-house efforts related to design of plants, scale up of the processes on pilot scale and supporting production team in optimizing /establishing the processes in the plant

2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction product development, import substitution etc.

A large number of new products have been introduced in all the segments of the Company's business. There has been a major emphasis on developing and commercialising products for export which has resulted in growth in export earnings. A continuous improvement in cost and productivity has made our products competitive in national and international markets.

3. Information about imported technology (imported during the last five years) reckoned from the beginning of the financial year: Nil

Technology Imported	Year of import	Technology has been fully absorbed	If not fully absorbed, areas where this has not taken place
----------Nil ----------			

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information on earnings and outgo of foreign exchange is given in Notes 15(F) to 15(I) appearing in Schedule `N' to the Accounts.

Annexure - C

REPORT ON CORPORATE GOVERNANCE

a) Company's Philosophy

The Company is driven by the fundamental objective of maximising value by employing its assets and resources in opportunities that generate the optimum returns and position it for sustained growth in the long-term, guided by the promise of "Caring, Sharing, Growing".

"We will with utmost care for the environment, continue to enhance value; for our customers by providing innovative products and economically efficient solutions; and for our shareholders through sales growth, cost effectiveness and wise investment of resources."

In line with the afore-mentioned promise, your Company has adopted a comprehensive Corporate Sustainability Management System that focuses on three dimensional approach of economic, environment and social. This was put in place in fiscal 2003 and the Company had reported on progress made, in its first public report on corporate sustainability at the end of that fiscal year.

During the year under review, the Company made significant advances in its journey towards long-term sustainability. The Company has a stated policy on sustainability which clearly articulates its approach towards sustainable development which entails assessment and mitigation of overall business risks, improvement in operating efficiencies and augmentation of innovative capabilities, thereby enhancing shareholder value.

The Company has now issued its second public report on corporate sustainability, detailing achievements and status on its efforts with regards to long-term corporate sustainability during FY 2004 which was covered for GRI reporting.

Jubilant's commitment to high standards of corporate governance practices is reflected in the well-balanced and independent structure of the Company's eminent and well-represented Board of Directors. The Board has a fair representation of executive, non-executive and independent directors, and this emphasis on an independent perspective of the Board is further reinforced by the fact that more than three-fourths of the board members are non-promoters.

The Company recognises the importance of sustained and constructive communication with all stakeholders including investors, lenders, vendors, customers and the community surrounding its operating facilities as a key element in its overall Corporate Governance framework. Jubilant Organosys, through multiple forms of corporate and financial communication such as Annual Reports, Corporate Sustainability Reports, Results Announcements, Media Releases, implements continuous, efficient and relevant communication to all its stakeholders, research analysts and business associates.

b) Board of Directors

The Board comprises of ten Directors out of which five are Non-Executive Directors, two Managing Directors and three Executive Directors. During the year under review, 5 Board Meetings were held on 9th May 2003, 29th July 2003, 11th October 2003, 9th January 2004 and 3rd February 2004. The composition of the Board of Directors and attendance of Directors at the Board meetings, Annual General Meeting as also number of other directorships in Indian public limited companies are as follows:

Name of the Director	Attendance at last AGM	No.of Board Meetings attended	Category of Director	Other Directorships
Mr Shyam S Bhartia	Yes	5	CMD	12
Mr Hari S Bhartia	Yes	5	CCMD	8
Dr J M Khanna	No	3	ED	1
Mr S N Singh	No	4	ED	2
Mr Shyam Bang	Yes	4	ED	1
Mr Bodhishwar Rai	Yes	5	NED/ID	14
Mr Arabinda Ray	Yes	5	NED/ID	1
Mr Surendra Singh	No	4	NED/ID	6
Dr Naresh Trehan	No	3	NED/ID	5
Mr H K Khan (appointed with effect from 5/11/2003)	No	2	NED/ID	3
Mr J B Dadachanji (ceased with effect from 2/7/2003)	No	1	NED/ID	4

CMD - Chairman & Managing Director; CCMD - Co-Chairman & Managing Director
NED - Non Executive Director; ED - Executive Director; ID - Independent Director

c) Committees of the Board

The Board of Directors had constituted Committees of Directors with adequate delegation of powers to discharge urgent business of the Company. The Committees under the Corporate Governance are (a) Audit Committee (b) Investors Grievance Committee; (c) Remuneration Committee. The Committees meet as often as required.

1) Audit Committee

(i) Terms of reference:

To review all matters specified in clause 49 of the Listing Agreement and section 292A of the Companies Act, 1956, such as to overrun the financial reporting system and process, to review the periodical and Audited Financial Statements of the Company before submission to the Board and to review reports of the Internal Auditors, Statutory Auditors and discuss their findings, suggestions, internal control systems, scope of audit, observations of the auditors and other related matters etc. and to select and review major accounting policies followed by the Company. The minutes of the Audit Committee meetings are circulated to and confirmed by the Board of Directors.

ii) Composition

The Committee comprises of 3 independent Non-Executive Directors. The Executive Directors are the permanent invitees. The Company Secretary is the Secretary of the Committee. The Committee met 5 times during the year and the attendance of members at the meetings was as follows:

Name of the Member	Status	No.of meetings attended
Mr Bodhishwar Rai	Chairman	5
Mr Arabinda Ray	Member	5
Mr Surendra Singh (nominated with effect from 29/7/2003)	Member	4
Mr J B Dadachanji (ceased with effect from 2/7/2003)	Member	1

2) Investors Grievance Committee

(i) Terms of reference:

The Committee had been formed to approve the matters relating to transfer/transmission of shares, issue duplicate certificates, non-receipt of balance sheet, non-receipt of dividend, review/redressal of investors' grievances etc.

ii) Composition

The Committee comprises of 2 Non Executive Directors and 1 Executive Director viz. Mr Surendra Singh, Mr Bodhishwar Rai, Mr J B Dadachanji (Ceased) and Mr S N Singh. The Board has designated Mr Ajay Krishna, Company Secretary as the "Compliance Officer ".

iii) Investors' Complaints received and resolved during the year

The Company had 19165 investors as on March 31, 2004. During the year under review, the Company has received 955 (274746 shares) cases of share transfer/transmissions/ transposition out of which 781 (259946 shares) were transferred and 174 (14800 shares) were rejected on account of technical reasons. During the year the Company has received 237 complaints and all the 237 complaints were resolved and no complaint was pending as on March 31, 2004.

3) Remuneration Committee

(i) Terms of reference:

The Committee is empowered to decide and approve the remuneration of the Executive Board Members of the Company in accordance with Part ll, Section ll of Schedule Xlll to the Companies Act, 1956.

(ii) Composition

The Committee comprises of 3 Non-Executive/independent Directors namely, Mr Arabinda Ray, Mr Bodhishwar Rai and Mr Surendra Singh. Mr Arabinda Ray is the Chairman of the Committee. The Company Secretary is the Secretary of the Committee. The Committee met once during the year and the attendance of members at the meetings was as follows:

Name of the Member	Status	No.of meetings attended
Mr Arabinda Ray	Chairman	1
Mr Surendra Singh	Member	1
Mr Bodhishwar Rai	Member	1

d) Details of remuneration paid to directors for the year 2003-04

i) Mr Shyam S Bhartia, Chairman & Managing Director and Mr Hari S Bhartia, Co-Chairman & Managing Director were appointed for a period of five years w.e.f. April 01, 2002. Mr S N Singh and Mr Shyam Bang, Executive Directors were appointed for a period of five years w.e.f. November 1, 2003. Dr J M Khanna, was appointed on August 16, 2002 as Executive Director for a period of five years. Besides, salary, commission and perquisites as detailed below, all whole time directors are also entitled for contribution to Provident Fund, Superannuation and Gratuity.

	Mr Shyam S Bhartia	Mr Hari S Bhartia	Mr S N Singh	Mr S Bang	Dr J M Khanna
Salary	1,500,000	1,500,000	2,404,425	1,752,600	3,055,275
Commission	6,500,000	6,500,000	-	-	-
Perquisites	1,388,361	1,078,293	1,973,252	1,515,222	2,559,209
Stock Option	Nil	Nil	Nil	Nil	Nil
Bonus/ Exgratia	Nil	Nil	Nil	Nil	Nil

ii) Sitting fees for Board Meeting /Committe paid to the Non-Executive Directors for year ended 31 March 2004 was Rs 180,000 to Mr.Bodhishwar Rai, Rs 70,000 to Mr Arabinda Ray, Rs.10,000 to Mr J B Dadachanji (Ceased), Rs.102,500 to Mr Surendra Singh, Rs.20,000 to Mr H K Khan and Rs.15,000 to Dr Naresh Trehan. Apart from this, a total of Rs 6.5 lakh commission was paid / payable to the non-executive directors in term of approval No.2/109/2002-CD.VII dated 30 May 2003 obtained from the Central Government.

e) Remuneration Policy

Remuneration Policy consists of basic salary and perquisites and is based on the qualifications, experience, responsibilities handled.

The objective of the remuneration policy is to motivate, recognise performance/ contribution and reward merits.

f) General Body Meetings

(i) The last three Annual General Meetings of the Company were held as under:

Financial Year	Date	Time	Location
2002-2003	26.09.2003	11.30 a.m.	Registered Office: Bhartiagram, Gajraula, District: Jyotiba Phule Nagar, U.P.
2001-2002	23.09.2002	11.30 a.m.	Same as above
2000- 2001	13.09.2001	11.30 a.m.	Same as above

g) Disclosures

(i) There is no materially significant transaction with the related parties viz. promoters, directors or the management, their subsidiaries or relatives, etc. that may have a potential conflict with the interest of the Company at large. Related party transactions are given at Note No. 13 of Schedule 'N' of the accounts.

(ii) No penalties or strictures have been imposed on the Company by the Stock Exchange or SEBI or any Statutory authority on any matter related to capital markets for non-compliance by the Company during the last three years.

h) Means of Communication

(i) The quarterly, half- yearly and annual audited financial results of the Company are sent to the Stock Exchange immediately after they are approved by the Board. The results are published in accordance with the guidelines of Stock Exchanges. Half yearly and nine months results had been sent to each household of shareholders.

(ii) The results are also posted on the website of the Company at http://www.jubl.com.

(iii) Management Discussion and Analysis Report forms part of this Annual Report.

(iv) Presentation has been made to the Analysts meet in September, 2003 and one to one meetings were also held with Institutional Investors and Brokers after Q1, H1 and Q3 results in July, 2003, October, 2003 and January 2004 respectively. We also organised conference calls with institutional investors post announcement of H1 and Q3 results.

i) General Shareholder's Information

(i) 26th Annual General Meeting is proposed to be held as under:

Venue: Registered Office at Bhartiagram, Gajraula,
District Jyotiba Phule Nagar, U.P. 244 223.
Time : 11.30 A.M.
Date : 15th September, 2004

(ii) Tentative Financial Calendar

First Quarter Results	Last week of July 2004
Half Yearly Results (Limited Review)	Last week of October 2004
Third Quarter Results	Last week of January 2005
Audited Annual Results (2004-2005)	Last week of May 2005

(iii) Book Closure

The register of members and share transfer books of the Company shall remain closed from 8th September, 2004 to 15th September, 2004 (both days inclusive). Dividend, if declared, will be paid within 30 days.

(iv) Listing on Stock Exchange and Stock codes

The names of the Stock Exchanges at which the equity shares of the Company are listed and the respective stock codes are as under:

S.No.	Name of the Stock Exchange	Stock Code
1.	The Stock Exchange Mumbai	530019
2.	National Stock Exchange of India Ltd.	JUBILANT

Equity Shares of the Company have been listed on National Stock Exchange of India Limited with effect from June 13, 2003.

During the year the company applied for voluntary delisting of shares from The Uttar Pradesh Stock Exchange Association Limited (UPSE), Delhi Stock Exchange Association Ltd. (DSE) and Calcutta Stock Exchange Association Limited (CSE). UPSE and DSE have already given delisting approval with effect from 31st March, 2004.

(v) Market price data

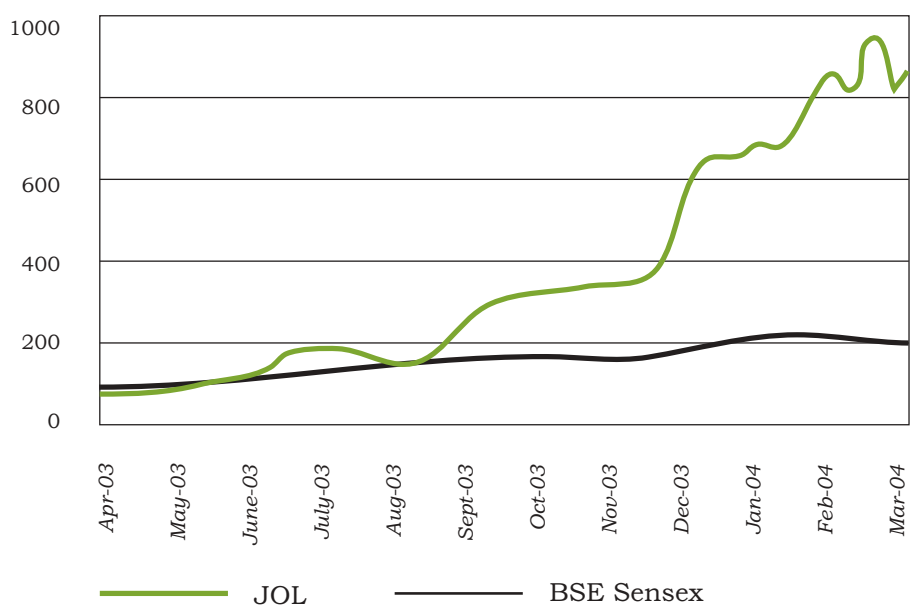
High/low of market price of the Company's equity shares traded on The Stock Exchange, Mumbai during the last financial year was as follows:

Month	High (Rs)*	Low (Rs)*
April 2003	115.63	90.63
May 2003	126.31	109.38
June 2003	175.94	128.44
July 2003	183.72	152.50
August 2003	171.22	148.13
September 2003	275.00	159.47
October 2003	290.63	261.81
November 2003	316.13	266.25
December 2003	557.63	316.25
January 2004	584.72	521.66
February 2004	738.75	553.13
March 2004	873.95	632.50

* Adjusted for 3:5 bonus issue Source -Reuters

During the year, in accordance with the resolution passed by the shareholders in the Extra-ordinary General Meeting held on February 28, 2004, three Equity Shares of Rs. 5 each fully paid up issued for every 5 existing equity shares of Rs. 5 each as on the record date as bonus shares.

(vi) Performance of the Company's equity shares in comparison to BSE Sensex



(vii) Registrar and Transfer Agent

The Company has appointed M/s Alankit Assignments Limited 205-208 Anarkali Complex, Jhandewalan Extension, New Delhi 110 055 as Registrar and Share Transfer Agent for physical as well as electronic connectivity with the depositories for dematerialised shares.

(viii) Share Transfer System

Investors Grievance Committee and designated officials of the Company are authorised to approve transfer of securities. Share transfers which are received in physical form are processed and the share certificates returned within a period of 14 days from the date of receipt subject to the documents being valid and complete in all respects. The dematerialised shares are transferred directly to the beneficiaries by the depositories.

(ix) Disclosures

In accordance with the SEBI (Prohibition of Insider Trading) Regulations, 1992 and subsequent amendments the Company has implemented a Code of Conduct for Prevention Of Insider Trading in Equity Shares of the Company for observance by Directors and other identified persons.

The Company Secretary is the Compliance Officer in this regard.

(x) Unclaimed dividends

Dividends remaining unclaimed for seven years from the date of transfer to unpaid dividend account will be transferred as per Section 205A(5) of the Companies Act, 1956 to the Investor Education and Protection Fund of the Central Government ("IEPF"). No claims shall lie against the Company or the IEPF after the transfer. Shareholders who have not yet encashed their Dividend Warrants relating to the above years are urged to do so immediately.

Reminders to shareholders are also sent from time to time for claiming the unpaid dividend amount.

Unclaimed dividends, upto and including the Financial Year 1993-94, have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed their Dividend Warrants in relation to Financial Years, upto and including that of 1993-94 can, claim the amounts from the Registrar of Companies, U.P.& Uttaranchal upon application in the prescribed form.

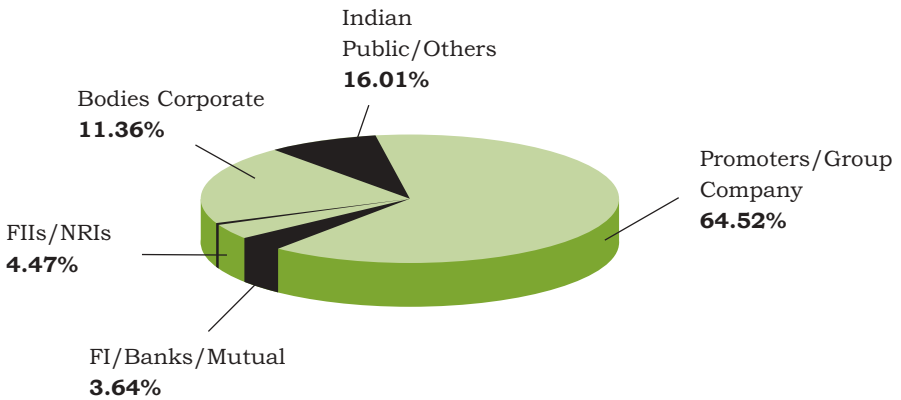
(xi) Information pursuant to Clause 49 VI(A) of the Listing Agreement

Information pursuant to Clause 49 VI(A) of the Listing Agreement pertaining to particulars of Directors to be appointed and reappointed at the forthcoming Annual General Meeting is appended as an Annexure to the Notice convening the Annual General Meeting.

(xii) Compliance Certificate of the Auditors

The Company has obtained a Certificate from the Statutory Auditors regarding compliance of conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement. The Certificate is annexed.

(xiii) Distribution of shareholding as on 31st March, 2004



(xiv) (a) Dematerialisation of Shares

The shares of the Company fall under the category of compulsory delivery in dematerialised mode by all categories of investors. The Company has signed agreements with National Securities Depository Limited (NSDL) and Central Depositories Services (India) Limited (CDSL).

(xiv) (b) Liquidity

The Equity Shares of the Company are traded in Group B1 at the Stock Exchange, Mumbai.

(xvi) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments, conversion date and likely impact on equity

(xvi) Location of the Plants

1. Bhartiagram, Gajraula, District Jyotiba Phule Nagar, U.P.
2. Block 133, Village Samlaya, Taluka Savli, District Vadodara, Gujarat
3. Village Nimbut, Nira, District Pune, Maharashtra
4. 51-56 KIADB Industrial Area, Nanjangud, Mysore, Karnataka

(xvii) R & D Centres

Central R & D	C-26, Sector -59, Noida, U.P.
Gajraula R & D	Bhartiagram, Gajraula, District Jyotiba Phule Nagar, U.P.
Nanjangud R & D	51-56 KIADB Industrial Area, Nanjangud, Mysore, Karnataka
Samlaya R & D	Block 133, Village Samlaya, Taluka Savli, District Vadodara, Gujrat
Chemistry Services	A-85, Sector-59, Noida, U.P.

(xviii) Address for Correspondence

Jubilant Organosys Limited
1A, Sector-16-A
Noida, U.P. 201 301
Tel: (0120) -2516601/ 2516611
Fax: (0120)-2516629
e-mail : ajay_krishna@jubl.com
Website : http://www.jubl.com

AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE AS PER CLAUSE 49 OF THE LISTING AGREEMENT WITH THE STOCK EXCHANGES.

To the Members of Jubilant Organosys Limited

We have examined the compliance of conditions of corporate governance by Jubilant Organosys Limited ("the Company") for the year ended on 31st March 2004, as stipulated in clause 49 of the Listing Agreement of the Company with the stock exchanges, with the relevant records and documents maintained by the Company and the Report on Corporate Governance as approved by the Board of Directors.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

We certify that the Company has complied with, in all material respect, the mandatory conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We have been explained that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

For **K.N. Gutgutia & Co.**
Chartered Accountants

Place: Noida
Date : 28th April, 2004

B R Goyal
Partner

FINANCIAL REPORT 2003-2004

Jubilant Organosys Ltd.

To the members of Jubilant Organosys Ltd.

1. We have audited the attached Balance Sheet of Jubilant Organosys Ltd. as at 31st March 2004, the related Profit and Loss Account for the year ended on that date annexed thereto, and the Cash Flow Statement of the Company for the period ended on that date, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as considered appropriate and according to the information and explanation given to us during the course of our audit, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said order.

4. Further to our comments mentioned in the Annexure referred to in above paragraph we report that:

   a) 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.

   b) 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 the books of the Company.

   c) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by the report are in agreement with the books of account of the Company.

   d) In our opinion, the Profit & Loss Account, Balance Sheet and Cash Flow Statement comply with the mandatory Accounting Standards referred to in Sub-Section 3 (c) of Section 211 of the Companies Act, 1956.

   e) According to the information and explanation given to us and on the basis of written representations received from the Directors as on 31st March 2004 of the Company and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2004, from being appointed as a Director in terms of clause (g) of Sub Section (1) of Section 274 of the Companies Act, 1956.

   f) Proper returns from branches not visited by us have been received by the Company.

   g) In our opinion and to the best of our information and according to the explanations given to us, the said Accounts read with the notes thereon and Significant Accounting Policies, there on 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:

      (i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2004.

      (ii) In the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date;

      And

      (iii) In the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **K.N. Gutgutia & Company**
Chartered Accountants

Place: Noida
Dated: 28th April 2004

B R Goyal
Partner
Membership No. 12172

Re: Jubilant Organosys Ltd.

Referred to in paragraph 1 of our report of even date.

i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) As per the information and explanation given to us physical verification of fixed assets has been carried out in terms of the phased programme of verification of its fixed assets adopted by the Company and no material discrepancies were noticed on such verification. In our opinion the frequency of verification is reasonable, having regard to the size of the Company and nature of its business.

(c) During the year the Company has not disposed off any substantial / major part of fixed assets.

ii) (a) As per the information furnished, the inventories have been physically verified during the year by the management. In our opinion, having regard to the nature and location of stock, the frequency of the physical verification is reasonable.

(b) In our opinion and according to the information and explanations given to us, procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. In our opinion, discrepancies noticed on physical verification of stocks were not material in relation to the operations of the Company and the same have been properly dealt with in the books of account.

iii) (a) The Company had not taken any loan from any Company covered in the register maintained under section 301 of the Companies Act 1956. There was only one company covered in the register maintained under the said section of the said Act to which the Company has granted loan. The maximum amount involved during the year was Rs. 50 million and the year end balance of loan granted to such party was Rs. 50 million.

(b) In our opinion the rate of interest and other terms and conditions on which loan has been granted to the said Company listed with register maintained under section 301 of the Companies Act,1956 are not prima facie, prejudicial to the interest of the Company.

(c) The said party has repaid a part of principal amount on demand and has been regular in the payment of interest.

(d) There is no overdue amount of loan granted to the company listed in the register maintained under section 301 of the Companies Act, 1956.

iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal controls.

v) (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register under Section 301 and exceeding the value of five lac rupees in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices, wherever comparable prices are available at the relevant time.

vi) In the case of public deposits received by the Company, the directives issued by the Reserve Bank of India and the provisions of Section 58 AA of the Companies Act, and the Companies (acceptance of deposit) rules 1975 have been compiled with. No order has been passed by the Company Law Board.

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

viii) The Central Government has prescribed maintenance of the cost records under section 209(1)(d) of the Companies Act,1956 in respect to the Company's certain products. We have broadly reviewed the books of account maintained by the Company pursuant to the Order made by the Central Government for the maintenance of the cost records for certain products of the Company and are of the opinion that prima facie the prescribed accounts and records have been maintained. We are, however, not required to and have not carried out any detailed examination of such accounts and records.

ix) (a) According to the informations and explanations given to us and records examined by us, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investors education and protection fund, employees state insurance, income tax, sales-tax, wealth tax, custom duty, excise duty, cess and other statutory dues wherever

applicable. According to the information and explanations given to us, no undisputed arrears of statutory dues were outstanding as at 31st March, 2004 for a period of more than six months from the date they became payable.

(b) According to the records of the Company, the dues of sale tax, income-tax, customs, wealth-tax, excise duty, cess which have not been deposited on account of disputes and the forum where the dispute is pending are as under:

Name of the statue	Nature of the dues	Amount Rs./Millions	Period to which the amount relates	Forum where dispute is pending
1. Central Excise Act	Excise Duty	5.56	Feb 1998 to Jan 2003	Tribunal
	Excise Penalty	12.86		
	Excise Duty	0.50	Apr 1996 to Mar 1997	Commissioner (Appeals)
	Excise Penalty	0.84		
2. SalesTax Act	Sales Tax Demand	2.35	Apr 1999 to Mar 2000	Tribunal
	Interest	2.28		
	Penalty	0.01		
	Sales Tax Demand	0.12	1998-1999	Commissioner (Appeals)
3. Income Tax Act	Income Tax	12.32	A.Y.1997-98	Commissioner (Appeals)
	Interest	11.84		
4. Zila Panchayat Act	Damages	47.20	2000-2001	High Court
	Penalty	230.00		
	Taxes	0.20		
	Recovery Charges	27.74		

x) There are no accumulated losses of the Company as on 31st March, 2004. The Company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.

xi) Based on our audit procedures and the information given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions, bank or debenture holders.

xii) Based on our examination of the records and the information and explanations given to us, the Company has not granted any loans and/or advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii) Clause (xiii) of the Order is not applicable to the Company as the Company is not a Chit Fund Company or nidhi / mutual benefit fund / society.

xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures, and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xv) According to the information and explanations given to us, Company has not given any guarantees for loans taken by others from bank or financial institutions.

xvi) According to the information and explanations given to us, the term loans raised during the year have been applied for the purpose for which they were raised.

xvii) According to the information & explanation given to us and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

xviii) The Company has not made any preferential allotment of shares during the year.

xix) During the year covered by our audit report, the Company has not issued secured debentures.

xx) The Company has not raised any money by public issues during the year covered by our report.

xxi) As per the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For **K.N. Gutgutia & Company**
Chartered Accountants

Place: Noida
Dated: 28th April 2004

B R Goyal
Partner
Membership No. 12172

(Rs/Millions)

As at 31st March,	Schedules		2004		2003
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	A	117.32		73.33	
Reserves & Surplus	B	1,996.38		1,405.57	
			2,113.70		1,478.90
Loan Funds	C				
Secured Loans		3,857.66		3,473.21	
Unsecured Loans		232.53		575.15	
Deferred Sales Tax Credits		119.81		80.72	
			4,210.00		4,129.08
Deferred Tax Liabilities (Net)	D		741.62		564.11
			7,065.32		6,172.09
APPLICATION OF FUNDS					
Fixed Assets	E				
Gross Block		7,161.53		6,644.79	
Less: Depreciation		2,825.21		2,513.61	
Net Block		4,336.32		4,131.18	
Capital Work-in-Progress		405.99		113.10	
			4,742.31		4,244.28
Investments	F		148.89		163.23
Current Assets, Loans and Advances	G				
Inventories		1,282.80		1,341.90	
Sundry Debtors		1,455.05		829.88	
Cash & Bank Balances		208.35		99.54	
Loans and Advances		811.42		760.31	
		3,757.62		3,031.63	
Less: Current Liabilities & Provisions	H				
Liabilities		1,379.93		1,083.53	
Provisions		225.48		184.68	
		1,605.41		1,268.21	
Net Current Assets			2,152.21		1,763.42
Miscellaneous Expenditure	I		21.91		1.16
(To the extent not written off or adjusted)					
			7,065.32		6,172.09
Notes to Accounts & Significant Accounting Policies	N				
Schedule "A" to "I" and "N" referred above form an integral part of the Balance Sheet.					

In terms of our report of even date attached.
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

(Rs/Millions)

For the year ended 31st March,	Schedules		2004		2003
INCOME					
Sales & Services	J		11,757.09		9,677.07
Other Income	J-1		99.32		39.30
Increase/(Decrease) in Finished & Process Stocks	K		(55.48)		55.24
			11,800.93		9,771.61
EXPENDITURE					
Manufacturing & Other Expenses	L		10,142.48		8,490.46
Depreciation (Net)		331.13		246.60	
Less: Transferred from Revaluation Reserve for Depreciation on		(9.15)		(9.15)	
Revalued Amounts (Refer Note 1 (B) (v) of Schedule "N")			321.98		237.45
Interest	M		357.55		402.50
			10,822.01		9,130.41
Profit Before Tax			978.92		641.20
Current Tax provision including Wealth Tax			87.20		49.70
Deferred Tax Liability		177.51		256.20	
Less: Withdrawn from Reserve (Refer Note 10(B) of Schedule "N")		(63.00)		(145.75)	
			114.51		110.45
Tax adjustments for Earlier Years (Net) (Refer Note 10(C) of Schedule "N")			(24.85)		–
			176.86		160.15
Profit After Tax			802.06		481.05
Balance Brought Forward from Previous Year			457.03		97.23
Add: Proposed Dividend Reversed			–		3.19
Balance Available For Appropriation			1,259.09		581.47
APPROPRIATIONS					
Dividend on Equity Shares (Including Rs.54.99 Mn as Interim Dividend)		84.32		65.99	
Tax on Distributed Profits on Equity Shares		10.79		8.45	
			95.11		74.44
Transfer to General Reserve			100.00		50.00
Balance Carried To Balance Sheet			1,063.98		457.03
Basic And Diluted Earnings Per Share (In Rupees)	N		34.18		20.50
Notes to Accounts & Significant Accounting Policies	N				
Schedule "J" to "N" referred above form an integral part of the Profit & Loss Account.					

In terms of our report of even date attached.
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

(Rs/Millions)

For the year ended 31st March,			2004		2003
A. Cash flow arising from Operating Activities :					
Net Profit before Tax and Extraordinary Items			978.92		641.20
Adjustment for :					
i)	Depreciation	321.98		237.45	
ii)	Loss on Sale of Fixed Assets (Net of Profits)	1.04		3.05	
iii)	Interest (Net)	357.55		402.50	
iv)	Amortization - Deferred Revenue Expenditure	2.28		0.11	
v)	Provision for Doubtful Debts	11.99		–	
vi)	Bad Debts/Irrecoverable Advances written off	1.56		38.10	
vii)	Unrealized Exchange Difference	(103.83)		(22.57)	
viii)	Interest on Income Tax Refunds	(46.70)		–	
ix)	Profit on sale of investments	(0.23)		(0.68)	
x)	Income from Investment - Dividend	(0.21)		–	
			545.43		657.96
Operating Profit before Working Capital Changes			1,524.35		1,299.16
Adjustment for :					
i)	Trade and other Receivables	621.87		235.75	
ii)	Inventories	(59.09)		321.07	
iii)	Miscellaneous Expenditure	24.19		1.27	
			586.97		558.09
			937.38		741.07
i)	Current Liabilities & Provisions		298.08		180.00
Cash inflow from Operations			1,235.46		921.07
Deduct : i)	Interest Paid	395.75		432.83	
ii)	Direct Taxes Paid (net of refunds)	57.97		54.20	
			453.72		487.03
Add : i)	Interest on Income Tax Refunds		46.70		–
Net Cash Inflow/(Outflow) in course of Operating Activities			**828.44**		**434.04**
B. Cash Flow arising from Investing Activities :					
Outflow i)	Acquisition/Purchase of Fixed Assets/CWIP	823.77		1,083.41	
ii)	Purchase/(Sale) of Investments (net)	(14.57)		60.02	
iii)	Loans to Companies (net)	14.50		19.50	
			823.70		1,162.93
Deduct :					
Inflow i)	Sale of Fixed Assets	25.36		8.07	
ii)	Interest Received	15.74		32.12	
iii)	Dividend Received	0.21		–	
			41.31		40.19
Net Cash Inflow/(Outflow) in course of Investing Activities			**(782.39)**		**(1,122.74)**
C. Cash flow arising from Financing Activities					
Inflow i)	Proceeds from Long Term & Short term Borrowings	199.21		745.66	
Deduct :			199.21		745.66
Outflow i)	Dividend Paid (including Corporate Dividend Tax)	136.45		54.10	
			136.45		54.10
Net Cash Inflow/(Outflow) in course of Financing Activities			**62.76**		**691.56**
Net Increase in Cash & Cash equivalents (A+B+C)			**108.81**		**2.86**
Add: Cash & Cash Equivalents of erstwhile Vam Investments Ltd. & Vam Leasing Ltd.			**–**		**4.13**
Add: Cash & Cash Equivalents at the beginning of Year (Including balance in Dividend Accounts)			**99.54**		**92.55**
Cash & Cash Equivalents at the close of the Year (Including balance in Dividend Accounts)			**208.35**		**99.54**

In terms of our report of even date attached.
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

(Rs/Millions)

As at 31st March,	2004	2003
A. SHARE CAPITAL		
Authorised		
29,200,000 Equity Shares of Rs. 5 each	146.00	146.00
4,040,000 Redeemable Cumulative Preference Shares of Rs. 100 each	404.00	404.00
	550.00	550.00
Issued & Subscribed		
23,468,103 Equity Shares of Rs. 5 each (Previous Year 14,669,964 Equity Shares of Rs. 5 each)	117.34	73.35
	117.34	73.35
Paid up*		
23,461,703 Equity Shares of Rs. 5 each fully paid up (Previous Year 14,663,564 Equity Shares of Rs. 5 each)	117.30	73.31
Add: Equity Shares Forfeited (paid up)	0.02	0.02
	117.32	73.33

Notes:

1) Pursuant to the Scheme of Amalgamation approved by the Hon'ble High Court of Judicature, Allahabad and Hon'ble High Court of Delhi, Delhi, and as contained in the Opening Reference Balance Sheet annexed to the Scheme, the paid up share capital of the Company reduced during the year 2002-03 by cancellation of 476,550 Equity shares and 374,684 Equity shares of Rs. 5 each fully paid up held by erstwhile Vam Investments Ltd. and Vam Leasing Ltd. respectively as investments in the Company.

