Biocon

metamorphosis into a new age drug company

Annual Report 2004

contents

metamorphosis

into a new age drug company

Biocon is a technology-driven, integrated biopharmaceutical enterprise. From discovery and development to commercialisation, our businesses span every stage in the lifecycle of a drug.

Over the past two decades, we have dynamically evolved from an enzyme-manufacturer to a leading biotechnology company, focused on biopharmaceuticals. We have steadily built our core fermentation expertise, acquired new skills, strengthened our R&D platform, benchmarked international quality standards and generated a rich pipeline of innovation and invention. These strategic investments have accelerated our growth and strongly positioned us for big change.

Increased capacity to manufacture our flagship range of Statins, now enables us to corner US and European markets. Niche skills developed on our patented invention, the PlaFractor™, have provided us with a unique process advantage, thereby strengthening our position in the Immunosuppressants market. Leading the way in recombinant technologies, we have established Asia-Pacific's largest manufacturing facility for r-Human Insulin, based on a novel *Pichia* expression system. Most recently, we aggressively entered the branded formulations market in India with an innovative and advanced range of Cardio-Diabetic drugs.

In the field of custom research services, we have significantly evolved from an FTE based research services organisation to a knowledge-led, proactive partner in discovery programmes. With strong emphasis on patient diagnostics and disease profiling, our clinical research capabilities now offer differential advantage in conducting comprehensive clinical trials, from Phase I-IV stages.

Today, Biocon has developed proprietary process technologies, novel products, new domains of operation and a significant intellectual property base, by integrating its different businesses. **Our ability to realise these important synergies has driven Biocon's metamorphosis into a new age drug company.**

Chairman's Review

This is a symbolic year for us as it celebrates a new era for Biocon as a Public Company. Today, we are recognised as India's premier Biotechnology Enterprise and are proud to have built such a valuable organisation on a strong foundation of intellectual capital. We have witnessed dramatic growth this year, realised through the synergies created by integrating our different businesses. Our evolutionary transformation from an Enzymes Company into an Integrated Biopharmaceutical Enterprise is now complete. We are shaping ourselves into a new age drug company through a vigorous process of metamorphosis which is partly reflected through our milestones and our financials. It is therefore, with a deep sense of accomplishment that I present to you Biocon's outstanding performance for the Financial Year 2003-04.

Financial Highlights

In the year 2003-04, our total income nearly doubled from Rs. 2,833 million to Rs. 5,493 million. Operating profits moved up 142% to Rs. 1,796 million and profit after tax trebled to Rs.1,386 million. Our net margins expanded impressively from 15% to 25% and EPS on post issue capital was Rs.13.9 for the year.

Revenues from our biopharmaceutical business also increased by an impressive 117%. Biocon's custom and clinical research subsidiaries posted considerable growth of 40%. Our exports (largely to regulated markets) increased by 151%, contributing 63% to overall revenues as compared to 48% in the previous year.

During the Financial Year under review, the size of our balance sheet increased three times to Rs. 6,566 million. The return on capital employed was at 50%, compared to 23% in 2003, while return on net worth increased from 39% to 68%

Biocon's innovation and technology-led model enables us to practise what we call "business-driven science".

An Integrated and Differentiated Business Model

Strategic investments made two years ago have propelled Biocon's leadership position in Statins, Enzymes and Research Services. Biocon's manufacturing capabilities along with custom research and clinical expertise at Syngene and Clinigene, give us the unique ability of taking a product from the laboratory through to clinical development and commercialisation in an integrated manner. Today, we have embarked on a major investment programme to build global-scale manufacturing capabilities and deepen our Intellectual Property (IP) base.

r-Human Insulin

A significant outcome of our integrated approach, has been the development of Recombinant Human Insulin on a commercial scale. The success of this technology has been endorsed by a long-term supply agreement with Bristol-Myers Squibb and a Drug Master File submitted to US FDA. In the very near future, we will also be launching our finished formulation 'Insugen', and are confident that it will compete effectively in the Indian market. Simultaneously, we are exploring global opportunities for generic Insulin in semi and non-regulated markets in the short term and regulated markets in the medium term. We believe Insulin to be a key growth driver for us in the future.

Statins

Biocon today, dominates European and US markets for both Simvastatin and Lovastatin. Expiration of Pravastatin patents in Europe will augment growth of Statins in the year ahead. This will be followed by a quantum jump in the US market in 2006, when both Pravastatin and Simvastatin go off patent. The recent announcement of Simvastatin going OTC is an additional opportunity for Biocon. We intend to further differentiate our Statins' strategy through initiating supply arrangements with innovator companies.

Immunosuppressants

With an estimated market size of $2 billion and high entry barriers, Immunosuppressants offer Biocon tremendous growth potential. Proprietary process technologies based on our patented PlaFractor™ together with dedicated facilities will provide us key advantages to capture this segment.

Custom Research

Syngene continues to advance its leadership position in research services. To meet increased global demand for custom research services, I am pleased to announce that Syngene's new facility will be operational very shortly. Besides providing research services for global pharma companies and several biotech enterprises in the US and Europe, Syngene has widened its global reach by recently enrolling customers from Japan and Australia.

Clinical Research

Clinigene, Biocon's clinical development subsidiary, has built its capability base to offer third party clinical services, including bio-equivalence and bio-availability studies as well as Phase I to IV human clinical trials. Clinigene has recently concluded a successful Phase III clinical trial for Biocon's Recombinant Human Insulin. We intend to use Clinigene for future trials, including those for Recombinant Biotherapeutics to be produced by Biocon Biopharmaceuticals.

Research & Development

On the R&D front, we continue to commit resources towards creating a pipeline of exciting products and technologies that are rapidly transforming Biocon into a discovery-led enterprise. Process improvement remains an important focus within R&D. We believe it will provide us with continual global competitive advantage.

Looking Forward

The outlook for the year ahead is very positive. Sales of Pravastatin to Europe; revenues from our new products (Insulin, Immunosuppressants and branded formulations), and expansion of our research services will be the key drivers for the year ahead. These initiatives have provided us with clear direction. I am confident that Biocon's strong foundation of technological and intellectual capabilities, will continue to give us that competitive edge in the coming years. Our proprietary technologies and global-scale manufacturing meet the highest levels of global regulatory compliance and reinforce our growing presence in global markets.

In conclusion, I would like to thank all our investors for making Biocon's IPO a success. I also want to place on record the extraordinary contribution of Team Biocon. As we metamorphose into a new age drug company, I reinforce our commitment to delivering long term and sustainable value to our shareholders.

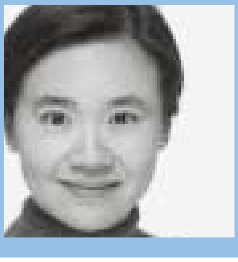
Yours sincerely,

Kiran Mazumdar-Shaw
Chairman







Board of Directors

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

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

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

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

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

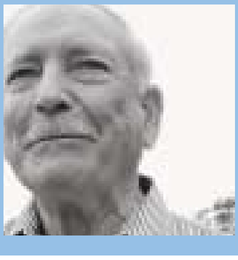
Prof. Ravi Mazumdar
• Professor of Electrical and Computer Engineering, Purdue University, USA • Fellow of the Royal Statistical Society • PhD (UCLA)

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

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






Scientific Advisory Board

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

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

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

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

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

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

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

Key Management Team

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

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

Mr. Murali Krishnan President, Finance
With Biocon since 1981

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

Mr. Ajay Bhardwaj President, Marketing
With Biocon since 1986

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

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

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

Mr. Rakesh Bamzai Vice President, Marketing
With Biocon since 1995

Mr. Chinappa M.B. Vice President, Finance
With Biocon since 1999

Committees of the Board

Audit Committee
Dr. Neville Bain
Prof. Charles L. Cooney
Mr. Suresh Talwar

Remuneration Committee
Prof. Charles L. Cooney
Dr. Neville Bain

Investor Grievance Committee
Dr. Neville Bain
Ms. Kiran Mazumdar-Shaw
Mr. John Shaw

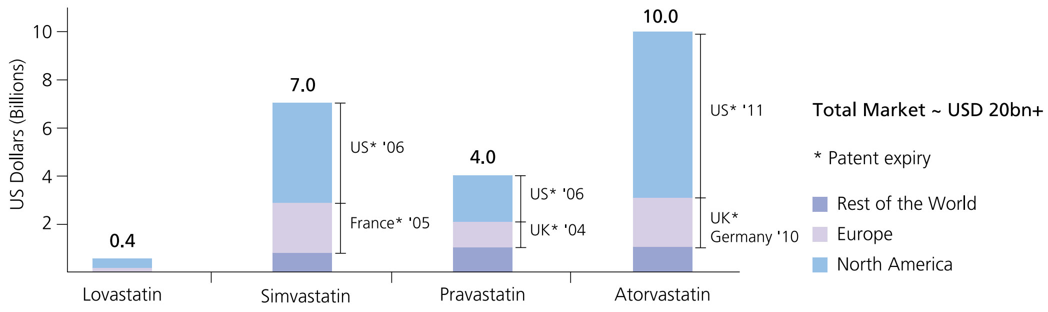
the metamorphosis story

Statins & Immunosuppressants

Biocon's generics strategy is to target APIs with high technology/regulatory barriers and large market potential, thus carving a niche for ourselves in these high value segments. Our strategy is based on our ability to leverage our core fermentation expertise and acquire skills in parallel domains. In doing so, we have successfully commercialised the top four Statins (cholesterol-reducing drugs) and a range of Immunosuppressants (critical drugs for organ transplants).

