

Cipla

Seventieth Annual Report 2005-2006

Special care has been taken to produce this report at a lower cost, without compromising the contents. As a result, there has been a saving of Rs.45 lakhs. Cipla has added a matching contribution and donated the total amount of Rs.90 lakhs to the Cipla Cancer and AIDS Foundation.

CONTENTS

Notice	2
Directors' Report	6
Annexure to the Directors' Report	14
Report on Corporate Governance	18
Auditors' Report	29
Annexure to the Auditors' Report	30
Balance Sheet	32
Profit and Loss Account	33
Schedules to the Accounts	34
Balance Sheet Abstract and Company's General Business Profile	56
Cash Flow Statement	57
Attendance Slip/Form of Proxy	End of Report
Ten-Year Highlights	Inside Back Cover

Cipla Limited

Founder

Dr. K.A. Hamied
(1898-1972)

Chairman & Managing Director

Dr. Y.K. Hamied

Joint Managing Directors

Mr. M.K. Hamied

Mr. Amar Lulla

Non-Executive Directors

Dr. M.K. Gurjar

Mr. V.C. Kotwal

Dr. H.R. Manchanda

Mr. S.A.A. Pinto

Mr. M.R. Raghavan

Mr. Ramesh Shroff

Bankers

Bank of Baroda

Canara Bank

Corporation Bank

Indian Overseas Bank

Standard Chartered Bank

The Hongkong & Shanghai Banking
Corporation Limited

Union Bank of India

Auditors

R.S. Bharucha & Co.

R.G.N. Price & Co.

Registered Office

Mumbai Central, Mumbai 400 008

Website

www.cipla.com

NOTICE

NOTICE is hereby given that the SEVENTIETH ANNUAL GENERAL MEETING of CIPLA LIMITED will be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034, on Tuesday, 5th September 2006 at 3.00 p.m. to transact the following business:

1. To consider and adopt the Balance Sheet as at 31st March 2006, the Profit and Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To declare Dividend for the year ended 31st March 2006.
3. To appoint a Director in place of Mr. S. A. A. Pinto who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. V. C. Kotwal who retires by rotation and being eligible offers himself for reappointment.
5. To consider and, if thought fit, to pass, with or without modification, the following resolution, as an Ordinary Resolution:

“RESOLVED THAT M/s. R. S. Bharucha & Co., Chartered Accountants together with M/s. R. G. N. Price & Co., Chartered Accountants be and are hereby appointed as Joint Statutory Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting upon such remuneration and other out of pocket expenses incurred incidental to their functions, as may be agreed to between the Board of Directors/Audit Committee of the Company and the respective auditors and that the Board of Directors/Audit Committee of the Company be and is hereby authorised to fix the remuneration as aforesaid.

RESOLVED FURTHER THAT the Board of Directors/Audit Committee be and are hereby authorised to appoint auditors for the Company's branch office(s) (whether now or as may be established) in terms of Section 228 of the Companies Act, 1956 in consultation with the Joint Statutory Auditors to examine and audit the accounts for the financial year 2006-07 on such remuneration, terms and conditions as the Board of Directors/Audit Committee may deem fit”

By Order of the Board of Directors

Mumbai, 21st July 2006

Mital Sanghvi
Company Secretary

NOTICE *contd.*

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.

Proxies, to be effective should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the Meeting.

2. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, 22nd August 2006 to Tuesday, 5th September 2006, both days inclusive.
3. The dividend for the year ended 31st March 2006 as recommended by the Board, if sanctioned at the Meeting, will be paid to those members whose names appear in the Company's Register of Members on 5th September 2006. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depositories Ltd. and Central Depository Services (India) Ltd.
4. The Company has appointed M/s. Karvy Computershare Pvt. Ltd. as its Share Transfer Agents in place of M/s. Intime Spectrum Registry Ltd. w.e.f. 1st April 2005. Members holding shares in physical form are requested to forward all applications for transfers and all other shares related correspondence, including intimation for change of address, if any, to the Share Transfer Agents of the Company at the following address:
Karvy Computershare Pvt. Ltd.
(Unit: Cipla Ltd.)
Karvy House No. 46, Avenue 4,
Street No.1, Banjara Hills, Hyderabad-500 034
Tel: (040) 23420818
Fax: (040) 23420814
5. Members holding shares in demat mode may please note that, the bank details as furnished by the respective Depositories to the Company will be used for the purpose of distribution of dividend through Electronic Clearing Service (ECS) as directed by the Stock Exchanges. In the absence of ECS facility, the bank account details, if available, will be printed on the dividend warrants. Members holding shares in demat mode must give instructions regarding bank accounts in which they wish to receive dividend, to their Depository Participants. The Company or the Share Transfer Agents will not act on any direct request from these members for change/deletion in such bank details.
6. The Company has transferred the unclaimed dividend upto the financial year ended 31st March 1995 to the General Revenue Account of the Central Government. Members who have not encashed the dividend warrants for the said period(s) are requested to claim the amount from the Registrar of Companies, Maharashtra, CGO Complex, CBD Belapur, Navi Mumbai-400 614, by submitting an application in Form No. II.

NOTICE *contd.*

Members may note that unclaimed dividend for the financial year 1998-99 shall become due for transfer to Investor Education & Protection Fund (IEPF) on 17th October 2006. Members should note that any sum transferred to IEPF shall stand forfeited and no claim shall lie either against the IEPF or the Company. Those members, who have not encashed their dividends for the financial year 1998-99, are requested to claim it from the Share Transfer Agents immediately. Such of those members who have not so far claimed their dividend for the subsequent financial years are also advised to claim it from the Share Transfer Agents.

7. The face value of shares have been sub-divided from Rs.10 to Rs.2 in the year 2004. Shareholders who have not yet exchanged share certificates of Rs.10 face value are requested to surrender their old certificates to M/s. Karvy Computershare Pvt. Ltd. at the address stated above for exchange with new certificates of Rs.2 face value.
8. Members who hold shares in the physical form can nominate a person in respect of all the shares held by them singly or jointly. Members who hold shares in single name are advised, in their own interest, to avail of the nomination facility by filling Form 2B in duplicate. On request, the Company's Share Transfer Agents will supply blank forms. Members holding shares in the dematerialised form may contact the Depository Participant for recording nomination in respect of their shares.
9. As required under Clause 49 VI(A) of the Listing Agreement, the relevant information in respect of the Directors seeking reappointment at the Annual General Meeting is annexed hereto.

NOTICE *contd.*

RELEVANT INFORMATION IN RESPECT OF THE DIRECTORS SEEKING REAPPOINTMENT AT THE ANNUAL GENERAL MEETING AS REQUIRED UNDER CLAUSE 49 VI(A) OF THE LISTING AGREEMENT IS AS UNDER:

A. Mr. S. A. A. Pinto

Mr. S. A. A. Pinto is an M. A. in Economics from Madras University and LL.B. from Bombay University and an Advocate of the Bombay High Court. He joined the Board of Directors of the Company in 1983.

He was instrumental in setting up Grindlays Bank's first merchant banking unit in India in 1968 and became its first Indian Director in 1973. In 1982, he set up a financial services consultancy with Mr. Uday Kotak and in 1985 they established a financial services company which later changed its name to Kotak Mahindra Bank Ltd. to which Mr. Pinto has devoted most of his working life since then.

Nature of expertise in specific functional areas

Industrial Relations, Corporate Law and Merchant Banking.

He is the Chairman of the Audit Committee, Shareholders'/Investors' Grievance Committee and member of Share Committee of the Company.

As on the date of this Notice, he holds 6,19,150 equity shares of Rs.2 each in the Company.

B. Mr. V. C. Kotwal

Mr. V. C. Kotwal is a senior advocate of Bombay High Court. He joined the Board of Directors of the Company in 1989.

He is a Science & Law graduate from Bombay University. He has been in the legal profession since 1961 and has been designated as Senior Advocate since 1983.

Nature of expertise in specific functional areas

Civil Law, Commercial Law, Admiralty & Shipping Litigation and Arbitration.