2) 8,798,139 Equity shares of Rs.5 each fully paid were allotted and issued as bonus shares by capitalization of Capital Redemption Reserve in accordance with the resolution passed by the shareholders dated February 28, 2004.

*** Includes :**

- 328,804 Equity shares of Rs. 5 each allotted and issued pursuant to the Scheme of Amalgamation of erstwhile Ramganga Fertilizers Ltd. with the Company for consideration other than cash (152,356 Equity shares of Rs. 5 each allotted to Vam Investments Ltd. and 31,884 Equity shares of Rs. 5 each allotted to Vam Leasing Ltd. were cancelled during the year 2002-03 - refer note no 1 above).
- 1,012,800 Equity shares of Rs. 5 each allotted and issued pursuant to the Scheme of Amalgamation to shareholders of erstwhile Anichem India Ltd. and of erstwhile Enpro Specialty Chemicals Ltd. with the Company for consideration other than cash (324,194 Equity shares of Rs. 5 each allotted to Vam Investment Ltd. and 342,800 Equity Shares of Rs. 5 each allotted to Vam Leasing Ltd. were cancelled during the year 2002-03 - refer note no. 1 above).

(Rs/Millions)

	As at 31st March, 2003	Additions/Created during the year	Deductions	As at 31st March, 2004
B. RESERVES AND SURPLUS				
Capital Reserve	22.82			22.82
Capital Redemption Reserve (1)	53.85		43.99	9.86
Amalgamation Reserve	13.21			13.21
Share Premium Account	87.75			87.75
Revaluation Reserve(2)	46.17		9.15	37.02
Debenture Redemption Reserve	99.90			99.90
General Reserve (3)	624.84	100.00	63.00	661.84
	948.54			932.40
Add : Surplus as per Profit & Loss Account	457.03	802.06	195.11	1,063.98
Total	1,405.57	902.06	311.25	1,996.38
Previous Year	1,148.00	536.91	279.34	1,405.57

Notes :

(1) Utilized to issue Bonus shares during the year.

(2) Refer Note 1B(v) of Schedule "N".

(3) Refer Note 10(B) of Schedule "N".

(Rs/Millions)

As at 31st March,	2004	2003
C. LOANS		
Secured		
A. Debentures		
13.50% Non Convertible Debentures (IX series) of Rs.100/- each at par	–	66.67
11.43% Non Convertible Debentures (XI series) of Rs.100/- each at par	–	240.00
B. Term loans from		
– Banks		
– Rupee Loans	1,338.20	763.90
– Foreign Currency Loans	131.10	–
– Financial Institutions		
– Rupee Loans	537.14	672.09
– Foreign Currency Loans	628.19	712.35
– Others		
– Rupee Loans	–	114.00
C. Other Loans (vehicles)	1.70	1.73
D. Working Capital Loans		
– Rupee Loans	66.83	223.36
– Foreign Currency Loans	1,154.50	679.11
	3,857.66	3,473.21
Unsecured		
From Bodies Corporate	–	150.00
From a Bank	–	100.00
Fixed Deposits	232.53	325.15
	232.53	575.15
Deferred Credits		
Deferred Sales Tax Credits	119.81	80.72
	119.81	80.72

Notes:

1. Notional USD Loan of 10 Mn from Housing Development Finance Corporation Ltd. (HDFC) is secured as and by way of:
   i. an exclusive mortgage over the specified land and buildings situated at Bhartiagram, District Jyotiba Phoolay Nagar, Uttar Pradesh and constructed out of the financial assistance granted by HDFC.
   ii. an exclusive mortgage over land and building located at Plot No 1A, Sector 16A, Noida. Uttar Pradesh.
   iii. an exclusive mortgage over the land & building of Active Pharmaceutical Ingredients Unit located at Nanjangud, Mysore.
2. Financial facilities from Canara Bank by way of Rupee Term Loans are secured by way of an exclusive charge in the form of mortgage of the immovable assets of the Company and charge by way of hypothecation of movables situated at Nimbut Village, Nira, Maharashtra.
3. Financial assistance from Industrial Development Bank of India [under its Rupee Term Loan and Asset Credit Scheme] as also Rupee Term Loan(s) from Jammu and Kashmir Bank Limited, Syndicate Bank, Punjab National Bank, Export Import Bank of India as also Long Term Foreign Currency Loan of USD 5 Mn from Export Import Bank of India are secured by a first charge by way of:
   a) mortgage of the immovable assets and charge by way of hypothecation on the movable assets, both present and future [Save & except Book Debts and Bankers Goods as per Note 4 below and specified exclusions listed in notes 1 & 2 above] pertaining to the Company's Manufacturing Facilities located at Bhartiagram, Gajraula, District Jyotiba Phoolay Nagar in the State of Uttar Pradesh and at Village Samlaya, Taluka, Savli, District Vadodara in the State of Gujarat.
   b) hypothecation of fixed assets [other than Land and Building as mentioned in pt 1 (iii)] both present and future pertaining to the Company's Manufacturing Unit situated at Nanjangud, District Mysore in the State of Karnataka;
   c) Such charges to rank pari-passu amongst the said chargeholders;
   d) In respect of Loan of Rs.260.00 Mn sanctioned by Industrial Development Bank of India, the same is further guaranteed by Shri. Shyam S Bhartia, Chairman & Managing Director and Shri. Hari S. Bhartia, Co-Chairman & Managing Director respectively of the Company.
   e) Financial facilities mentioned in 3 above are further secured as and by way of a second charge over the current assets of the Company.

C. LOANS (Contd.)

4. Working Capital facilities sanctioned by Consortium of Banks comprising of ICICI Bank Limited, Corporation Bank, Punjab National Bank, Jammu & Kashmir Bank Limited, Canara Bank, Syndicate Bank, Export Import Bank of India, ING Vysya Bank Ltd., ABN AMRO Bank and Standard Chartered Bank are secured by:

   a) a first charge by way of hypothecation, ranking pari passu interse Banks of the entire Book Debts and Inventories both present and future of the Manufacturing Facilities at Bhartiagram, Gajraula, Uttar Pradesh, at Nimbut Village, Nira, District Pune, Maharashtra and at Village Samlaya, Taluka, Savli, District Vadodara, Gujarat (save and except Book Debts and Inventories related to IMFL business at Nira, Pune, Maharashtra and the modification of charge for excluding these assets is pending) and at Nanjangud, Mysore, Karnataka;

   b) a second charge over immovable properties [save and except specified exclusions listed in Notes 1 & 2 above]. The said second charge is pending creation.

5. The Company also has a Commercial Paper Programme aggregating Rs. 500 Mn within the overall Working Capital Limits sanctioned to it by the Working Capital Consortium. As on 31.03.04 there was no outstanding against the same. The Company had availed Rs. 500 Mn against the said facility during the year (Previous year NIL).

6. Loans availed for financing purchase of vehicles are secured by a first charge by way of an exclusive hypothecation of the vehicles purchased out of the loan proceeds in favour of the lender.

7. Secured Loans includes loans of Rs. 485.10 Mn (Previous year Rs. 470.80 Mn) repayable within one year.

(Rs/Millions)

As at 31st March,	2004	2003
D. DEFERRED TAX LIABILITY		
Deferred Tax Liabilities	773.38	651.04
Deferred Tax Assets	31.76	86.93
Deferred Tax Liabilities (Net) (Refer Note 10A of Schedule "N")	741.62	564.11

E. FIXED ASSETS

(Rs./Millions)

	GROSS BLOCK-COST / BOOK VALUE					DEPRECIATION				NET BLOCK	
Description	Total as at 31st, March 2003	Additions/ consequent to Amalgamation	Additions/ adjustments during the year	Deductions/ adjustments during the year	Total as at 31st, March 2004	Total as at 31st, March 2003	Provided during the year	Deductions/ adjustments during the year	Total as at 31st, March 2004	As at 31st March 2004	As at 31st March 2003
Land											
(a) Freehold (2)	94.41		23.59		118.00					118.00	94.41
(b) Leasehold (2)	119.66		6.31	5.88	120.09					120.09	119.66
Buildings											
(a) Factory	256.02		12.46	0.66	267.82	43.48	11.22	0.12	54.58	213.24	212.54
(b) Others (1)	347.69		5.69	0.64	352.74	40.15	10.78	0.12	50.81	301.93	307.54
Plant & Machinery (3)	5,520.81		451.35	24.37	5,947.79	2,333.69	273.97	14.76	2,592.90	3,354.89	3,187.12
Vehicles	18.54		7.07	9.34	16.27	5.54	1.71	2.42	4.83	11.44	13.00
Office Equipments	89.70		33.57	2.00	121.27	34.31	10.76	0.65	44.42	76.85	55.39
Electric Fittings	3.15				3.15	1.86	0.12		1.98	1.17	1.29
Furniture & Fixtures	90.04		21.24	3.05	108.23	18.26	6.33	1.46	23.13	85.10	71.78
Technical Know-how	24.52				24.52	24.52			24.52		
Patents/Rights	80.25		1.40		81.65	11.80	16.24		28.04	53.61	68.45
TOTAL	6,644.79		562.68	45.94	7,161.53	2,513.61	331.13	19.53	2,825.21	4,336.32	4,131.18
Previous Year	5,300.68	237.13 (4)	1,158.19 (4)	51.21	6,644.79	2,307.10	246.60	40.09	2,513.61		
Capital Work in Progress & Capital Advances										405.99	113.10
										4,742.31	4,244.28

Notes :

(1) Building includes Rs.500 being cost of share in Co-operative Housing Society.

(2) Leasehold Land was converted into Freehold and accordingly Rs.15.35 Mn transferred from Leasehold to Freehold land.

(3) Reversal of Nil (Previous Year Rs.47.80 Mn) depreciation provided in earlier years due to change in classification of Plant & Machinery is netted off.

(4) Includes acquired API Business at Nanjangud, Mysore and assets vested with the Company consequent to the Scheme of Amalgamation.

(Rs/Millions)

As at 31st March,			2004		2003
F. INVESTMENTS: (Long Term)					
Number	**Face value per unit Rupees**				
		Unquoted :-			
		Trade Investments			
		In Subsidiary Companies			
		Fully paid equity shares:			
25,000 (25,000)	US$1	Jubilant Organosys (USA) Inc.	1.09		1.09
295,600 (140,000)	10.00	Jubilant Biosys Ltd.	147.80		70.00
		*Advance Against 10% Optionally Convertible Non Cumulative Redeemable Preference Shares			
		Jubilant Biosys Ltd.	–		77.80
		Non-Trade Investments			
– (1,600)	1,000.00	11% Corporate Bonds III series of Housing Development Finance Corporation Ltd.	–		1.60
–	10.00	Units in Unit Trust of India (Unit Scheme - 1964)	–	17.69	
(1,263,286)		Less: Provision for dimunition in the Value of Investments	–	(5.06)	
			–		12.63
			148.89		163.12
		Quoted :-			
		Non Trade Investments			
		Fully paid equity shares :			
– (3,000)	10.00	Canara Bank	– 148.89		0.11 163.23
Aggregate market value of Quoted Investments:			–		0.21

Notes:

(1) Figures in ( ) indicates in respect of previous year.

* During the year the Company had been allotted 7,78,000. 10% optionally convertible Non-Cumulative redeemable Preference Shares of Rs.100/- each against the advance paid to Jubilant Biosys Ltd. (JBL). The Company has excised the option of conversion of said preference shares into 155,600 equity shares of face value of Rs. 10 each of JBL. Upon conversion as aforesaid, the Company's holding increased to 66.98% thereby making JBL as a subsidiary company in terms of the provisions of the Companies Act 1956

(2) During the year, the following current investment were purchased and sold:

i) 10,020,261 Units of HDFC Liquid Fund - Premium Plan - at Cost of Rs. 120.00 Mn.

ii) 2,660,766 Units of Principal Cash Mutual Fund - at Cost of Rs. 30.00 Mn.

(Rs/Millions)

As at 31st March,	2004	2003
G. CURRENT ASSETS, LOANS AND ADVANCES		
Current Assets		
Inventories : (Including in Transit & with Third Parties)		
– Raw Materials	362.38	427.61
– Stores, Spares, Process Chemicals, Catalyst, Fuel & Packing Material	391.23	353.09
– Process Stocks	172.94	191.24
– Finished Goods (including Trading Goods)	356.25	369.96
	1,282.80	1,341.90
Sundry Debtors :		
Unsecured		
– Over Six Months - Good	68.51	84.07
[Includes Subsidy recievable from State Government Rs.34.25 Mn (Previous Year 52.66 Mn)]		
– Doubtful	13.13	1.14
– Other Debts - Good	1,386.54	745.81
[Includes Subsidy recievable from State Government Rs.13.60 Mn (Previous Year 8.40 Mn)]	1,468.18	831.02
Less: Provision for Doubtful Debts	13.13	1.14
	1,455.05	829.88
Cash & Bank Balances :		
– Cash in hand and as Imprest	5.06	4.05
– Cheques / Drafts in hand	1.24	9.42
– With Scheduled Banks		
– On Current Account	139.41	12.42
– On Dividend Account	6.67	6.65
– On Deposit Accounts (1)	55.85	66.94
– With Non Scheduled Banks in Current Account (with Bank Of China) (2)	0.12	0.06
	208.35	99.54
Loans and Advances:		
(Unsecured, Considered good)		
– Advances recoverable in cash or in kind or for value to be received (3)	390.05	322.99
– Deposits	78.90	116.20
– Deposits with Excise / Sales Tax Authorities (4)	191.52	233.65
– Advance Payment of Income Tax / Wealth Tax (including TDS)	150.95	80.74
– Income Tax Refundable	-	6.73
	811.42	760.31
	3,757.62	3,031.63

(1) Including Margin Money - Rs.28.04 Mn (Previous Year 46.23 Mn).

(2) Maximum Balance outstanding during the Year Rs.0.47 Mn (Previous Year Rs.0.57 Mn).

(3) Includes Rs 123.62 Mn (Previous Year Rs. 127.26 Mn) Export Benefits Receivables.

(4) Deposit against disputed demands - Rs.98.09 Mn (Previous Year Rs.98.09 Mn).

(Rs/Millions)

As at 31st March,	2004	2003
H. CURRENT LIABILITIES AND PROVISIONS		
A) Current Liabilities		
Sundry Creditors and Expenses Payable	952.79	737.69
Acceptances	246.82	187.25
Trade Deposits & Advances	72.55	66.01
Interest Accrued but not due	29.67	52.37
Other Liabilities	54.35	16.77
Investors Education and Protection fund shall be credited with the following amount namely:		
– Unclaimed/Unpaid Dividends	6.67	6.65
– Unclaimed Fixed Deposits	14.83	14.76
– Interest on Unclaimed Matured Fixed Deposits	2.25	2.03
	1,379.93	1,083.53
B) Provisions		
For Dividends on Equity Shares	33.08	74.44
For Income Tax & Wealth Tax	119.10	51.25
For Retirement/Post retirement Employee Benefits	73.30	58.99
	225.48	184.68
Total (A+B)	1,605.41	1,268.21

I. MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Balance at the beginning of the year	1.16	–
Add: Incurred during the year *	24.19	1.27
	25.35	1.27
Less: Transferred to Intangibles /Provided for	3.44	0.11
	21.91	1.16

* in respect of compensation under Voluntary Retirement Scheme.

(Rs/Millions)

For the year ended 31st March,	2004	2003
J. SALES & SERVICES		
Sales [Includes Excise duty realized Rs.864.64 Mn (Previous year Rs.719.53 Mn)]	11,754.18	9,677.07
Manufacturing Services (Refer Note 11 of Schedule "N")	2.91	–
	11,757.09	9,677.07

J-1. OTHER INCOME		
Income from Investments - Dividend	0.21	–
Insurance / Other Claims (Net)	5.53	1.96
Profit on Sale of Investments (3)	0.23	0.68
Profit on Sale of Fixed Assets (Net) (2)	10.75	
Miscellaneous Receipts (1)	82.60	36.66
(Including sale of unserviceable spares, used drums, residual catalyst, etc.)	99.32	39.30

(1) Includes: a) Income from Utilities provided Rs.2.44 Mn - Previous year Rs.3.12 Mn (Tax deducted at source Rs.0.25 Mn-Previous year Rs.0.18 Mn)

b) Processing Charges of Rs.2.06 Mn - Previous year Rs.2.19 Mn (Tax deducted at source Rs.0.04 Mn- Previous year Rs.0.05 Mn)

c) Interest on Income Tax Refunds of Rs.46.70 Mn (Previous year Rs.Nil)

(2) In respect of disposal of land & building

(3) In respect of sale of 3,000 (Previous year 20,200) equity shares of Canara Bank

K. INCREASE/(DECREASE) IN FINISHED AND PROCESS STOCKS			
Stock at close – Process		172.94	191.24
Stock at close – Finished		356.25	369.96
		529.19	561.20
Stock Adjustment; Pursuant to acquisition of API Business	– Process	–	41.20
	– Finished	–	23.84
Stock Adjustment; Pursuant to acquisition of IMFL Business	– Process	0.69	–
	– Finished	6.58	–
Stock at commencement – Process		191.24	108.02
Stock at commencement – Finished		369.96	332.90
		568.47	505.96
Increase/(Decrease) in Stocks		(39.28)	55.24
Less: Increase/(Decrease) of Finished & Process Stock of IMFL Business (Refer Note 11 of Schedule "N")		(16.20)	–
		(55.48)	55.24

(Rs/Millions)

For the year ended 31st March,	2004	2003
L. MANUFACTURING AND OTHER EXPENSES		
Inter Divisional Transfers	2,302.76	1,832.13
Purchases – Traded Goods	231.06	47.76
Raw & Process Materials Consumed	3,366.87	3,012.34
Power and Fuel	907.41	746.12
Excise Duty	869.14	739.61
Stores, Spares, Chemicals, Catalyst & Packing Materials consumed	813.60	643.01
Processing Charges	89.97	60.66
Repairs – Plant & Machinery	154.45	109.75
– Buildings	14.64	13.11
Salaries, Wages, Bonus, Gratuity & Allowances (5)	474.63	364.04
Contribution to Provident & Superannuation Fund	60.20	49.75
Staff Welfare Expenses	51.86	38.85
Rent (Net of recoveries)	27.05	18.67
Rates & Taxes	14.96	14.75
Insurance [Net of recoveries -Rs.7.42 Mn (PY -Rs.5.30 Mn)]	32.33	29.90
Advertisement, Publicity & Sales Promotion	52.79	38.03
Travelling & Other Incidental Expenses	91.55	64.77
Offices Maintenance (including Water, Electricity & Repairs)	34.48	32.73
Vehicle Maintenance (Including Vehicle Taxes, Insurance & Driver Cost)	25.90	25.58
Printing & Stationery	12.15	10.39
Communication Expenses	35.88	28.78
Staff Recruitment & Training	19.63	9.80
Donation	0.48	2.39
Auditors Remuneration – As Auditors	0.98	0.92
– for Taxation Matters	0.27	0.19
– for Certification/Advices	0.52	0.28
– Out of Pocket Expenses	0.02	0.04
Legal, Professional & Consultancy Charges	39.74	25.97
Freight & Forwarding (including Ocean freight)	180.03	187.45
Amortisation/write off - Deferred Revenue Expenditure	2.28	0.11
Directors' Sitting Fees	0.40	0.28
Directors' Commission	13.65	13.50
Miscellaneous Expenses	11.79	10.49
Financial Charges [incl. Bank Charges, Fixed Deposit expenses & Foreign Exchange fluctuations net gain of Rs.191.79 Mn (PY Rs.27.64 Mn)] (3)	(91.53)	36.90
Discounts & Claims to Customer and Other Selling Expenses	205.02	156.65
Commission on Sales (4)	40.61	54.80
Lease Rentals & Purchase charges	29.57	28.81
Loss on sale/disposal/discard of Fixed Assets	11.79	3.05
Bad Debts / Irrecoverable Advances written off / provided for	13.55	38.10
	10,142.48	8,490.46

(1) The above expenses are Netted off, after taking into account credit of Rs.9.18 Mn (Previous year Rs.11.35 Mn).

(2) The above total expenditure includes :

a) Expenditure incurred on R&D of Rs. 91.69 Mn (Previous Year Rs.54.31 Mn) under various heads of accounts

b) Prior period adjustments determined during the years are adjusted to respective heads of account of Rs.2.25 Mn (Previous Year of Rs.2.45 Mn)

(3) Total foreign exchange gain of Rs.222.02 Mn (Previous year Rs.47.32 Mn) is adjusted against total foreign exchange losses of Rs.30.23 Mn (Previous year Rs.19.68 Mn) as disclosed above. Foreign Exchange gain includes Rs.119.51 Mn in respect of Loan Liabilities. Financial charges includes Rs. 37.03 Mn (Previous year - Rs.18.20 Mn) being one time charges paid for restructuring of long term loans.

(4) Includes Rs.7.91 Mn (Previous year Rs. 9.65 Mn) to a wholly owned Subsidiary Company and Provision for liability of Rs.35.40 Mn, no longer required, reversed & netted off.

(5) Includes LTA provision on accrual basis Rs.13.72 Mn.

M. INTEREST		
On Debentures	13.48	18.88
On Term Loans	252.27	255.51
On Deposits	34.89	50.63
On Overdrafts & other Borrowings	72.65	106.33
	373.29	431.35
Less: Interest Income [Tax deducted at source Rs.2.30 Mn (previous year Rs. 3.58 Mn)]	15.74(1)	28.85
(Including Rs.0.04 Mn (Previous year Rs. 0.18 Mn) Interest Income on Investments)	357.55	402.50

(1) Includes Rs.2.07 Mn charged to Subsidiary Company.

N. NOTES TO THE ACCOUNTS & SIGNIFICANT ACCOUNTING POLICIES

Notes to the Balance Sheet as at 31st March, 2004 and Profit and Loss Account for the year ended on that date

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting

The accounts of the Company (except for revaluation of certain fixed assets) are prepared under historical cost convention and in accordance with the relevant applicable Accounting Standards. The Company follows accrual basis of accounting except for interest receivable on overdue debts in view of the uncertainty as to realisability / ascertainment of the amount involved.

B. a. Fixed Assets & Depreciation

i. Fixed Assets are recorded at cost inclusive of such expenses as referred to in viii hereunder and/or at the revalued value as ascertained by approved valuers and at book value in case of Assets acquired at the time of amalgamation of certain entities with the Company and at such fair value as ascertained by the valuer in case of acquisition of manufacturing facilities as a going concern and the cost incidental to and /or attributable to such acquisition.

ii. Depreciation is provided on Straight Line Method except in case of Plant & Machinery at Nira & Savli plants which is on Written Down Method in terms of rates mentioned and in the manner specified in Schedule XIV to the Companies Act, 1956 (as amended), on the original cost/ acquisition cost of assets as mentioned in iii, v, vi, vii & viii hereunder and on the revalued portion of the assets at the rates suggested by the valuers and/or at such rate arrived at with reference to residual life. Certain plants were classified as continuous process plant from the financial year ended 31-03-2000 and such classification has been done on technical assessment, (relied upon by the auditor being a technical matter) and depreciation has been provided accordingly.

iii. a) Depreciation, in respect of assets added/installed upto 15th December, 1993, is provided at the rates applicable at the time of additions/installations of the assets as per Schedule XIV to the Companies Act, 1956;

b) Depreciation, in respect of assets added/installed during the subsequent period, is provided at the rates, mentioned in Schedule XIV to the Companies Act, 1956 read with Notification dated 16th December, 1993 issued by Department of Company Affairs, Government of India;

iv. Patents/Rights (acquired/self generated) are capitalised and are amortised over a period of 5 years.

v. Freehold Land, Buildings, Plant and Machinery was last revalued in the year 1991-92 on the basis of report obtained from an Approved Valuer and Rs.245.65 Mn was added to the Gross Block of such assets and accordingly Depreciation has been provided on the revalued figures. The first revaluation of said Assets was done during the year 1987-88. A sum of Rs.9.15 Mn (Previous Year Rs. 9.15 Mn) has been transferred from Revaluation Reserve to Profit and Loss Account, which represents the difference between the depreciation on the revalued value and the original cost of the assets.

vi. Depreciation on assets added/disposed off during the year has been provided on pro-rata basis with reference to the month of addition/disposal.

vii. Insurance spares / standby equipments are capitalised as part of the mother assets and are depreciated at the applicable rates.

viii. Interest on loans & other financial charges and preoperative expenses including Trial Run Expenses (Net) for projects and/or substantial expansion upto the date of commencement of commercial production/ stabilization of the project are capitalized.

ix. Certain employee perquisite – related assets are depreciated over five years, being the period of the perquisite scheme.

b. Leased Assets: Amortization/charging off

a. Leasehold Land value is not amortized in view of the long tenure of the unexpired lease period/ conversion to freehold at the expiry of lease tenure.

b. Other lease assets: Assets acquired under finance lease from 1st April 2001 are capitalized at the lower of their fair value and the present value of the minimum lease payment in line with the Accounting Standard 19 issued by the Institute Of Chartered Accountants of India. In respect of other leases, lease rentals are charged to Profit and Loss Account.

C. Valuation of Inventories

Inventories are valued at lower of cost or net realizable value.

Cost include all direct costs (net of excise duty), cost of conversion and appropriate portion of overheads and such other costs incurred as to bring the inventory to its present location and condition inclusive of excise duty wherever applicable. Cost formula used is based upon weighted average cost.

D. Investments

Long Term quoted investments (non-trade) are valued at cost unless there is a permanent fall in their value as at the date of Balance Sheet.

Unquoted investments in subsidiaries & associates being of long term nature, are valued at cost and no loss is recognised for the fall in their net worth, if any, unless there is a permanent fall in their value. Investment in foreign subsidiary company is expressed in Indian currency at the rates prevailing on the date when the remittance for the purpose was made.

E. Taxation

Current Tax provision is made, taking into consideration the various benefits / concessions to which the Company is entitled to as well as the normal tax provisions and the contentions of the Company and also the fact that certain expenditure becoming allowable on payment being made before filing of the return of income.

In accordance with Accounting Standard 22 – Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India, the deferred tax for timing differences between the book and tax profits for the year is accounted for using the tax rates and laws that have been enacted or substantively enacted as of the Balance Sheet date.

Deferred tax assets (reviewed at each balance sheet date) arising from temporary timing differences are recognized to the extent there is reasonable/virtual certainty, as the case may be, that the assets can be realized in future.

F. Conversion or translation of Foreign Currency items

Transactions in foreign currency are recorded at the exchange rate prevailing on/or closely approximating to the date of transactions. Current Assets and Liabilities (other than relating to fixed assets) are restated at the rate prevailing at the period end or at the forward rate where forward cover for specific asset/liability has been taken. The difference between the period end rate and the exchange rate at the date of the transaction is recognized as income or expense in the Profit and Loss Account. In respect of forward exchange contracts, the difference between the contract rate and the rate on the date of transaction is recognized as income or expense in the Profit and Loss Account over the life of the contract.

In the case of liabilities incurred for the acquisition of fixed assets, the loss or gain on conversion (at the rate prevailing at the period end or at the forward rate where forward cover has been taken) is included in the carrying amount of the related fixed assets.

G. Contingent Liabilities

Liabilities, though contingent, are provided for if there are reasonable prospects of such liabilities maturing. Other contingent liabilities, barring frivolous claims, not acknowledged as debts, are disclosed by way of note.

H. Research & Development

Revenue expenditure on Research & Development are included under the natural heads of expenditure. Capital expenditure on Research & Development are treated in the same manner as expenditure on other Fixed Assets.

I. Retirement Benefits

– Provision for Gratuity and Leave Encashment are made on the basis of actuarial valuation and charged to the Profit & Loss Account.

– Contributions to Superannuation Fund is given to LIC, (which administers the fund) and is charged to Profit & Loss Account.

– Employer's contribution to Employees Provident Fund is charged to Profit & Loss Account.

J. Borrowing Cost

Borrowing costs attributable to acquisition and construction of qualifying assets are capitalized as a part of the cost of such assets upto the date as mentioned in Note No.B (a) viii above. Other borrowing costs are charged as expenses in the year in which they arise.

K. Inter Divisional Transfers

Inter Divisional Transfer of goods as marketable products produced by separate manufacturing facilities of the Company for captive consumption are included in turnover and purchases. Any unrealized profit on unsold/unutilized stocks out of such transfers is eliminated while valuing inventories.

L. Sales & Export Benefits

Sales are inclusive of Excise Duty, Inter-Divisional Transfers, Export Incentives and Subsidies.

Export benefits in the form of entitlement to import Duty Free material under DEPB / DFRC Scheme, are accounted for, in the year of export.

M. Catalyst

In case of Company's Nira Plant, catalyst consumption has been arrived at after netting of the estimated realizable residual value, spread over the effective useful life of the catalyst and in case of Gajraula Plant the consumption of catalyst is booked on the basis of utilization of its contents.

N. Miscellaneous Expenditure / Amortisation

Miscellaneous expenditure consists of expenditure in respect of compensation payable as per the terms of Voluntary Retirement Scheme of the Company and the same are amortised over a period of thirty six months commencing the month in which payment / liability arise.

In compliance with the Accounting Standard on Intangible Assets (AS 26) applicable from 1.04.2003, the Company charges the expenditure incurred in respect of process of registration of patents to its revenue.

O. Segment Accounting

The accounting policies adopted for segment reporting are in line with accounting policies of the Company. Revenue, expenses, assets and liabilities have been identified to segments on the basis of their relationship to operating activities of the segments (taking in account the nature of products and services and risks & rewards associated with them) and internal management information systems and the same is reviewed from time to time to realign the same to conform to the Business Units of the Company. Revenue, expense, assets and liabilities which are common to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been treated as "Common Revenue/Expense/Assets/Liabilities", as the case may be.

2. Capital Commitments:

Estimated amount of Contracts remaining to be executed on Capital Account (Net of Advances) Rs. 285.13 Mn (Previous Year Rs. 81.40 Mn) [Advances Rs. 99.72 Mn (Previous Year Rs.16.71 Mn)].

3. Contingent liabilities:

a) Claims/demands/disputes against which appeals are pending and not acknowledged as debts on account of:

(Rs/Millions)

	2003-04	2002-03
– Central Excise	16.73*	16.73*
– Sales Tax	5.09	0.70
– Income Tax	24.15	31.91

*Amount deposited Rs. 16.73 Mn

The Company has been advised that its contentions in the matter of disputed demands are legally tenable and hence the possibility of these maturing is remote.

b) The Company has challenged the levy of transport fee by State of Maharashtra on consumption of rectified and denatured spirit in the Nira factory. The order of State imposing the levy was quashed by the Hon'ble Mumbai High Court on 9th Jan.2001. The Company has been advised that the levy of transport fee on rectified denatured spirit by State is not tenable. However, the Company has deposited Rs. 6.28 Mn under protest out of the total transport fee of Rs. 44.06 Mn.

c) Pursuant to the now withdrawn Molasses Control Order, the Company received price differential claims amounting to Rs. 10.70 Mn from few of its suppliers in Uttar Pradesh. These claims were confirmed by an arbitrator appointed by the Hon'ble High Court of Allahabad. The Company has been advised that appointment and award of arbitrator is void. Accordingly, the Company has challenged the appointment of arbitrator in Hon'ble Supreme Court as also the award of arbitrator in the Hon'ble High Court.

d) Outstanding guarantees furnished by Banks on behalf of the Company including in respect of Letters of Credits/Bonds is Rs.594.25 Mn (Previous Year Rs.421.36 Mn).

e) Exports obligation undertaken by the Company under EPCG scheme to be completed over a period of five/eight years on account of import of Capital Goods at concessional import duty remaining outstanding to Rs. 153.37 Mn (Previous year Rs. 50.80 Mn). Similarly Export obligation under advance licence scheme on duty free import of specific raw materials by the Company, remaining outstanding to Rs. 232.69 Mn (Previous year Rs. 146.74 Mn)

4. The Hon'ble Supreme Court has quashed the levy of licence fee by State of Uttar Pradesh on captive consumption of denatured spirit in the Gajraula factory. While passing the judgement, the Hon'ble Court by mistake recorded that licence fee has not been collected by the State Govt. This mistake has been sought to be corrected by moving rectification application. Consequent to that the Company is entitled to a refund of Rs. 84.06 Mn. As a matter of prudence, the interest, if any, on such refund has not been recognised in books of accounts on account of amount being not ascertainable.