Statins

The largest group of therapeutics in the world, Statins are referred to as "the wonder drug of the 21st century". Our Statins portfolio (including Lovastatin, Simvastatin, Pravastatin and Atorvastatin) are Biocon's largest and fastest growing product range. We have patented processes relating to the manufacture of Statins. Our Statin production technologies and facilities are approved by the US FDA and EDQM for sale into the US and European Union respectively. These regulatory approvals will enable us to strongly enter key global markets when Pravastatin and Simvastatin go off patent.



Global Pharmaceutical Market (MAT Sep 2003)

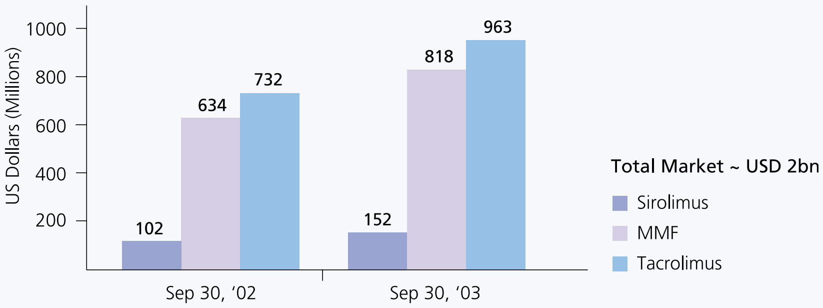
Proprietary production processes and global-scale manufacturing capabilities in Statins and Immunosuppressants, will drive our growth in key world markets.

Immunosuppressants

The successful use of Immunosuppressants in organ transplants has today, catalysed demand in world markets. Its manufacture requires high-quality production facilities, process containment and superior process control.

Given our core fermentation expertise, Biocon has a competitive advantage in the production of a range of Immunosuppressants that include Mycophenolate Mofetil (MMF), Tacrolimus and Mycophenolic Acid (MPA) Sodium. The unique containment features of the PlaFractor™ fermentation platform, has enabled us to develop patented process technologies.

To meet potential future demand for Statins and Immunosuppressants, we are currently in the process of substantially augmenting our fermentation capacity.



Global Pharmaceutical Market (MAT Sep 2003)

Recombinant Biotherapeutics

Biocon's multi-disciplinary technological capabilities combined with growing expertise in clinical development has enabled us to make rapid advances in the field of Recombinant Biotherapeutics or Biologicals. Our fermentation platforms have played a key role in the development of an impressive portfolio of recombinant drugs based on microbial and mammalian cell culture.

We believe Biologicals are our quantum growth drivers for the future. Spearheading our entry into this segment is Recombinant Human Insulin (r-Human Insulin), followed by Streptokinase, Granulocyte Colony Stimulating Factor (GCSF), Erythropoietin (EPO) and a novel Monoclonal Antibody (MAb) for treatment of head and neck cancers.

Recombinant Human Insulin

With India accounting for a quarter of the world's 120 million diabetic population, Diabetes is emerging as a critical focus area.

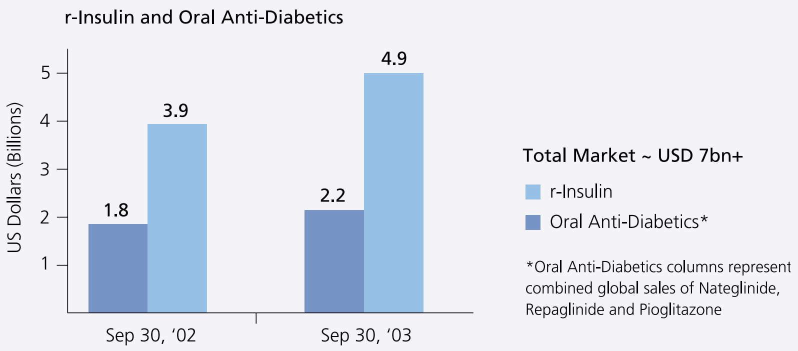
Biocon is strongly committed to the Diabetes segment, from research to product development. Our Diabetic registry is one of the most comprehensive in the country. We have also successfully developed a large-scale manufacturing technology for r-Human Insulin based on a novel *Pichia pastoris* yeast expression system.

To facilitate production of our r-Human Insulin, Biocon has set up Asia's largest, state-of-the-art manufacturing facility. We have also recently completed a randomised, multi-centric, non-inferior Phase III clinical trial on approximately 400 patients at our clinical development subsidiary, Clinigene. We now await regulatory approval for the commercial launch of this critical diabetic drug in India. A parallel focus at Biocon is to develop exports to semi/non-regulated markets in the short term, and regulated markets in the medium term.

Biocon has recently entered into a long-term supply agreement with Bristol-Myers Squibb for r-Human Insulin. This agreement is an endorsement of our Insulin technology and our world class manufacturing facility.

Expertise in discovery, development and commercialisation has given Biocon strong competitive advantage in Recombinant Biotherapeutics.

The process development of our r-Human Insulin is the result of our integrated skills across molecular biology, microbial fermentation, protein purification and organic chemistry. Our ability to comply with the highest international quality standards has strengthened our presence in the global Insulin market.



Global Pharmaceutical Market (MAT Sep 2003)

Biocon has designed India's largest mammalian cell culture facility to manufacture a wide range of future therapeutics for human healthcare.

Monoclonal Antibodies

Monoclonal Antibodies (MAbs), targetted at the oncology market, are a key focus area in Biocon's Recombinant Biotherapeutic portfolio. These biomolecules display specific affinity towards the target antigen or receptor on a tumor cell and initiate a complex set of events that leads to either tumor regression or complete remission.

Through our joint venture company, Biocon Biopharmaceuticals, we focus on advanced fermentation technologies, especially mammalian cell expression critical to the development of MAbs. We have selected a novel MAb, for further clinical development and large scale manufacture. This MAb specifically targets the Epidermal Growth Factor Receptor (EGF-R) in head and neck cancers and has undergone successful Phase II clinical trials in Canada. Advanced trials are soon to commence in India through our clinical research subsidiary, Clinigene.

Anticipating the increasing importance of MAbs as future therapeutics, Biocon has designed a state-of-the-art, cGMP compliant manufacturing facility with three distinct modules:

1. Mammalian module for Monoclonal Antibodies and other cell culture products
2. Formulation and filling modules for sterile fills
3. Quality Control module

This facility will be constructed over the next 12-15 months and will be the largest of its kind in India. In addition to providing a manufacturing base for our own products, we seek to enter into collaborations with partners looking for an internationally-benchmarked cGMP facility to support their proprietary technology platforms.

Branded Dosage Forms

Our formulations strategy is to scale up the value chain and firmly establish Brand Biocon as a key player in the branded dosage forms market. In line with this endeavour, Biocon made its foray into the Indian market with a sophisticated range of Cardio-Diabetic products.

Leveraging our strengths in proprietary processes and technologies, we have identified the Cardio-Diabetic sector as a key focus area. This expertise enables us to offer product differentiation and greater drug efficacy. In addition, our in-house clinical research capabilities at our subsidiary, Clinigene, gives us the added advantage of accelerated and improved clinical trials.

Building Brand Biocon will provide a strong platform for the marketing of our Recombinant Human Insulin. We are also working towards launching an Oncology product range in the near future.