He does not hold directorship of any other company. He does not hold any share in the Company.

DIRECTORS' REPORT

The Directors take pleasure in presenting the Seventieth Annual Report of the Company and Audited Accounts for the year ended 31st March 2006.

Financial Summary

Year ended 31st March 2005		Year ended 31st March 2006	Increase over previous year (%)
2,483	Sales and other income	3,236	30
570	Gross profit before depreciation and tax	790	39
410	Net profit for the year	608	48
94	Surplus brought forward from last balance sheet	234	
504	Profit available for appropriation	842	
	Appropriations:		
105	Dividend	156	
15	Tax on dividend	22	
150	Transfer to general reserve	360	
234	Surplus carried forward	304	

Rupees in crore

Share Capital

Following the approval accorded by the members through postal ballot on 21st March 2006, the Company has in April 2006 raised US\$ 170 million (Rs.767.18 crore) through an issue of 1,10,46,310 Global Depository Receipts (GDRs). Each GDR represents one equity share of Rs.2 each and was priced at US\$ 15.39 (equivalent to Rs.695). The GDRs have been listed on the Luxembourg Stock Exchange.

Again, pursuant to the approval accorded by the members through postal ballot on 21st March 2006, the Company has in May 2006 allotted bonus shares in the ratio of three shares for every two shares held. Following the allotment of bonus shares, the paid-up capital of the Company has increased to Rs.155.46 crore.

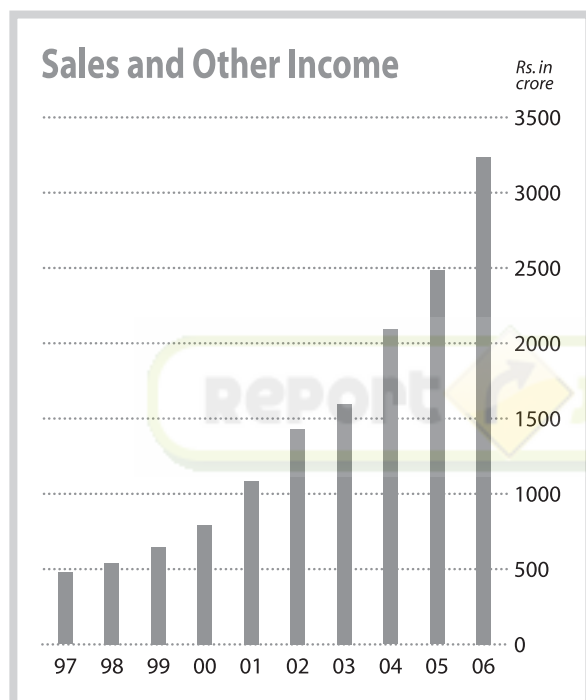
Dividend

The Board recommends a dividend of Rs.2 per share on 77,72,91,357 equity shares of Rs.2 each (including shares underlying GDRs and bonus shares) for the year 2005-06 amounting to Rs.155.46 crore.

DIRECTORS' REPORT *contd.*

MANAGEMENT REVIEW: 2005-06 Industry Structure and Developments

The domestic pharmaceutical industry in India grew at more than double the rate, recording a 11 per cent growth in value as per ORG-IMS, compared to 4.2 per cent during 2004-05. As expected, it was a year of consolidation, mergers and acquisitions. Several international pharmaceutical companies established and strengthened their presence in India.



Performance Review

For the first time, the Company's turnover crossed the Rs.3,000 crore mark. At Rs.3,019.68 crore, sales recorded a healthy 30 per cent growth over the previous year. Once again, this was way above the overall growth rate of the industry.

Exports continued to do well and at Rs.1,513.64 crore contributed 50 per cent to the overall sales of the Company. Cipla now exports to nearly 170 countries in Europe, Australia, Africa, Asia, the Middle East, and North, Central and South America. Technical know-how/ fees received during the year amounted to Rs.41.56 crore.

The Company continued with its successful strategy of working through partnerships and strategic alliances in order to sustain its expansion in international markets.