5. Sales include subsidy amounting to Rs.78.67 Mn (Previous Year Rs.80.94 Mn), export incentives Rs. 123.28 Mn (Previous year Rs. 135.96 Mn) and inter-divisional transfers made at market rates aggregating to Rs. 2302.76 Mn (Previous year Rs.1832.13 Mn). However, the said transfers at such method have no bearing on profitability of the Company as the unrealised profits on the inventory is eliminated at the time of inventory valuation.

6. (A) Loans and advances includes:

(i) Loans to Bodies Corporate and Interest Accrued thereon Rs. Nil (Previous Year Rs.35.50 Mn).

(ii) Loans to employees includes Rs.Nil (Previous Year Rs. Nil) given to Executive Director towards Housing Loan. Maximum amount due at any time during the year Rs. Nil (Previous Year Rs. 0.09 Mn).

(iii) Loans to Subsidiary Company, namely, Jubilant Biosys Ltd. – Rs. 50.00 Mn (Max amount due at any time during the year Rs. 50.00 Mn)

(B) Sundry Debtors as on 31st March, 2004 as shown in Schedule "G" is net after giving the effect of sale of receivables amounting to Rs. 76.95 Mn (Previous year – Rs 200.00 Mn)

7. Assets aggregating Rs.84.95 Mn (previous year - Rs.109.96 Mn) have been acquired on financial lease during the earlier years. The obligation for future lease rentals in respect of such assets aggregate to Rs.30.73 Mn (previous year - Rs.57.48 Mn) payable over a period of 4 years. Lease rentals payable during the year 2004-05 is Rs. 16.82 Mn.

8. Capitalization of Interest, Pre-operative and Trial Run expenses

In line with the applicable Accounting Standards, interest on funds utilized and preoperative expenses including trial run expenses (net) for projects and/or substantial expansions have been capitalized up to the date of commercial production/stabilization of the project, amounting to Rs. 40.29 Mn (Previous Year Rs. 50.82 Mn). All preoperative expenditure including interest of Rs.12.94 Mn (Previous Year Rs.18.67 Mn) so capitalized and trial run expenditures (net of trial run receipts) accumulated as capital work in progress has been allocated to respective fixed assets.

9. Sundry Creditors include:

i. Amount due to small scale industrial undertaking/ancillary industrial undertaking amounting to Rs. 7.88 Mn (Previous Year Rs. 5.22 Mn)

ii. The names of small scale/ancillary industrial undertaking to whom the above amount is due are: Kumar Containers, K & S Packaging Dynamics Pvt. Ltd., Melody Plastics Products (P) Ltd. and Pahwa Plastics.

iii. There are no amounts overdue to small scale and / or ancillary industrial suppliers on account of Principal and / or interest as at the close of the year.

iv. The above disclosures are based on the information/documents available with the Company.

10. (A) Deferred Assets and Liabilities are attributable to the following items:

(Rs/Millions)

As at	31.03.04	31.03.03
Deferred Tax Assets		
Provision for Leave Encashment and Gratuity	26.69	21.16
Unabsorbed Depreciation and/or Losses	–	65.05
Amount disallowed u/s 43 B	0.36	0.72
Provision for Doubtful Debts	4.71	–
	31.76	86.93
Deferred Tax Liabilities		
Accumulated Depreciation	772.58	651.04
Voluntary Retirement Scheme	0.80	–
	773.38	651.04
Deferred tax liabilities (Net)	**741.62**	**564.11**

Deferred tax assets on unabsorbed depreciation and losses has been recognised considering that the Company is a profit making entity and on the basis of profitability projection for the next 3 years.

(B) An amount of Rs. 63.00 Mn (Rs. 145.75 Mn) has been withdrawn from reserves to offset the charge arising on reversal of deferred tax assets.

(C) Adjustment for Tax of earlier years amounting to Rs. 24.85 Mn is due to reversal of excess provision of Tax in earlier years ascertained upon the revision in method of calculation of MAT for the previous years based on the legal advice and on account of credits/refunds relating to earlier years.

11. The Company has acquired the manufacturing facility of Indian Made Foreign Liquor of UDV Ltd., situated at Nira, Pune, Maharashtra with all its immovable and movable assets on a going concern basis for a lump sum consideration of Rs. 27.50 Mn. The facility was transferred on 9th February, 2004. In compliance of Accounting Standards, the consideration paid for this acquisition together the incidental expenditure totaling to Rs. 31.40 Mn has been apportioned to various assets in proportion to fair value basis as determined and reported by the expert valuers as given below:

(Rs./Million)

Fixed Assets	30.80
Current Assets	0.60
Total	31.40

This manufacturing facility holds a Potable Liquor Licence for IMFL. Presently, the facility is bottling IMFL to the order of another company and is charging bottling fee.

The Accounts recognise Revenue, Expenditure, only to the extent the Company enjoys beneficial Interest.

In Compliance with the requirements of Schedule VI to the Companies Act, 1956, the following information is given hereunder in respect of the transactions where the Company does not enjoy beneficial Interest.

(Rs./Million)

Sales	108.73
Excise Duty	(90.32)
Other Income	0.88
Increase/(Decrease) in Finished & Process Stocks	16.20
Raw & Process Materials Consumed	(8.57)
Stores, Spares, Chemicals, Catalyst & Packing Materials consumed	(9.95)
Rates & Taxes	(0.01)
Insurance (Net of recoveries)	(0.03)
Travelling & Other Incidental Expenses	(0.01)
Freight & Forwarding (including Ocean Freight)	(0.99)
Discounts & Claims to Customers & Other Selling Expenses	(13.02)

12. Segment Reporting :

i) Based on the guiding principles given in Accounting Standard on " Segment Reporting" ((AS-17) Issued by the Institute of Chartered Accountants of India) the Company's Primary Business Segments are organized around customers on industry and product lines as under :

a. Pharmaceuticals & Life Science Chemicals: Pharmaceuticals(API's), Custom Research & Manufacturing Services(CRAMS) and Food Polymers.

b. Performance Chemicals: Industrial products for tyres, textiles and coatings; Specialty Gases and Consumer Products for woodworking solutions.

c. Industrial Chemicals: Organic Intermediates, Agri and Animal Nutrition Products.

ii) Inter Segment Transfer Pricing

Inter Segment prices are based on market prices.

iii) The Financial information about the primary business segments is presented in the table given below:

[Rs. Millions]

	Particulars	Pharmaceuticals & Life Science Chemicals		Performance Chemicals		Industrial Chemicals		Total	
		2004	2003	2004	2003	2004	2003	2004	2003
1)	**Revenue**	4,116.77	2,655.87	1,804.26	1,571.22	5,836.06	5,449.98	11,757.09	9,677.07
	Less: Inter/Intra Segment Revenue	696.18	500.73	0.38	0.60	1,606.20	1,330.80	2,302.76	1,832.13
	Less: Excise Duty	211.88	158.45	225.91	212.79	431.35	368.37	869.14	739.61
	Net sales	**3,208.71**	**1,996.69**	**1,577.97**	**1,357.83**	**3,798.51**	**3,750.81**	**8,585.19**	**7,105.33**
2)	**Segment results**	853.55	549.47	38.25	62.12	608.99	609.73	1,500.79	1,221.32
	Less : Interest (Net)							357.55	402.50
	Other un-allocable expenditure (net of un-allocable income)							164.32	177.62
	Total Profit Before Tax	**853.55**	**549.47**	**38.25**	**62.12**	**608.99**	**609.73**	**978.92**	**641.20**
3)	**Capital Employed** (Segment Assets - Segment Liabilities)								
	Segment Assets	3,947.13	2,734.35	765.83	682.82	3,238.67	3.383.61	7,951.63	6,800.78
	Add: Common Assets							719.10	639.52
	Total Assets	**3,947.13**	**2,734.35**	**765.83**	**682.82**	**3.238.67**	**3.383.61**	**8,670.73**	**7,440.30**
	Segment Liabilities	554.73	304.16	247.31	134.21	551.60	595.22	1,353.64	1,033.59
	Add: Common Liabilities							251.77	234.62
	Total Liabilities	**554.73**	**304.16**	**247.31**	**134.21**	**551.60**	**595.22**	**1,605.41**	**1,268.21**
	Segment Capital Employed	3,392.40	2,430.19	518.52	548.61	2,687.07	2,788.39	6,597.99	5,767.19
	Add: Common Capital Employed							467.33	404.90
	Total Capital Employed	**3,392.40**	**2,430.19**	**518.52**	**548.61**	**2,687.07**	**2,788.39**	**7,065.32**	**6,172.09**
4)	**Segment Capital Expenditure**	414.66	989.60	14.08	5.12	130.63	149.56	559.37	1,144.28
	Add: Common Capital Expenditure							3.31	13.91
	Total Capital Expenditure	**414.66**	**989.60**	**14.08**	**5.12**	**130.63**	**149.56**	**562.68**	**1,158.19**
5)	**Depreciation (Net)**	127.24	93.64	26.96	26.04	159.88	110.15	314.08	229.83
	Add: Common Depreciation							7.90	7.62
	Total Depreciation	**127.24**	**93.64**	**26.96**	**26.04**	**159.88**	**110.15**	**321.98**	**237.45**

Notes :

1) The Company has disclosed Business Segment as the Primary segment

2) Segments have been identified and reported taking into account the nature of products and services, the differing risk and returns, the organization structure and the internal financial reporting systems.

3) The Segment Revenue, Results, Assets and Liabilities include the respective amounts identifiable to each of the segments and amounts allocated on a reasonable basis.

4) In line with the changing business profile of the Company and segmentation norms, the Company's business is reorganised into three business segments and accordingly, previous years figures have been recast/regrouped.

iv) Secondary Segment Reporting: Geographical

[Rs. / Millions]

Particulars	India		Americas & Europe		China		Asia & Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenues	9,472.09	7,712.77	1,312.60	813.41	390.70	311.19	581.70	839.70	11,757.09	9,677.07
Less: Inter/Intra Segment Revenue	2,302.76	1,832.13							2,302.76	1,832.13
Less: Excise Duty	869.14	739.61							869.14	739.61
Net sales	**6,300.19**	**5,141.03**	**1,312.60**	**813.41**	**390.70**	**311.19**	**581.70**	**839.70**	**8,585.19**	**7,105.33**

13 A. Related Party Transactions

The Company has entered into transactions with the related parties:

a. Related parties where control exists

- Subsidiaries
  Jubilant Organosys USA Inc,
  Jubilant Biosys Ltd.

b. Other related parties with whom transactions have taken place during the year

- Associates
  Jubilant Enpro India Private Ltd.
- Others
  Vam Employees Provident Fund Trust

c. I. Key Management Personnel
Mr. Shyam S. Bhartia, Mr. Hari S. Bhartia, Mr. S.N. Singh, Mr. Shyam Bang and Dr. J.M. Khanna

II. Relatives of Key Management Personnel
Ms Shobhana Bhartia, Ms Sudha Singh and Ms Shobha Bang

d. Transactions with related parties during the year (Rs./Millions)

Particulars	Subsidiary	Associates	Key Mgmt. Personnel & Relatives	Others
Expenses recharged to other Companies for facilities provided	0.34 (–)	7.96 (8.55)		
Asset purchased during the year	0.62 (–)			
Asset sold during the year	0.05 (–)			
Sale of Finished Goods	212.05 (72.97)			
Export Commission	7.91 (9.65)			
Company's Contribution to PF Trust				42.67 (31.55)
Advance against 10% Optionally Non-cumulative Redeemable Preference shares		– (77.80)(3)		
Inter-Corporate Deposits Given	54.00 (–)			
Inter-Corporate Deposits Received Back	4.00 (–)	– (16.00)		
Inter-Corporate Deposits Outstanding	50.00 (–)			
Interest on Inter-Corporate Deposits	2.07 (–)	– (1.13)		
Investments in Equity Share capital	77.80(3) (1.09)	– (70.00)		
Remuneration and related expenses			35.14(1) (30.15)	
Fixed Deposits outstanding at the year end			5.10 (7.60)	
Interest on Fixed Deposits during the Year			0.57 (1.06)	

Notes :

(1) Managerial remuneration – Details as per Note 14 of Schedule "N".
(2) Figures in ( ) indicates in respect of previous year.
(3) Against the advance, the Company was allotted 778,000 10% optionally Non-Cumulative redeemable Preference shares of Rs. 100 each by Jubilant Biosys Ltd. (JBL). The Company has exercised the option of conversion of the said preference shares into 155,600 equity shares of face value of Rs. 10. each of JBL.
(4) Related party relationship is as identified by the Company and relied upon by the Auditors.

13 B. Promotor Group

Group companies

The Company is controlled by Mr. Shyam S Bhartia/Mr. Hari S Bhartia group ("the promoter group"), being a group as defined in the Monopolies and Restrictive Trade Practices Act, 1969.

The persons constituting the promoter group include individuals and corporate bodies who/which jointly exercise, and are in a position to exercise, control over the Company. The names of these individuals and bodies corporate are Mr. Shyam S Bhartia, Mr. Hari S Bhartia, Mrs. Shobhana Bhartia, Mrs.Kavita Bhartia, Mr.Priyavrat Bhartia, Mr.Shamit Bhartia, Ms. Aashti Bhartia, Master Arjun S Bhartia, Best Luck Vanijya P Ltd., Denon Dealers P Ltd., Enpro Exports P Ltd., Enpro Finance P Ltd., Enpro Investments P Ltd., Jaytee P Ltd., Jubilant Enpro Private Ltd., Jubilant Securities P Ltd., Jubilant Capital P Ltd., Kavita Commercial P Ltd., Klinton Agencies P Ltd., Marketex Mercantiles P Ltd., Marshall Mercantiles P Ltd., Shobhna Commercial P Ltd., Sepeedage Vinimay P Ltd., Rance Investment Holdings Ltd., Cumin Investments Ltd., Torino Overseas Ltd., Value Leasing Ltd., Vam Holdings Ltd., VOCL Investments Ltd., Volvo Holdings Ltd., Westcost Vyapaar P Ltd., Nikita Resources P. Ltd.

14. Details of Remuneration to the Managing Directors, Executive Directors & other Directors under section 198 of the Companies Act 1956

(Rs. / Millions)

	2003-04	2002-03
i) Salaries	10.21	8.39
ii) Perquisite Value of Housing Facility	6.03	4.40
iii) Contribution to Provident Fund and Superannuation Fund	2.76	2.26
iv) Perquisite Value of other Benefits	2.49	1.60
v) Commission to Managing Directors (Previous year Rs.6.50 Mn to each)*	13.00**	13.00**
vi) Commission to other Directors (Excluding Executive Directors)	0.65	0.50
	35.14	30.15
The above excludes provision for gratuity where calculation are on overall Company basis.		
Calculation of Profit in accordance with Section 198 of the Companies Act, 1956 for the purpose of calculation of Commission payable to Directors.		
Profit Before Tax as per Profit & Loss Account	978.92	641.20
Add: Managerial Remuneration as above	35.14	30.15
Directors Sitting Fees	0.40	0.28
Depreciation(Net) as per Accounts	321.98	237.45
Net Profit	1,336.44	909.08
Less: Depreciation under Section 350 of the Companies Act 1956	321.98	237.45
Net Profit in accordance with Section 198 (I) /349 of Companies Act 1956 for calculation of Commission to Directors	1,014.46	671.63
Commission @ 1% to each Managing Director (Rounded amount)	20.00	13.00
Restricted to:		
**Managing Directors (Previous year Rs.6.50 Mn to each)	13.00	13.00
Other Directors (Excluding Executive Directors) @ Rs.0.10 Mn each (Previous Year Rs.0.10 Mn each)	0.65*	0.50
* Including Rs.0.15 Mn relating to previous years.		

15. (A) Capacities, Stocks, Production and Turnover

S. no.	Class of Goods	Quantitative	Capacity*	Opening Stock		Production	Turnover		Closing Stock	
		Denomi-nation	Installed	Quantity	Rs/ Millions	QTY @@	Quantity	Rs/ Millions	Quantity	Rs/ Millions
1.	Alcohol	KBL KBL	151,800 (151,800)	5,908 (10,170)		125,246 (119,310)	36 (207)	0.61 (4.81)	2,872 (5,908)	
2.	Organic including Speciality Chemicals & its Intermediates	MT MT	# 374724 #(366430)	3,942 (3,857)		348,795 (308,562)	146,575 (134,299)	6071.53 (5443.39)	19,356 (3,942)	
3.	Polymers including Co-polymers & VP Latex/ SBR latex	MT MT	32,100 (30,900)	460 (457)		23,925 (20,463)	23,860 (20,305)	1264.52 (1049.91)	498 (460)	
4.	Single Super Phosphate (1)	MT MT	132,000 (132,000)	9,505 (7,914)		118,115 (126,135)	120,998 (124,544)	423.71 (415.24)	6,622 (9,505)	
5.	Sulphuric Acid (2)	MT MT	57,750 (57,750)	244 (421)		56,147 (59,034)	56,127 (59,211)	57.43 (46.69)	264 (244)	
6.	Dry & Acqueous Choline Chloride & Ethyoxylates	MT MT	22,000 (22,000)	49 (194)		9,407 (10,451)	5,379 (6,137)	228.70 (248.84)	305 (49)	
7.	Feed Premixes	MT MT	3,500 (3,500)	80 (97)		1,707 (1,344)	1,726 (1,362)	52.07 (43.38)	64 (80)	
8.	Agri Chemicals	KL KL		8 (7)		238 (10)	203 (9)	20.35 (4.50)	43 (8)	
9.	Active Pharma Ingredients (API)	MT MT	202 (202)	5 (5) @		179 (126)	179 (126)	1064.25 (471.53)	5 (5)	
10.	IMFL	KBL	10,800	229 ##		595	–	–	176	

* Under the Industrial Policy Statement dated 24th July,1991 and the notifications issued thereunder, no licensing is required for the Company's products.

(1) Sales include Captive consumption of 0.50 MT (Previous year 16.850 MT)

(2) Sales include Captive consumption of 36218.056 MT (Previous year 38136.286 MT)

Does not include Acetic Acid recovery from VAM Plant.

@ Stocks acquired on acquisition of API business at Nanjangud, Mysore.

Stocks acquired on acquisition of IMFL business at Nira, Pune.

@@ Includes products manufactured by Contract Manufacturers on conversion basis wherever applicable.

Notes:

a) Acetaldehyde is also produced which is mainly for captive consumption.

b) Closing Stock has been arrived at after considering Captive Consumptions.

c) Installed capacities are as certified by the Management, being a technical matter and relied upon by the Auditors accordingly.

d) TEP & Formaldehyde is also produced which is mainly used captively as process chemicals.

e) V.P. Latex / SBR Latex installed Capacity is on Wet Basis.

f) Difference in quantitative tally represent materials damaged / obsolete / issue for sample etc.

g) Previous year production for API is for 7 months period. (Sept 02 to Mar 03)

h) Production for IMFL is from 10th Feb, 2004.

15. (B) Particulars in respect of Trading goods.

Particulars	2003-04		2002-03	
	Quantity	Rs/Million	Quantity	Rs/Million
i) Opening Stock				
Misc (Nos)	7,323.00		7,323.00	
Agrochemicals (Ltr.)	24,384.00		20,060.00	
Organic Manure(MT)	–		–	
Other Organic Chemicals (MT)	–		1,371.99	
Others	3.67		2.98	
ii) Purchases				
Fertilizers (MT)	9,977.75	23.61		
Misc (Nos)	–	–		
Agrochemicals (Ltrs.)	305,720.00	21.41	236,240.00	17.01
Organic Manure (MT)	3,548.05	5.70	2,746.05	4.39
Other Organic Chemicals (MT)	2,533.51	108.18	607.53	25.74
Others	6,671.37	72.16	36.44	0.63
iii) Sales				
Fertilizers (MT)	9,977.75	28.04		
Misc (Nos)	–	–		
Agrochemicals (Ltrs.)	304,242.00	24.91	231,916.00	21.97
Organic Manure (MT)	3,548.05	14.94	2,746.05	10.80
Other Organic Chemicals (MT)	2,533.51	122.19	1,979.51	82.96
Others	6,671.52	78.18	35.75	0.92
iv) Closing Stock				
Misc (Nos)	7,323.00		7,323.00	
Agrochemicals (Ltrs.)	25,862.00		24,384.00	
Organic Manure (MT)	–		–	
Other Organic Chemicals (MT)	–		–	
Others	3.52		3.67	

15. (C) Raw Materials Consumed (Excluding Inter-Divisional Transfers & Consumptions thereof)

Item	2003-04		2002-03	
	Quantity	Rs/Millions	Quantity	Rs/Millions
Molasses(MT)	532,660	842.06	552,633	900.16
Alcohol(KL)	51,546	578.11	56,243	644.87
Process Chemicals (MT)	14,804	926.98	25,621	706.53
Rock Phosphate (MT)	67,102	171.35	73,000	173.04
Sulphur etc(MT)	25,452	104.22	30,921	89.31
Chemicals for Feed Additive (Kgs)	3,412,704	139.65	3,479,364	126.48
Chemicals for Latex [MT]	1,960	177.62	1,389	112.80
Chemicals for API [MT]	4,992	354.67	2,935	195.70
Others [MT] (none of which individually account for more than 10% of total consumption)	–	72.21	–	63.45
		3,366.87		3,012.34

15. (D) Value of imported and indigenous raw materials, stores and spare parts consumed and percentage thereof for the year.

	2003-04		2002-03	
	Rs/Millions	%	Rs/Millions	%
Consumption of Raw Materials				
– Imported	1,112.11	33.03	819.45	27.20
– Indigenous	2,254.76	66.97	2,192.89	72.80
	3,366.87	100.00	3,012.34	100.00
Consumption of Stores, Spare Chemicals, Catalysts & Packing Material				
– Imported	127.46	15.67	97.97	15.24
– Indigenous	686.14	84.33	545.04	84.76
	813.60	100.00	643.01	100.00

(Rs. / Millions)

	2003-04	2002-03
15. (E) Earning Per Share		
a) Calculation of Weighted Average number of Equity Shares of Rs.5 each		
Number of shares at the beginning of the year	14,663,564	7,757,399
Shares issued on 18th March 2004 as Bonus shares	8,798,139	
Total number of equity shares outstanding at the end of the year	23,461,703	14,663,564*
*on account of sub-division of shares.		
b) Net profit after tax & Preference Dividend available for Equity Shareholders (Rs./Millions)	802.06	481.05
c) Earnings (in Rupees) per share (Nominal value of Rs. 5 per share)		
– Basic Earning per Share	34.18	20.50**
– Diluted Earning per Share	34.18	20.50**
**The Earning per share has been recomputed to give effect to the issue of bonus shares during the year as per Accounting Standard 20 (AS 20).		
15. (F) Expenditure in foreign currency (on remittance basis)		
– Technical Knowhow Fee/Services/Royalty/Patent	4.45	0.52
– Travel /Entertainment Expenses	14.11	8.60
– Commission on Export Sales	20.58	25.86
– Interest on ECB	–	1.26
– Overseas Office Expenses	4.58	5.81
– Others	24.61	32.54
15. (G) Value of Imports on C.I.F. basis		
– Raw Materials	737.18	696.36
– Spare, Process Chemicals & Catalyst	128.83	92.36
– Capital Goods	65.24	9.62
– Trading Goods	130.47	12.89
15. (H) Remittance in Foreign Currency on account of Final Dividend		
a) Amount of Dividend Remitted (Net of Tax)*	3.13	1.51
b) Number of Non-Resident Shareholders	1,049	1,086
c) Number of Equity Shares held by Non-Resident Shareholders	1,110,580	532,012
d) The Year to which Dividend related	2002-2003	2001-2002
* excluding for those shareholders for whom Dividend has been credited to their N.R.I. Account in India.		
Remittance in Foreign Currency on account of Interim Dividend		
a) Amount of Dividend Remitted (Net of Tax)*	2.61	
b) Number of Non-Resident Shareholders	1020	
c) Number of Equity Shares held by Non-Resident Shareholders	1,353,445	
d) The Year to which Dividend related	2003-2004	
*excluding for those shareholders for whom Dividend has been credited to their N.R.I. Account in India.		
15. (I) Earnings in Foreign Exchange		
– Commission	–	0.77
– Export Sales (FOB Value)	2161.73	1828.34

16. Previous Year's figures have been regrouped/rearranged wherever found necessary to conform to this year's classification.

Signatures to Schedule "A" to "N" forming part of the Balance Sheet and Profit and Loss Account
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No. 204624

State Code No. 20

Balance Sheet Date 31 (Date) 03 (Month) 2004 (Year)

II. Capital Raised During the Year
(Amount in Rs. Thousands)

Public Issue: NIL

Rights Issue: NIL

Bonus Issue: 43991

Private Placement: NIL

III. Position of Mobilization and Deployment of Funds
(Amount in Rs. Thousands)

Total Liabiliies: 7065316

Total Assets: 7065316

Source of Funds

Paid-Up Capital: 117325

Reserves & Surplus: 1996377

Secured Loans: 3857659

Unsecured Loans: 352336

Deferred Tax Assets & Liability (Net): 741619

Application of Funds

Net Fixed Assets: 4742314

Investments: 148895

Net Current Assets: 2152200

Misc. Expenditure: 21907

IV. Performance of Company
(Amount in Rs. Thousands)

Turnover**: 11856415

Total Expenditure: 108774994

**Includes other Income

Profit/Loss Before Tax: ✓ 978921

Profit/Loss After Tax: ✓ 802061

Earnings per share in Rs.: 34.18

Dividend rate %: 100

V. Generic names of three principal products/services of the Company
(as per monetary terms)

Item Code	(ITC No.) Product Description
293331.00	PYRIDINE
300490.81	CARBAMAZEPINE
292159.90	CITALOPRAM

In terms of our report of even date attached.
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

Consolidated Financial Statements of Jubilant Organosys Ltd.

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF JUBILANT ORGANOSYS LTD. ON THE CONSOLIDATED FINANCIAL STATEMENTS OF JUBILANT ORGANOSYS LTD. AND ITS SUBSIDIARIES

1 We have examined the attached Consolidated Balance Sheet of Jubilant Organosys Ltd. and its subsidiaries, namely Jubilant Organosys USA, Inc. and Jubilant Biosys Ltd., as at 31st March 2004, the Consolidated Profit and Loss Account for the year then ended and annexed thereto and the Consolidated Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Jubilant Organosys Ltd.'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 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 prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

3 We did not audit the financial statements of one of the subsidiaries, namely Jubilant Organosys USA, Inc, where financial statements reflect total assets of Rs.128.29 Mn as at 31st March 2004 and total revenues of Rs.204.98 Mn for the year then ended. These financial statements have been audited by other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amount included in respect of the subsidiary, is based solely on the report of the other auditor.

4 We report that the consolidated financial statements have been prepared by the Company 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 audited financial statements of Jubilant Organosys Ltd., and its subsidiaries included in the consolidated financial statements.

5 On the basis of the information and explanation given to us and on consideration of the separate audit report on individual audited financial statements of Jubilant Organosys Ltd., and its aforesaid subsidiaries, in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

a) In the case of the Consolidated Balance Sheet, of the consolidated state of affairs of Jubilant Organosys Ltd., and its subsidiaries as at March 31, 2004;

b) In the case of the Consolidated Profit and Loss Account of the consolidated results of operations of Jubilant Organosys Ltd., and its subsidiaries for the year ended on that date; and

c) In the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of Jubilant Organosys Ltd., and its subsidiaries for the year ended on that date.

For **K N Gutgutia & Company**
Chartered Accountants

B R Goyal
Partner
Membership No. 12172

Place : Noida
Date : 28th April 2004

(Rs/Millions)

As at 31st March,	Schedules		2004		2003
SOURCES OF FUNDS					
Shareholders' funds					
Share Capital	A	117.32		73.33	
Reserves & Surplus	B	1,980.67		1,407.95	
			2,097.99		1,481.28
Minority Interest			39.09		–
Loan Funds	C				
Secured Loans		3,857.66		3,473.21	
Unsecured Loans		232.53		575.15	
Deferred Sales Tax Credits		119.81		80.72	
			4,210.00		4,129.08
Deferred Tax Liabilities (Net)	D		741.67		564.14
			7,088.75		6,174.50
APPLICATION OF FUNDS					
Fixed Assets	E				
Gross Block		7,343.89		6,645.08	
Less: Depreciation		2,839.60		2,513.76	
Net Block		4,504.29		4,131.32	
Capital Work-in-Progress		445.80		113.10	
			4,950.09		4,244.42
Investments	F		–		161.84
Current Assets, Loans and Advances	G				
Inventories		1,314.28		1,350.02	
Sundry Debtors		1,421.00		815.15	
Cash & Bank Balances		227.45		106.27	
Loans and Advances		768.70		760.33	
		3,731.43		3,031.77	
Less: Current Liabilities & Provisions	H				
Liabilities		1,386.18		1,079.72	
Provisions		228.50		184.97	
		1,614.68		1,264.69	
Net Current Assets			2,116.75		1,767.08
Miscellaneous Expenditure	I		21.91		1.16
(To the extent not written off or adjusted)					
			7,088.75		6,174.50
Notes to Accounts & Significant Accounting Policies	N				
Schedule "A" to "I" and "N" referred above form an integral part of the Consolidated Balance Sheet					

In terms of our report of even date attached
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

(Rs/Millions)

For the year ended 31st March,	Schedules		2004		2003
INCOME					
Sales & Services	J		11,759.41		9,686.07
Other Income	J-1		99.52		39.30
Increase/(Decrease) in Finished & Process Stocks	K		(32.12)		54.00
			11,826.81		9,779.37
EXPENDITURE					
Manufacturing & Other Expenses	L		10,176.71		8,497.67
Depreciation (Net)		335.33		246.67	
Less: Transferred from Revaluation Reserve for Depreciation on		(9.15)		(9.15)	
Revalued Amounts (Refer Note 1 (C) (v) of Schedule "N")			326.18		237.52
Interest	M		357.64		402.50
			10,860.53		9,137.69
Profit Before Tax			966.28		641.68
Current Tax provision including Wealth Tax			89.27		50.13
Deferred Tax Liability		177.53		256.20	
Less: Withdrawn from Reserve (Refer Note 10(B) of Schedule "N")		(63.00)		(145.75)	
			114.53		110.45
Tax adjustments for Earlier Years (Net) (Refer Note 10(C) of Schedule "N")			(24.80)		–
			179.00		160.58
Profit After Tax			787.28		481.10
Share of Profit/(Loss) in Associate			(8.90)		(0.30)
Minority Interest			3.99		–
PROFIT AFTER TAX AND LOSS OF ASSOCIATE / MINORITY INTEREST			782.37		480.80
Balance Brought Forward from Previous Year			461.09		104.73
Balance Available For Appropriation			1,243.46		585.53
APPROPRIATIONS					
Dividend on Equity Shares (Including Rs.54.99 Mn as Interim Dividend)		84.32		65.99	
Tax on Distributed Profits on Equity Shares		10.79		8.45	
			95.11		74.44
Transfer to General Reserve			100.00		50.00
Balance Carried To Balance Sheet			1,048.35		461.09
Basic And Diluted Earnings Per Share(In Rupees)	N		33.35		20.49
Notes to Accounts & Significant Accounting Policies	N				
Schedule "J" to "N" referred above form an integral part of the Consolidated Profit & Loss Account.					

In terms of our report of even date attached
for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

(Rs/Millions)

For the year ended 31st March,		2004		2003
A. Cash flow arising from Operating Activities :				
Net profit before tax and Extraordinary items		966.28		641.68
Adjustment for : i) Depreciation	326.18		237.52	
ii) Loss on Sale of Fixed Assets (Net of Profits)	1.26		3.05	
iii) Interest (Net)	357.64		402.50	
iv) Amortization - Deferred Revenue Expenditure	2.28		0.11	
v) Provision for Doubtful Debts	11.99		–	
vi) Bad Debts/Irrecoverable Advances written off	1.56		38.10	
vii) Unrealised Exchange Difference	(103.83)		(22.57)	
viii) Interest on Income Tax Refunds	(46.70)		–	
ix) Profit on Sale of Investments	(0.23)		(0.68)	
x) Income from Investment - Dividend	(0.21)		–	
		549.94		658.03
Operating Profit before Working Capital Changes		1,516.22		1,299.71
Adjustment for : i) Trade and other Receivables	586.62		236.41	
ii) Inventories	(35.74)		319.83	
iii) Miscellaneous Expenditure	24.19		1.27	
		575.07		557.51
		941.15		742.20
i) Current Liabilities & Provisions		256.25		181.63
Cash inflow from Operations		1,197.40		923.83
Deduct : i) Interest Paid	395.85		432.83	
ii) Direct taxes Paid (net of refunds)	58.77		55.00	
		454.62		487.83
Add : i) Interest on Income Tax Refunds		46.70		–
Net Cash Inflow/(Outflow) in course of Operating Activities		**789.48**		**436.00**
B. Cash Flow arising from Investing Activities :				
Outflow i) Acquisition/purchase of Fixed Assets/CWIP	827.09		1,083.43	
ii) Purchase (Sale) of Investments (net)	(14.57)		60.02	
iii) Loans to Companies (net)	(35.50)		19.50	
		777.02		1,162.95
Deduct :				
Inflow i) Sale of Fixed Assets	25.66		8.07	
ii) Interest Received	15.74		32.12	
iii) Dividend Received	0.21		–	
		41.61		40.19
Net Cash Inflow/(Outflow) in course of Investing Activities		**(735.41)**		**(1,122.76)**
C. Cash flow arising from Financing Activities				
Inflow i) Proceeds from Long Term & Short term Borrowings	199.21		745.66	
Deduct :		199.21		745.66
Outflow i) Dividend Paid (including Corporate Dividend Tax)	136.45		54.10	
		136.45		54.10
Net Cash Inflow/(Outflow) in course of Financing Activities		**62.76**		**691.56**
Net Increase in Cash & Cash equivalents (A+B+C)		**116.83**		**4.80**
Add: Cash & Cash Equivalents at the beginning of Year (Including balance in Dividend Accounts)		**106.27**		**101.47**
Add: Cash & Cash Equivalents on consolidation of Jubilant Biosys Ltd		**4.35**		**–**
Cash & Cash Equivalents at the close of the Year (Including balance in Dividend Accounts)		**227.45**		**106.27**

In terms of our report of even date attached

for **K N Gutgutia & Co.**

Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

(Rs/Millions)

As at 31st March,		2004	2003
A. SHARE CAPITAL			
Authorised			
29,200,000	Equity Shares of Rs. 5 each	146.00	146.00
4,040,000	Redeemable Cumulative Preference Shares of Rs. 100 each.	404.00	404.00
		550.00	550.00
Issued & Subscribed			
23,468,103	Equity Shares of Rs. 5 each		
	(Previous Year 14,669,964 Equity Shares of Rs. 5 each)	117.34	73.35
		117.34	73.35
Paid up *			
23,461,703	Equity shares of Rs. 5 each fully paid up		
	(Previous Year 14,663,564 Equity Shares of Rs.5 each)	117.30	73.31
	Add: Equity Shares Forfeited (paid up)	0.02	0.02
		117.32	73.33

Notes:

1) Pursuant to the Scheme of Amalgamation approved by the Hon'ble High Court of Judicature, Allahabad and Hon'ble High Court of Delhi, Delhi and as contained in the Opening Reference Balance Sheet annexed to the Scheme, the paid up share capital of the Company reduced during the year 2002-03 by cancellation of 476,550 Equity shares and 374,684 Equity shares of Rs. 5 each fully paid up held by erstwhile Vam Investments Ltd. and Vam Leasing Ltd. respectively as investments in the Company.