Biocon is a company creating tomorrow's medicines today. By realising our business synergies and implementing an aggressive sales and marketing strategy, we have positioned ourselves for significant growth in the field of branded dosage forms.

Our Cardio-Diabetic products include:

℞ PIODART Pioglitazone 15mg, 30mg	A specialised Pioglitazone for versatile glycemic control
℞ STATIX Atorvastatin 10mg, 20mg	A technically and clinically superior form of Atorvastatin for cholesterol reduction
℞ METADOZE IPR Metformin 850mg	A novel patterned release formulation of Metformin for improved Diabetes management

With the launch of Brand Biocon, we have made an aggressive foray into the Indian branded formulations market and effectively moved up the value chain.

℞ GLISTO Glimepiride 1mg, 2mg	℞ ZUKER Gliclazide 40mg, 80mg	℞ ZARGO Losartan 25mg, 50mg	℞ ZIGPRIL Ramipril 2.5mg, 5mg
℞ GLISTO - MF Glimepiride 2mg + Metformin 1000mg SR	℞ ZUKER - MF Gliclazide 80mg + Metformin 500mg SR	℞ ZARGO - H Losartan 50mg + Hydrochlorothiazide 12.5mg	℞ CLASPRIN Aspirin 150mg + Clopidogrel 75mg

Intellectual Property

From an invention patent in frontier fermentation technology to about 170 patents for novel processes and products, Biocon is focused on developing high quality Intellectual Property as a core value differentiator. We endeavour to actively enhance our Intellectual Property through focused drug discovery and development programmes in Recombinant Biotherapeutics. In fact, Biocon has the distinction of filing the 4th highest number of PCT applications in India during the year 2003.

Key Patent Applications Filed in 2003-04

- Patent application for novel biomarker and prediction of disease conditions:

Title: Disease Predictions

PCT/IN03/00190

- Patent application for the use of Mycophenolate Mofetil in Diabetic Nepropathy:

Title: Mycophenolate Mofetil in Diabetic Nepropathy

PCT/IN04/00123

- Patent application for the synthesis of Atorvastatin and key intermediates:

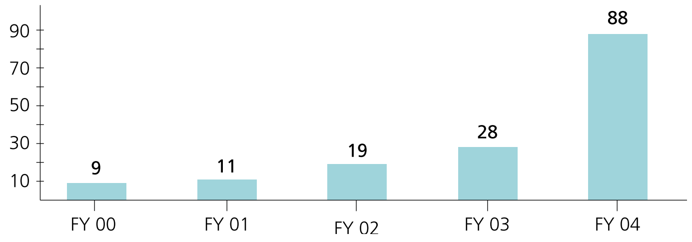
Title: Novel Process for Steroselective Reduction of beta-Ketoesters

PCT/IN03/00166

Title: Novel Dithioketal

PCT/IN03/00194

Patents Filed in the Last Five Years



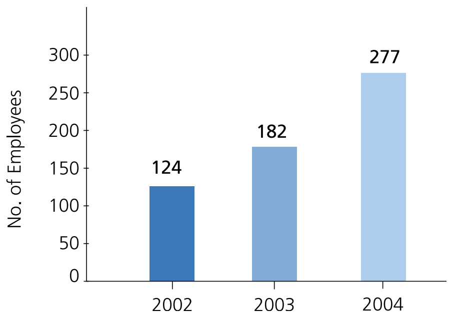
We believe the creation and protection of Intellectual Property is a key differentiator that will profile our intellectual capabilities on a global platform.

Custom Research

As India's first Custom Research Company (CRC), Syngene has designed and managed pre-clinical research projects for multinational companies engaged in new drug discovery. We have steadily grown our expertise and expanded our skills in niche areas of Synthetic Chemistry, Molecular Biology and Custom Synthesis. With highly skilled scientists and internationally-benchmarked facilities, we have built an impeccable reputation for confidentiality and intellectual property protection. Today, Syngene has grown from an FTE-based research company into a proactive, knowledge-led partner in drug discovery programmes.

Our Synthetic Chemistry group has successfully developed novel processes for the synthesis of chemical compounds. We have also built impressive capabilities in recombinant technologies for the production of biopharmaceuticals at our Molecular Biology group. To meet growing demand for our services, Syngene plans to substantially scale up its research facilities for custom drug development.

With over 250+ skilled scientists, significantly increased research facilities and the highest ethical standards, Syngene has metamorphosed into a powerhouse of modern research in its own right and a preferred global partner in the field of drug discovery and development.



Syngene has dramatically grown from an FTE-based Custom Research Company, into a knowledge-led, proactive partner in drug discovery.

Clinical Research

Clinigene offers a comprehensive range of clinical research services that include clinical trials and regulatory, laboratory capabilities for drug development. By setting up a multi-specialised, CAP accredited Lab, developing a significant disease registry programme and meeting ICH-GCP guidelines, we have put in place the critical building blocks for a well-established CRO with Phase I-IV clinical trial expertise.

Patient Diagnostics is a key focus area at Clinigene. With a differentiating strategy that emphasises better patient characterisation and disease profiling, we are able to design effective clinical trials. Based on our well-characterised Diabetes registry, Clinigene has initiated studies on the beneficial effects of Mycofenolate Mofetil (MMF) in the treatment of Diabetic Nephropathy. We are also in the process of creating an Oncology registry and a tumor bank to provide us with a deeper understanding of cancer research.

As part of our full complement of CRO services, we now offer third party clinical trials at a 26-bed Human Pharmacology Unit in Sagar Apollo Hospital, Bangalore. This state-of-the-art Unit conducts clinical trials and bio-equivalence/bio-availability studies for domestic and international clients.

Biocon is currently using Clinigene's services to conduct clinical trials for our Recombinant Biotherapeutic portfolio. Recently completed randomised, multi-centric Phase III clinical trials have established the non-inferiority of our r-Human Insulin. We are soon to commence advanced trials of Biocon's Anti-EGF Receptor MAb for treatment of head and neck cancers.

Today, Clinigene has matured into a CRO of international repute. Our Pathology and Microbiology departments have received CAP accreditation. We are pursuing cutting edge clinical trials in novel devices, drug delivery systems and combination drugs. More significantly, our growing reputation for ethical, accurate and confidential clinical research and trials continues to attract the world's best research companies to seek our services.

With a differentiating strategy that focuses on patient diagnostics, Clinigene has grown into a full-service CRO that can take a product through all stages of clinical trials from Phase I-IV.

management overview

Mr. Murali Krishnan

Finance

1. Biocon is a technology and capital-intensive business that operates in a continually evolving industry. Making every capital investment count is crucial to the long-term growth in value of our shareholders' equity. It is a responsibility we take very seriously.

2. Over the past few years, we have substantially increased our investment in manufacturing and research. All investment proposals are reviewed by the Board, for return on the invested capital and strategic fit with long term business objectives of the group.

3. Past investments have expanded our technology base, enhanced our ability to serve customers, improved our operating efficiency and helped build our market positions in profitable geographic markets.

4. The Return on Capital Employed in FY 2003-04 was 50%.

5. During the year, Biocon raised Rs. 3,150 million through an Initial Public Offering of 10% of the Post Issue Capital of the Company. These funds together with Internal Accruals will be deployed towards setting up a new fermentation and chemical synthesis plant; a purification facility for Recombinant Human Insulin; a new research facility in Syngene and a new Biological Plant for manufacture of Therapeutic Proteins and Monoclonal Antibodies, through a Joint Venture. These investments are being positioned to further establish Biocon as India's leading Biotech Company.

6. Special emphasis is placed on internal control systems of the Company and its subsidiaries. The Finance Department is well-staffed with experienced and qualified personnel who play an important role in implementing and monitoring the internal control environment and compliance with statutory requirements.

Dr. Nirupa Bareja

Human Resource

1. Biocon is a 1000+ knowledge-driven enterprise with approximately 500 scientists, of whom over 10% are PhD qualified and the balance hold Masters Degrees. We have recruited India's best and brightest. A significant number of our employees have worked in the US before returning to India, bringing with them international exposure and a global work culture.

2. Our annual staff turnover is below 5%.

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

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

5. All company managers have shares and / or share options. 7% of Biocon is owned directly by employees. A further 6% is held by the Trust, which administers a share option scheme. Employee ownership will continue to expand.

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

Dr. Arun Chandavarkar

Operations & Technology

1. Biocon's facilities operated at very high capacity utilisation during FY 2003-04. The focus was on achieving greater operational efficiency through yield improvements, lower turnaround times and optimum product mix.