The overall net profits of the Company grew by 48 per cent and stood at Rs.607.64 crore. This was mainly on account of improved product mix, optimum utilisation of tax benefits and higher non-operating income.

The Company's steady progress won it the Express Pharma Pulse Award for "sustained growth" for the year 2005-06. Cipla is one of the handful of companies in India that has consistently increased its turnover and profitability over the past 15 years in a row.

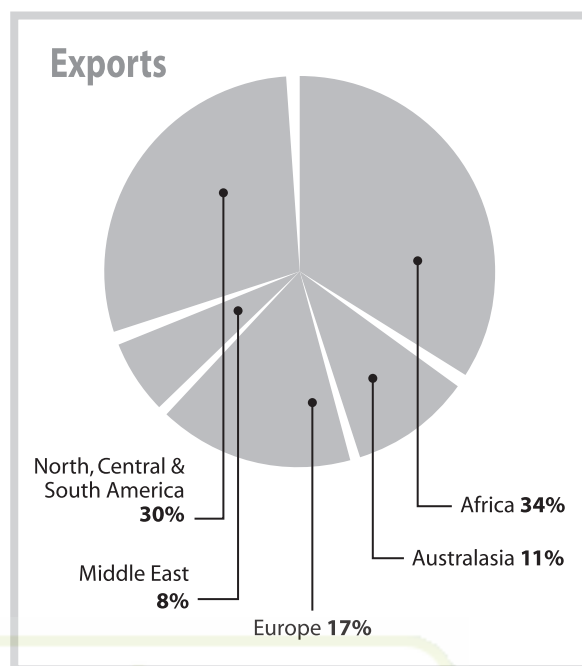
Products

Cipla yet again took a lead in introducing many drug formulations and Active Pharmaceutical Ingredients (APIs) in the country. Some of the formulations have the unique distinction of being the first products of their kind in the world. These introductions included:

- Imidara (imiquimod cream) - Topical immune response modifier for genital warts
- Lopimune (lopinavir and ritonavir softgelcaps) - Combination protease inhibitor for HIV/AIDS

DIRECTORS' REPORT *contd.*

- Bifilin (prebiotic and postbiotic capsules and sachet) - Probiotic supplement
- Dorzox T (dorzolamide and timolol eye drops) - Combination therapy for glaucoma
- Latim (latanoprost and timolol eye drops) - Novel combination therapy for glaucoma
- Ribocor (d-ribose sachet) - Cardiac energy supplement
- Simcard EZ (simvastatin and ezetimibe tablets) - Combination therapy for lowering cholesterol and lipids
- Tenvir (tenofovir tablets) - Novel antiretroviral for HIV/AIDS
- Aqwet (sodium carboxymethylcellulose spray) - Hydrating spray for dry mouth
- Diurem (metolazone tablets) - Thiazide-like diuretic
- Migset (miglitol tablets) - Novel alpha-glucosidase inhibitor for use in diabetes
- Zoratame (acitretin capsules) - Retinoid for psoriasis
- 8X shampoo (ciclopirox shampoo) - Antifungal shampoo for dandruff and seborrhoeic dermatitis
- Cresar (telmisartan tablets) - New angiotensin II receptor antagonist for hypertension
- Urimax D (tamsulosin and dutasteride tablets) - Novel combination treatment for benign prostatic hyperplasia
- Propcaine (proparacaine eye drops) - Topical anaesthetic agent for use in ocular surgery
- Divaine (minocycline tablets) - Antibiotic for acne



INFRASTRUCTURE

Manufacturing Facilities

The Company's new export-oriented manufacturing unit for APIs and drug formulations is nearing completion at Patalganga. It is expected to commence production in the second quarter of 2006-07. During the year, the Company expanded its facilities at Baddi in Himachal Pradesh.

In addition, the Company is planning to set up a large drug formulation manufacturing facility for various dosage forms at a Special Economic Zone (SEZ) in Goa.

The Company has also planned major additions to its manufacturing facilities at Kurkumbh and Bangalore.