2) 8,798,139 Equity shares of Rs. 5 each fully paid were allotted and issued as bonus shares by capitalization of Capital Redemption Reserve in accordance with the resolution passed by the shareholders dated February 28,2004.

*** Includes :**

- 328,804 Equity shares of Rs. 5 each allotted and issued pursuant to the Scheme of Amalgamation of erstwhile Ramganga Fertilizers Ltd. with the Company for consideration other than cash (152,356 Equity shares of Rs. 5 each allotted to Vam Investments Ltd. and 31,884 Equity Shares of Rs. 5 each allotted to Vam Leasing Ltd. were cancelled during the year 2002-03 - refer note no. 1 above).
- 1,012,800 Equity shares of Rs. 5 each allotted and issued pursuant to the Scheme of Amalgamation to shareholders of erstwhile Anichem India Ltd. and of erstwhile Enpro Specialty Chemicals Ltd. with the Company for consideration other than cash (324,194 Equity shares of Rs. 5 each allotted to Vam Investment Ltd. and 342,800 Equity Shares of Rs. 5 each allotted to Vam Leasing Ltd. were cancelled during the year 2002-03 - refer note no. 1 above).

(Rs/Millions)

	As at 31st March, 2003	Additions/created during year	Deductions	As at 31st March, 2004
B. RESERVES AND SURPLUS				
Capital Reserve	22.82			22.82
Capital Redemption Reserve (1)	53.85		43.99	9.86
Amalgamation Reserve	13.21			13.21
Share Premium Account	87.75			87.75
Revaluation Reserve (2)	46.17		9.15	37.02
Debenture Redemption Reserve	99.90			99.90
Foreign Currency Translation Reserve	–	1.60		1.60
General Reserve (3)	623.16	100.00	63.00	660.16
	946.86			932.32
Add : Surplus as per Profit & Loss Account	461.09	782.37	195.11	1,048.35
Total	1,407.95	883.97	311.25	1,980.67
Previous Year	1,153.82	533.47	279.34	1,407.95

Notes :

(1) Utilized to issue Bonus Shares, during the year.

(2) Refer Note 1 C(v) of Schedule "N".

(3) Refer Note 10(B) of Schedule "N".

(Rs/Millions)

As at 31st March,	2004	2003
C. LOANS		
Secured		
A. Debentures		
13.50% Non Convertible Debentures (IX series) of Rs.100/- each at par	–	66.67
11.43% Non Convertible Debentures (XI series) of Rs.100/- each at par	–	240.00
B. Term Loans from		
- Banks		
- Rupee Loans	1,338.20	763.90
- Foreign Currency Loans	131.10	–
- Financial Institutions		
- Rupee Loans	537.14	672.09
- Foreign Currency Loans	628.19	712.35
- Others		
- Rupee Loans	–	114.00
C. Other Loans (vehicles)	1.70	1.73
D. Working Capital Loans		
- Rupee Loans	66.83	223.36
- Foreign Currency Loans	1,154.50	679.11
	3,857.66	3,473.21
Unsecured		
From Bodies Corporate	–	150.00
From a Bank	–	100.00
Fixed Deposits	232.53	325.15
	232.53	575.15
Deferred Credits		
Deferred Sales Tax Credits	119.81	80.72
	119.81	80.72

Notes :

1. Notional USD loan of 10 Mn from Housing Development Finance Corporation Ltd. (HDFC) is secured as and by way of:
   i. an exclusive mortgage over the specified land and buildings situated at Bhartiagram, District Jyotiba Phoolay Nagar, Uttar Pradesh and constructed out of the financial assistance granted by HDFC.
   ii. an exclusive mortgage over land and building located at Plot No 1A, Sector 16A, Noida. Uttar Pradesh.
   iii. an exclusive mortgage over the land & building of Active Pharmaceutical Ingredients unit located at Nanjangud, Mysore.
2. Financial facilities from Canara Bank by way of Rupee Term Loans are secured by way of an exclusive charge in the form of mortgage of the immovable assets of the Company and charge by way of hypothecation of movables situated at Nimbut Village, Nira, Maharashtra.
3. Financial assistance from Industrial Development Bank of India [under its Rupee Term Loan and Asset Credit Scheme] as also Rupee Term Loan(s) from Jammu and Kashmir Bank Limited, Syndicate Bank, Punjab National Bank, Export Import Bank of India as also Long Term Foreign Currency Loan of USD 5 Mn from Export Import Bank of India are secured by a first charge by way of:
   a) mortgage of the immovable assets and charge by way of hypothecation on the movable assets, both present and future [save & except Book debts and Bankers Goods as per Note 4 below and specified exclusions listed in notes 1 & 2 above] pertaining to the Company's manufacturing facilities located at Bhartiagram, Gajraula, District Jyotiba Phoolay Nagar in the State of Uttar Pradesh and at Village Samlaya, Taluka Savli, District Vadodara in the State of Gujarat.
   b) hypothecation of fixed assets [other than land and building as mentioned in pt 1 (iii)] both present and future pertaining to the Company's manufacturing facility situated at Nanjangud, District Mysore in the State of Karnataka;
   c) Such charges to rank pari-passu amongst the said chargeholders;
   d) In respect of Loan of Rs 260.00 Mn sanctioned by Industrial Development Bank of India, the same is further guaranteed by Shri.Shyam S Bhartia - Chairman & Managing Director and Shri. Hari S. Bhartia - Co-Chairman & Managing Director respectively of the Company.
   e) Financial facilities mentioned in 3 above are further secured as and by way of a second charge over the current assets of the Company.

C. LOANS (Contd.)

4. Working Capital facilities sanctioned by Consortium of Banks comprising ICICI Bank Limited, Corporation Bank, Punjab National Bank, Jammu & Kashmir Bank Limited, Canara Bank, Syndicate Bank, Export Import Bank of India, ING Vysya Bank Ltd., ABN Amro Bank and Standard Chartered Bank are secured by: -
   a) a first charge by way of hypothecation, ranking pari passu interse Banks of the entire Book Debts and Inventories both present and future of the manufacturing facilities at Bhartiagram, Gajraula, District Jyotiba Phoolay Nagar, Uttar Pradesh, at Nimbut Village, Nira, District Pune, Maharashtra and at Village Samlaya, Taluka Savli, District Vadodara, Gujarat (save and except Book Debts and Inventories related to IMFL business at Nira, Pune, Maharashtra and the modification of charge for excluding these assets is pending) and at Nanjangud, Mysore, Karnataka;
   b) a second charge over immovable properties [save and except specified exclusions listed in Notes 1 & 2 above]. The said second charge is pending creation.
5. The Company also has a Commercial Paper programme aggregating Rs. 500 Mn within the overall Working Capital Limits sanctioned to it by the Working Capital Consortium. As on 31.03.04 there was no outstanding against the same. The Company had availed Rs. 500 Mn against the said facility during the year (Previous year NIL).
6. Loans availed for financing purchase of vehicles are secured by a first charge by way of an exclusive hypothecation of the vehicles purchased out of the loan proceeds in favour of the lender.
7. Secured Loans include loans of Rs. 485.10 Mn (Previous year Rs. 470.80 Mn) repayable within one year.

(Rs/Millions)

As at 31st March,	2004	2003
D. DEFERRED TAX LIABILITY		
Deferred Tax Liabilities	773.43	651.07
Deferred Tax Assets	31.76	86.93
Deferred Tax Liabilities (Net) (Refer Note 10A of Schedule "N")	741.67	564.14

E. FIXED ASSETS

(Rs./Millions)

	GROSS BLOCK-COST / BOOK VALUE					DEPRECIATION				NET BLOCK	
Description	Total as at 31st, March 2003	Additions/ consequent to Amalgamation	Additions/ adjustments during the year	Deductions/ adjustments during the year	Total as at 31st, March 2004	Total as at 31st, March 2003	Provided during the year	Deductions/ adjustments during the year	Total as at 31st, March 2004	As at 31st March 2004	As at 31st March 2003
Land											
(a) Freehold (2)	94.41		23.59		118.00					118.00	94.41
(b) Leasehold (2)	119.66		6.31	5.88	120.09					120.09	119.66
Buildings											
(a) Factory	256.02		12.46	0.66	267.82	43.48	11.22	0.12	54.58	213.24	212.54
(b) Others (1)	347.69		5.69	0.64	352.74	40.15	10.78	0.12	50.81	301.93	307.54
Plant & Machinery (3)	5,520.81		451.35	24.37	5,947.79	2,333.69	273.97	14.76	2,592.90	3,354.89	3,187.12
Vehicles	18.54		7.07	9.34	16.27	5.54	1.71	2.42	4.83	11.44	13.00
Office Equipments	89.99		45.83	2.62	133.20	34.46	13.57	0.76	47.27	85.93	55.53
Electric Fittings	3.15		0.60		3.75	1.86	0.12		1.98	1.77	1.29
Furniture & Fixtures	90.04		26.97	3.05	113.96	18.26	6.59	1.46	23.39	90.57	71.78
Technical Know-how	24.52				24.52	24.52			24.52		
Patents/Rights	80.25		114.23		194.48	11.80	27.52		39.32	155.16	68.45
Goodwill on Consolidation			51.27		51.27					51.27	
TOTAL	6,645.08		745.37 (5)	46.56	7,343.89	2,513.76	345.48 (5)	19.64	2,839.60	4,504.29	4,131.32
Previous Year	5,416.41	237.13 (4)	1,158.21 (4)	166.67	6,645.08	2,308.62	246.67	41.53	2,513.76		
Capital Work in Progress & Capital Advances										445.80	113.10
										4,950.09	4,244.42

Notes :

(1) Building includes Rs. 500 being cost of share in Co-operative Housing Society.

(2) Leasehold Land was converted into Freehold and accordingly Rs.15.35 Mn transferred from Leasehold to Freehold land.

(3) Reversal of Nil (Previous Year Rs.47.80 Mn) depreciation provided in earlier years due to change in classification of Plant & Machinery is netted off.

(4) Includes acquired API business at Nanjangud , Mysore and assets vested with the Company consequent to the Scheme of Amalgamation.

(5) Includes Gross Block of Rs.128.99 Mn and Depreciation of Rs.10.13 Mn on consolidation of one of the subsidiary, namely JBL w.e.f 3rd Feb,2004.

(Rs/Millions)

As at 31st March,			2004		2003
F. INVESTMENTS : (Long Term)					
Number	**Face value per unit Rupees**				
		Unquoted :-			
		Trade Investments			
		Fully paid equity shares :			
–	10.00	Jubilant Biosys Ltd.	–		70.00
(140,000)		Share of Profit/(Loss) in Associate	–		(0.30)
			–		69.70
		Advance against 10% Optionally Convertible Non Cumulative Redeemable Preference Shares Jubilant Biosys Ltd.	–		77.80
		Non-trade Investments			
–	1,000.00	11% Corporate Bonds III series of Housing	–		1.60
(1,600)		Development Finance Corporation Ltd.			
–	10.00	Units in Unit Trust of India (Unit Scheme - 1964)	–	17.69	
(1,263,286)		Less: Provision for dimunition in the value of investments	–	(5.06)	
					12.63
			–		161.73
		Quoted :-			
		Non Trade Investments			
		Fully paid equity shares :			
–	10.00	Canara Bank	–		0.11
(3,000)			–		161.84
		Aggregate market value of quoted investments	–		0.21

Notes :

(1) Figures in ( ) indicates in respect of previous year

(2) During the year, the following current investment were purchased and sold:

i) 10,020,261 Units of HDFC Liquid Fund - Premium Plan - at cost of Rs. 120.00 Mn.

ii) 2,660,766 Units of Principal Cash Mutual Fund - at cost of Rs. 30.00 Mn.

(Rs/Millions)

As at 31st March,	2004	2003
G. CURRENT ASSETS, LOANS AND ADVANCES		
Current Assets		
Inventories: (Including in Transit & with Third Parties)		
- Raw Materials	362.38	427.61
- Stores, Spares, Process Chemicals,Catalyst,Fuels & Packing Material	391.23	353.09
- Process Stocks	172.94	191.24
- Finished Goods (including Trading Goods)	387.73	378.08
	1,314.28	1,350.02
Sundry Debtors :		
Unsecured		
- Over Six Months - Good	58.11	84.07
[Includes subsidy recievable from State Government Rs.34.25 Mn (Previous Year 52.66 Mn)]		
- Doubtful	13.13	1.14
- Other Debts - Good	1,362.89	731.08
[Includes Subsidy recievable From State Government Rs.13.60 Mn (Previous Year 8.40 Mn)]	1,434.13	816.29
Less: Provision for Doubtful Debts	13.13	1.14
	1,421.00	815.15
Cash & Bank Balances :		
- Cash in hand and as Imprest	5.07	4.05
- Cheques/Drafts in hand	1.53	9.42
- With Scheduled Banks		
- On Current Account	147.57	16.68
- On Dividend Account	6.67	6.65
- On Deposit Accounts (1)	56.68	66.94
- With Non Scheduled Banks in Current Account (2)	9.93	2.53
	227.45	106.27
Loans and Advances:		
(Unsecured, Considered good)		
- Advances recoverable in cash or in kind or for value to be received (3)	342.78	322.99
- Deposits	83.41	116.22
- Deposits with Excise / Sales Tax Authorities (4)	191.52	233.65
- Advance Payment of Income Tax/Wealth Tax (including TDS)	150.99	80.74
- Income Tax Refundable	–	6.73
	768.70	760.33
	3,731.43	3,031.77

(1) Including Margin Money - Rs. 28.04 Mn (Previous Year Rs. 46.23 Mn).

(2) Includes Current Account with Bank of China, Rs. 0.12 Mn (Previous year Rs. 0.06 Mn), Chase Operating A/c USA Rs. 9.52 Mn (Previous year Rs. 2.21 Mn) & J P Money Market A/c USA Rs. 0.29 Mn (Previous year Rs. 0.26 Mn).

(3) Includes Rs. 123.62 Mn (Previous Year Rs. 127.26 Mn) Export Benefits Receivables.

(4) Deposit against disputed demands - Rs. 98.09 Mn (Previous Year Rs. 98.09 Mn).

(Rs/Millions)

As at 31st March,	2004	2003
H. CURRENT LIABILITIES AND PROVISIONS		
A) Current Liabilities		
Sundry Creditors and Expenses Payable	958.44	733.88
Acceptances	246.82	187.25
Trade Deposits & Advances	72.55	66.01
Interest Accrued but not due	29.67	52.37
Other Liabilities	54.95	16.77
Investors Education and Protection Fund shall be credited with the following amount namely:		
- Unclaimed/unpaid Dividends	6.67	6.65
- Unclaimed Fixed Deposits	14.83	14.76
- Interest on Unclaimed Matured Fixed Deposits	2.25	2.03
	1,386.18	1,079.72
B) Provisions		
For Dividends on Equity Shares	33.08	74.44
For Income Tax & Wealth Tax	120.73	51.54
For Retirement / Post Retirement Employee Benefits	74.69	58.99
	228.50	184.97
Total (A+B)	1,614.68	1,264.69

I. MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Balance at the beginning of the year	1.16	–
Add: Incurred during the year *	24.19	1.27
	25.35	1.27
Less: Transferred to Intangibles /Provided for	3.44	0.11
	21.91	1.16

* in respect of compensation under Voluntary Retirement Scheme.

(Rs/Millions)

For the year ended 31st March,	2004	2003
J. SALES & SERVICES		
Sales [Includes Excise Duty realized Rs.864.64 Mn (Previous year Rs.719.53 Mn)]	11,749.27	9,686.07
Manufacturing Services (Refer Note 11 of Schedule "N")	2.91	–
Drug Discovery Informatics Services	7.23	–
	11,759.41	9,686.07

J-1. OTHER INCOME

Income from Investments - Dividend	0.21	–
Insurance / Other Claims (Net)	5.53	1.96
Profit on Sale of Investments (3)	0.23	0.68
Profit on Sale of Fixed Assets (Net) (2)	10.75	–
Miscellaneous Receipts (1)	82.80	36.66
(Including sale of unserviceable spares, used drums, residual catalyst etc.)	99.52	39.30

(1) Includes: a) Income from Utilities provided Rs. 2.44 Mn - Previous year Rs. 3.12 Mn (Tax deducted at source Rs. 0.25 Mn - Previous year Rs. 0.18 Mn)

b) Processing charges of Rs. 2.06 Mn - Previous year Rs. 2.19 Mn (Tax deducted at source Rs. 0.04 Mn - Previous year Rs. 0.05 Mn)

c) Interest on Income Tax Refunds of Rs. 46.70 Mn (Previous year Rs. Nil)

(2) In respect of disposal of land & building

(3) In respect of sale of 3000 (Previous year 20,200) equity shares of Canara Bank

K. INCREASE/(DECREASE) IN FINISHED AND PROCESS STOCKS

Stock at close - Process	172.94	191.24
Stock at close - Finished	387.73	378.08
	560.67	569.32
Stock Adjustment; Pursuant to acquisition of API Business - Process	–	41.20
- Finished	–	23.84
Stock Adjustment; Pursuant to acquisition of IMFL Business - Process	0.69	–
- Finished	6.58	–
Stock at commencement - Process	191.24	108.02
Stock at commencement - Finished	378.08	342.26
	576.59	515.32
Increase/(Decrease) in Stocks	(15.92)	54.00
Less: Increase/Decrease of Finished & Process Stock of IMFL Business (Refer Note 11 of Schedule "N")	(16.20)	–
	(32.12)	54.00

(Rs/Millions)

For the year ended 31st March,	2004	2003
L. MANUFACTURING AND OTHER EXPENSES		
Inter Divisional Transfers	2,302.76	1,832.13
Purchases - Traded Goods	231.06	47.76
Raw & Process Materials Consumed	3,366.87	3,012.34
Power and Fuel	907.41	746.12
Excise Duty	869.14	739.61
Stores, Spares, Chemicals, Catalyst & Packing Materials consumed	813.60	643.01
Processing Charges	89.97	60.66
Repairs - Plant & Machinery	154.45	109.75
- Buildings	14.64	13.11
Salaries, Wages, Bonus, Gratuity & Allowances (5)	488.63	370.24
Contribution to Provident & Superannuation Fund	60.20	49.75
Staff Welfare Expenses	52.30	38.85
Rent (Net of recoveries)	27.63	18.90
Rates & Taxes	14.96	14.75
Insurance [Net of recoveries -Rs.7.42 Mn (PY - Rs.5.30 Mn)]	32.67	30.51
Advertisement, Publicity & Sales Promotion	54.32	38.03
Travelling & Other Incidental Expenses	96.09	66.10
Offices Maintenance (including Water, Electricity & Repairs)	35.22	32.89
Vehicle Maintenance (Including Vehicle Taxes, Insurance & Driver Cost)	25.90	25.58
Printing & Stationery	12.15	10.39
Communication Expenses	37.26	29.53
Staff Recruitment & Training	19.63	9.80
Donation	0.48	2.39
Auditors Remuneration - As Auditors	1.00	0.92
- for Taxation Matters	0.27	0.19
- for Certification/Advices	0.52	0.28
- Out of Pocket Expenses	0.02	0.04
Legal, Professional & Consultancy Charges	41.69	26.65
Freight & Forwarding (including Ocean freight)	190.08	191.94
Amortisation/write off - Deferred Revenue Expenditure	2.28	0.11
Directors' Sitting Fees	0.40	0.28
Directors' Commission	13.65	13.50
Miscellaneous Expenses	12.15	10.44
Financial Charges [incl. Bank Charges, Fixed Deposit expenses & Foreign Exchange fluctuations net gain of Rs.191.79 Mn (PY Rs.27.64 Mn)] (3)	(89.96)	36.64
Discounts & Claims to Customer and Other Selling Expenses	209.28	159.39
Commission on Sales (4)	32.71	45.13
Lease Rentals & Hire charges	29.72	28.81
Loss on sale/disposal/discard of Fixed Assets	12.01	3.05
Bad Debts/irrecoverable Advances written off/ provided for	13.55	38.10
	10,176.71	8,497.67

(1) The above expenses are Netted off, after taking into account credit of Rs.9.18 Mn (Previous year Rs. 11.35 Mn).

(2) The above total expenditure includes:

a) Expenditure incurred on R&D of Rs. 91.69 Mn (Previous Year Rs. 54.31 Mn) under various heads of accounts

b) Prior period adjustments determined during the years are adjusted to respective heads of account of Rs.2.25 Mn (Previous Year of Rs. 2.45 Mn)

(3) Total foreign exchange gain of Rs. 222.02 Mn (Previous year Rs. 47.32 Mn) is adjusted against total foreign exchange losses of Rs. 30.23 Mn (Previous year Rs. 19.68 Mn) as disclosed above. Foreign Exchange gain includes Rs. 119.51 Mn in respect of Loan Liabilities. Financial charges includes Rs. 37.03 Mn (Previous year - Rs. 18.20 Mn) being one time charges paid for restructuring of long term loans.

(4) Provision for liability of Rs. 35.40 Mn, no longer required, reversed & netted off.

(5) Includes LTA provision on accrual basis Rs. 13.72 Mn.

(Rs/Millions)

For the year ended 31st March,	2004	2003
M. INTEREST		
On Debentures	13.48	18.88
On Term Loans	252.27	255.51
On Deposits	34.89	50.63
On Overdrafts & other Borrowings	72.74	106.33
	373.38	431.35
Less: Interest Income [Tax deducted at source Rs.2.30 Mn (previous year Rs. 3.58 Mn)]	15.74	28.85
(Including Rs. 0.04 Mn (Previous year Rs. 0.18 Mn) Interest Income on Investments)	357.64	402.50

Notes to the Consolidated Accounts

N. NOTES TO THE CONSOLIDATED ACCOUNTS & SIGNIFICANT ACCOUNTING POLICIES

Notes to the Consolidated Balance Sheet as at 31st March, 2004 and Consolidated Profit and Loss Account for the year ended on that date

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting:

The accounts of the Company (except for revaluation of certain fixed assets) are prepared under historical cost convention and in accordance with the relevant applicable Accounting Standards. The Company follows accrual basis of accounting except for interest receivable on overdue debts in view of the uncertainty as to realisability / ascertainment of the amount involved.

B. Principles of consolidation

1. The consolidated financial statements relate to Jubilant Organosys Ltd. ('the Company') and its two Subsidiary companies namely Jubilant Organosys USA, Inc and Jubilant Biosys Ltd. (upto 2nd February, 2004, the same was considered as its associate). The consolidated financial statements have been prepared on the following basis:

   i. The consolidated financial statements have been prepared in accordance with the Accounting Standard 21 (AS-21), "Consolidated Financial Statements" and Accounting Standard 23 (AS-23) on "Accounting of Investments in Associates in Consolidated Financial Statements" (for the period applicable in case of one of the Company's subsidiary) issued by The Institute of Chartered Accountants of India and using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statements.

   ii. The financial statements of the Company and its Subsidiary Companies have been combined substantially on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses.

   iii. For the purpose of consolidation of accounts of foreign subsidiary, average rate of currency has been taken for revenue items and for Balance Sheet items, except for fixed assets, which are taken on basis of original rates of transaction, the year end rates have been applied.

   iv. In case of Jubilant Biosys Ltd., the Profit & Loss Account has been consolidated for the period of 03.02.04 to 31.03.04 as the same has become subsidiary from 3rd February, 2004.

   v. Goodwill on consolidation has not been amortised and same shall be reviewed at the end of every year to test its impairment.

2. The Subsidiary Company/Associate Company considered in the consolidated financial statements are:

Name of the Company	Country of incorporation	% voting power held as at 31st March 2004	Relationship
Jubilant Organosys USA, Inc.	USA	100% (PY 100%)	Subsidiary
Jubilant Biosys Ltd.**	INDIA	66.98% (PY 49%)	Subsidiary (w.e.f. 3rd Feb. 2004) (PY an Associate)

PY-Previous year

** During last year and from April 01, 2003 to February 02, 2004, the same was an "associate" and accordingly the treatment as an associate was given in respect of the operations of the Company for the said period.

C. a. Fixed Assets & Depreciation

i. Fixed Assets are recorded at cost inclusive of such expenses as referred to in viii hereunder and/or at the revalued value as ascertained by approved valuers and at book value in case of assets acquired at the time of amalgamation of certain entities

with the Company and at such fair value as ascertained by the valuer in case of acquisition of manufacturing facilities as a going concern and the cost incidental to and /or attributable to such acquisition.

ii. Depreciation is provided on Straight Line Method except in case of Plant & Machinery at Nira & Savli plants which is on Written Down Method in terms of rates mentioned and in the manner specified in Schedule XIV to the Companies Act, 1956 (as amended), on the original cost/ acquisition cost of assets and as mentioned in iii, v, vi, vii & viii hereunder on the revalued portion of the assets at the rates suggested by the valuers and/or at such rate arrived at with reference to residual life. Certain plants were classified as continuous process plant from the financial year ended 31-03-2000 and such classification has been done on technical assessment, (relied upon by the auditor being a technical matter) and depreciation has been provided accordingly.

iii. a) Depreciation, in respect of assets added/installed upto 15th December, 1993, is provided at the rates applicable at the time of additions/installations of the assets as per Schedule XIV to the Companies Act, 1956;

b) Depreciation, in respect of assets added/installed during the subsequent period, is provided at the rates, mentioned in Schedule XIV to the Companies Act, 1956 read with Notification dated 16th December, 1993 issued by Department of Company Affairs, Government of India;

iv. Patents/Rights (acquired/self generated) are capitalised and are amortised over a period of 5 years.

v. Freehold Land, Buildings, Plant and Machinery was last revalued in the year 1991-92 on the basis of report obtained from an Approved Valuer and Rs.245.65 Mn was added to the Gross Block of such assets and accordingly Depreciation has been provided on the revalued figures. The first revaluation of said Assets was done during the year 1987-88. A sum of Rs.9.15 Mn (Previous Year Rs. 9.15 Mn) has been transferred from Revaluation Reserve to Profit and Loss Account, which represents the difference between the depreciation on the revalued value and the original cost of the assets.

vi. Depreciation on assets added/disposed off during the year has been provided on pro-rata basis with reference to the month of addition/disposal.

vii. Insurance spares / standby equipments are capitalised as part of the mother assets and are depreciated at the applicable rates.

viii. Interest on loans & other financial charges and preoperative expenses including Trial Run expenses (Net) for projects and/or substantial expansion upto the date of commencement of commercial production/ stabilization of the project are capitalized.

ix. Certain employee perquisite – related assets are depreciated over five years, being the period of the perquisite scheme.

x. Depreciation on the assets of Jubilant Organosys USA Inc. is provided over the estimated useful life by using the Straight Line Method. The estimated useful lives of all equipments is 4 years.

xi. The subsidiary company, namely, Jubilant Biosys Ltd. started the commercial operations with the commissioning of two major projects as on 30th September 2003. The expenditure being incurred is allocated to various projects undertaken by the Company. Expenditure on one-time projects (Custom Curation) is charged to Profit & Loss Accounts immediately on its completion. Expenditure on long-term projects is accumulated as Capital Work in Process till its completion and post-completion is transferred to Fixed Assets as intangible assets

b. Leased Assets: Amortization/Charging off

a. Leasehold Land value is not amortized in view of the long tenure of the unexpired lease period / conversion to freehold at the expiry of lease tenure.

b. Other lease assets: Assets acquired under finance lease from 1st April 2001 are capitalized at the lower of their fair value and the present value of the minimum lease payment in line with the Accounting Standard 19 issued by the Institute of Chartered Accountants of India. In respect of other leases, lease rentals are charged to Profit and Loss Account.

C. Valuation of Inventories

Inventories are valued at lower of cost or net realizable value.

Cost includes all direct costs (net of excise duty), cost of conversion and appropriate portion of overheads and such other costs incurred as to bring the inventory to its present location and condition inclusive of excise duty wherever applicable. Cost formula used is based upon weighted average cost.

D. Investments

Long Term quoted investments (non-trade) are valued at cost unless there is a permanent fall in their value as at the date of Balance Sheet.

Unquoted investments in subsidiaries & associates being of long term nature, are valued at cost and no loss is recognised for the fall in their net worth, if any, unless there is a permanent fall in their value. Investment in foreign subsidiary company is expressed in Indian currency at the rates prevailing on the date when the remittance for the purpose was made.

E. Taxation

Current Tax provision is made, taking into consideration the various benefits / concessions to which the Company is entitled to as well as the normal tax provisions and the contentions of the Company and also the fact that certain expenditure becoming allowable on payment being made before filing of the return of income.

In accordance with Accounting Standard 22 – Accounting for Taxes on Income, issued by the Institute of Chartered Accountants of India, the deferred tax for timing differences between the book and tax profits for the year is accounted for using the tax rates and laws that have been enacted or substantively enacted as of the Balance Sheet date.

Deferred tax assets (reviewed at each Balance Sheet date) arising from temporary timing differences are recognized to the extent there is reasonable/virtual certainty, as the case may be, that the assets can be realized in future.

F. Conversion or translation of Foreign Currency items

Transactions in foreign currency are recorded at the exchange rate prevailing on/or closely approximating to the date of transactions. Current Assets and Liabilities (other than relating to fixed assets) are restated at the rate prevailing at the period end or at the forward rate where forward cover for specific asset/liability has been taken. The difference between the period end rate and the exchange rate at the date of the transaction is recognized as income or expense in the Profit and Loss Account. In respect of forward exchange contracts, the difference between the contract rate and the rate on the date of transaction is recognized as income or expense in the Profit and Loss Account over the life of the contract.

In the case of liabilities incurred for the acquisition of fixed assets, the loss or gain on conversion (at the rate prevailing at the period end or at the forward rate where forward cover has been taken) is included in the carrying amount of the related fixed assets.

G. Contingent Liabilities

Liabilities, though contingent, are provided for if there are reasonable prospects of such liabilities maturing. Other contingent liabilities, barring frivolous claims, not acknowledged as debts, are disclosed by way of note.

H. Research & Development

Revenue expenditure on Research & Development are included under the natural heads of expenditure. Capital expenditure on Research & Development are treated in the same manner as expenditure on other fixed Assets.

I. Retirement Benefits

- Provision for Gratuity and Leave Encashment are made on the basis of actuarial valuation and charged to the Profit & Loss Account.
- Contributions to Superannuation fund is given to LIC, (which administers the fund) and is charged to Profit & Loss Account.
- Employer's contribution to Employees Provident Fund is charged to Profit & Loss Account.

J. Borrowing Cost

Borrowing costs attributable to acquisition and construction of qualifying assets are capitalized as a part of the cost of such assets upto the date as mentioned in Note C (a) viii above. Other borrowing costs are charged as expenses in the year in which they arise.

K. Inter Divisional Transfers

Inter Divisional Transfer of goods as marketable products produced by separate manufacturing facilities of the Company for captive consumption are included in turnover and purchases. Any unrealized profit on unsold/unutilized stocks out of such transfers is eliminated while valuing inventories.

L. Sales & Export Benefits:

Sales are inclusive of Excise Duty, Inter-Divisional transfers, Export Incentives and Subsidies.

Export benefits in the form of entitlement to import Duty Free material under DEPB / DFRC Scheme are accounted for, in the year of export.