2. This focus will continue to be the driver of volume growth this year as the pressure on capacity will be relieved, to some extent, only when the projects currently under implementation fructify sometime in Q4 of FY 2004-05.

3. Biocon's facilities for Statins and Pioglitazone were inspected by the US FDA in Dec. 2003 and were found acceptable with no non-conformances (or 483's).

4. Biocon's dedicated, cGMP compliant bulk Insulin facility is ready and awaiting regulatory approval of the product for commercial launch.

5. We continue to invest in the upgradation and de-bottlenecking of facilities to cater to the increasing demand for Biocon's products, both enzymes and biopharmaceuticals. This includes the necessary optimisation and upgradation of support services.

Mr. Rajul Verma

Environment, Safety & Health

1. Biocon has adopted an integrated environment and safety maintenance programme as per ISO 14001 and OHSAS 18001 standards.

2. Manufacturing and R&D expansions have been carried out with an eye on proactive designs to reduce, recycle and reuse resources.

3. ES&H uses the basic functions of auditing and information dissemination to focus on identification and elimination of potential hazards.

4. Our ETP plant is equipped with a state-of-the-art wastewater treatment system for all manufacturing activities and adheres to extremely stringent norms.

5. The collective health of employees, assessed annually, shows zero occupational incidence, through group trends. This is an outcome of the eco-friendly and environmentally safe manufacturing techniques that have been adopted.

6. Our fire risk mitigation measures include an elaborate fire hydrant system, the latest detectors, alarm control programmes and dedicated extinguishers.

7. All aspects of ES&H are well controlled through documentation, training and audits.

Mr. Shrikumar Suryanarayan

Research & Development

1. Biocon's R&D division currently has 100 scientists with specialisations spanning microbiology, strain isolation and development, fermentation optimisation, protein chemistry, down stream process development, molecular biology, synthetic organic chemistry and natural product chemistry.

2. We source clinical development capabilities from Clinigene.

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

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

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

6. Our strategy has enabled Biocon to become a preferred supplier of Lovastatin and Simvastatin in regulated markets. Examples of products commercialised in the recent past for which a Drug Master File has been submitted or is under preparation include Lovastatin, Simvastatin, Pravastatin, Compactin, Mycophenolate Mofetil, Tacrolimus and Recombinant Human Insulin.

7. We have developed Recombinant Human Insulin based on a novel *Pichia pastoris* expression system. Clinical trials on Recombinant Human Insulin are completed. We now await regulatory approvals from the appropriate authorities before commercialisation.

Dr. Anindya Sircar

Intellectual Property

1. In 2003-2004, Biocon filed 88 patent applications as against 28 in the previous year. They include, among others, 30 PCT, 8 Indian, 8 US, 4 European, 4 Brazilian, 4 Canadian, 4 Mexican, 4 Japanese, 3 Russian and 3 Korean. During the year, we have been granted 5 US patents and publication of 14 PCT applications. These applications have covered a novel biomarker and the manufacturing processes of important APIs such as Atorvastatin, Simvastatin, Mycophenolic Acid and Mycophenolate Mofetil, Nateglinide and Tacrolimus.

2. As on March 31, 2004, Biocon has a total of 167 filings, with 62 PCT, 36 Indian, 18 US, 8 European, 7 Canadian, 6 Japanese, 4 Brazilian, 4 Mexican, 3 Russian, 3 Korean and other applications. The current number of patents granted stands at 14.

3. The IP department has played an important role in supporting our international business.

4. The year 2004-2005 will see sizeable increase in patent filings, with considerable growth in national applications and grants for those presently under prosecution.

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

Dr. Tara Jayaram

Quality & Regulatory

1. Quality Control has expanded its testing capabilities to include biologicals and formulations. We have already enforced stringent quality control in the areas of microbiology, pharmaceuticals, enzymes and raw materials.

2. Quality Assurance has expanded its capabilities to include Clinical Quality Assurance, trained for Good Clinical Practice (GCP).

3. Quality of formulations is assured through continuous monitoring and in-process checks.

4. We have grown our regulatory submissions from 96 in 2003 to 110 in 2004.

5. The United States Food and Drug Administration (US FDA) has inspected and accepted our facilities for Lovastatin (submerged), Pravastatin Sodium, Simvastatin and Pioglitazone Hydrochloride.

6. The European Directorate for Quality of Medicines (EDQM) has granted the Certificate of Suitability (COS) for Lovastatin (submerged) and Pravastatin Sodium. Our Lovastatin (solid-state) and Simvastatin (novel process) have already received the COS from EDQM.

7. We are registered under the Mutual Recognition Procedure (MRP) in Europe (11 countries) for Pravastatin Sodium. MRP registration for Compactin is also under progress in 11 European countries.

8. Pravastatin Sodium is registered with ANVISA, Brazil and is in the process of being recognised by TGA, Australia. Lovastatin is already registered by TGA, Australia.

9. At various centres around India, Clinical Quality Assurance has audited trials on r-Human Insulin produced by Biocon.

10. We have also undergone ten successful customer audits during the year.

11. We currently focus on:
a. Implementation and certification of the integrated management system for ISO 14001 (Environment Management System) and OHSAS 18001 (Occupational Health Safety Assessment Series).
b. Submitting Drug Master Files for our new products.
c. Designing and establishing new Quality Control laboratories at Biocon Park.

Mr. Ajay Bhardwaj

Marketing

1. We continue to be significant players in the US and European markets. Our Lovastatin, Simvastatin and Pravastatin are all qualified by US FDA. We now focus on dramatically expanding capacity to meet anticipated demand in the US, once these products go off patent.

2. Biocon has targeted the Cardio-Vascular therapeutic area and more recently, Diabetes. Our Pioglitazone is qualified by US FDA and our Recombinant Human Insulin strategy has fructified. We have signed a supply agreement with Bristol-Myers Squibb and are awaiting government approvals to start manufacture of Insulin for the Indian, followed by global markets.

3. We continue to strengthen our Enzyme business by moving into several new markets and enrolling major customers in the past year. We expect robust growth in the coming year as well.

4. Biocon launched into the Indian market, a complete range of Cardio-Diabetic pharmaceutical products. Initial doctor/patient response has been very positive. We expect to make our Healthcare Division a strong segment of our business in the coming years.

Dr. Goutam Das

Custom Research-Syngene

1. Syngene's strengths lie in the areas of Molecular Biology and Synthetic Chemistry. Our biodiversity programme gives us proprietary advantage in conducting research in microbial genomics. We derive our winning edge from a combination of state-of-the-art facilities and highly skilled manpower.

2. We guarantee time-bound, high quality research and product development at a globally competitive cost. Our clients include large pharma and biotech companies in the USA, Europe, Japan and Australia.

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

4. Syngene's major milestones in the past year include:
• ISO 9001 – 2000 accreditation
• 46.4% growth in revenues
• Six out of ten major pharma companies enroll as clients
• Significant growth in FTE research projects
• 52% growth in Syngene staff
• 13-fold growth in Custom Synthesis projects
• Participation of Syngene scientists in client in-house conferences
• Initiation of cGMP validated synthesis

New skills added to Synthetic Chemistry portfolio:
Library Synthesis, Microwave Chemistry, Medicinal Chemistry, PRD, Analytical Methods, cGMP Synthesis

New skills added to Molecular Biology portfolio:
Novel Gene Hunt, Mammalian Cell Culture, *In vivo* Assay, CACO 2 Culturing, Library Construction

Dr. A. S. Arvind

Clinical Research - Clinigene

1. Clinigene focuses on discovering innovative biomarkers, that help in disease profiling in a specific patient population.

2. We have created a unique Diabetes registry and developed with our partners, a neural network, to help predict the incidence of Diabetic Nephropathy, before the occurrence of any clinical symptoms. This registry has also enabled us to conduct clinical trials to prove the safety and efficacy of Recombinant Human Insulin in Indian diabetic patients.

3. Pilot Studies are in progress to evaluate the beneficial effect of MMF in diabetic patients with Microalbuminuria comparing with ACE Inhibitor therapy. This is an example of using an existing drug for new indications.

4. We are also in the process of creating an Oncology registry (in line with our Diabetes registry) and a tumor bank to facilitate a thorough understanding of cancer and its treatments.

5. Clinigene's Pathology & Microbiology departments are now CAP accredited. Our Central Lab services have received enquiries from hospitals in Germany and UK.

6. Our Human Pharmacology Unit (HPU) has recently commissioned a state-of-the-art, 26 bed, clinical and bioanalytical facility to carry out clinical trials and bio-equivalence/bio-availability (BE/BA) studies for domestic and international clients.

R&D Investment

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

R&D Investments FY 04	Biocon	Syngene	Clinigene	Total (Rs./mn)
Scientist Costs	49	94	18	161
Other Costs	94	106	12	212
Capital Expenditure	90	35	16	141
TOTAL COST	233	235	46	514
Revenues				5406
Cost as % of Revenue				10%

Biocon in the Community

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

Healthcare

Our current area of focus is polio eradication. 2,900 children from 40 surrounding villages were immunised in 2003-2004. Biocon holds the record for the highest number of children immunised at a single booth in Bangalore for three years in succession.

Under our Hepatitis B vaccination programme, we have successfully vaccinated 35,000 school children.

Education

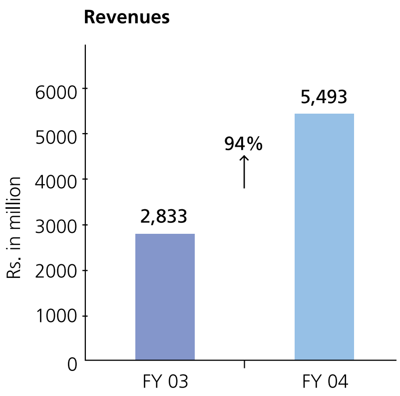
We continue to recognise and reward meritorious students from village schools around Biocon. Such awards are given on Independence Day, Teachers Day, Gandhi Jayanthi and Republic Day.

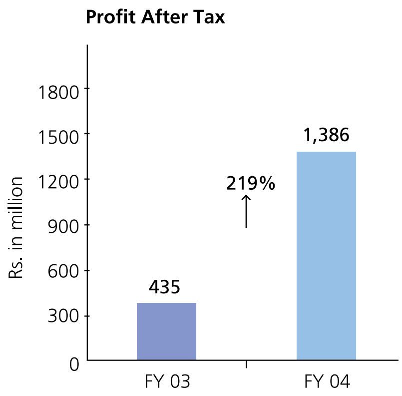
Environment

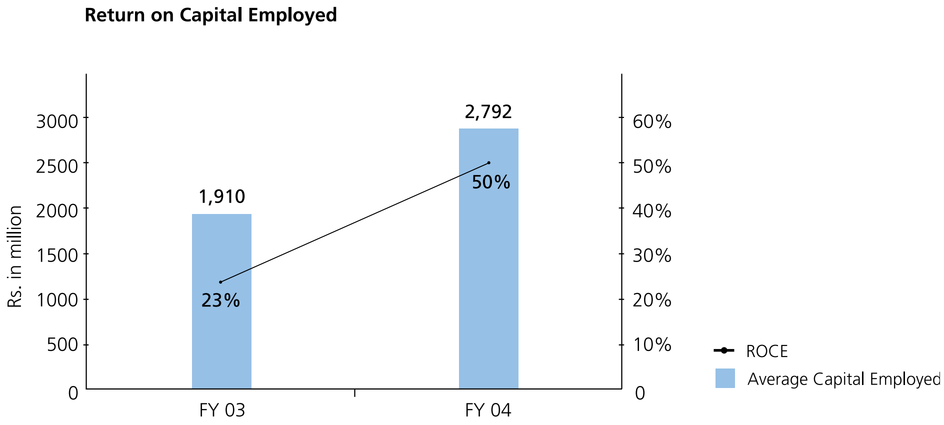
At Biocon, we give environmental safety top priority by implementing rigorous guidelines at all levels of our manufacturing cycle. Extending our environmental consciousness to the community we live in, Biocon actively assists the Bangalore Agenda Task Force (BATF) in its garbage collection and traffic management initiatives. We are also keenly involved in beautifying a considerable part of the Hosur highway, from Electronic City to the site where we are located. Biocon continues to support and participate in World Environment Day, Keep-Your-City-Clean, Tobacco-Free Day and similar social awareness campaigns.

financial report

Financial Highlights 2004*

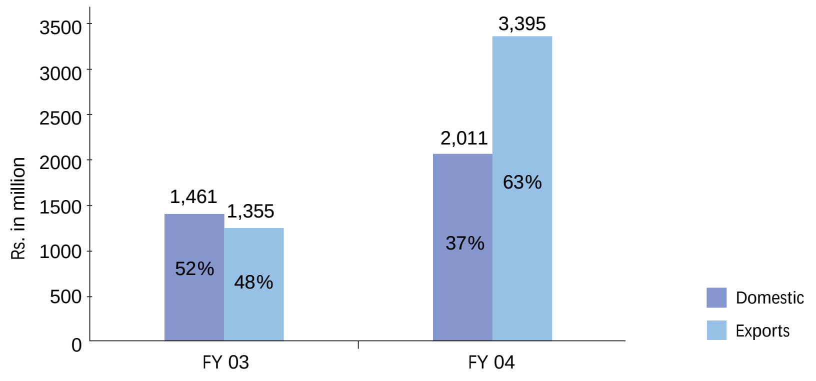




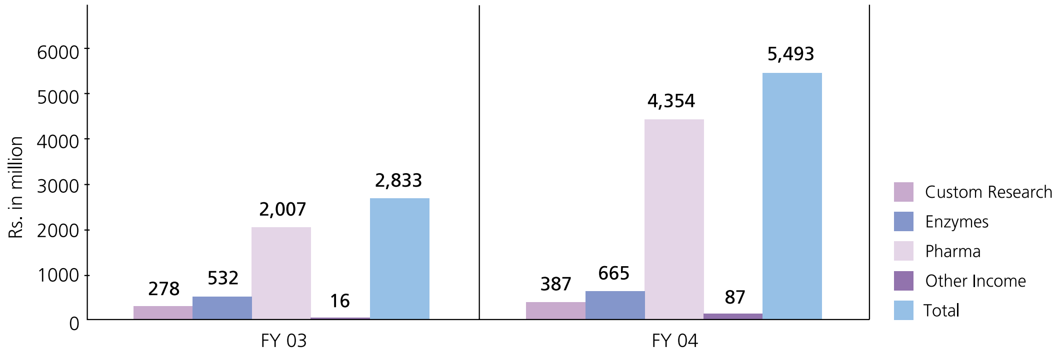


* Based on Consolidated Indian GAAP Financial Statements

Markets

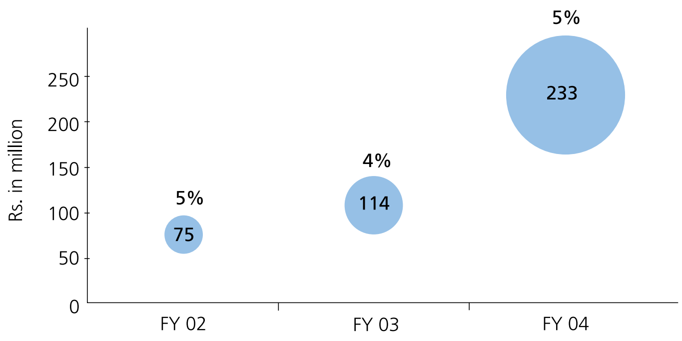


Revenue Break-up



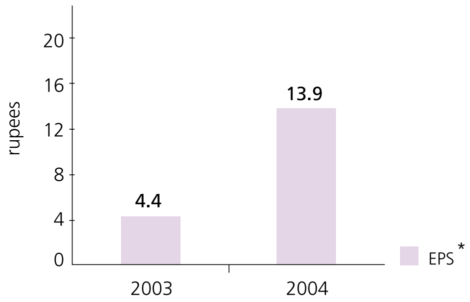
Growth Rates: Custom Research 39%↑ Enzymes 25%↑ Pharma 117%↑

Research & Development Spend

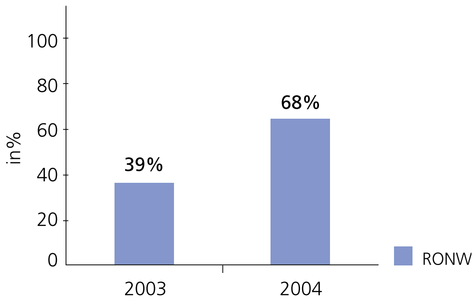


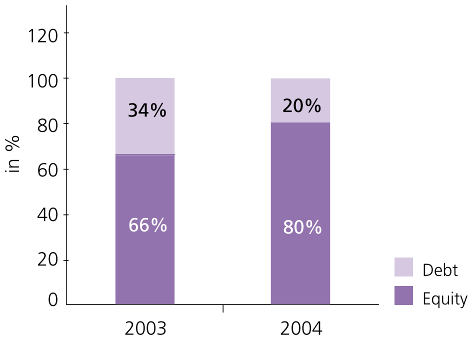
* Based on Consolidated Indian GAAP Financial Statements