For Jubilant Biosys Ltd., (being the subsidiary company):

- In respect of sales of products, revenue is recognized on delivery of products to the customers,
- In respect of projects taken up as per the specification of the customers, revenue is recognized on proportionate completion method, and
- In respect of on site services rendered, revenue is recognized on the basis of billable man-days actually spent.

M. Catalyst

In case of the Company's Nira Plant, catalyst consumption has been arrived at after netting of the estimated realizable residual value, spread over the effective useful life of the catalyst and in case of Gajraula Plant the consumption of catalyst is booked on the basis of utilization of its contents.

N. Miscellaneous Expenditure / Amortisation

Miscellaneous expenditure consists of expenditure in respect of compensation payable as per the terms of Voluntary Retirement Scheme of the company and the same are amortised over a period of thirty six months commencing the month in which payment / liability arise.

In compliance with the Accounting Standard on Intangible Assets (AS 26) applicable from 01.04.2003, the Company charges the expenditure incurred in respect of process of registration of patents to its revenue.

O. Segment Accounting

The accounting policies adopted for segment reporting are in line with accounting policies of the company. Revenue, expenses, assets and liabilities have been identified to segments on the basis of their relationship to operating activities of the segments (taking in account the nature of products and services and risks & rewards associated with them) and internal management information systems, and the same is reviewed from time to time to realign the same to conform to the Business Units of the company. Revenue, expense, assets and liabilities which are common to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been treated as "Common Revenue/Expense/Assets/Liabilities", as the case may be.

2. Capital Commitments

Estimated amount of contracts remaining to be executed on Capital Account (Net of Advances) Rs. 285.13 Mn (Previous Year Rs. 81.40 Mn) [Advances Rs. 99.72 Mn (Previous Year Rs.16.71 Mn)].

3. Contingent Liabilities:

a) Claims/demands/disputes against which appeals are pending and not acknowledged as debts on account of:

(Rs/Millions)

	2003-04	2002-03
- Central Excise	16.73*	16.73*
- Sales Tax	5.09	0.70
- Income Tax	24.15	31.91

* Amount deposited Rs. 16.73 Mn

The Company has been advised that its contentions in the matter of disputed demands are legally tenable and hence the possibility of these maturing is remote.

b) The Company has challenged the levy of transport fee by State of Maharashtra on consumption of rectified and denatured spirit in the Nira factory. The order of State imposing the levy was quashed by the Hon'ble Mumbai High Court on 9th Jan.2001. The Company has been advised that the levy of transport fee on rectified denatured spirit by State is not tenable. However the Company has deposited Rs. 6.28 Mn under protest out of the total transport fee of Rs. 44.06 Mn.

c) Pursuant to the now withdrawn Molasses Control Order, the Company received price differential claims amounting to Rs. 10.70 Mn from few of its suppliers in Uttar Pradesh. These claims were confirmed by an arbitrator appointed by the Hon'ble High Court of Allahabad. The Company has been advised that appointment and award of arbitrator is void. Accordingly, the Company has challenged the appointment of arbitrator in Hon'ble Supreme Court as also the award of arbitrator in the Hon'ble High Court.

d) Outstanding guarantees furnished by Banks on behalf of the Company including in respect of Letters of Credits/Bonds is Rs. 595.09 Mn (Previous Year Rs.421.36 Mn).

e) Exports obligation undertaken by the Company under EPCG scheme to be completed over a period of five/eight years on account of import of Capital Goods at concessional import duty remaining outstanding to Rs. 153.37 Mn (Previous year Rs. 50.80 Mn). Similarly Export obligation under advance licence scheme on duty free import of specific raw materials by the Company remaining outstanding to Rs. 232.69 Mn (Previous year Rs. 146.74 Mn).

4. The Hon'ble Supreme Court has quashed the levy of licence fee by State of Uttar Pradesh on captive consumption of denatured spirit in the Gajraula factory. While passing the judgement, the Hon'ble Court by mistake recorded that licence fee has not been collected by the State Govt. This mistake has been sought to be corrected by moving rectification application. Consequent to that Company is entitled to a refund of Rs. 84.06 Mn. As a matter of prudence, the interest, if any, such on refund has not been recognised in books of accounts on account of amount being not ascertainable.

5. Sales include subsidy amounting to Rs.78.67 Mn (Previous Year Rs.80.94 Mn), export incentives Rs. 123.28 Mn (Previous year Rs. 135.96 Mn) and inter-divisional transfers made at market rates aggregating to Rs. 2302.76 Mn (Previous year Rs.1832.13 Mn). However, the said transfers at such method have no bearing on profitability of the Company as the unrealised profits on the inventory is eliminated at the time of inventory valuation.

6. (A) Loans and advances includes;

(i) Loans to bodies corporate and interest accrued thereon Rs. Nil (Previous Year Rs.35.50 Mn).

(ii) Loans to employees includes Rs.Nil (Previous Year Rs. Nil) given to Executive Director towards Housing Loan. Maximum amount due at any time during the year Rs. Nil (Previous Year Rs. 0.09 Mn).

(B) Sundry Debtors as on 31st March, 2004 as shown in Schedule "G" is net after giving the effect of sale of receivables amounting to Rs. 76.95 Mn (Previous year – Rs. 200.00 Mn)

7. Assets aggregating Rs. 84.95 Mn (previous year - Rs.109.96 Mn) have been acquired on financial lease during the earlier years. The obligation for future lease rentals in respect of such assets aggregate to Rs.30.73 Mn (previous year - Rs.57.48 Mn) payable over a period of 4 years. Lease rentals payable during the year 2004-05 is Rs. 16.82 Mn.

8. Capitalization of Interest, Pre-operative and Trial Run expenses

In line with the applicable Accounting Standards, interest on funds utilized and preoperative expenses including trial run expenses (net) for projects and/or substantial expansions have been capitalized up to the date of commercial production/stabilization of the project, amounting to Rs. 40.29 Mn (Previous Year Rs. 50.82 Mn). All preoperative expenditure including interest of Rs.12.94 Mn (Previous Yeart Rs.18.67 Mn) so capitalized and trial run expenditures (net of trial run receipts) accumulated as capital work in progress has been allocated to respective fixed assets.

9. In respect of Jubilant Biosys Ltd, the subsidiary company, the company has been granted approval as 100% Software Export Oriented Unit under the Software Technology Park Scheme of Govt of India in the fiscal year 2002. During the Fiscal year 2002, the Company has also been granted the approval as Research and Development Company by the Department of Scientific & Industrial Research. The Company has started commercial activities and has set up necessary infrastructure, basic data, information collection, development of pilot modules and other programmes. Since these are the pre-requisites for commencing the commercial activity of the Company, all direct expenditure on such activities are debited to Capital Work in Progress and then capitalized as part of intangible. There are number of modules, programmes etc in the developing stage, hence these expenditure has been allocated or apportioned over the various projects.

10. (A) Deferred Assets and Liabilities are attributable to the following items:

(Rs/Millions)

As at	31.03.04	31.03.03
Deferred Tax Assets		
Provision for Leave Encashment and Gratuity	26.69	21.16
Unabsorbed Depreciation and/or Losses	–	65.05
Amount disallowed u/s 43 B	0.36	0.72
Provision for Doubtful Debts	4.71	–
	31.76	86.93
Deferred Tax Liabilities		
Accumulated Depreciation	772.63	651.07
Voluntary Retirement Scheme	0.80	–
	773.43	651.07
Deferred Tax Liabilities (Net)	**741.67**	**564.14**

Deferred tax assets on unabsorbed depreciation and losses has been recognised considering that the Company is a profit making entity and on the basis of profitability projection for the next 3 years.

(B) An amount of Rs. 63.00 Mn (Rs. 145.75 Mn) has been withdrawn from reserves to offset the charge arising on reversal of deferred tax assets.

(C) Adjustment for Tax of earlier years amounting to Rs. 24.80 Mn is due to reversal of excess provision of tax in earlier years ascertained upon the revision in method of calculation of MAT for the previous years based on the legal advice and on account of credits/refunds relating to earlier years.

(D) In respect of Jubilant Biosys Ltd., the subsidiary company, the said company does not anticipate any tax liability as it is entitled to 100% tax exemption up to ten year and therefore there is no timing differences as to book depreciation and as to income tax depreciation and hence, no Deferred Tax Liability is anticipated and accordingly, no deferred tax liability and asset has been recognized.

11. The Company has acquired the manufacturing facility of Indian Made Foreign Liquor (IMFL) of UDV Ltd., situated at Nira, Pune, Maharashtra with all its immovable and movable assets on a going concern basis for a lump sum consideration of Rs. 27.50 Mn. The facility was transferred on 9th February, 2004. In compliance of Accounting Standards, the consideration paid for this acquisition together with the incidental expenditure totalling to Rs. 31.40 Mn has been apportioned to various assets in proportion to fair value basis as determined and reported by the expert valuers as given below:

(Rs./Million)

Fixed Assets	30.80
Current Assets	0.60
Total	31.40

This manufacturing facility holds a Potable Liquor Licence for IMFL. Presently, the facility is bottling IMFL to the order of another company and is charging bottling fee.

The Accounts recognise Revenue, Expenditure, only to the extent the Company enjoys beneficial Interest.

In compliance with the requirements of Schedule VI to the Companies Act, 1956, the following information is given hereunder in respect of the transactions where the Company does not enjoy beneficial Interest.

(Rs./Million)

Sales	108.73
Excise Duty	(90.32)
Other Income	0.88
Increase/(Decrease) in Finished & Process Stocks	16.20
Raw & Process Materials Consumed	(8.57)
Stores, Spares, Chemicals, Catalyst & Packing Materials consumed	(9.95)
Rates & Taxes	(0.01)
Insurance (Net of recoveries)	(0.03)
Travelling & Other Incidental Expenses	(0.01)
Freight & Forwarding (including Ocean Freight)	(0.99)
Discounts & Claims to Customers & Other Selling Expenses	(13.02)

12. Segment Reporting :

i) Based on the guiding principles given in Accounting Standard on " Segment Reporting" (AS-17) issued by the Institute of Chartered Accountants of India, the Company's Primary Business Segments are organized around customers on industry and product lines as under :

a. Pharmaceuticals & Life Science Chemicals: Pharmaceuticals (APIs), Custom Research & Manufacturing Services(CRAMS), Food Polymers and Drug Discovery Informatics Services.

b. Performance Chemicals: Industrial products for tyres, textiles and coatings; Speciality Gases and Consumer Products for woodworking solutions.

c. Industrial Chemicals: Organic Intermediates, Agri and Animal Nutrition Products.

ii) Inter Segment Transfer Pricing

Inter Segment prices are based on market prices.

iii) The Financial information about the primary business segments is presented in the table given below:

[Rs. Millions]

	Particulars	Pharmaceuticals & Life Science Chemicals		Performance Chemicals		Industrial Chemicals		Total	
		2004	2003	2004	2003	2004	2003	2004	2003
1)	**Revenue**	4,118.62	2,662.60	1,804.26	1,571.22	5,836.53	5,452.25	11,759.41	9,686.07
	Less: Inter/Intra Segment Revenue	696.18	500.73	0.38	0.60	1,606.20	1,330.80	2,302.76	1,832.13
	Less: Excise Duty	211.88	158.45	225.91	212.79	431.35	368.37	869.14	739.61
	Net sales	**3210.56**	**2,003.42**	**1,577.97**	**1,357.83**	**3,798.98**	**3,753.08**	**8,587.51**	**7,114.33**
2)	**Segment results**	840.99	550.44	38.25	62.13	609.01	609.23	1,488.25	1,221.80
	Less : Interest (Net)							357.64	402.50
	Other un-allocable expenditure (net of un-allocable income)							164.33	177.62
	Total Profit Before Tax	**840.99**	**550.44**	**38.25**	**62.13**	**609.01**	**609.23**	**966.28**	**641.68**
3)	**Capital Employed**								
	(Segment Assets - Segment Liabilities)								
	Segment Assets	3,980.72	2,731.99	765.83	682.82	3,238.67	3,386.26	7,985.22	6,801.07
	Add: Common Assets							718.21	638.12
	Total Assets	**3,980.72**	**2,731.99**	**765.83**	**682.82**	**3,238.67**	**3,386.26**	**8,703.43**	**7,439.19**
	Segment Liabilities	562.35	300.36	247.31	134.21	551.60	595.22	1,361.26	1,029.79
	Add: Common Liabilities							253.42	234.90
	Total Liabilities	**562.35**	**300.36**	**247.31**	**134.21**	**551.60**	**595.22**	**1,614.68**	**1,264.69**
	Segment Capital Employed	3,418.37	2,431.63	518.52	548.61	2,687.07	2,791.04	6,623.96	5,771.28
	Add: Common Capital Employed							464.79	403.22
	Total Capital Employed	**3,418.37**	**2,431.63**	**518.52**	**548.61**	**2,687.07**	**2,791.04**	**7,088.75**	**6,174.50**
4)	**Segment Capital Expenditure**	417.09	989.62	14.08	5.12	130.63	149.56	561.80	1,144.30
	Add: Common Capital Expenditure							3.31	13.91
	Total Capital Expenditure	**417.09**	**989.62**	**14.08**	**5.12**	**130.63**	**149.56**	**565.11**	**1,158.21**
5)	**Depreciation (Net)**	131.44	93.71	26.96	26.04	159.88	110.15	318.28	229.90
	Add: Common Depreciation							7.90	7.62
	Total Depreciation	**131.44**	**93.71**	**26.96**	**26.04**	**159.88**	**110.15**	**326.18**	**237.52**

Notes : 1) The Company has disclosed Business Segment as the Primary Segment.

2) Segments have been identified and reported taking into account the nature of products and services, the differing risk and returns, the organization structure and the internal financial reporting systems.

3) The Segment Revenue, Results, Assets and Liabilities include the respective amounts identifiable to each of the segments and amounts allocated on a reasonable basis.

4) In line with the changing business profile of the Company and segmentation norms, the Company's business is reorganised into three business segments and accordingly, previous years figures have been recast/regrouped.

iv) Secondary Segment Reporting: Geographical

[Rs. Millions]

Particulars	India		Americas & Europe		China		Asia & Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenues	9,472.09	7,712.77	1,314.92	822.41	390.70	311.19	581.70	839.70	11,759.41	9,686.07
Less: Inter/Intra Segment Revenue	2,302.76	1,832.13							2,302.76	1,832.13
Less: Excise Duty	869.14	739.61							869.14	739.61
Net sales	**6,300.19**	**5,141.03**	**1,314.92**	**822.41**	**390.70**	**311.19**	**581.70**	**839.70**	**8,587.51**	**7,114.33**

13. A. Related Party Transactions

The Company has entered into transactions with the related parties:

a. Related parties with whom transactions have taken place during the year

- Associates

  Jubilant Enpro India Private Ltd.

- Others

  Vam Employees Provident Fund Trust

b. I. Key Management Personnel

Mr. Shyam S. Bhartia, Mr. Hari S. Bhartia, Mr. S.N. Singh, Mr. Shyam Bang and Dr. J.M.Khanna

II. Relatives of Key Management Personnel

Ms Shobhana Bhartia, Ms Sudha Singh and Ms Shobha Bang

c. Transactions with related parties during the year

(Rs./Millions)

Particulars	Associates	Key Mgmt. Personnel & Relatives	Others
Expenses recharged to other Companies for facilities provided	7.96 (8.55)		
Company's contribution to PF Trust			42.67 (31.55)
Advance against 10% Optionally Non-cumulative Redeemable Preference shares	– (77.80)[2]		
Inter-Corporate Deposits Received Back	– (16.00)		
Interest on Inter-Corporate Deposits	– (1.13)		
Investments in Equity Share capital	– (70.00)		
Remuneration and related expenses		35.14 (30.15)	
Fixed Deposits outstanding at the year end		5.10 (7.60)	
Interest on Fixed Deposits During the Year		0.57 (1.06)	

Note: (1) Figures in ( ) indicates in respect of previous year.

(2) Against the advance, the Company was allotted 778,000 10% optionally Non-Cumulative redeemable Preference shares of Rs. 100 each by Jubilant Biosys Ltd. (JBL). The Company has exercised the option of conversion of the said preference shares into 155,600 equity shares of face value of Rs. 10 each of JBL.

(3) Related party relationship is as identified by the Company and relied upon by the Auditors.

13. B. Promoter Group

Group companies

The Company is controlled by Mr. Shyam S Bhartia / Mr. Hari S Bhartia group ("the promoter group"), being a group as defined in the Monopolies and Restrictive Trade Practices Act, 1969.

The persons constituting the promoter group include individuals and corporate bodies who/which jointly exercise, and are in a position to exercise, control over the Company. The names of these individuals and bodies corporate are Mr. Shyam S Bhartia, Mr. Hari S Bhartia, Mrs. Shobhana Bhartia, Mrs.Kavita Bhartia, Mr.Priyavrat Bhartia, Mr.Shamit Bhartia, Ms. Aashti Bhartia, Master Arjun S Bhartia, Best Luck Vanijya P Ltd., Denon Dealers P Ltd., Enpro Exports P Ltd., Enpro Finance P Ltd., Enpro Investments P Ltd., Jaytee P Ltd., Jubilant Enpro Private Ltd., Jubilant Securities P Ltd., Jubilant Capital P Ltd., Kavita Commercial P Ltd., Klinton Agencies P Ltd., Marketex Mercantiles P Ltd., Marshall Mercantiles P Ltd., Shobhna Commercial P Ltd., Sepeedage Vinimay P Ltd., Rance Investment Holdings Ltd., Cumin Investments Ltd., Torino Overseas Ltd., Value Leasing Ltd., Vam Holdings Ltd., VOCL Investments Ltd., Volvo Holdings Ltd., Westcost Vyapaar P Ltd., Nikita Resources P. Ltd.

	2003-04	2002-03
14. Earning Per Share		
a) Calculation of Weighted Average number of Equity Shares of Rs. 5 each		
Number of shares at the beginning of the year	14,663,564	7,331,782
Shares issued on 18th March 2004 as Bonus shares	8,798,139	
Total number of equity shares outstanding at the end of the year	23,461,703	14,663,564*
* on account of sub-division of shares.		
b) Net Profit After Tax, Preference Dividend, Loss of associate & Minority interest available for Equity Shareholders (Rs./Millions)	782.37	480.80
c) Earnings (in Rupees) per share		
(Nominal value of Rs. 5 per share)		
- Basic Earning per Share	33.35	20.49**
- Diluted Earning per Share	33.35	20.49**
** The Earning per share has been recomputed to give effect to the issue of bonus shares during the year as per Accounting Standard 20 (AS 20).		

15. Previous Year's figures have been regrouped/rearranged wherever found necessary to conform to this year' s classification.

Signatures to Schedule "A" to "N" forming part of the Consolidated Balance Sheet and Consolidated Profit and Loss Account.

for **K N Gutgutia & Co.**
Chartered Accountants

B R Goyal
Partner

Shyam S Bhartia
Chairman & Managing Director

Noida
Date : 28th April, 2004

Ajay Krishna
Company Secretary

R Sankaraiah
Chief Financial Officer

Hari S Bhartia
Co-Chairman & Managing Director

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

1 Name of the Company	Jubilant Biosys Ltd*	Jubilant Organosys USA, Inc.
2. Financial year of the Subsidiary ended	31 March 2004	31 March, 2004
3. a) No. of shares held in Subsidiary Company on the above date - Equity - Preference	 295600 Equity Shares of Rs.10 each –	 25000 Equity Shares of US $1 each –
b) Extent of holding	66.98 %	100 %
4. i) Net aggregate amount of Subsidiary company's Profits/losses so far as they concern members of the Holding company and not dealt with in the Holding Company's accounts :		
a) For financial year	Rs.11.96 Mn (Loss)	US $ 94,074
b) For previous financial years of the Subsidiary since it became Holding Company's Subsidiary aforesaid	NIL	US $ 97,459
ii) Net aggregate amount of Subsidiary Company's Profit/ losses so far they concern members of the Holding Company and dealt with in the holding Company's Accounts :		
a) For financial year of the aforesaid	NIL	NIL
b) For previous financial years of the Subsidiary since it became Holding Company's Subsidiary	NIL	NIL
5. Changes in Holding Company's interest in the Subsidiary between the end of the Subsidiary and of the Holding Company's financial year	Not Applicable	Not Applicable
6. Material changes which have occurred between the end of the financial year of the Subsidiary and the end of the Holding Company's financial year in respect of the Subsidiary's: i) Fixed Assets ii) Investments iii) Money lent by the Subsidiary iv) Money borrowed by the Subsidiary for any purpose other than that of meeting current liabilities	Not Applicable	Not Applicable

* Subsidiary status w.e.f. 3rd February, 2004.

Directors Report

Regd. Office: 2 Western Avenue, Maharani Bagh, New Delhi.

TO THE MEMBERS OF THE COMPANY

Your directors have pleasure in presenting the Sixth Annual Report of the Company together with the audited statement of accounts for the year ended 31.03.04.

BUSINESS ACTIVITY

Jubilant Biosys Ltd. is an innovative bioinformatics and chemoinformatics service provider specializing in providing high quality knowledge bases and informatics solutions for pharmaceutical and biotechnology companies. During 2003-2004, we established state of art infrastructure to train and house bio & chemo informatics specialists. The manpower strength was increased from nearly 75 employees at the beginning of the year to over 250 employees by March 2004. These include core specialists in the areas of bio & chemo informatics technologies.

We began our commercial activities in September 2003. During the year we commercialized two of our products: Kinase ChemBiobase and PathArt. These products cater to small molecule and biological signaling pathways. Our small molecule database, Kinase, with 1,90,000 records is the most comprehensive database in its area. Similarly, PathArt is the largest manually curated database of pathways with over 750 pathways. We have also initiated work on two other small molecule database: GPCR and Protease. With these databases, Jubilant Biosys will have one of the most comprehensive offerings in the global bioinformatics and chemoinformatics space. During the year, we also started custom curation work for large pharmaceutical companies and initiated maintenance support for other leading players. We also finalized distribution agreement with companies like Accelrys and Patcore, integration agreement with players such as Spotfire. This has enabled us to make your company a force to reckon with in the industry.

Our business activity is targeted towards the global pharmaceutical and biotechnology companies involved in drug discovery. We have already built relationship with more than 30 companies, which include the leading pharmaceutical and biotechnology companies based in USA and Europe.

RECENT ACTIVITIES

In June 2004, we started our second center in Bangalore. The new center will have a capacity of up to 225 workstations. The new center will be equipped with state of the art infrastructure to cater to the demands of our customers. This center will meet the fast expanding business needs.

FUTURE OUTLOOK

Your company has confidence of recording high growth during the year. This confidence emanates from the fact that the changing profile of global drug discovery business is opening up various new opportunities. Global pharmaceutical companies have in recent years considered outsourcing at early research stages in drug discovery – between target identification and candidate identification. The early research stages in drug discovery are time and resource intensive and with the increasing pressure on drug discovery companies to come out with new drugs at a faster pace, the outsourcing of these time intensive functions with gain further momentum. There is a move towards 'off-shoring', outsourcing to countries such as India, China and Russia. In 2004 itself, it is expected that over US$ 200 million worth of pharmaceutical and biotechnology related work will be outsourced to India. According to an independent study, Indian bioinformatics industry is expected to reach the size of US$3 billion by 2007. These expanding opportunities in drug discovery augur well for your company and open up new vistas for growth.

This year we plan to consolidate our position in Kinase and PathArt by building on existing customer relationships and creating new opportunities in new geographies. Our focus will be on regulated markets of USA, Europe and Japan and plan to add many more customers in those countries. The marketing activity in Japan, which we started late last year, is expected to bear fruits this year. By the fourth quarter of the fiscal year, we expect to launch the two products under development: GPCR and Protease. Our custom curation activities are expected to gain momentum both with pharmaceutical companies and with other leading industry players.

SHARE CAPITAL OF THE COMPANY

Authorised Share Capital

During the Financial Year under review the Authorised Share Capital of the company increased from Rs. 37.5 million divided into 3,750,000 Equity Shares of Rs.10 each to Rs. 150 million divided into 5,000,000 Equity Shares of Rs. 10 each and 1,000,000 10% Optionally Convertible non-cumulative Redeemable Preference Shares of Rs.100 each.

ALLOTMENT OF PREFERENCE SHARES

During the year, 778,000 10% Optionally Convertible Non-Cumulative Redeemable Preference Shares of Rs.100 each aggregating to Rs.77.8 million was allotted to Jubilant Organosys Ltd. These Preference Shares were converted into 155,600 Equity Shares of Rs.10, increasing the paid up Equity Share capital from Rs. 2,857,000 divided into 285,700 Equity Shares of Rs.10 each to Rs. 4,413,000 divided into 441,300 Equity Shares of Rs.10 each.

CONVERSION OF 10% OPTIONALLY CONVERTIBLE NON-CUMULATIVE REDEEMABLE PREFERENCE SHARES OF Rs.100 EACH INTO EQUITY SHARES AND CONVERSION INTO A SUBSIDIARY OF JUBILANT ORGANOSYS LTD.

Jubilant Organosys Ltd. had in its Board meeting held on February 3, 2004 exercised the option attached to 778,000 10% non-cumulative convertible Preference Shares of Rs.100 each. Accordingly 778,000 Preference Shares were converted into 155,600 Equity Shares of Rs. 10. Upon conversion of Preference Share into Equity Shares, the Company has been converted into a subsidiary company of Jubilant Organosys Ltd. The total number of Equity Shares held by Jubilant Organosys Ltd. in the Company is 295,600 Equity Shares of Rs.10/- each i.e. 66.98 % of the total Equity Share capital of the Company.

INCOME TAX EXEMPTION

The Company has been accorded approval as Research & Development Company by the Department of Scientific and Industrial Research under Section 80 – IB (8A) of the Income Tax Act 1961.

Directors Report

CONVERSION INTO PUBLIC LIMITED COMPANY

The Company has been converted into Public Limited Company pursuant to the provisions of Section 44 and other applicable provisions of the Companies Act, 1956. The name of the Company was, accordingly, changed from Jubilant Biosys Private Limited to Jubilant Biosys Limited. A fresh certificate of incorporation dated June 27, 2003 was obtained from the Registrar of Companies, Delhi and Haryana.

FINANCIAL RESULTS

During the year, the total income of the Company was Rs. 28.5 million and operating loss was Rs. 11.9 million. The loss on the sale of fixed asset was Rs. 6.8 million and amortization of intangible assets, preliminary expenses and write off was 11.4 million. The net loss was Rs. 30 million.

DIVIDEND

On account of losses, the Company has not declared dividend for the year 2003-04.

PARTICULARS OF EMPLOYEES (Full year)

Sl. No.	Employee Name	Age (Yrs)	Designation & Nature of Duties	Remuneration	Qualification & Experience (Yrs.)	Date of Commencement of employment	Last Employment Name of the Company & designation
1.	Balaji V.N.	56	Whole time Director & CSO	Rs. 3,020,865	Ph.D Molecular Biophysics (27)	25th Jan 2001	DSQ Biotech Ltd. Bangalore.Vice President

CONSERVATION OF ENERGY TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGO

1. Conservation of Energy	Not Applicable
2 (A) Technology Absorption	Not Applicable
(B) Technology Absorption absorbed during	No new technology has been Adoption and Innovation the year under review. Hence not applicable
(C) In Case of Imported Technology	Not Applicable
3. Foreign Exchange Earnings and Outgo	
(a) Activity relating to Exports initiative taken to increase export development of new markets for products and services and export plan.	The Company has been set up as a 100% export oriented unit (under STPI, Bangalore jurisdiction) in Bangalore. The unit is fully equipped with state of art hardware, software and infrastructure. The main activities of the Company center around bioinformatics and chemoinformatics and knowledge base product development. The commercial activity is yet to start. It has been regularly in contact with leading Biotechnology & Pharmaceutical companies in USA and Europe. In an effort to expedite and enhance its marketing activities.
(b) Total foreign Exchange Used & Earned	
Total foreign Exchange used	Rs. 17,164,164
Total foreign Exchange earned	Rs. 29,978,511

AUDITORS

Your company's auditors M/s K.N.Gutgutia & Co, Chartered Accountants of Delhi retire at the conclusion of the forthcoming Annual General Meeting of your company and being eligible, offer themselves for reappointment. Your directors recommend their appointment.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 2AA of Section 217 of the Companies Act 1956 your directors have to state and confirm that

i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation 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 the end of the financial year and of the profit or loss of the financial year and of the profit or loss of the Company for that period.

iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in the accordance with the provisions of this Act for the 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.

ACKNOWLEDGEMENTS

Your Directors acknowledge with gratitude the co-operation and assistance received from the government authorities, shareholders, customers, vendors and business associates for their support. The Board wishes to place on record its appreciation to the contribution made by employees at all levels.

For and on Behalf of the Board
JUBILANT BIOSYS LIMITED

Place: New Delhi
Date: 10 April, 2004

V.N. Balaji
Whole time Director

R. Sankaraiah
Director

Auditors' Report

TO THE MEMBERS OF JUBILANT BIOSYS LTD.

1. We have audited the attached Balance Sheet of Jubilant Biosys Ltd. as at 31st March 2004 and the related Profit and Loss Account for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as considered appropriate and according to the information and explanation given to us during the course of our audit, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments mentioned in the Annexure referred to in above paragraph we report that:

   a) 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.

   b) 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 the books of the Company.

   c) The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the Books of Account of the Company.

   d) In our opinion, the Profit & Loss Account and Balance Sheet comply with the mandatory Accounting Standards referred to in Sub-Section 3 (c) of Section 211 of the Companies Act, 1956.

   e) According to the information and explanation given to us and on the basis of written representations received from the Directors as on 31st March 2004 of the Company and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2004, from being appointed as a Director in terms of clause (g) of Sub Section (1) of Section 274 of the Companies Act, 1956.

   f) Proper returns from branches not visited by us have been received by the Company.

   g) In our opinion and to the best of our information and according to the explanations given to us, the said Accounts read with the notes thereon and Significant Accounting Policies, there on 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:

      (i) In the case of the Balance Sheet, of the state of affairs of the company as at 31st March 2004.

      and

      (ii) In the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date;

For K.N. Gutgutia & Company
Chartered Accountants

Place : New Delhi
Dated : 10th April, 2004

B.R. GOYAL
Partner
Membership No. 12172

Annexure To The Auditors' Report

Re: JUBILANT BIOSYS LTD.

Referred to in paragraph 1 of our report of even date.

i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   (b) As per the information and explanation given to us physical verification of fixed assets has been carried out in terms of the phased programme of verification of its fixed assets adopted by the Company and no material discrepancies were noticed on such verification. In our opinion the frequency of verification is reasonable, having regard to the size of the Company and nature of its business.

   (c) During the year the Company has not disposed off any substantial/ major part of fixed assets.

ii) (a) As per the information furnished, the verifiable inventories have been physically verified during the year by the management. In our opinion, having regard to the nature and location of stock, the frequency of the physical verification is reasonable.

   (b) In our opinion and according to the information and explanations given to us, procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   (c) The Company is maintaining proper records of inventory. In our opinion, discrepancies noticed on physical verification of stocks were not material in relation to the operations of the Company and the same have been properly dealt with in the books of account.

iii) (a) The Company had not granted any loan to any company covered in the register maintained under section 301 of the Companies Act 1956. There was only one company covered in the register maintained under the said section of the said Act from which the Company has taken loan. The maximum amount involved during the year was Rs. 50 million and the year end balance of loan taken from such party was Rs. 50 million.

   (b) In our opinion the rate of interest and other terms and condition on which loan has been taken from the said company listed with register maintained under section 301 of the Companies Act, 1956 are not prima facie, prejudicial to the interest of the Company.

   (c) The said company is regular in repayment and the payment of interest.

   (d) There is no overdue amount of loan taken from the company listed in the register maintained under section 301 of the Companies Act, 1956.

iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal controls.

v) (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 have been so entered.

   (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register under Section 301 and exceeding the value of five lac rupees in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices, wherever comparable prices are available at the relevant time.

vi) The Company has not accepted any public deposit during the year.

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

viii) The Central Government has not prescribed maintenance of the cost records under section 209(1)(d) of the Companies Act, 1956 in respect to any products of the Company.

ix) (a) According to the information and explanations given to us and records examined by us, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees state insurance, income tax, wealth tax, custom duty, cess and other statutory dues wherever applicable. According to the information and explanations given to us, no undisputed arrears of statutory dues were outstanding as at 31st March, 2004 for a period of more than six months from the date they became payable.

   (b) According to the records of the Company, there was no dues of sale tax, income tax, customs, wealth-tax, excise duty, cess that have not been deposited on account of disputes.

x) There are accumulated losses (Rs. 30,817,409) of the Company as on 31st March, 2004. The Company has incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

xi) Based on our audit procedures and the information given by the management, we are of the opinion that the Company has not taken any loan from Financial Institutions or bank and has not issued any debentures.

xii) Based on our examination of the records and the information and explanations given to us, the Company has not granted any loans and/or advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii) Clause (xiii) of the Order is not applicable to the Company as the Company is not a Chit Fund Company or nidhi/mutual benefit fund/society.

xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures, and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xv) According to the information and explanations given to us, Company has not given any guarantees for loans taken by others from bank or financial institutions.

xvi) According to the information and explanations given to us, the term loans raised during the year have been applied for the purpose for which they were raised.

xvii) According to the information & explanation given to us and on an overall examination of the Balance Sheet of the Company, we report that the no funds raised on short-term basis have been used for long term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

xviii) The Company has made preferential allotment of shares to a company during the year covered by Section 301 of the Companies Act, 1956 and such allotment was not prejudicial to the interest of the Company.

xix) During the year covered by our audit report the Company has not issued secured debentures.

xx) The Company has not raised any money by public issues during the year covered by our report.

xxi) As per the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For K.N. Gutgutia & Company
Chartered Accountants

Place : New Delhi
Dated : 10th April, 2004

B.R. GOYAL
Partner
Membership No. 12172

Balance Sheet

Amount Rs.