Other Key Parameters



* Based on Share outstanding as at 31st March 2004





Biocon Limited

DIRECTOR'S REPORT

Dear Shareholders,
Your Directors are pleased to present the Twenty-sixth Annual Report on the business and operations of Biocon Limited (hereafter referred to as 'Biocon'), together with the audited financial statements and the auditors' report of your Company for the financial year ended 31st March 2004. The financial highlights for the year under review are given below:

Corporate Results

Financial Results for the year ending :

	March 31, 2004	March 31, 2003 Rs. in Thousands
Total Revenues	5,111,719	2,560,491
Total Expenditure	3,482,710	1,914,134
Profit before Interest Depreciation and Tax	1,629,009	646,357
Interest	15,677	48,920
Depreciation	138,530	120,171
Profit before Tax	1,474,802	477,266
Income Tax	228,076	118,532
Profit after Tax	1,246,726	358,734
Surplus brought forward from previous year	590,781	232,047
Profit available for appropriation	1,837,507	590,781

Appropriated as follows:

	March 31, 2004	March 31, 2003 Rs. in Thousands
Issue of bonus shares	431,624	-
Proposed dividend on equity shares	100,000	-
Tax on proposed divided	12,813	-
Transfer to general reserve	249,345	-
Balance, end of the year	1,043,725	590,781

Performance:

Your Directors are pleased to inform you that your Company has delivered an outstanding set of numbers, resulting from the successful implementation of its long-term business strategies. Your Company registered an impressive 99.7% growth in revenues with an impressive 247.4% growth in profit after tax.

Profit before Interest, Depreciation and Tax (PBIDT) increased by 152.0% from Rs. 646,357 thousand to Rs 1,628,999 thousand and Profit After Tax for the year increased by 247.5% from Rs. 358,734 thousand to Rs.1,246,726 thousand. Net profit margins improved from 14% of total revenues to 24.4% of total revenues.

A detailed performance analysis is given in the Management Discussion and Analysis.

Dividends:

Your Directors recommend a maiden dividend of 20%, which is Re. 1 per equity share of the face value of Rs.5 each on the expanded share capital base, for the financial year 2003-04. The paid-up share capital of your company, post- split, post bonus and post initial public offering stands at Rs. 500 million. The appropriation of profits including transfer to reserves is given above.

Capital Structure:

During the financial year under review, the share capital of your company was changed/altered as follows:

a) The authorised share capital of your Company was increased from Rs. 20 million to Rs. 600 million, by creating new shares, in order to account the for issue of bonus shares as well as issue of shares under initial public offering.
b) Your Company's equity shares, previously with face value of Rs. 10 each were sub divided into shares of face value of Rs. 5 each during November 2003.
c) 86,324,700-equity shares of Rs. 5 each were allotted on 11th November 2003, as bonus shares (on pari-passu basis) in the ratio of around 23.49 shares for every 1 share held in your Company by capitalizing the balance in the profit and loss account.
d) 10,000,000 equity shares of Rs.5 each were allotted on 31st March 2004, under the initial public offering of your Company, at a premium of Rs. 310 per share. The object of this public issue was to set up new facilities to augment your Company's submerged fermentation and chemical synthesis operations.
e) Consequent to the above the share capital increased to Rs. 500 million represented by 100 million shares of Rs. 5 each.

Consolidated financial statements:

As stipulated in the listing agreement with the stock exchanges, the consolidated financial statements have been prepared by your Company in accordance with the relevant accounting standards issued by the Institute of Chartered Accountants of India. The audited consolidated financial statements together with Auditors Report thereon form part of the Annual report. The consolidated net profits of the Group for the year ended 31st March 2004 amounted to Rs. 1,386,372 thousand as compared to Rs.435,150 thousand in the previous financial year. This represents earnings per share of Rs. 13.9 of the post issue paid up capital.

Business Operations overview and Outlook:

The surge in Statin sales worldwide together with patent expiry of Simvastatin, and Pravastatin provides your Company with attractive opportunities in the near to medium term. Biocon's manufacturing facilities for Lovastatin, Simvastatin, Pravastatin and Pioglitazone received acceptance from the US FDA during the year under review. This is in addition to a previous US FDA acceptance of another Lovastatin facility in 2001. Your Company has also progressed on a major capital expenditure plan to substantially augment the manufacturing capacity for Statins in readiness to capture large opportunities for Simvastatin and Pravastatin in the US markets upon patent expiration in 2006.

During the year, your Company has successfully developed recombinant human insulin at a commercial scale, and the success of this technology has been endorsed by a 9-year supply agreement with Bristol-Myers Squibb. In addition we have filed a DMF (Drug Master File) for recombinant human insulin with US FDA giving us the distinction of being the first Indian company to do so. The finished formulation 'Insugen' is in the process of receiving regulatory approval which will enable us to launch the product soon. We are confident that "Insugen" will compete very effectively in the market. Biocon is also addressing global opportunities for generic insulin in the semi and non-regulated markets in the near term and to the regulated markets in the medium term.

Immunosuppressants, another growth driver is estimated as a $2 billion market segment and offers significant opportunities to Biocon given the high entry barriers that exist in this segment. Biocon's proprietary technologies and dedicated facilities provide us key global advantages.

Your Company has also recently launched a range of branded formulations targeted at the Cardio-Diabetes therapeutic segment.

Subsidiaries and Joint Ventures:

Syngene International Private Limited:

Syngene International Pvt. Limited is a subsidiary of your Company, with your Company holding 99.99% of its share capital.

For the Financial Year 2003-04, Syngene continued to register a strong growth of 46.4 % in revenues from Rs. 262,508 thousand to Rs. 384,869 thousand, and 96.3 % at the profit after tax level from Rs. 81,988 thousand to Rs. 160,507 thousand.

Syngene has gained a strong leadership profile in the research services sector and continues to forge ahead. Syngene already enjoys an excellent reputation amongst global pharma companies as well as with a number of biotechnology companies in the US and Europe. Recently Syngene has enrolled a few customers from Japan and Australia, which we expect to be enlarged in the year ahead.

The business of research services represents a significant growth opportunity for the future, based on rapidly growing need for the outsourcing of research services. To meet the growing demand for Syngene's R&D services, your Company is setting up a new R&D facility, which is expected to be operational in the second half of the calendar year 2004. This new facility will substantially increase the existing business of your Company.

Clinigene International Private Limited:

Clinigene International Private Limited is a wholly owned subsidiary of your Company focussed on clinical development. For the financial year under review, the Company incurred a loss of Rs. 18,331 thousand as against a loss of Rs. 5,565 thousand in the previous year. This is mainly attributable to the increased spend on expanding the range of clinical capabilities as well as additional costs incurred with respect to in-house research projects focussed on novel Biomarkers for Diabetes. During the year, Clinigene successfully completed Phase III Clinical Trials for recombinant Human Insulin on behalf of your Company.

During the year under review, Clinigene has focused on building its capability base, and today is poised to extend its business activities to offer third party clinical services. The Company proposes to undertake bio-equivalence and bio-availability studies as well as Phase I to IV human clinical trials. Clinigene will differentiate itself through a strategy focused on shortening time-to-market, cost efficiency through quality and proficiency leveraging on its valuable disease registries and access to a well-compiled database of quality investigators and medical centres. During the year Clinigene inaugurated its state-of-the-art Human Pharmacology Unit at Sagar Apollo Hospital at Bangalore.

Clinigene is also developing disease specific databases that are compliant with highest global standard, to enable the Company to have a unique competitive edge which will drive growth in the future. Clinigene's Laboratory, which is accredited by the College of American Pathologists supports the above activities.

During the year, Clinigene was recognized as an approved Research Company by the Department of Science and Industrial Research, Government of India, entitling the Company to a 10-year tax holiday under the Indian Income Tax Act.

Biocon Biopharmaceuticals Private Limited:

The Company is a 51:49 Joint Ventures between your Company and CIMAB S.A.
The Company proposes to commercialize the production of monoclonal antibodies and Erythropoietin (EPO) using a specialized Mammalian cell culture technology and Granulocyte Colony Stimulating Factor (GCSF) through bacterial fermentation. The monoclonal antibody is a NBE (New Biological Entity) for the treatment of head and neck cancers and represents a significant initiative in the Company's foray into original molecules through extensive clinical testing.