As at 31st March,	Schedules		2004		2003
I SOURCES OF FUNDS					
Shareholders Funds					
Share Capital	A		4,413,000		2,857,000
Share Application Money (Pending Allotment)			20,480		79,657,900
Reserve & Surplus	B		144,844,000		68,600,000
Loan Funds					
Unsecured Loans (From The Holding Company)	C		50,000,000		–
			199,277,480		**151,114,900**
II APPLICATION OF FUNDS					
Fixed Assets	D				
Gross Block (at cost)		129,484,142		24,262,434	
Less: Depreciation		14,231,337		2,463,825	
Net Block			115,252,805		21,798,609
Capital work in Progress (R & D Activities)			39,810,384		109,387,415
Pre-Operative Expenditure (Pending Allocation)	E		–		14,894,916
Current Assets, Loans & Advances	F				
Sundry Debtors		8,604,847		224,432	
Cash and Bank Balances		9,289,281		4,380,943	
Loan and Advances		7,081,901		10,612,410	
		24,976,029		15,217,785	
Less Current Liabilities and Provisions	G				
Liabilities		10,134,712		9,473,367	
Provisions		1,444,435		1,433,684	
		11,579,147		10,907,051	
Net Current Asset			13,396,882		4,310,734
Miscellaneous Expenditures (To the extent not written off or adjusted)	H		–		23,936
Profit And Loss Account (Debit Balance)	I		30,817,409		699,291
			199,277,480		**151,114,900**
NOTES TO ACCOUNTS & SIGNIFICANT ACCOUNTING POLICIES	K				

In term of our report of even date attached
for **K N GUTGUTIA & CO**
Chartered Accountants

for **JUBILANT BIOSYS LTD.**

B.R. GOYAL
Partner

New Delhi
Date: 10th April, 2004

V.N. Balaji
Whole time Director

R. Sankaraiah
Director

Profit & Loss Account

Amount Rs.

For the year ended 31st. March,	Schedules	2004	2003
I INCOME			
Sales Revenue		28,359,449	–
Misc. Income		133,290	–
		28,492,739	**–**
II EXPENDITURE			
Project, Administrative & Selling Expenses	J	40,372,264	205,365
Loss on Sale of Fixed Assets		6,822,651	395,216
Intangible Assets Amortized		11,282,901	–
Misc. Debit Balances written/off		55,693	–
Preliminary Expenses Amortized		23,936	11,968
		58,557,445	**612,549**
Profit/ (Loss) before Tax		(30,064,707)	(612,549)
Less: Income Tax for the year 2000-01		(53,412)	–
Net Balance Carried to Balance sheet		(30,118,119)	(612,549)
NOTES TO ACCOUNTS & SIGNIFICANT ACCOUNTING POLICIES	K		

In term of our report of even date attached
for **K N GUTGUTIA & CO**
Chartered Accountants

for **JUBILANT BIOSYS LTD.**

B.R. GOYAL
Partner

New Delhi
Date: 10th April, 2004

V.N. Balaji
Whole time Director

R. Sankaraiah
Director

Schedules forming part of the Balance Sheet

Amount Rs.

As at 31st March,	2004	2003
SCHEDULE-A		
SHARE CAPITAL		
Authorized Capital		
5,000,000 Equity Shares of Rs. 10 each (Previous Year 3,750,000 Equity Share of Rs. 10 each)	50,000,000	37,500,000
1,000,000 10 % Optionally Convertible Non- cumulative redeemable Preference Shares of Rs. 100 each (Previous Year -Nil)	100,000,000	–
	150,000,000	**37,500,000**
ISSUED, SUBSCRIBED AND PAID-UP		
Equity Shares		
441,300 Equity Shares of Rs. each (Previous Year 285,700 Equity Share of Rs. 10 each)	4,413,000	2,857,000
	4,413,000	**2,857,000**

Note:

(i) Of the above 295,600.equity shares of Rs. 10 each is held by its holding company namely Jubilant Organosys Ltd. (Date of becoming Holding Company 03-02-2004)

(ii) During the year the Company issued & allotted 778,000 Preference Shares of Rs. 100 each which were converted into equity shares

SCHEDULE-B		
RESERVE & SURPLUS		
Share Premium Account (Including Rs.76,244,000 added during the year on conversion of 778,000, preference shares of 100 each into 155,600 equity shares of Rs. 10 each)	144,844,000	68,600,000
	144,844,000	**68,600,000**
SCHEDULE-C		
UNSECURED LOAN		
Jubilant Organosys Ltd.	50,000,000	–
	50,000,000	**–**

Schedules forming part of the Balance Sheet

SCHEDULE-D

FIXED ASSETS Amount Rs.

Particulars	Gross Block (At Cost)				Depreciation/Amortisation				Net Block	
	As at 1/04/2003	Additions During the Year	Sale/ Adjustment During the Year	As at 31/03/2004	As at 1/04/2003	During the Year	Adjustment during year	As at 31/03/2004	As at 31 March, 2004	As at 31 March, 2003
Leasehold Improvements	–	1,401,734	–	1,401,734	–	48,645	–	48,645	1,353,089	–
Air Conditioning Plant	2,632,375	347,460	2,000,860	978,975	129,261	105,347	164,824	69,784	909,191	2,503,114
Air Conditioning UPS	820,251	–	–	820,251	52,552	38,962	–	91,514	728,737	767,699
Building (Flooring)	1,857,120	–	1,857,120	–	40,638	22,143	62,781	–	–	1,816,482
Computer Softwares	3,215,558	187,072	–	3,402,630	845,959	529,975	–	1,375,933	2,026,696	2,369,600
Computers /Peripherals	2,982,948	3,622,252	1,516,419	5,088,780	486,448	673,745	32,769	1,127,423	3,961,357	2,496,500
Electrical Installations	3,515,363	604,001	3,515,363	604,001	238,360	129,099	360,469	6,990	597,011	3,276,999
Furniture & Fixtures	7,616,888	2,444,942	7,535,088	2,526,742	561,659	390,236	902,259	49,637	2,477,106	7,055,228
Office Equipments	1,621,932	328,416	118,332	1,832,015	108,948	80,515	10,953	178,510	1,653,505	1,512,987
Intangible Assets (See note below)	–	112,829,014	–	112,829,014	–	11,282,901	–	11,282,901	101,546,113	–
Total	**24,262,434**	**121,764,890**	**16,543,182**	**129,484,142**	**2,463,825**	**13,301,568**	**1,534,056**	**14,231,337**	**115,252,805**	**21,798,609**
Previous Year	**24,160,019**	**931,210**	**828,795**	**24,262,434**	**675,423**	**1,955,781**	**167,379**	**2,463,825**		
Capital Work in Progress (See note below)									**39,810,384**	**109,387,415**

Note: (1) Details of Capital Work In Progress:

Opening balance as on 01.04.2003	109,387,415
Add Transferred from Pre-operative Expenditure	43,251,983
Less transferred to Intangible Assets	112,829,014
Closing balance as on 31.03.2004	39,810,384

(2) Disclosure In respect of Intangible Assets:

Intangible Assets consist of :

(a) Database &

(b) Software

Assets were created on 01-10-2003.

The life of these assets have been considered for 5 years

The amortization method is used - straight line method.

Amount Rs.

As at 31st March,	2004	2003
SCHEDULE-E		
Pre-Operative Expenditure (Pending Allocation)		
Advertisement & Business Promotion	1,499,731	11,041
Communication Charges	1,371,467	1,536,112
Equipment Lease Expenses	1,618,879	3,219,446
Bank Charges	3,219	101,779
Legal, Professional & Consultancy Charges	1,131,497	2,266,256
Memberships/ Subscriptions	271,383	168,566
Office Maintenance Expenses	1,697,193	3,330,285
Personnel Expenses	11,779,828	33,530,273
Marketing Expenses	1,328,529	531,322
Rental Expenses	4,051,202	8,637,754
Traveling Expenses	4,442,651	8,338,581
Books & Periodicals	3,088	23,721
Depreciation of Fixed Asset	758,181	1,955,781
Interest Expenses (Net of Interest Income)	–	(81,400)
Website Development Expenses	10,225	45,824
Business Development Expenses	9,057	75,824
	29,976,130	63,691,164
Add Balance Brought Forward from the Previous year		
Pre operative -pending allocation	14,894,916	13,848,574
	44,871,046	77,539,738
Less: Trial Run Receipts	1,619,062	2,785,640
	43,251,983	74,754,098
Less: Transferred to Capital Work in Progress	43,251,983	59,859,182
Net Pre-operative Expenditure (pending allocation)	–	14,894,916

Schedules forming part of the Balance Sheet

Amount Rs.

As at 31st March,		2004	2003
SCHEDULE-F			
CURRENT ASSETS LOANS & ADVANCES			
Sundry Debtors			
- More than Six Months		174,800	–
- Others		8,430,047	224,432
	A	8,604,847	224,432
Cash and Bank balances			
- Cash In Hand		11,272	11,650
- Cheques In Hand		293,241	–
- With Scheduled banks			
- On Current Account		8,153,768	3,538,293
- On Deposit Account		831,000	831,000
	B	9,289,281	4,380,943
Loans & Advances (Unsecured, considered Good)			
- Advances recoverable In cash or In kind or for value to be received		2,627,003	1,375,494
- Deposits		4,416,647	9,016,440
- Advance Payment of Income tax (Incl.TDS)		38,251	220,476
	C	7,081,901	10,612,410
Total	(A+B+C)	24,976,029	15,217,785
SCHEDULE-G			
CURRENT LIABILITIES AND PROVISIONS			
A. Current Liabilities			
Sundry Creditors and Expenses Payable		9,533,664	7,261,750
Other Liabilities		601,048	2,211,617
	A	10,134,712	9,473,367
B. Provisions			
Provision for Retirement/Post retirement employee benefits		1,391,023	1,330,292
Provision for Taxation		53,412	103,392
	B	1,444,435	1,433,684
Total	(A+B)	11,579,147	10,907,051
SCHEDULE-H			
MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)			
Preliminary Expenses			
Opening Balance		23,936	35,904
Less Written off during the year		23,936	11,968
		–	23,936
SCHEDULE-I			
PROFIT & LOSS ACCOUNT			
Opening balance		(699,291)	(86,742)
Add/(Less): Profit / (loss) for the year		(30,118,119)	(612,549)
Total carried to balance sheet		(30,817,409)	(699,291)

Schedules forming part of the Profit & Loss Account

Amount Rs.

For the year ended 31st March,	2004	2003
SCHEDULE-J		
PROJECT, ADMINISTRATIVE & SELLING EXPENSES		
Business Development & Promotion	1,284,612	–
Communication Charges	1,726,375	–
Equipment Lease Expenses	769,088	–
Finance Charges	829,733	–
Legal, Professional & Consultancy Charges	3,330,604	5,500
Marketing Expenses	1,610,092	–
Memberships/ Subscriptions	520,003	–
Office Running & Maintenance Expenses	2,244,806	–
Personnel Expenses	16,425,429	140,865
Contribution to Provident Fund	745,324	9,000
Rental Expenses (Rs. 80,640 relates to Rental of Fixed Assets)	2,287,220	–
Traveling Expenses	4,824,516	–
Books & Periodicals	20,180	–
Depreciation of Fixed Assets	1,233,838	–
Web site development Expenses	8,992	–
Audit fee	50,000	50,000
Interest Expenses (Net of Interest Income)* (Rs.2,073,059 to Holding Company)	2,461,452	–
Total	**40,372,264**	**205,365**

* Interest income includes Interest on:

(a) Fixed deposit with bank - Rs. 95477 (Previous year 86,671)

(b) Deposit with telephone department - Rs. Nil (Previous year - Rs. 4367)

(c) Advance Income Tax - Rs. 15759/- (Previous year - Rs. 796)

NOTES TO THE ACCOUNTS

SCHEDULE K: NOTES TO THE ACCOUNTS & SIGNIFICANT ACCOUNTING POLICIES

1 Accounting Policies.

a. **Basis of Accounting**

The Accounts of the Company are prepared under the historical cost convention and in accordance with applicable accounting standards. For recognition of income and expenses, mercantile/accrual system of accounting is followed.

b. Revenue Recognition:

- In respect of sale of products, revenue is recognised on delivery of product to the customers.
- In respect of projects taken up as per the specification of the customer, revenue is recognised on proportionate completion method.
- In respect of on site services rendered, revenue is recognised on the basis of man days actually spent.

c. **Fixed Assets**

Fixed Assets are stated at cost less accumulated depreciation.

d. **Accounting of Intangible Assets & Its Amortisation**

The Company has started the commercial operations with the commissioning of two major projects as on 30th September 2003. The expenditure being incurred is allocated to various projects undertaken by the Company. Expenditure on one-time projects (Custom Curation) is charged to Profit & Loss Accounts immediately on its completion. Expenditure on long-term projects is accumulated as Capital Work in Process till its completion and post-completion is transferred to Fixed Assets as intangible assets.

Intangible Assets are amortised over a period of 5 years from the date of its commissioning based on the expected economic benefits.

e. Depreciation

Depreciation is provided on straight-line method in terms of Section 205(2)(b) or the Companies Act, 1956, and "Lease Hold Improvements" has been amortized according to the period of lease.

f. Miscellaneous Expenditure

Preliminary Expenditure previously amortized, charged off to Profit & Loss Account for the year. However it has no major impact on the Profit & Loss account of the year.

Notes to the Accounts

g. Retirement Benefits

Provision for Gratuity & Leave Encashment is made on the basis of actuarial valuation.

h. Conversion or Translation of Foreign Currency items

Transactions in foreign currency are recorded at the exchange rate prevailing on/or closely approximating to the date of transactions. Current Assets and liabilities (other than relating to fixed assets) are restated at the rate prevailing at the period end or at the forward rate where forward cover has been taken. The difference between the period end rate and the exchange rate at the date of the transaction is recognized as income or expense in the profit and loss account.

i. Defered Tax Liability/Assets: The Company does not anticipate any tax liability as it is entitled to 100% tax exemption up to ten year and therefore there is no timing difference as to book depreciation and as to income tax depreciation. In view of the company's expected future profitability, no deferred tax asset has been recognised

2. Outstanding Bank Guarantees/Bonds executed in favour of Customs & Excise Departments as at 31.03.04 are Rs. 841,000. (PY Rs. 841,000)

3. The Company had been granted approval as 100% Software Export Oriented Unit under the Software Technology Park Scheme of Govt of India in the earlier year. During the previous year, the Company has also been granted the approval as Research and Development Company by the Department of Scientific & Industrial Research. The Company has started commercial production and has set up necessary infrastructure, basic data, information collection, development of pilot modules and other programmes. Since these are the pre-requisites for commencing the commercial activity of the Company, all direct expenditure on such activities 'are debited to Capital Work in Progress and then capitalised as part of intangible. There are number of modules, programmes etc. in the developing stage, hence these expenditure has been allocated or apportioned over the various projects.

4. Expenditure in Foreign Currency –
   - Capital Goods - Rs. 95,180 (PY Rs. 230,625)
   - Overseas Salaries & Perks - Rs. 7,393,936 (PY Rs. 4,577,129)
   - Overseas office expenses - Rs. 1,879,275 (PY Rs. 586,478)
   - Travel - Rs. 3,158,324 (PY Rs. 1,111,101)
   - Others - Rs. 4,637,449 (PY Rs. 1,539,104)

5. Earnings in foreign currency-
   - (a) Sales/Services - Rs. 29,978,511 (PY Rs.2,785,640)

6. Remuneration to Directors (a) Dr.V.N. Balaji: Salaries & Perks Rs. 3,020,865 (PY Rs. 3,941,620) (b) Professor IndraVerma: Advisory Service Rs. 98,750 (PY Rs. 118,725).

7. **Related Party Information**

Name of Party	Nature of Transaction	Amount Rs.
Jubilant Organosys Ltd.	Expenses/Reimbursement Paid	340,344
(The holding Company)	Assets Sold	616,694
	Assets Purchased	52,416
	Inter Corporate Deposit received	54,000,000
	Inter Corporate Deposit Refunded	4,000,000
	Outstanding Inter corporate Deposit	50,000,000
	Interest On ICD paid	2,073,059

8. Quantitative information in respect of sales is not practical to be given in view of the nature of products.

9. **Segment Information:** The company is principally in the business of Drug Discovery Informatics service, accordingly there is no separate reportable segment as per Accounting Standards -17 on segment reporting issued by the Institute of Chartered Accountants of India.

10. Previous year figures have been regrouped, rearranged/reclassified wherever necessary to make them comparable with those of the current year.

In term of our report of even date attached

for **K N GUTGUTIA & CO**

Chartered Accountants

for **JUBILANT BIOSYS LTD**

B.R.GOYAL

Partner

New Delhi

Date: 10th April, 2004

V .N. Balaji

Whole time Director

R.Sankaraiah

Director

Jubilant Organosys USA, Inc.

Independent Auditors' Report

The Board of Directors and Stockholder
Jubilant Organosys USA, Inc.

We have audited the accompanying balance sheets of Jubilant Organosys USA, Inc. as of March 31, 2003 and 2004, and the related statements of income, stockholder's equity, and cash flows for the years ended March 31, 2003 and 2004. 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jubilant Organosys USA, Inc. as of March 31, 2003 and 2004, and the results of their operations and their cash flows for the years ended March 31, 2003 and 2004, in conformity with accounting principles generally accepted in the United States.

As explained in Note 5 to the financial statements, the Company changed its method of computing depreciation during the year ended March 31, 2003.

KPMG

April 26, 2004

Balance Sheets

As of March 31,	2003	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$52,009	$224,647
Accounts receivable	233,226	1,685,620
Due from related party	93,200	109,567
Inventories	214,293	878,189
Other current assets	351	1,768
Total current assets	593,079	2,899,791
Equipment, net	2,937	32,866
Other assets	–	2,333
Total assets	$596,016	$2,934,990
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Due to related party	$453,861	$2,661,868
Other accounts payable	13,538	19,860
Taxes payable	5,669	35,516
Total current liabilities	473,068	2,717,244
Deferred income taxes	489	1,213
Total liabilities	473,557	2,718,457
Stockholder's equity		
Equity shares, 25,000 authorized, issued and outstanding as of March 31, 2003 and 2004 respectively	25,000	25,000
Retained earnings	97,459	191,533
Total stockholder's equity	122,459	216,533
Total liabilities and stockholder's equity	$596,016	$2,934,990

See accompanying notes to the financial statements.

Statements of Income

Year ended March 31,	2003	2004
Sale of goods	$1,611,617	$4,278,502
Less: Cost of goods sold	(1,502,719)	(3,975,898)
Shipping and handling costs	(53,572)	(86,643)
	55,326	215,961
Commissions	201,898	177,476
Revenues	257,224	393,437
Sales and marketing expenses	196,753	219,016
General and administrative expenses	22,194	36,245
Income from operations	38,277	138,716
Other income, net	62	1,375
Income before income taxes and effect of change in accounting principle	38,339	139,551
Income tax expense	8,967	45,477
Income before effect of change in accounting principle	29,372	94,074
Cumulative effect of change in accounting principle (See Note 5 to the financial statements)	2,435	–
Net income	$31,807	$94,074

See accompanying notes to the financial statements.

Statements Of Stockholder's Equity

	Equity shares		Shares pending allotment	Retained Earnings	Total
	Shares	Amount			
Balances as of April 1, 2002	15,000	$15,000	$10,000	$65,652	$90,652
Issuance of shares	10,000	10,000	(10,000)		
Net income				31,807	31,807
Balances as of March 31, 2003	25,000	25,000	–	97,459	122,459
Net income				94,074	94,074
Balance as of March 31, 2004	25,000	$25,000	–	$191,533	$216,533

See accompanying notes to the financial statements.

Statements of Cash Flows

Year ended March 31,	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	31,807	94,074
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,525	2,521
Deferred income taxes	(218)	724
Gain on disposal of property, plant and equipment	–	(500)
Cumulative effect of change in accounting principle (See Note 5 to the financial statements)	(2,435)	–
Changes in assets and liabilities, net		
Accounts receivable	103,732	(1,452,394)
Due from related parties	(18,772)	(16,367)
Inventories	(8,025)	(663,896)
Due to related parties	(154,267)	2,208,007
Other accounts payable	8,768	6,322
Taxes payable	(7,605)	29,847
Other assets	–	(3,750)
Net cash (used in)/ provided by operating activities	**(45,490)**	**204,588**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(747)	(32,450)
Proceeds from sale of equipment	–	500
Net cash used in investing activities	**(747)**	**(31,950)**
Net (decrease)/ increase in cash and cash equivalents	**(46,237)**	**172,638**
CASH AND CASH EQUIVALENTS		
Beginning of the year	98,246	52,009
End of the year	52,009	224,647
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for income taxes	16,790	14,906

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. ORGANIZATION AND NATURE OF OPERATIONS

Incorporation and history

Jubilant Organosys USA, Inc. (the Company) was incorporated in United States of America in March 1999. The Company is a wholly owned subsidiary of Jubilant Organosys Limited (the parent company), a company incorporated in India. The Company is primarily engaged in marketing and distribution of specialty chemicals produced by its parent company to customers based in the Americas and Europe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States to reflect the financial position and results of operations of the Company.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Actual results could differ from these estimates.

(c) Revenue recognition

Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer and 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 commissions is recognized when it becomes due as per the terms of the arrangement.

Revenue from sale of goods is shown net of applicable discounts and allowances.

(d) Inventory

Inventory consists of goods that are held for sale in the normal course of business and are stated at the lower of cost and net realizable value. Cost is determined using the first-in-first-out method and comprises the purchase price and attributable direct costs, less trade discounts.

(e) Equipment

Equipment are stated at cost less accumulated depreciation. The Company depreciates equipment over the estimated useful life using the straight-line method. The estimated useful lives of all equipment is 4 years.

(f) Cash equivalents

Cash equivalents represent highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less.

(g) Income taxes

Income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax assets and liabilities 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance of any tax benefits of which future realization is uncertain.

(h) Retirement benefits to employees

Contributions to defined contribution plans are charged to income in the period in which they accrue.

(i) Reclassifications

Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year. These reclassifications had no impact on reported net income.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The cash resources of the Company are invested with money market funds and banks after an evaluation of the credit risk. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of March 31, 2003 and 2004, there was no significant risk of loss in the event of non-performance of the counter parties to these financial instruments.

The customers of the Company are primarily enterprises based in the United States and accordingly, trade receivables are concentrated in the United States. Trade receivables are not collateralized. To reduce credit risk, the Company performs ongoing credit evaluation of customers. As of March 31, 2003 and 2004, four and three customers, excluding the parent company, individually accounted for more than 10% of the Company's receivables.

4. CASH AND CASH EQUIVALENTS

The cost and fair values for cash and cash equivalents as of March 31, 2003 and 2004 are as follows:

	2003	2004
Balances with banks in checking accounts	$46,589	$217,986
Balances with banks in money market funds	5,420	6,661
Cash and cash equivalents	$52,009	$224,647

5. EQUIPMENT

As of March 31, 2003 and 2004, property and equipment comprise the following:

	2003	2004
Computers and office equipment	$6,234	$36,692
Accumulated depreciation	(3,297)	(3,826)
Equipment, net	$2,937	$32,866

Depreciation expense was $1,525 and $2,521 for the years ended March 31, 2003 and 2004 respectively.

Depreciation has been provided on computers and office equipment on the straight-line basis from the year ended March 31, 2003. Upto the year ended March 31, 2002, depreciation on these assets was provided using the accelerated method. Management is of the view that considering the nature of assets employed by the Company, providing depreciation on straight-line basis would more appropriately reflect the pattern of use of these assets. As a result, cumulative effect of change in the accounting principle aggregating $2,435 (net of deferred tax expense of $707) has been included in the income statement for the year ended March 31, 2003.

6. LEASES

The Company leases office facilities under non-cancelable operating lease agreements that are renewable on a periodic basis by mutual consent of the lessor and the Company.

Rental expense under these leases is $4,425 and $9,276 for the years ended March 31, 2003 and 2004 respectively. Future minimum lease payments as of March 31, 2004 for such non-cancelable operating leases are as follows:

Year ending March 31,	
2005	$28,177
2006	29,084
2007	24,237
Thereafter	-
Total minimum payments	$81,498

7. INCOME TAXES

The Company files Federal and State tax returns as per the regulations applicable to the Chapter C corporations in United States.

Total income taxes for the years ended March 31, 2003 and 2004 were allocated as follows:

	2003	2004
Income from continuing operations	$8,967	$45,477
Effect of change in accounting principle	(707)	-
Total taxes	$8,260	$45,477

Income tax expense attributable to income from continuing operations consists of:

	2003	2004
Current	$9,185	$44,753
Deferred	(218)	724
Total taxes	$8,967	$45,477

The components of the deferred tax balances as of March 31, 2003 and 2004 are as follows:

	2003	2004
Deferred tax liabilities		
Equipment, net	$489	$1,213

The reconciliation between the provision for income tax of the Company and amounts computed by applying the US Federal and State income tax rate is as follows:

	2003	2004
Income before income taxes and effect of change in accounting principle	$38,339	$139,551
US Federal and State enacted tax rate	22.5%	22.5%
Expected tax expense	8,626	31,398
Effect of permanent difference	341	14,079
Total taxes	$8,967	$45,477

8. PENSIONS

The Company participates in a plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 15% of their compensation or $10,500 whichever is lower. The Company makes a contribution up to a maximum of 5% of the employee's annual compensation. Total contributions made to the plan by the Company, for the years ended March 31, 2003 and 2004 are $5,700 and $5,850 respectively.

9. RELATED PARTY TRANSACTIONS

The related party transactions can be categorized as follows:

Revenues

The Company provides marketing services to its parent company in the geographies of Americas and Europe. The Company is entitled to a commission at the rate of 3% of the free-on-board (FOB) value of orders received by the parent company through the marketing efforts of the Company. During the years ended March 31, 2003 and 2004, the Company earned commission income of $201,898 and $177,476 respectively.

Cost of goods sold

The Company purchases specialty chemicals from its parent company for resale to customers in Americas and Europe. The Company purchased chemicals of $1,509,445 and $4,639,244 during the years ended March 31, 2003 and 2004 respectively.

The balances receivable from and payable to related parties are summarized as follows:

As of March 31,	2003	2004
Due from		
Accounts receivable from parent company	$93,200	$109,567
Due to		
Accounts payable to parent company	$453,861	$2,661,868

Major customers

During the years ended March 31, 2003 and 2004, five customers, excluding the parent company, individually accounted for more than 10% of the Company's sale of goods.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

US GAAP FINANCIALS 2003-04

The Board of Directors and Stockholders
Jubilant Organosys Limited

We have audited the accompanying consolidated balance sheets of Jubilant Organosys Limited and subsidiaries as of March 31, 2002, 2003 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years ended March 31, 2002, 2003 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jubilant Organosys Limited and subsidiaries as of March 31, 2002, 2003 and 2004, and the results of their operations and their cash flows for the years ended March 31, 2002, 2003 and 2004, in conformity with accounting principles generally accepted in the United States of America.

KPMG

April 28, 2004

Jubilant Organosys Ltd. & Subsidiaries

(in millions, except share data)

	As of March 31			
	2002	2003	2004	2004 (unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	Rs. 32.85	Rs. 28.44	Rs. 164.28	$3.79
Restricted cash	68.64	73.59	62.52	1.43
Accounts receivable, net of allowances	634.10	796.27	1,370.06	31.57
Due from related parties (Note 25)	36.53	–	–	–
Inventories (Note 6)	1,094.70	1,364.10	1,334.36	30.75
Deferred income taxes (Note 22)	23.23	–	–	–
Other current assets (Note 13)	408.22	674.20	795.82	18.34
Total current assets	**2,298.27**	**2,936.60**	**3,727.04**	**85.88**
Investment securities, available for sale (Note 7)	14.23	14.44	–	–
Property, plant and equipment, net (Note 8)	3,793.94	4,426.39	4,870.09	112.21
Investment in affiliate (Note 12)	70.00	135.92	–	–
Goodwill (Note 11)	140.27	140.27	209.87	4.84
Intangible assets, net (Note 11)	–	29.16	41.81	0.96
Content costs, net	–	–	100.06	2.31
Other assets (Note 13)	135.13	177.83	151.20	3.48
Total assets	**Rs. 6,451.84**	**Rs. 7,860.61**	**Rs. 9,100.07**	**$209.68**
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short term borrowings (Note 14)	Rs. 990.28	Rs. 967.80	Rs. 1,002.83	$23.11
Current portion of long term debt (Note 16)	510.95	659.75	834.29	19.22
Current portion of capital lease obligations (Note 9)	18.21	17.39	14.33	0.33
Accounts payable	750.99	922.30	1,261.93	29.08
Due to related parties (Note 25)	8.22	7.60	6.04	0.14
Accrued employee costs	59.08	72.52	93.55	2.16
Deferred revenue	–	–	11.38	0.26
Taxes payable	2.20	51.52	120.65	2.78
Deferred income taxes (Note 22)	–	9.11	25.30	0.58
Other current liabilities (Note 15)	107.64	133.24	136.55	3.15
Total current liabilities	**2,447.57**	**2,841.23**	**3,506.85**	**$80.81**
Long term debt, excluding current portion (Note 16)	1,892.75	2,510.68	2,364.42	54.48
Long term capital lease obligations (Note 9)	46.83	27.86	11.90	0.27
Deferred income taxes (Note 22)	535.99	727.59	850.37	19.59
Other liabilities (Note 15)	53.03	56.40	47.72	1.10
Total liabilities	**Rs. 4,976.17**	**Rs. 6,163.76**	**Rs. 6,781.26**	**$156.25**
Minority interest	**–**	**–**	**22.15**	**0.51**
Stockholders' equity				
Equity shares at Rs. 5 par value, 29,200,000 shares authorized; issued and outstanding – 24,823,677 shares, 23,461,703 shares and 23,461,703 shares as of March 31, 2002, 2003 and 2004 respectively	124.12	117.30	117.30	2.70
Treasury stock, shares at cost – 1,361,974 shares, Nil shares and Nil shares as of March 31, 2002, 2003 and 2004 respectively	(59.67)	–	–	–
Additional paid in capital	251.39	195.97	195.97	4.52
Retained earnings	1,159.57	1,383.33	1,983.23	45.70
Accumulated other comprehensive income	0.26	0.25	0.16	0.00
Total stockholders' equity	**1,475.67**	**1,696.85**	**2,296.66**	**52.92**
Total liabilities, minority interest and stockholders' equity	**Rs. 6,451.84**	**Rs. 7,860.61**	**Rs. 9,100.07**	**$209.68**

See accompanying notes to the consolidated financial statements

(in millions, except share data)

	Year ended March 31,			
	2002	2003	2004	2004 (unaudited)
Revenues				
Product sales, net of allowances for sales return (includes excise duties of Rs. 638.76, Rs. 723.52 and Rs. 869.14 for the years ended March 31, 2002, 2003 and 2004 respectively)	Rs. 6,345.76	Rs. 7,182.47	Rs. 9,322.89	$214.81
Manufacturing services	–	–	2.91	0.07
Drug discovery informatics services	–	–	9.09	0.21
Cost of revenues (exclusive of depreciation and amortization as discussed in Note 19)				
Product sales	(5,061.60)	(5,634.46)	(7,270.69)	(167.53)
Manufacturing services	–	–	(3.08)	(0.07)
Drug discovery informatics services	–	–	(9.71)	(0.22)
Research and development (exclusive of depreciation and amortization as discussed in Note 19)	(32.10)	(52.24)	(113.60)	(2.62)
Selling, general and administration (exclusive of depreciation and amortization as discussed in Note 19)	(525.80)	(549.29)	(734.31)	(16.92)
Depreciation and amortization (Refer Note 19)	(240.80)	(252.53)	(302.58)	(6.97)
Other operating income, net (Note 20)	187.39	254.15	340.64	7.85
Income from operations	**672.85**	**948.10**	**1,241.56**	**28.61**
Other expense, net (Note 21)	(477.25)	(403.00)	(269.46)	(6.21)
Equity in loss of affiliate (Note 12)	–	(11.88)	(14.93)	(0.34)
Income before income taxes and minority interest	**195.60**	**533.22**	**957.17**	**22.06**
Income taxes (Note 22)	(53.18)	(257.04)	(223.98)	(5.16)
Minority interest	–	–	3.18	0.07
Net income	**Rs. 142.42**	**Rs. 276.18**	**Rs. 736.37**	**$16.97**
Earnings per equity share				
Basic	7.42	11.77	31.39	0.72
Diluted	7.22	11.77	31.39	0.72
Weighted average number of equity shares used in computing earnings per equity share (Note 23)				
Basic	19,199,631	23,461,703	23,461,703	23,461,703
Diluted	19,723,011	23,461,703	23,461,703	23,461,703

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in millions, except share data)

	Equity shares		Treasury stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income, net of taxes	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of April 1, 2001	**20,023,677**	**Rs. 100.12**	**(1,361,974)**	**Rs. (59.67)**	**Rs. 163.64**	**Rs. 1,065.46**	**Rs. 0.10**	**Rs. 1,269.65**
Issuance of equity shares, net	4,800,000	24.00			87.75	(9.00)		102.75
Comprehensive income								
Net income						142.42		142.42
Translation adjustments							0.16	0.16
Comprehensive income								142.58
Cash dividend						(39.31)		(39.31)
Balance as of March 31, 2002	**24,823,677**	**Rs. 124.12**	**(1,361,974)**	**Rs. (59.67)**	**Rs. 251.39**	**Rs. 1,159.57**	**Rs. 0.26**	**Rs. 1,475.67**
Cancellation of treasury stock	(1,361,974)	(6.82)	1,361,974	59.67	(55.42)	2.57		
Comprehensive income								
Net income						276.18		276.18
Unrealized gain on available for sale securities, net							0.09	0.09
Translation adjustments							(0.10)	(0.10)
Comprehensive income								276.17
Cash dividend						(54.99)		(54.99)
Balance as of March 31, 2003	**23,461,703**	**Rs. 117.30**	**–**	**Rs. –**	**Rs. 195.97**	**Rs. 1,383.33**	**Rs. 0.25**	**Rs. 1,696.85**
Comprehensive income								
Net income						736.37		736.37
Unrealized gain on available for sale securities, net							(0.09)	(0.09)
Comprehensive income								736.28
Cash dividend						(136.47)		(136.47)
Balance as of March 31, 2004	**23,461,703**	**Rs. 117.30**	**–**	**Rs. -**	**Rs. 195.97**	**Rs. 1,983.23**	**Rs. 0.16**	**Rs. 2,296.66**
Convenience translation into United States dollars (unaudited)		**$2.70**		**$-**	**$4.52**	**$45.70**	**$0.00**	**$52.92**

See accompanying notes to the consolidated financial statements

(in millions, except share data)

	Year ended March 31,			
	2002	2003	2004	2004 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	Rs. 142.42	Rs. 276.18	Rs. 736.37	$16.97
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	240.80	252.53	302.58	6.97
Deferred income tax charge	57.99	206.90	159.49	3.67
Equity in loss of affiliate	–	11.88	14.93	0.34
Mark to market gain on derivative instruments	–	(10.50)	(19.09)	(0.44)
Unrealized foreign exchange (gain)/ loss	5.81	(19.44)	(129.18)	(2.98)
Effective interest yield adjustment	4.75	5.96	17.59	0.41
Minority interest	–	–	(3.18)	(0.07)
Others	11.40	2.37	1.01	0.02
Changes in assets and liabilities, net				
Accounts receivable	37.80	(20.30)	(554.99)	(12.79)
Inventories	9.21	(162.26)	29.74	0.69
Other assets	(93.86)	(210.72)	1.80	0.04
Accounts payable	239.01	24.49	368.69	8.50
Accrued employee costs	9.09	13.44	19.95	0.46
Taxes payable	(7.91)	49.32	69.13	1.59
Other liabilities	(6.03)	42.57	(6.87)	(0.16)
Net cash provided by operating activities	**650.48**	**462.42**	**1,007.97**	**23.22**
CASH FLOWS FROM INVESTING ACTIVITIES				
Restricted cash	(44.27)	(4.95)	(11.07)	(0.26)
Purchase of property, plant and equipment	(467.44)	(419.33)	(833.79)	(19.21)
Proceeds from sale of property, plant and equipment	21.66	8.07	25.63	0.59
Content costs capitalized	–	–	(0.87)	(0.02)
Loans/ investment in affiliate	(70.00)	(60.60)	–	–
Purchase of investments available for sale	–	(0.81)	(150.00)	(3.46)
Sale of investments available for sale	–	1.38	164.58	3.79
Short term loans	6.87	(33.21)	–	–
Loans to related parties	(33.20)	–	(80.50)	(1.85)
Repayment of loans by related parties	–	16.00	80.50	1.85
Payments/ advances for business acquisitions, net of cash acquired	–	(654.96)	4.35	0.10
Net cash used in investing activities	**(586.38)**	**(1,148.41)**	**(801.17)**	**(18.47)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of capital lease obligations	(16.61)	(18.61)	(19.02)	(0.44)
(Repayment)/ proceeds of short term borrowings, net	(139.53)	(22.48)	35.03	0.81
Proceeds from long-term debt	338.38	1,514.78	1,386.00	31.94
Repayment of long-term debt	(309.25)	(735.85)	(1,336.85)	(30.80)
Loans from related parties	8.00	–	–	–
Repayment of loans to related parties	–	(0.62)	–	–
Proceeds from issuance of equity shares, net	102.75	–	–	–
Redemption of preferred stocks	(50.00)	–	–	–
Payment of dividends	(40.21)	(55.76)	(136.47)	(3.14)
Net cash provided by/ (used in) financing activities	**(106.47)**	**681.46**	**(71.31)**	**(1.63)**
Effect of exchange rate changes on cash and cash equivalents	(0.53)	0.12	0.35	0.01
Net (decrease)/ increase in cash and cash equivalents	(42.90)	(4.41)	135.84	3.13
CASH AND CASH EQUIVALENTS				
Beginning of the year	75.75	32.85	28.44	0.66
End of the year	Rs. 32.85	Rs. 28.44	Rs. 164.28	$3.79
SUPPLEMENTARY CASH FLOW INFORMATION				
Cash paid during the year for interest, net of interest capitalized	Rs. 545.55	Rs. 439.92	Rs. 393.74	$9.07
Cash paid during the year for income taxes, net of refunds	4.79	55.64	(11.80)	(0.27)
NON CASH INVESTING ACTIVITIES				
Details of business acquisitions:				
Fair value of intangible assets acquired	–	52.27	–	–
Fair value of tangible assets acquired, net of cash acquired	–	714.85	–	–
Fair value of liabilities assumed	–	(112.16)	–	–

During the year ended March 31, 2004, the Company acquired 17.98% equity interest in Jubilant Biosys through the conversion of preference shares with a carrying value of Rs. 77.80.

See accompanying notes to the consolidated financial statements

(in millions, except share data and where otherwise stated)

1. ORGANIZATION AND NATURE OF OPERATIONS

Incorporation and history

Jubilant Organosys Limited (the Company) was incorporated in India in June 1978. The Company and its subsidiaries, are leading global producers of a range of specialty chemicals, organic intermediaries, select active pharmaceutical ingredients (API) and plant and animal nutrition products for diverse industry segments like pharmaceuticals, agrochemicals, textile, construction, paper and packaging.

The Company's subsidiaries are as follows:

Vam Investments Limited*	Vam Leasing Limited*
Jubilant Organosys USA, Inc.	Jubilant Biosys Limited**

*amalgamated with the Company with effect from April 1, 2002
**became a subsidiary with effect from February 3, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) to reflect the financial position and results of operations of Jubilant Organosys Limited and subsidiaries (collectively hereinafter referred to as the Company).

(b) Principles of consolidation

The consolidated financial statements present the accounts of the Company and all of its subsidiaries, which are more than 50% owned and controlled (hereinafter collectively referred to as the Company). All material inter-company accounts and transactions are eliminated on consolidation. The Company accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the operating and financing policies of the investee.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ from these estimates.

(d) Functional currency and exchange rate translation

The functional currency of each entity in the Company is the Indian rupee. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. The gains or losses resulting from foreign currency transactions are included in the consolidated statements of income.

(e) Convenience translation

The accompanying consolidated financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the readers, the financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars at the noon buying rate in New York city on March 31, 2004, for cable transfers in Indian rupees, as certified for the customs purposes by the Federal Reserve Bank of New York of $1 = Rs. 43.40. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

(f) Revenue recognition

Revenue is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer, generally, the stockists or manufacturers in the user industries, and 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.

Revenues include excise duty and are shown net of sales tax and applicable discounts and allowances. When the Company receives advance payments from customers for sale of products, such payments are reported as advances from customers until all conditions for revenue recognition are met.

Allowances for sales returns are estimated and provided for in the year of sales. Such allowances are made based on the historical trends. The Company has the ability to make a reasonable estimate of the amount of future returns due to large volumes of homogeneous transactions and historical experience with similar types of sales of products. In respect of new products launched or expected to be launched, the sales returns are not expected to be different from the existing products as such products relate to categories where established products exist and are sold in the market. Further, the Company evaluates the sales returns of all the products at the end of each reporting period and necessary adjustments, if any, are made.

Jubilant Biosys offers its bioinformatics/ chemoinformatics products through various subscription arrangements. The terms of these arrangements typically require provision of upgrades/ updates over a given period subsequent to the delivery. The Company has accounted for revenues ratably over the term of the subscription arrangement beginning with delivery of the first product in accordance with the guidance available in Statement of Position 97-2, Software Revenue Recognition.

(g) Shipping and handling costs

Shipping and handling costs incurred to transport products to customers are included in cost of revenues.

(h) Inventories

Inventories are stated at lower of cost or market value. Cost is determined using the weighted average method for all categories of inventories. Stores and spares comprise engineering spares such as machinery spares and consumables such as lubricants and oils, which are used in operating machines or consumed as indirect materials in the manufacturing process. Cost in the case of raw materials and stores and spares 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 cost and production overheads.

A write down of inventory to the lower of cost or market value at the close of a fiscal period creates a new cost basis and is not marked up based on changes in underlying facts and circumstances.

Inventories are reviewed on a periodic basis for identification and write-off of slow moving, obsolete and impaired inventory. Such write-downs, if any, are included in cost of revenues.

(i) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities that are acquired or constructed for research and development activities and having alternative future uses, is capitalized as tangible assets when acquired or constructed.

(j) Content costs

Content costs represent costs associated with developing electronically searchable databases which contain professional literature regarding drug discovery and development processes. Content costs incurred to establish the technological feasibility of the databases are reflected as research and development expenses. Management establishes technical feasibility when the enterprise completes all planning, designing, coding and testing activities that are necessary to establish that the databases can be developed to meet the design specifications including functions, features and technical performance requirements. Cost of developing databases subsequent to establishing technological feasibility are capitalized. The Company ceases capitalization of database costs upon the databases being available for general release. Capitalized content costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount using (a) the ratio of current gross revenues for the product to the total of current and anticipated future gross revenues from the product or (b) the straight line method over the remaining estimated economic life of the product which has been estimated by the management at 5 years. Amortization starts when the database products are available for general release to customers.

(k) Property, plant and equipment

Property, plant and equipment including assets acquired under capital lease agreements are stated at cost, less accumulated depreciation. The Company depreciates property, plant and equipment over the estimated useful life using the straight-line method. Assets under capital leases are amortized over their estimated useful life or the lease term, as appropriate. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software.

The estimated useful lives of assets are as follows:

Factory buildings	30 years
Other buildings	60 years
Machinery and equipment	20 years
Computer equipment and software	6 years
Furniture and fixtures	15-20 years
Vehicles	10 years

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under 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.

(l) Impairment of long-lived assets

Effective April 1, 2001, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, it retains the fundamental provisions of SFAS No. 121.

SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, SFAS No. 144 retains the requirement of APB Opinion No. 30 to separately report discontinued operations and extends that reporting to a component of an entity that an entity has disposed of, or classified as held-for-sale. SFAS No. 144 requires that the Company measure long-lived assets held-for-sale, at the lower of carrying amount or fair value, less costs to sell. Similarly, under SFAS No. 144, discontinued operations are no longer measured at net realizable value or include amounts for operating losses that have not yet been incurred.

(m) Start-up costs

Costs of start-up activities including organization costs are expensed as incurred.

(n) Investments in affiliates

The Company's equity in the profits/losses of affiliates is included in the consolidated statements of income, and the Company's share of net assets of affiliates is included in the consolidated balance sheets. A transaction of an affiliate of a capital nature, which affects the investor's share of stockholders' equity of the affiliate, is accounted for as if the affiliate were a consolidated subsidiary.

(o) Investment securities

Investment securities consist of available-for-sale debt and equity securities. Available-for-sale securities are carried at fair value as determined by reference to prevailing market prices. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis. Temporary unrealized holding gains and losses, net of the related tax effect on available for sale securities are excluded from income and are reported as a separate component of other comprehensive income, until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis and are included in income. However, in cases where specific identification method is not possible, first-in-first-out method is used. A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. Such impairment is charged to the statement of income. Dividend and interest income are recognized when earned.

(p) Cash equivalents

Cash equivalents represent highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less.

(q) Income taxes

Income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity. Deferred tax assets and liabilities 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 operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance of any tax benefits of which future realization is uncertain.

(r) Earnings per share

In accordance with SFAS No. 128, Earnings Per Share (EPS), basic EPS is computed using the weighted average number of equity shares outstanding during the period. Diluted EPS is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the period, using the treasury stock method for warrants, except where results would be anti-dilutive.

(s) Retirement benefits to employees

Contributions to defined contribution plans are charged to income in the period in which they accrue. Current service costs for defined benefit plans are accrued in the period to which they relate. Prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

(t) Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the shareholders.

(u) Derivatives and hedge accounting

The Company enters into forward foreign exchange contracts, foreign exchange option contracts and cross currency swaps, where the counter party is a bank. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective as per SFAS No. 133, is marked to market and recognized in income immediately. No initial transition adjustments were required to adopt SFAS No. 133.

(v) Business combinations, goodwill and other intangibles

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, which requires that the purchase method of accounting be used for all business combinations after June 30, 2001. SFAS No. 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocated to an assembled workforce may not be accounted separately.

On April 1, 2001, the Company early adopted SFAS No. 142, Goodwill and Other Intangible Assets. Adoption of SFAS No. 142 did not result in reclassification of existing goodwill and intangible assets. As required by SFAS No. 142, the Company identified its reporting units and assigned assets and liabilities, including goodwill to the reporting units on the date of adoption. Subsequently, the Company compared the fair value of the reporting unit to its carrying value, to determine whether goodwill is impaired at the date of adoption. This transitional impairment evaluation did not indicate an impairment loss. The carrying value of the goodwill on the date of adoption was Rs. 140.26. Subsequent to the adoption of SFAS No. 142, the Company does not amortize goodwill but instead, tests goodwill for impairment at least annually.

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization. Amortization is computed on a straight-line basis over the estimated useful lives of the respective assets which are as follows:

Patents and technical knowhow	5 years
Non contractual customer relationships	5 years

Additionally, finite-life intangibles are tested for impairment when events or circumstances change, indicating that an impairment may exist. An estimate of future cash flows is developed and compared to the carrying amount of the intangible asset. If the expected undiscounted cash flows are less than the carrying amount of the intangible asset, an impairment loss is recognized for the difference between the carrying amount and discounted cash flows.

(w) Recent accounting pronouncements

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Adoption of SFAS No. 143 did not have a material impact on the consolidated financial statements of the Company.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of SFAS No. 146 did not have a material impact on the consolidated financial statements of the Company.

In November 2002, the EITF issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, a Company could elect to report the change in accounting as a cumulative-effect adjustment. The adoption of EITF Issue No. 00-21 did not have a material impact on the consolidated financial statements of the Company.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities- an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 is applicable to all variable interest entities created after January 31, 2003. As the Company is not associated with any special purpose entity, the provisions of FIN No. 46 are not applicable to the Company for the years ended upto March 31, 2004. The Company believes that the adoption of FIN No. 46 will not have a material impact on the consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Adoption of SFAS No.149 did not have a material impact on the consolidated financial statements of the Company.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity. The Statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of SFAS No. 150 did not have a material impact on the consolidated financial statements of the Company.

In May 2003, the FASB issued SFAS No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Retirement Benefits. SFAS No. 132 revises financial statement disclosures for pension plans and other post retirement benefit plans. SFAS No. 132 is applicable for fiscal periods ending after December 15, 2003. The Company has adopted the disclosure provisions of SFAS No. 132.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Sale of receivables

During the years ended March 31, 2003 and 2004, the Company transferred certain trade receivables to counterparties, being a financial institution and a bank respectively. Under the terms of the arrangements, the Company surrendered control over the trade receivables. Accordingly, these transfers were recorded as sale of receivables. As per the terms, in the event of a default by the debtor, the Company is obligated to repurchase the uncollected receivables. The receivables sold represent current receivables from customers with high credit standing. Historical evidence reveals that there have been no defaults by such customers. Accordingly, the Company believes that the fair value of the recourse obligation is not material. The loss on sale has been recognized in the consolidated statement of income at the time of sale. As of March 31, 2003 and 2004, the Company has sold trade receivables aggregating Rs. 200.00 and Rs. 76.95 respectively.

Concentration of risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, restricted cash, investment securities, accounts receivable and short-term loans. The Company's cash resources are invested with financial institutions and commercial corporations with high investment grade credit ratings. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of March 31, 2002, 2003 and 2004 there was no significant risk of loss in the event of non-performance of the counter parties.

To reduce credit risk, the Company performs ongoing credit evaluation of customers. As of March 31, 2002 and 2003, one customer individually accounted for approximately 12% and 11% of the receivables respectively.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and cash on deposits placed with banks in the normal course of business operations. Restricted cash represents deposits against unclaimed dividends and fixed deposits from public; and margin money against guarantees and letters of credit.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of March 31, 2002, 2003 and 2004 are stated net of allowance for doubtful receivables. Factors utilized by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the aging of the receivables. Accounts receivables are not collateralized.

The activity in allowance for uncollectible accounts is given below:

	Year ended March 31,		
	2002	**2003**	**2004**
Balance at the beginning of the year	Rs. 10.40	Rs. 17.05	Rs. 15.96
Additional provision	41.23	17.94	3.72
Bad debts charged to provision	34.58	19.03	1.56
Balance at the end of the year	Rs. 17.05	Rs. 15.96	Rs. 18.12

6. INVENTORIES

Inventories consist of the following:

	As of March 31,		
	2002	**2003**	**2004**
Raw materials	Rs. 319.54	Rs. 427.61	366.76
Stores and spares	304.65	388.31	406.85
Work-in-process	108.02	194.42	133.71
Finished goods	362.49	353.76	427.04
	Rs. 1,094.70	Rs. 1,364.10	1,334.36

During the years ended March 31, 2002, 2003 and 2004, the Company recorded inventory write down aggregating Rs. 2.00, Rs. 3.44 and Rs. 3.54 respectively, resulting from a fall in the market value of certain finished goods. These amounts are included in the cost of revenues.

7. INVESTMENT SECURITIES

Investment securities, available for sale consist of the following:

As of March 31, 2002:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	Rs. 1.60	Rs. 0.26	Rs. –	Rs. 1.86
Mutual fund units	12.63	–	0.26	12.37
	Rs. 14.23	Rs. 0.26	Rs. 0.26	Rs. 14.23

As of March 31, 2003:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	Rs. 1.60	Rs. 0.37	Rs. –	Rs. 1.97
Equity securities	0.11	0.01	–	0.12
Mutual fund units	12.63	–	0.28	12.35
	Rs. 14.34	Rs. 0.38	Rs. 0.28	Rs. 14.44

During the year ended March 31, 2002, as a part of its ongoing evaluation of investment in mutual fund units, the Company recorded an impairment charge of Rs. 5.06 for an other than temporary decline in value.

Proceeds from the sale of securities, available for sale, were Nil, Rs. 1.38 and Rs. 164.58 during the years ended March 31, 2002, 2003 and 2004 respectively. Interest and dividend income earned from these investments during the years ended March 31, 2002, 2003 and 2004 was Rs. 1.44, Rs. 0.18, and Rs. 16.08 respectively.

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment comprise the following:

	As of March 31,		
	2002	2003	2004
Land	Rs. 149.58	Rs. 181.54	Rs. 200.62
Buildings	387.48	498.02	474.52
Machinery and equipment	4,157.12	4,925.16	5,250.49
Computer equipment	84.67	63.92	82.61
Software	42.33	42.33	45.73
Furniture and fixtures	84.04	93.18	161.02
Vehicles	44.97	40.87	22.80
Capital work-in-progress	155.26	115.23	397.45
	5,105.45	5,960.25	6,635.24
Accumulated depreciation and amortization	1,311.51	1,533.86	1,765.15
	Rs. 3,793.94	Rs. 4,426.39	Rs. 4,870.09

Depreciation expense was Rs. 233.75, Rs. 245.48 and Rs. 282.31 for the years ended March 31, 2002, 2003 and 2004 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of Rs. 7.05, Rs. 14.10 and Rs. 21.24 as of March 31, 2002, 2003 and 2004 respectively. Amortization expense for software for the years ended March 31, 2002, 2003 and 2004 was Rs. 7.05, Rs. 7.05, and Rs. 7.14 respectively.

Property, plant and equipment includes assets held under capital leases, which comprise:

	As of March 31,		
	2002	2003	2004
Machinery and equipment	Rs. 49.31	Rs. 49.31	Rs. 46.58
Computer equipment	21.78	21.78	21.16
Vehicles	26.43	22.34	21.53
	97.52	93.43	89.27
Accumulated depreciation	38.61	52.67	68.95
	Rs. 58.91	Rs. 40.76	Rs. 20.32

Total interest capitalized in connection with ongoing construction activities in the years ended March 31, 2002, 2003 and 2004 aggregated Rs. 13.75, Rs. 26.52, and Rs. 21.94 respectively.

9. LEASES

The Company leases machinery and equipment, computer equipment and vehicles under capital leases. All capital leases are collateralized by their underlying assets. Future minimum lease payments under capital leases as of March 31, 2004 are as follows:

Year ending March 31,	
2005	Rs. 16.82
2006	11.01
2007	2.90
Thereafter	–
Total minimum payments	30.73
Less: Amount representing future interest	4.50
Present value of minimum payments	26.23
Less: Current portion	14.33
Long term capital lease obligation	Rs. 11.90

Additionally, the Company leases certain office facilities under cancelable operating lease agreements that are renewable on a periodic basis at the option of the lessee. Rental expense under these leases is Rs. 20.53, Rs. 18.67, and Rs. 27.02 for the years ended March 31, 2002, 2003 and 2004 respectively.

10. ACQUISITIONS

API business of Max

The Company has acquired the API business of Max India Limited for cash, with effect from September 1, 2002. The consummation of the acquisition transaction occurred on March 31, 2003. Accordingly, the income for the intervening period has been considered as pre-acquisition income and excluded from the consolidated statements of income. Management believes that this acquisition strengthens the

Company's existing capabilities in API and organic intermediaries in the domestic and export markets. The total purchase price has been allocated to the acquired assets and assumed liabilities as follows:

Purchase price	Rs. 655.20
Allocated to:	
Net current assets	196.44
Tangible assets	402.90
Patents	40.38
Non contractual customer relationships	11.89
Deferred tax assets	3.59
	Rs. 655.20

The purchase consideration has been allocated to the assets acquired and liabilities assumed as of the date of acquisition based on management's estimates and independent appraisals.

Pro forma information (unaudited): The following table reflects unaudited pro forma consolidated results of operations, as if the Max acquisition had been made at the beginning of the period presented below:

	Year ended March 31, 2003
Revenues	Rs. 8,020.42
Net income	391.21
Earnings per equity share	
Basic	16.67
Diluted	16.67
Weighted average equity shares used in computing earnings per equity share	
Basic	23,461,703
Diluted	23,461,703

The pro forma consolidated results of operations include adjustments to give effect to amortization of acquired intangible assets, and certain other adjustments together with related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

Nira acquisition

On February 9, 2004, the Company acquired a manufacturing facility at Nira for bottling Indian Made Foreign Liquor (IMFL) from UDV India Limited for a cash consideration of Rs. 27.50. The incidental direct acquisition costs aggregated Rs. 3.90. The acquisition cost has been preliminarily allocated to the individual fixed assets based on the fair values as certified by independent appraisers. Finalization of the purchase price allocation, which is expected to be completed within one year from the date of acquisition, may result in certain adjustments to the purchase price allocation.

Contemporaneous to the acquisition of these assets, Jubilant entered into a toll manufacturing arrangement with a company for manufacturing IMFL products. Jubilant earns a fixed toll manufacturing fee for each case of IMFL manufactured. Under the terms of the toll manufacturing arrangement, Jubilant procures raw material from specific third party suppliers at prices approved by the other company, carries out manufacturing activity and sells the IMFL products to customers identified by the other company. The other company provides the necessary working capital for carrying out the manufacture of IMFL products. As Jubilant does not have discretion in supplier and customer selection, latitude in price negotiations, substantive risks associated with the transactions and earns a fixed manufacturing fee per case, the Company has reflected the transactions associated with manufacture of IMFL products on a net basis in the consolidated statement of income.

11. GOODWILL AND INTANGIBLE ASSETS

The following table presents the changes in goodwill during the years ended March 31, 2002 2003 and 2004:

	Year ended March 31,		
	2002	**2003**	**2004**
Balance at the beginning of the year	Rs. 140.27	Rs. 140.27	Rs. 140.27
Additions during the year	–	–	69.60
Balance at the end of the year	Rs. 140.27	Rs. 140.27	Rs. 209.87

Information regarding the Company's intangible assets acquired either individually, with a group of other assets or in a business combination is as follows:

	March 31, 2003			March 31, 2004		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Patents	Rs. 29.16	Rs. –	Rs. 29.16	Rs. 40.38	Rs. 8.08	Rs. 32.30
Non contractual customer relationships	–	–	–	11.89	2.38	9.51
	Rs. 29.16	Rs. –	Rs. 29.16	Rs. 52.27	Rs. 10.46	Rs. 41.81

The amortization expense in respect of intangibles for each of the years in the four-year period ending March 31, 2008 will be Rs. 10.45.

12. INVESTMENT IN AFFILIATE

The Company acquired 49% interest in Jubilant Biosys in March 2002 for a consideration of Rs. 70.00. Jubilant Biosys is engaged in research and development in the field of bioinformatics and chemoinformatics, with a view to market research products and tools to biotechnology, pharmaceutical, drug discovery and other life sciences companies.

As of the date of acquisition, Jubilant Biosys was a company owned and controlled by the principal shareholders of the Company.

In March 2003, the Company made further investments in Jubilant Biosys by acquiring 778,000 convertible preference shares for a consideration of Rs. 77.80. During the periods ended upto February 2, 2004, the Company accounted its 49% shareholding interest in Jubilant Biosys by the equity method.

The activity in investment in this affiliate during the years ended March 31, 2002 and 2003 and for the period April 1, 2003 to February 2, 2004 is given below:

	Year ended March 31,			April 1, 2003 to February 2,	
	2002	2003		2004	
	Investment in common stock	Investment in common stock	Investment in preferred stock	Investment in common stock	Investment in preferred stock
Balance at the beginning of the year/ period	Rs. –	Rs. 70.00	Rs. –	Rs. 58.12	Rs. 77.80
Investment made during the year/ period	70.00	–	77.80	–	–
Equity in the loss of affiliate recognized in income statement	–	11.88	–	14.93	–
Balance at the end of the year/ period	Rs. 70.00	Rs. 58.12	Rs. 77.80	Rs. 43.19	Rs. 77.80

On February 3, 2004, the Company elected the option to convert 778,000 convertible preference shares into 155,600 equity shares of Jubilant Biosys. As a result of the conversion of preference shares, the Company's equity interest in Jubilant Biosys increased from 49% to 66.98%. Pursuant to the assumption of control by the Company, the operations of Jubilant Biosys have been consolidated under the current consolidation rules with effect from February 3, 2004, the date of step acquisition.

The cost of acquisition has been allocated on a preliminary basis to the assets acquired and liabilities assumed on the respective dates of acquisition based on management's estimates. The step acquisition resulted in a preliminary goodwill of Rs. 69.60. Finalization of the purchase price allocation, which is expected to be complete within one year from the date of step acquisition, may result in certain adjustments to the purchase price allocation.

13. OTHER ASSETS

Other assets comprise the following:

	As of March 31,		
	2002	2003	2004
Advances to suppliers	Rs. 100.13	Rs. 121.95	Rs. 186.52
Prepaid expenses	13.57	17.36	40.69
Interest receivable	5.37	1.63	1.85
Deposits	131.75	157.59	151.50
Accrued incentives and subsidies	110.92	175.96	171.46
Short-term loans	2.77	35.97	–
Employees receivables	10.99	10.32	13.86
Prepaid/advance taxes and duties	138.54	227.11	238.30
Others	29.31	104.14	142.84
	543.35	852.03	947.02
Less: Other current assets	408.22	674.20	795.82
Other assets	Rs. 135.13	Rs. 177.83	Rs.151.20

14. SHORT TERM BORROWINGS

The Company has a line of credit of Rs. 1,552.80, Rs. 1,673.10 and Rs. 3,200.00 as of March 31, 2002, 2003 and 2004 respectively, from its bankers for working capital requirements. The line of credit is renewable annually. The credit bears interest at an average rate of 13.0%, 11.3% and 5.7% during the years ended March 31, 2002, 2003 and 2004 respectively. The line of credit facilities are secured by a first charge on the current assets of the Company and by way of a second charge on the fixed assets (subject to certain exclusive mortgages/ hypothecations referred to in Note 16). The terms of the line of credit arrangements contain certain financial covenants. As of March 31, 2002, 2003 and 2004, the Company has borrowed Rs. 692.51, Rs. 717.80 and Rs. 1,002.83 respectively under these lines of credit.

In addition, the Company obtains short-term unsecured loans from banks and non-banking finance companies to meet its temporary working capital requirements. The original maturities of these loans are generally less than one year and the loans bear interest at an average rate of 14.1%, 11.8% and 12.7% during the years ended March 31, 2002, 2003 and 2004 respectively. As of March 31, 2002, 2003 and 2004, the outstanding short term loans aggregate Rs. 297.77, Rs. 250.00 and Nil respectively.

15. OTHER LIABILITIES

Other liabilities comprise the following:

	As of March 31,		
	2002	2003	2004
Advances from customers	Rs. 57.40	Rs. 66.01	Rs. 72.55
Sales tax and withholding taxes payable	11.63	16.77	55.01
Accrued liabilities and expenses	65.86	63.36	29.67
Others	25.78	43.50	27.04
	160.67	189.64	184.27
Less: Other current liabilities	107.64	133.24	136.55
Other liabilities	Rs. 53.03	Rs. 56.40	Rs. 47.72

16. LONG TERM DEBT

Long-term debt consists of the following:

	As of March 31,		
	2002	2003	2004
13.5% debentures	Rs. 133.33	Rs. 66.67	Rs. –
11.43% debentures	–	221.42	–
Floating rate foreign currency loans	48.82	945.04	975.65
Working capital and term loans from banks and financial institutions	1,695.35	1,537.30	1,860.23
Fixed deposits from public	418.86	317.55	241.32
Others	107.34	82.45	121.51
	2,403.70	3,170.43	3,198.71
Less: Current portion	510.95	659.75	834.29
Long term debt, excluding current portion	Rs. 1,892.75	Rs. 2,510.68	Rs. 2,364.42

An interest rate profile of floating rate foreign currency loans, working capital and term loans from banks and financial institutions and fixed deposits from the public is given below:

	As of March 31,		
	2002	2003	2004
Floating rate foreign currency loans	2.75%	3.1% - 3.6%	2.95% - 3.70%
Working capital and term loans from banks and financial institutions	13.5% - 17%	13% - 17%	8% - 12.5%
Fixed deposits from public	10% - 11%	9% - 9.5%	7.5% - 8%

The aggregate maturities of long-term debt as of March 31, 2004 are as follows:

Within 1 year	Rs. 834.29
1-2 years	725.45
2-3 years	739.11
3-4 years	547.43
4-5 years	196.57
After 5 years	155.86
Total long-term debt	Rs. 3,198.71

The terms of the loan arrangements contain certain financial covenants. Certain floating interest rate foreign currency loans and certain fixed interest rate term loans aggregating Rs. 540.47 are secured by exclusive mortgages/ hypothecations on certain property, plant and equipment. Other term loans are secured by a first charge on property, plant and equipment (other than those exclusively mortgaged/ hypothecated) and a second charge on all current assets of the Company. Additionally, term loans aggregating Rs. 225.93 have been guaranteed by the principal shareholders of the Company. Fixed deposits from public are unsecured.

During the year ended March 31, 2003, the Company incurred prepayment costs aggregating Rs. 18.30 in connection with redemption of a loan taken from a financial institution. Contemporaneously, the loan was replaced by a new loan taken from the same financial institution. The prepayment costs together with the unamortized loan origination costs were being amortized as an adjustment of interest expense over the remaining term of the new loan using the interest method in accordance with the guidance available in EITF Issue No. 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments. During the year ended March 31, 2004, the Company has repaid this new loan and accordingly, the unamortized portion of prepayment costs and loan origination costs have been charged to the consolidated statement of income.

17. EQUITY SHARES

The Company has only one class of common stock referred to herein as equity shares.

Voting

Each holder of equity shares is entitled to one vote per share.

Dividends

Should the Company declare and pay dividends, such dividends will be paid in Indian rupees and will be paid for the full year irrespective of the period of holding of the shares.

Indian law mandates that any dividend, exceeding 10% of the common stock, can be declared out of distributable profits only after the transfer of upto 10% of net income computed in accordance with current regulations, to a general reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes. The Company declared a cash dividend of Rs. 39.31, Rs. 54.99 and Rs. 136.47 during the years ended March 31, 2002, 2003 and 2004 respectively. The dividend per share was Rs. 1.875, Rs. 2.35, and Rs. 5.15 during the years ended March 31, 2002, 2003 and 2004 respectively.