Construction of a state of the art Biologicals facility for the above-mentioned products has commenced and the project is expected to be completed in financial year 2006. The facility will be a multi-product plant capable of handling several products in campaigns.

The Company is in a development stage and had no revenues for the FY 2003-04. Expenses incurred by the company towards salaries, travel, etc have been charged off resulting in a net loss of Rs. 3,226 thousand.

Report on subsidiary companies:

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

Initial Public Offering:

Your Company made its initial public offering (IPO) through a book building process. The response to the IPO was overwhelming. The issue was oversubscribed approximately 33 times. Your Directors would like to take this opportunity to thank all our investors for their overwhelming response to your Company's IPO and the confidence reposed by them in our business prospects. The allotment was done as per the guidelines prescribed by SEBI. Your Company added approximately 54,000 new shareholders to its original list of 156 pre-issue shareholders.

Listing Arrangement:

Consequent to the initial public offering by your Company, the shares have been listed on the National Stock Exchange of India Limited, Mumbai (NSE) as well as the Stock Exchange, Mumbai (BSE).

Directors:

During the year, Ms. Renuka Ramnath, the nominee director of ICICI Venture Funds resigned from the Board consequent to the sale of the shares held by these funds in your Company. Your directors place on record their appreciation of the valuable contribution made by her as a member of the Board.

Prof. Charles Cooney and Ms. Kiran Mazumdar-Shaw retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-election.

Ms. Ada K H Tse was appointed as the nominee of AOF HS Mauritius Limited, on October 18, 2003, pursuant to the shareholding agreement with your Company. Pursuant to article 74 (b) of the articles of association of your Company she is not liable to retire by rotation.

During the year, Prof. Catherine Rosenberg and Mr. Santosh Senapati were appointed as the alternate directors to Prof. Ravi Mazumdar- and Ms. Ada K H Tse, respectively.

Subject to your approval, the Board of Directors has reappointed Mr. John Shaw as the Vice-Chairman of your Company for a further period of 5 years till 31st March 2009. The necessary details there of have been provided in the notice calling the ensuing Annual General Meeting.

Mr. Suresh Talwar, director of your Company is a partner in the legal firm viz. Crawford Bayley & Co. Your Company had obtained the services of this firm as a legal counsel during the IPO. Your Company had also availed the legal advice from this firm from time to time on a need basis.

Auditors:

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

Management Discussion and Analysis Report:

The report as required under the Listing agreements with the Stock Exchanges is annexed and forms part of the Directors' Report.

Corporate Governance:

Your Company strives to imbibe high standards of corporate governance while interacting with all its stakeholders. Your Company has complied with the corporate governance code as stipulated under the listing agreement with the stock exchanges. A separate section on corporate governance along with a certificate from the auditors confirming the level of compliance is annexed and forms a part of the Directors' report.

Employees Stock Option Plan (ESOP):

Your Company had introduced a stock option plan for its employees and non-executive Directors. Under the plan, stock options were granted to senior management including Directors of your Company and members of the Core Management Committee. Consequent to the corporate actions of stock split and issue of bonus shares, the remuneration committee adjusted the entitlement of shares for all the grantees under the scheme. Your Company also granted stock options to 54 additional employees of your Company and its subsidiaries during January 2004. The number of options thus granted was 142,100.

To enable all employees to participate in the success of your Company, the shareholders approved a new ESOP 2004 in February 2004, based on the recommendation of the remuneration committee and the Board of your Company. Under this Plan all employees who were on the rolls of your Company and its subsidiaries as at 18th March, 2004, and who have not received Equity Shares/Stock Options under any previous scheme are entitled to receive 500 shares each over a four year vesting period at a price equal to the IPO price, i.e. at Rs. 315 per share.

Details of the total options granted during the year as well as the transfer of shares on account of the first vesting of previously granted options is furnished below:

Particulars	First Grant (before Equity Share split and bonus)*	First Grant (Post Equity Share split and bonus)@	Second Grant (Post Equity Share Split and Bonus)	Third Grant (Post Equity Share Split and Bonus)
a. Options Granted (Net of Options cancelled)	69,010	3,379,821	142,100	422,000
b. Exercise price	Rs. 10 each	Rs. 0.2	Rs. 5 each	Rs. 315 each
c. Options vested	17,253	844,975	-	-
d. Options exercised	17,190	841,914	-	-
e. Total number of Equity Shares to be transferred from the ESOP Trust as a result of exercise of options	17,190	841,914	-	-
f. Options lapsed	63	3,061	-	-
g. Variation in the terms of options	None			
h. Money realized by exercise of options	Rs. 171,900	Rs. 171,900	-	-
i. Total number of options in force	51,757	2,534,846	142,100	422,000
j. Person-wise details of options granted to:				
i. Directors and key managerial employees	Please see Table (I) below for details regarding options granted to Directors and key managerial employees		No options have been granted	No options have been granted
ii. any other employee who received a grant in any one year amounting to 5% or more of the options granted during that year	Nil	Nil	Nil	Nil
iii. Identified employees who have been granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	Nil	Nil	Nil	Nil
k. Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of options	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares	Not applicable since shares will be transferred by the ESOP Trust upon exercise of the options and the Company will not be required to issue any new shares
l. Vesting schedule	25% each in April of 2003, 2004, 2005 and 2006. All the options as of April 2003 have been fully vested.	25% each in April of 2003, 2004, 2005 and 2006. All the options as of April 2003 have been fully vested.	25% each in January of 2005, 2006, 2007 and 2008.	25% each in April of 2005, 2006, 2007 and 2008.
m. Lock-in	No lock-in. Subject to a minimum vesting period of 1 year.	No lock-in. Subject to a minimum vesting period of 1 year.	No lock-in. Subject to a minimum vesting period of 1 year.	No lock-in. Subject to a minimum vesting period of 1 year.

* 1 stock option is equal to 1 equity share of Rs. 10 each at the time of first grant.

@ 1 stock option is equal to approximately 49 Equity Shares of Rs. 5 each at the time of first grant (post Equity Share Split and post bonus)

Sl. No.	Name of Director or key managerial personnel	Number of Equity Shares of Rs. 10 each entitled at the time of first grant of option share split and bonus)	Number of Equity Shares of Rs. 5 each issuable upon exercise of options (post equity share split and bonus)
	Directors		
1	Dr. Neville Bain	4,000	195,902
2	Prof. Charles Cooney	4,000	195,902
	Key managerial employees		
3	Mr. Ajay Bhardwaj	4,000	195,902
4	Dr. Arun Chandavarkar	4,000	195,902
5	Mr. Shrikumar Suryanarayanan	4,000	195,902
6	Mr. Murali Krishnan K N	4,000	195,902
7	Dr. Goutam Das	4,000	195,902

Scientific Advisory Board:
The Scientific Advisory Board under the chairmanship of Prof. Charles Cooney met twice during the year under review. The Board has played an important role in evaluating and steering your Company's R&D programs in a pragmatic manner.

Fixed Deposits:
Your Company has not accepted any fixed deposits during the financial year under review.

Directors responsibility statement:
Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby confirm as under:

i) that in preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
ii) that they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that period;
iii) that they 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 your Company and for preventing and detecting fraud and other irregularities;
iv) that they have prepared the annual accounts on a going concern basis.

Particulars of Research and Development, Conservation of energy, technology absorption etc:
Particulars required under Section 217 (I) (e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the annexure to the Report.

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

Acknowledgements
We take this opportunity to thank the employees for their contribution to the growth and success of your Company. We would also like to thank all other stakeholders and business associates for their support

For and on behalf of the Board

Kiran Mazumdar-Shaw
Chairman

May 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All amounts in Indian rupees thousands, except share data including share price)

1. Industry Structure and Development

The Global Pharmaceutical Market has a size of USD 450 billion with North America, Europe and Japan accounting for approximately 50%, 25% and 10% respectively, of the total world market. India accounts for approximately 1% of the Global Pharmaceutical Market.