Retained earnings

The Company's retained earnings as of March 31, 2002, 2003 and 2004, include restricted retained earnings of Rs. 152.85, Rs. 152.85 and Rs. 109.76 respectively, which is not distributable as dividends under Indian company laws. These relate to requirements regarding earmarking a part of the retained earnings on redemption of preference shares and non-convertible debentures.

Liquidation

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 shares of equity shares held by the stockholders.

Stock split

The Company changed its capital structure, through a 2-for-1 stock split effective November 21, 2002. All references in the consolidated financial statements to number of shares and per share amounts of the Company's equity shares have been retroactively restated to reflect the increased number of equity shares outstanding as a result of the share split.

Stock dividend

On February 3, 2004, the Board of Directors of the Company approved a split effected through a stock dividend whereby each shareholder received three newly issued shares for every five shares held by them as of March 18, 2004, the record date. Accordingly, the issued share capital has been retroactively restated to reflect the stock dividend. Additionally, all references in the consolidated financial statements to number of shares of the Company's equity shares have been retroactively restated to reflect the increased number of equity shares outstanding as a result of the stock dividend.

Treasury shares

Share capital includes the par value of treasury shares held by the Company, which have not been cancelled. Treasury shares are shown as a separate component of equity and stated at the amount paid to acquire them. Differences between this amount and the amount received on the disposal of treasury shares are recorded as a movement in consolidated equity.

18. PREFERRED STOCK

During the year ended March 31, 2002, the Company redeemed 500,000 11.5% Redeemable Cumulative Preference shares of Rs. 100 each at par consequent to the preference shareholders exercising the option for redemption. Dividends upto the date of redemption were accrued on a pro-rata basis and discharged.

19. DEPRECIATION AND AMORTIZATION

The Company's underlying accounting records do not contain an allocation of depreciation and amortization between "cost of revenues", "selling, general and administration expenses" and "research and development charges". As such, the charge for depreciation and amortization has been presented as a separate line item on the face of the consolidated statements of income. Further, it should be noted that the presentation of the consolidated statements of income under US GAAP would classify the charge for depreciation of property, plant and equipment and amortization of certain intangible assets within the appropriate line item "cost of revenues", "selling, general and administration" or "research and development" depending on the use of the related asset.

20. OTHER OPERATING INCOME, NET

Other operating income, net comprises the following:

	Year ended March 31,		
	2002	**2003**	**2004**
Export incentives	Rs. 97.41	Rs. 135.96	Rs. 123.28
Subsidy benefits	80.97	80.94	78.68
Scrap sales	15.92	31.36	18.44
Foreign exchange gain/ (loss), net	(6.91)	5.89	120.24
Other operatin'g income, net	Rs. 187.39	Rs. 254.15	Rs. 340.64

21. OTHER EXPENSE, NET

Other expense, net comprises the following:

	Year ended March 31,		
	2002	2003	2004
Interest and other finance costs	Rs. 544.93	Rs. 444.41	Rs. 369.94
Dividend on preferred stock	4.03	–	–
Other than temporary decline in investments	5.06	–	–
Interest income	(42.17)	(28.85)	(15.87)
Gain on sale of investment securities, net	–	(0.68)	(0.23)
Loss on sale of property, plant and equipment, Net	6.34	3.05	1.24
Other	(40.94)	(14.93)	(85.62)
Other expense, net	Rs. 477.25	Rs. 403.00	Rs. 269.46

22. INCOME TAXES

The individual entities within the Company file individual tax returns as per regulations existing in their respective countries of domicile. Total income taxes were allocated as follows:

	Year ended March 31,		
	2002	2003	2004
Income from continuing operations	Rs. 53.18	Rs. 257.03	Rs. 223.98
Stockholders' equity for unrealized gains on investment securities	–	0.01	–
Total taxes	Rs. 53.18	Rs. 257.04	Rs. 223.98

Income tax expense attributable to income from continuing operations consists of:

	Year ended March 31,		
	2002	2003	2004
Current -			
– Indian taxes	Rs. (5.45)	Rs. 49.70	Rs. 62.43
– Others	0.64	0.44	2.06
Deferred -			
– Indian taxes	57.99	206.91	159.46
– Others	–	(0.01)	0.03
	Rs. 53.18	Rs. 257.04	Rs. 223.98

The reconciliation between the provision for income tax of the Company and amounts computed by applying the Indian statutory income tax rate is as follows:

	Year ended March 31,		
	2002	2003	2004
Income before income taxes	Rs. 195.60	Rs. 533.22	Rs. 957.17
Enacted tax rate in India	35.70%	36.75%	35.875%
Expected tax expense	69.83	195.96	343.38
Effect of change in enacted tax rate	(44.27)	15.07	(17.54)
Effect of change in valuation allowance	–	4.37	(12.41)
Minimum alternative tax	21.54	49.40	–
Incremental deduction allowed for research and development expenses	–	–	(29.26)
Tax deductible income	–	–	(26.50)
Other permanent differences	6.08	(7.76)	(33.69)
Total taxes	Rs. 53.18	Rs. 257.04	Rs. 223.98

The components of deferred tax balances are as follows:

	As of March 31,		
	2002	2003	2004
Deferred tax assets:			
Business losses	Rs. 169.63	Rs. 56.66	Rs. -
Equity in loss of affiliate	–	4.37	–
Allowance for accounts receivable	5.29	5.45	6.50
Accrued employee costs	21.09	26.64	41.03
Other temporary differences	32.14	14.34	15.40
	228.15	107.46	62.93
Less: Valuation allowance	(12.41)	(16.78)	–
Total deferred tax assets	Rs. 215.74	Rs. 90.68	Rs. 62.93
Deferred tax liabilities:			
Property and equipment	Rs. (716.97)	Rs. (806.91)	Rs. (900.81)
Unrealized gains on investment securities	–	(0.01)	–
Derivative instruments	–	–	(32.69)
Other temporary differences	(11.53)	(20.46)	(5.10)
Total deferred tax liabilities	Rs. (728.50)	Rs. (827.38)	Rs. (938.60)

In assessing the realizibility of deferred tax assets, management considers whether it is more likely than not, that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not, the Company will realize the benefits of those deductible differences, net of existing valuation allowances. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

The components of valuation allowance are as follows:

	As of March 31,		
	2002	2003	2004
Business losses	Rs. 12.41	Rs. 12.41	Rs. –
Equity in loss of affiliate	–	4.37	–
Total	Rs. 12.41	Rs. 16.78	Rs. –

Deferred tax assets established on the equity in the loss of affiliate aggregating Rs. 4.37 were written off against the valuation allowance pursuant to the affiliate becoming a consolidated subsidiary.

As of March 31, 2004 the accumulated undistributed earnings of the U.S. based subsidiary is Rs. 8.94. Such earnings are considered to be indefinitely reinvested and, accordingly no provision for income taxes has been recorded on the undistributed earnings.

23. EARNINGS PER EQUITY SHARE

The following is the reconciliation of the weighted average number of equity shares used in the computation of basic and diluted EPS:

	Year ended March 31,		
	2002	2003	2004
Weighted average number of equity shares outstanding used in computing basic EPS	19,199,631	23,461,703	23,461,703
Dilutive effect of warrants to promoters	523,380	–	–
Weighted average number of equity shares and equity equivalent shares outstanding used in computing diluted EPS	19,723,011	23,461,703	23,461,703

Treasury stock has been excluded from the outstanding shares of the Company in the computation of basic and diluted EPS.

In June 2001, the Company allotted 4,800,000 convertible share warrants to promoters at an exercise price of Rs. 21.41 per share. These share warrants were exercised by the promoters during the year ended March 31, 2002. The effect of issuance of share warrants to the promoters have been appropriately factored in the computation of diluted earnings per share.

Warrants to purchase 4,276,620 equity shares during the year ended March 31, 2002 were not included in the computation of diluted EPS as these options were anti-dilutive.

24. EMPLOYEE BENEFIT PLANS

India operations

The Company has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees.

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment at an amount based on the respective employee's salary and the years of employment with the Company. The Company estimates its liability as of each balance sheet date based on an actuarial valuation.

The following table sets forth the funded status of the plan and the amounts recognized in the Company's consolidated balance sheets:

	As of March 31,		
	2002	**2003**	**2004**
Change in benefit obligation			
Projected Benefit Obligation (PBO) at the beginning of the year	Rs. 44.91	Rs. 50.08	Rs. 68.85
PBO assumed on a business acquisition	–	–	1.71
Service cost	4.57	4.71	6.47
Interest cost	4.37	4.39	5.37
Benefits paid	(6.27)	(3.68)	(5.74)
Actuarial loss	2.50	13.35	7.29
PBO at the end of the year	Rs. 50.08	Rs. 68.85	Rs. 83.95
Change in plan assets			
Fair value of plan assets at the beginning of the year	Rs. –	Rs. –	Rs. –
Fair value of plan assets acquired on a business acquisition	–	–	1.71
Actual results on plan assets	–	–	–
Employer contributions	6.27	3.68	5.74
Benefits paid	(6.27)	(3.68)	(5.74)
Plan assets at the end of the year	Rs. –	Rs. –	Rs. 1.71
Funded status	Rs. (50.08)	Rs. (68.85)	Rs. (82.23)
Unrecognized actuarial loss	2.50	15.86	22.62
Unrecognized transitional obligation	5.99	2.99	–
Net amount recognized	Rs. (41.59)	Rs. (50.00)	Rs. (59.61)
Amounts recognized in the statement of financial position consist of:			
Accrued benefit cost	Rs. (41.59)	Rs. (50.00)	Rs. (59.61)

The accumulated benefit obligation for the Gratuity Plan was Rs. 27.10, Rs. 36.67 and Rs. 52.54 as of March 31, 2002, 2003 and 2004 respectively.

The entire plan assets for the Gratuity Plan as of March 31, 2004 are administered by one of the leading life insurance companies in India.

Net gratuity cost for the years ended March 31, 2002, 2003 and 2004 comprise of the following components:

	Year ended March 31,		
	2002	**2003**	**2004**
Service cost	Rs. 4.57	Rs. 4.71	Rs. 6.47
Interest cost	4.37	4.39	5.38
Amortization of transitional obligation	2.99	2.99	2.99
Recognized actuarial loss	–	–	0.52
Net gratuity cost	Rs. 11.93	Rs. 12.09	Rs. 15.36

The weighted average actuarial assumptions used in the determination of the Company's benefit obligations for the years ended March 31, 2002, 2003 and 2004 are given below:

	As of March 31,		
	2002	**2003**	**2004**
Discount rate	9%	8%	7%
Expected rate of increase in salaries	7%	7%	5%

The weighted average actuarial assumptions used in the determination of the Company's net periodic benefit cost for the years ended March 31, 2002, 2003 and 2004 are given below:

	As of March 31,		
	2002	**2003**	**2004**
Discount rate	9%	9%	8%
Expected rate of increase in salaries	7%	7%	7%

The mortality rates used are as published by one of the leading life insurance companies in India.

The weighted average discount rate, expected rate of increase in salaries and expected long term return on plan assets used to calculate benefit cost for the year ending March 31, 2005 will be 7%, 5% and 7.5% respectively. The Company estimates the long term return on plan assets based on the average long term rate of return expected to prevail over the next 15 to 20 years in the types of investments held by the insurance administrator.

Expected benefit payments for the Gratuity Plan over the next ten years are:

Year ending March 31,	
2005	Rs. 6.59
2006	3.91
2007	5.13
2008	6.30
2009	6.99
2010-2014	50.07

The Company's best estimate of contributions to the Gratuity Plan for the next fiscal year is Rs. 6.59.

Superannuation

The superannuation plan is a defined contribution pension plan that has been established for certain senior employees of the Company. The superannuation fund is being administered by a government owned insurance corporation. During the years ended March 31, 2002, 2003 and 2004 contributions to this fund (set at 10% to 15% of base compensation) aggregated Rs. 16.71, Rs. 24.35 and Rs. 30.13 respectively. The contributions made are charged to the consolidated statement of income on an accrual basis.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Company. The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer.

The Company has no further obligations under the plan beyond its monthly contributions. The funds contributed to the fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

Total contributions made by the Company in respect of this plan for the years ended March 31, 2002, 2003 and 2004 aggregate Rs. 20.53, Rs. 20.56 and Rs. 29.68 respectively.

United States operations

The Company participates in a Savings and Investment Plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 15% of their compensation or $11, whichever is lower. The Company makes a contribution of 50% of the employee's contribution, up to a maximum of 5% of the employee's annual compensation. Total contributions to this plan aggregated $0.01, $0.01 and $0.01 for the years ended March 31, 2002, 2003 and 2004 respectively.

25. RELATED PARTY TRANSACTIONS

The Company has entered into transactions with the following related parties:

a) Companies in which Mr. S.S. Bhartia and Mr. H.S. Bhartia, the principal shareholders, have a significant ownership interest, controlling interest or over which they exercise significant influence (significant interest entities);

b) Jubilant Biosys, for the periods upto which it was an equity affiliate of the Company;

c) Employees of the Company; and

d) Directors of the Company and their relatives

The related party transactions can be categorized as follows:

	Year ended March 31,		
	2002	**2003**	**2004**
Purchase of land and building from a significant interest entity	Rs. 41.62	Rs. –	Rs. –
Recovery of rent and share of common expenses for leasing of facilities to significant interest entities	6.90	14.86	15.02
Interest earned on amounts advanced to significant interest entities and equity affiliate	21.85	16.61	6.17
Interest expense on unsecured deposits/ borrowings from directors and their relatives	1.15	1.06	0.67

Loans to employees

The Company has advanced general purpose and housing loans to its employees at rates ranging from 8% to 10% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending upto six years. Employee loan balances outstanding as of March 31, 2002, 2003 and 2004 are Rs. 7.56, Rs. 6.43 and Rs. 6.22 respectively. The estimated fair values of these loans as of March 31, 2002, 2003 and 2004 based on latest available rate of lending are Rs. 7.35, Rs. 6.25 and Rs. 6.61 respectively.

The balances receivable from and payable to related parties are summarized as follows:

As of March 31, 2002:

	Directors and their relatives	Significant interest entities	Equity affiliate	Total
Due from related parties				
Short-term loans	Rs. –	Rs. 16.00	Rs. 17.20	Rs. 33.20
Receivable towards expense Reimbursements	–	3.33	–	3.33
	Rs. –	Rs. 19.33	Rs. 17.20	Rs. 36.53
Dues to related parties				
Unsecured deposits	Rs. 8.22	Rs. –	Rs. –	Rs. 8.22
	Rs. 8.22	Rs. –	Rs. –	Rs. 8.22

As of March 31, 2003:

	Directors and their relatives	Significant interest entities	Equity affiliate	Total
Due to related Parties				
Unsecured deposits	Rs. 7.60	Rs. –	Rs. –	Rs. 7.60
	Rs. 7.60	Rs. –	Rs. –	Rs. 7.60

As of March 31, 2004:

	Directors and their relatives	Significant interest entities	Equity affiliate	Total
Dues to related parties				
Unsecured deposits	Rs. 6.04	Rs. –	Rs. –	Rs. 6.04
	Rs. 6.04	Rs. –	Rs. –	Rs. 6.04

26. COMMITMENTS, CONTINGENCIES AND LITIGATION

Capital commitments

As of March 31, 2004, the Company had committed to spend Rs. 285.13 respectively under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Other commitments

The Company has availed of custom duty exemptions under the Export Promotion Capital Goods Scheme of Government of India on import of capital equipment for use in the production of goods for export. Under the Scheme, the Company is required to export goods of a specified value over a period of next five to eight years. As of March 31, 2004 the Company's export obligations outstanding under the Scheme aggregate Rs. 153.36.

In accordance with a scheme of duty concession formulated by Government of India, the Company avails of benefit of customs duty on import of certain specified raw materials with a commitment to export the finished product within a specified time. As of March 31, 2004, export obligations of Rs. 232.69 are outstanding in respect of imports on which duty benefit has been availed.

Litigation

The Company has challenged the levy of duties on captive consumption of certain intermediaries in its factories of production. In this matter, one petition made by the Company is currently being examined by the Mumbai High Court. Pending decision on these petitions, the Company has deposited amounts aggregating Rs. 6.28 'under protest' out of total claims of Rs. 44.06. In the event the Company is unsuccessful in the litigation, the Company would be required to deposit additional amounts aggregating Rs. 37.78 and charge amounts aggregating Rs. 44.06 to the consolidated statements of income.

While the ultimate outcome of the above mentioned litigations cannot be ascertained at this time, based on current knowledge of the applicable law, management believes that these law suits should not have a material adverse affect on the Company's consolidated financial statements or its business operations.

Additionally, the Company is also involved in lawsuits, claims and proceedings, which arise in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability is not currently determinable because of considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a material adverse affect on the consolidated financial statements.

27. SEGMENT REPORTING

a) Operating segmental information

Upto March 31, 2003, the Company was organized by segments, including Pharmaceuticals and life sciences, Performance chemicals, Organic intermediaries and Agri products. During the year ended March 31, 2004:

- the Company aggregated the Organic intermediaries and Agri products segments into the Industrial chemicals segment;

- the activities of food polymers division have been reclassified from Performance chemicals segment to Pharmaceutical and life sciences segment; and
- the activities of Feed and nutrition division have been reclassified from Pharmaceutical and life sciences segment to the Industrial chemicals segment.

Additionally, certain utility related fixed assets and the related inter-segmental utility recoveries, which were previously being classified as part of Organic intermediaries have been allocated to each of the segments on a reasonable basis. Accordingly, the comparatives for all periods presented have been reclassified.

The Chairman and Managing Director of the Company has been identified as the Chief Operating Decision Maker (CODM) as defined by SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. The CODM evaluates the segments based on their revenue growth and operating income.

Pharmaceuticals and life sciences includes pharmaceuticals, advanced intermediates, food polymers, custom research and manufacturing services. Performance chemicals includes latex, coating polymers, industrial adhesives, textile chemicals, woodworking solutions, footwear adhesives, specialty gases. Industrial chemicals includes acetic acid, acetic anhydride, ethyl acetate, vinyl acetate monomer, crop nutrition products, feed nutrition products, fertilizers (SSP), organic manure, and crop protection formulation.

Year ended March 31, 2002

	Pharmaceuticals and life sciences	Performance chemicals	Industrial chemicals	Reconciling items (2)	Adjustments (3)	Entity total
Segment revenues	Rs. 1,754.60	Rs. 1,418.16	Rs. 5,299.24	Rs. –	Rs. (76.32)	Rs. 8,395.68
Inter segment revenues (1)	(354.76)	–	(1,695.16)	–	–	(2,049.92)
Total revenues	Rs. 1,399.84	Rs. 1,418.16	Rs. 3,604.08	Rs. –	Rs. (76.32)	Rs. 6,345.76
Depreciation and amortization	Rs. 60.98	Rs. 39.29	Rs. 151.05	Rs. 4.48	Rs. (15.00)	Rs. 240.80
Segment income from operation	Rs. 397.74	Rs. 70.67	Rs. 311.79	Rs. (156.33)	Rs. 48.98	Rs. 672.85
Other expenses, net						(477.25)
Income taxes						(53.18)
Net income						Rs. 142.42
Segment additions to property, plant and equipment and intangible assets	Rs. 60.19	Rs. 17.09	Rs. 189.47	Rs. 158.73	Rs. 77.07	Rs. 502.55
Total assets of segment	Rs. 1,260.68	Rs. 676.30	Rs. 3,465.23	Rs. 406.03	Rs. 643.60	Rs. 6,451.84
Total liabilities of segment	Rs. 108.23	Rs.154.38	Rs. 573.70	Rs. 3,865.07	Rs. 274.79	Rs. 4,976.17

(1) Intersegment revenues comprises transfers to other segments and are reflected at market prices.
(2) Corporate activities such as treasury, legal and accounting, which do not qualify as operating segments under SFAS No. 131 have been considered as Reconciling items.
(3) The adjustments represent reconciling items to conform the segment information to US GAAP.

Year ended March 31, 2003

	Pharmaceuticals and life sciences	Performance chemicals	Industrial chemicals	Reconciling items (2)	Adjustments (3)	Entity total
Segment revenues	Rs. 2,587.71	Rs. 1,565.67	Rs. 5,315.80	Rs. –	Rs. (454.58)	Rs. 9,014.60
Inter segment revenues (1)	(500.73)	(0.60)	(1,330.80)	–	–	(1,832.13)
Total revenues	Rs. 2,086.98	Rs. 1,565.07	Rs. 3,985.00	Rs. –	Rs. (454.58)	Rs. 7,182.47
Depreciation and amortization	Rs. 93.71	Rs. 26.04	Rs. 110.15	Rs. 7.62	Rs. 15.01	Rs. 252.53
Segment income from operation	Rs. 550.44	Rs. 62.13	Rs. 609.23	Rs. (177.62)	Rs. (96.08)	Rs. 948.10
Other expenses, net						(403.00)
Income taxes						(257.04)
Equity in loss of affiliate						(11.88)
Net income						Rs. 276.18
Segment additions to property, plant and equipment and intangible assets	Rs. 989.62	Rs. 5.12	Rs. 149.56	Rs. 13.91	Rs. (223.04)	Rs. 935.17
Total assets of segment	Rs. 2,731.99	Rs. 682.82	Rs. 3,386.26	Rs. 638.12	Rs. 421.42	Rs. 7,860.61
Total liabilities of segment	Rs. 300.36	Rs. 134.21	Rs. 595.22	Rs. 4,928.13	Rs. 205.84	Rs. 6,163.76

(1) Intersegment revenues comprises transfers to other segments and are reflected at market prices.

(2) Corporate activities such as treasury, legal and accounting, which do not qualify as operating segments under SFAS No. 131 have been considered as Reconciling items.

(3) The adjustments represent reconciling items to conform the segment information to US GAAP.

	Year ended March 31, 2004					
	Pharmaceuticals and life sciences	**Performance chemicals**	**Industrial chemicals**	**Reconciling items (2)**	**Adjustments (3)**	**Entity total**
Segment revenues	Rs. 4,019.29	Rs. 1,799.66	Rs. 5,735.63	Rs. –	Rs. 83.07	Rs. 11,637.65
Inter segment revenues (1)	(696.18)	(0.38)	(1,606.20)	–	–	(2,302.76)
Total revenues	Rs. 3,323.11	Rs. 1,799.28	Rs. 4,129.43	Rs. –	Rs. 83.07	Rs. 9,334.89
Depreciation and amortization	Rs. 131.31	Rs. 26.96	Rs. 159.88	Rs. 8.03	Rs. (23.60)	Rs. 302.58
Segment income from operation	Rs. 840.89	Rs. 38.25	Rs. 609.01	Rs. (164.32)	Rs. (82.27)	Rs. 1,241.56
Other expenses, net						(269.46)
Income taxes						(223.98)
Equity in loss of affiliate						(14.93)
Minority interest						3.18
Net income						Rs. 736.37
Segment additions to property, plant and equipment and intangible assets	Rs. 569.70	Rs. 14.08	Rs. 130.63	Rs. 3.31	Rs. 111.32	Rs. 829.04
Total assets of segment	Rs. 3,962.77	Rs. 725.83	Rs. 3,293.68	Rs. 718.21	Rs. 399.58	Rs. 9,100.07
Total liabilities of segment	Rs. 562.37	Rs. 247.30	Rs. 606.59	Rs. 5,354.59	Rs. 10.41	Rs. 6,781.26

(1) Intersegment revenues comprises transfers to other segments and are reflected at market prices.

(2) Corporate activities such as treasury, legal and accounting, which do not qualify as operating segments under SFAS No. 131 have been considered as Reconciling items.

(3) The adjustments represent reconciling items to conform the segment information to US GAAP.

b) Geographical segmental information

All the business activities of the Company are conducted from the locations in India. Accordingly, all the revenue and substantial net assets are attributed to Indian operations. The revenues, based on domicile of the customers, are as follows:

	Year ended March 31,					
	2002		2003		2004	
Asia Pacific/ Australia/ Middle East		Rs. 349.39		Rs. 730.73		Rs. 584.20
China/ Korea/ Taiwan		195.24		238.27		390.70
America /Europe		551.41		706.34		1,305.20
India	Rs. 5,326.04		Rs. 5,961.71		Rs. 6.971.72	
Reconciling items (1)	(76.32)	5,249.72	(454.58)	5,507.13	83.07	7,054.79
		Rs. 6,345.76		Rs. 7,182.47		Rs. 9,334.89

(1) The reconciling items represent adjustments to conform the segment information to US GAAP.

c) Goodwill and intangible assets

The goodwill and intangible assets as of March 31, 2002, 2003 and 2004 have been allocated to the Pharmaceuticals and life sciences segment.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Current assets and liabilities

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

Long-term debt

As of March 31, 2002, 2003 and 2004, the estimated fair value of long term debt is Rs. 2,479.35, Rs. 3,279.91 and Rs. 3243.57 respectively. These fair values have been estimated based on Indian bank's prime lending rate (PLR) that are currently available to the Company.

Derivative financial instruments

The Company enters into forward foreign exchange contracts, foreign exchange option contracts and cross currency swaps where the counter party is generally a bank. The forward foreign exchange contracts mature between one to twelve months. The Company considers the risk of non-performance by the counter party as non-material.

The following table presents the aggregate notional principal amounts of the Company's outstanding foreign exchange and derivative contracts together with the related balance sheet exposure:

	Notional principal amounts (Note 1)		Balance sheet exposure (Note 2)	
As of March 31,	2002	2003	2002	2003
Foreign exchange forward contracts denominated in:				
United States dollars	Rs. 490.15	Rs. 580.53	Rs. (1.57)	Rs. 11.83
Euros	–	88.10	–	2.03
Cross currency swaps denominated in:				
United States dollars	–	674.93	–	10.50
	Rs. 490.15	Rs. 1,343.56	Rs. (1.57)	Rs. 24.36

	Notional principal amounts (Note 1)	Balance sheet exposure (Note 2)
As of March 31, 2004		
Foreign exchange forward contracts denominated in:		
United States dollars	Rs. 1,680.83	Rs. 64.01
Euros	225.35	9.31
Cross currency swaps denominated in:		
United States dollars	437.00	19.09
	Rs. 2,343.18	Rs. 92.41

1. Notional amounts are key elements of derivative financial instrument agreements. However, notional amounts do not represent the amount exchanged by counterparties and do not measure the Company's exposure to credit or market risks. The amounts exchanged are based on the notional amounts and other items of the underlying derivative agreements.
2. Balance sheet exposure denotes the mark to market impact of the derivative and foreign exchange products on the reporting date. Mark to market on derivative instruments are recognized in the consolidated statement of income.
3. Amounts in brackets indicate loss.
4. United States dollar (USD) figures for year ended March 31, 2002, 2003 and 2004 have been converted at 1 USD = Rs. 48.80, 1 USD = Rs. 47.53 and 1 USD = Rs. 43.70 respectively.
5. Euro figures for the year ended March 31, 2003 and 2004 have been converted at 1 Euro = Rs. 51.46 and 1 Euro = Rs. 53.40 respectively.

Reconciliation of Significant Differences between Consolidated Profit After Tax Determined in accordance with Indian GAAP and Consolidated Net Income Determined in accordance with US GAAP

(Rupees in millions)

	Notes	Year ended March 31,		
		2002	2003	2004
Consolidated profit after tax as per Indian GAAP		**232.21**	**480.80**	**782.37**
Business acquisition	1	-	(120.39)	(35.40)
Revenue recognition	2	(2.95)	17.01	(1.25)
Foreign currency differences	3	(4.81)	21.76	71.55
Debt initiation costs	4	(1.78)	21.16	(21.26)
Employee retirement benefits	5	0.64	4.05	(4.18)
Fixed assets and depreciation	6	18.08	(38.09)	(0.56)
Income taxes	7	(72.58)	(96.46)	(44.98)
Investment in equity affiliate	8	-	(11.58)	(6.03)
Preference dividend	9	(4.03)	-	-
Deferred revenue expenditure	10	-	-	(21.76)
Other adjustments		(22.36)	(2.08)	17.87
Consolidated net income as per US GAAP		**142.42**	**276.18**	**736.37**

Notes:

1. **Business acquisition**

During the year ended March 31, 2003, the Company has acquired the API business of Max India Limited for a cash consideration. An acquisition is accounted under the US GAAP on the date (closing date) on which the consideration is exchanged between the acquiring and acquired enterprise. Therefore, under the US GAAP, the acquiring entity reflects the operations of the acquired entity in its income statement from the closing date. The Company has exchanged the final consideration on March 31, 2003 and on that date the legal ownership of the API business of Max India Limited was transferred to the Company. However, the terms of the acquisition agreement provides for the effective date of acquisition as September 1, 2002. Accordingly, under the Indian GAAP, the Company has consolidated the operations of Max India Limited from September 1, 2002.

2. **Revenue recognition**

These are primarily timing differences arising from the application of SEC Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" under US GAAP which prescribes a more stringent criteria for revenue recognition than Indian GAAP.

3. **Foreign currency differences**

Under Indian GAAP, net exchange differences resulting from translation of financial statements of foreign subsidiaries are recognized in the consolidated profit and loss account. Under US GAAP, this exchange difference is reported in the consolidated statement of stockholders' equity and other comprehensive income.

The Company has entered into forward foreign exchange contracts, option contracts and cross currency swaps where the counter party is generally a bank. Under Indian GAAP, premium on forward contracts is recognized as income or expenditure over the life of the related contract. Further, gains/ losses on option contracts and cross currency swaps are accounted upon their realization. Under US GAAP, these derivative instruments are marked-to-market and the resultant gains/ losses are recognized immediately in the income statement.

4. **Debt initiation costs**

Under Indian GAAP, loan origination costs are charged to the profit and loss account when incurred. Under US GAAP, loan origination costs are amortized as an adjustment of interest expense over the term of the related loan.

Loan prepayment costs are generally expensed under Indian GAAP. Under US GAAP, a similar accounting treatment is adopted except where the prepayment costs meet the deferral criteria prescribed in EITF Issue No. 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments. During the year ended March 31, 2003, the Company incurred certain prepayment costs in connection with redemption of a loan taken from a financial institution. Contemporaneously, the loan was replaced by a new loan taken from the same financial institution. In accordance with the EITF consensus, the Company had deferred the loan prepayment costs during the year ended March 31, 2003. During the nine months ended December 31, 2003, the Company repaid the new loan and accordingly, the unamortized portion of prepayment costs and loan origination costs have been charged to the income statement.

5. **Employee retirement benefits**

This represents difference in recording gratuity and leave encashment costs.

6. Fixed assets and depreciation

Under Indian GAAP, certain pre-operative expenses incurred during the construction period are capitalized, whereas these costs are expensed as incurred under US GAAP. Borrowing costs which qualify for capitalization under SFAS No. 34 "Capitalization of Interest Cost" are being capitalized under US GAAP since inception. However, under Indian GAAP these costs are being capitalized only with effect from April 1, 1997.

Under Indian GAAP, exchange losses and gains attributable to loans taken for the acquisition of fixed assets are included in the carrying value of fixed assets. Under US GAAP all exchange losses and gains are recorded through the income statement.

Under US GAAP, the Company has capitalized certain assets acquired under finance leases in accordance with the requirements of SFAS No. 13 "Accounting for Leases". Under Indian GAAP, assets acquired on finance leases are required to be capitalized only where the leasing arrangements are entered into after April 1, 2001.

Additionally, there are certain differences in the values assigned to fixed assets acquired pursuant to certain acquisition transactions under Indian and US GAAP.

Under Indian GAAP, the Company depreciates its fixed assets in accordance with the rates and in a manner prescribed in Schedule XIV to the Companies Act, 1956. However, for the purposes of US GAAP, the Company depreciates the fixed assets based on their useful lives.

These differences in carrying value of fixed assets and differences in useful lives have consequently resulted in income statement differences, which have been reflected above, as a reconciling item.

7. Income taxes

Deferred tax expense under US GAAP differs from Indian GAAP primarily due to GAAP differences of a temporary nature and also due to transitional accounting impacts under Indian GAAP pursuant to the adoption of AS 22 "Accounting for Taxes on Income" with effect from April 1, 2001.

8. Investment in equity affiliate

Differences in the losses recognized on investments made in Jubilant Biosys, the equity affiliate, are primarily due to certain pre-operative expenses, which were capitalized by the equity investee under Indian GAAP but were expensed off under US GAAP.

9. Preference dividend

Under US GAAP, dividend on preference shares has been recorded as interest expense in the income statement, whereas under Indian GAAP the same has been recorded as an appropriation from the profit and loss account.

10. Deferred revenue expenditure

Voluntary staff termination benefits paid are amortized over a period of 5 years under Indian GAAP. Under US GAAP, these benefits are expensed off in the periods in which the employees accept the offer and costs can be reasonably estimated.

OUR JUBILANT PROMISE

Caring, Sharing, Growing

We will, with utmost care for the environment continue to enhance value: for our customers by providing innovative products and economically efficient solutions; and for our shareholders through sales growth, cost effectiveness and wise investment of resources.

OUR VALUES

Our Teamwork

Our Efficiency

Our Knowhow

Our Delivery

Jubilant Organosys Ltd.

1A, Sector 16A, NOIDA, UP 201301, India
www.jubl.com