Cholesterol & Triglyceride Reducers represent the leading therapeutic class of drugs with sales in excess of USD 25 Billion . Anti Diabetic Drugs including Recombinant Human Insulin accounted for sales in excess of USD 5 Billion and Immunosuppressants registered sales in excess of USD 2 Billion

The global pharmaceuticals market can also be broadly divided into the regulated and unregulated/semi-regulated markets. The regulated markets have inherently high levels of intellectual property protection, and strong product patent recognition. Consequently, the regulated markets offer a premium for intellectual property, quality and regulatory compliance, along with greater price stability. USA, Europe, Japan and a few other countries constitute this Regulated Market segment of which USA enforces the most stringent regulatory norms where US FDA inspection and compliance is a must to enter this market.

Patented Drugs command high prices in the regulated markets during their patent life and account for a substantial share of the Global Pharmaceutical Market. The best-selling drugs generally reflect the demographics, consumer preferences and needs of the populations in the regulated markets. For example two of the top five selling drugs in 2002, namely Lipitor (Atorvastatin) and Zocor (Simvastatin), address the cholesterol and triglyceride reducing segment reflecting the high fat, high cholesterol diets in the regulated markets.

The unregulated/semi-regulated markets, which include many developing countries such as India, have minimal entry barriers in terms of regulatory requirements especially with respect to intellectual property rights. These markets are often highly competitive, resulting in much lower prices and profit margins for producers.

Generic Pharmaceutical Industry

The generic drugs market refers to regulated markets for drugs whose patents have expired or been invalidated. The expiration or invalidation of product patents typically leads to the entry of generic, or non-branded, formulations in the regulated markets, resulting in increased competition and leading to a decline in price and margin of drugs. According to IMS data, the global generics market was estimated to be US$38 billion in calendar 2000, with the United States, the world's largest generic market, accounting for an estimated US$9-10 billion.

This generics industry has witnessed growth in recent years, and is expected to grow significantly in the near-to-medium term. Patents on a number of significant pharmaceutical products are expected to expire in the next 5-7 years. In addition, governments, insurers and healthcare organizations in developed countries are increasingly promoting generics to reduce public expenditure on healthcare. Furthermore, according to IMS, stringent new drug approval regimes in developed countries have extended approval timelines and thereby eroded the effective patent life of many new products, as a larger portion of a drug's patent life expires during the approval process. Another key factor in the development of the generics industry is the increased sourcing of drugs from lower cost producers like India and China.

2. Outlook

The global generic industry is expected to grow significantly over the next few years as products with sales in excess of USD 30 Billion are slated to lose patent protection or market exclusivity. Medicare Reforms and prescription drugs benefit is expected to have a favourable impact on the generic drug industry. In addition Generic Biologicals may open up in North America & Europe towards the later part of this decade.

The surge in generics together with patent expiry of Simvastatin, and Pravastatin in USA provides Biocon with attractive opportunities in the near to medium term. Patent expiry of key immunosuppressant drugs and the possible opening up of Generic Biologicals is also seen as a significant opportunity especially for Recombinant Human Insulin.

3. Risks and concerns

The Generic Industry is subject to patent litigation and regulatory issues. Patent challenges or delay in regulatory approvals could delay our product launch in key markets. In addition significant additional competition in key products could erode both our market share and our margins.

4. Internal Controls

Biocon has well established internal control systems for operations of the company and its subsidiaries. The Finance Department is well staffed with experienced and qualified personnel who play an important role in implementing and monitoring the internal control environment and compliance with statutory requirements.
Our internal control system is designed to:

i) safeguard the Company's assets and to identify liabilities and manage it;
ii) To ensure that transactions are properly recorded and authorised;
iii) To ensure maintenance of proper records and processes that generates a flow of timely, relevant and reliable information; and
iv) To ensure compliance with applicable laws and regulations

The Internal Audit is conducted by an independent firm of Chartered Accountants.

The Audit Committee addresses significant issues raised by the Internal and Statutory Auditors and the management of Biocon duly considers and takes appropriate action on recommendations made by the Statutory Auditors, Internal Auditors and the Audit Committee.

5. Discussion on financial performance with respect of operational performance

Overview

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India.

BALANCE SHEET – MARCH 31, 2004

	2004	2003	Growth %
SOURCES OF FUNDS			
Shareholders.' Funds			
Share capital	500,000	18,377	2620.9%
Reserves and surplus	4,916,314	1,248,721	293.7%
	5,416,314	1,267,098	327.5%
Loan Funds			
Secured loans	472,255	582,109	-18.9%
Unsecured loans	174,657	103,545	68.7%
	646,912	685,654	-5.7%
Deferred Tax Liability	176,680	143,057	23.5%
	6,239,906	2,095,809	197.7%
APPLICATION OF FUNDS			
Fixed Assets			
Cost	1,912,290	1,553,077	23.1%
Less: Accumulated depreciation	471,200	333,179	41.4%
Net book value	1,441,090	1,219,898	18.1%
Capital work-in-progress	543,125	79,844	580.2%
	1,984,215	1,299,742	52.7%
Long Term Investments	89,329	84,829	5.3%
Current Assets, Loans and Advances			
Inventories	839,521	466,962	79.8%
Sundry debtors	1,159,635	737,467	57.2%
Cash and bank balances	3,175,114	10,217	30976.0%
Loans and advances	267,203	156,838	70.4%
	5,441,473	1,371,483	296.8%
Less: Current Liabilities And Provisions	1,275,111	660,246	93.1%
Net Current Assets	4,166,362	711,237	485.8%
	6,239,906	2,095,809	197.7%

Share Capital

Year ended March	2004 Nos.	2004 Rs. 000's	2003 Nos.	2003 Rs. 000's
Balance at the beginning of the year	3,675,300	18,377	1,837,650	18,377
Share issued during the year				
- Bonus issue	86,324,700	431,624	-	-
- Initial public Offering (IPO)	10,000,000	50,000		
Balance at the end of the year	100,000,000	500,000	1,837,650	18,377

The Company has only one class of shares viz. equity shares of par value of Rs. 5 each. The authorized share capital of the Company was raised from Rs. 20,000 in 2002-03 to Rs. 600,000 in 2003-04 divided into 120,000,000 equity shares of Rs. 5 each.

The Company carried out a sub-division of equity shares of face value of Rs. 10 each into 2 equity shares of Rs. 5 each. Consequently, the issued, subscribed and paid -up capital of Rs. 18,377 has been divided into 3,675,300 shares of Rs. 5 each.

The Company during the year issued 86,324,700 equity shares of Rs. 5 each as bonus shares in the ratio of 23.4877958 shares for every one share held to the shareholders. existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the profit and loss account of Rs. 431,624.

In March 2004, the Company made an IPO of 10,000,000 fresh equity shares of Rs. 5 each at a price of Rs. 315 per share.

Reserves and Surplus

The total reserves and surplus has increased to Rs. 4,916,313 in March 31, 2004 from 1,248,720 in March 31, 2003. The increase has been on account of receipt of share premium of Rs. 3,100,000 on issue of 10,000,000 equity shares of Rs. 5 each at a premium of Rs. 310.

The balance in the profit and loss account increased by 76.7% after taking into account the bonus issue by capitalisation of the balance in the profit and loss account of Rs. 431,624 and profits transferred during the year of Rs.1,133,913.

Loan Funds

There has been a marginal reduction in the loans outstanding from 685,654 in 2002-03 to 646,912 in 2003-04. During the year the entire term loan balance as at March 31, 2003 of Rs. 305,549 has been repaid. However, there has been a rise in the borrowings from banks by Rs. 195,695 for funding working capital requirements. The unsecured loans increased by Rs. 71,112 on account of accumulation of interest free deferred sales tax liability on the sales made during the year. The sales tax liability is payable in installments after a period of 4-8 years as per an order obtained from Karnataka Sales Tax Authority.

Fixed Assets

	2004	2003	Growth %
Cost	1,912,290	1,553,077	23.1%
Less: accumulated depreciation	471,200	333,179	41.4%
Net Block	1,441,090	1,219,898	18.1%
Add: capital work in progress	543,125	79,844	580.2%
Net fixed Assets	1,984,215	1,299,742	52.7%
Asset turnover ratio (net)	2.63	1.64	60.5%

During the year, the Company added Rs. 359,213 to its gross block mainly on account of acquisition of 41.25 acres leasehold land from KIADB for Rs. 99,417 and acquisition of 11.8 acres of freehold land which was earlier leased to the Company at an aggregate cost of Rs. 24,926. Additions include Plant and Machinery Rs. 90,589 and Research and development equipment Rs. 78,225.

The capital work in progress as at March 31, 2004 and March 31, 2003 represents advances paid towards acquisition of fixed assets and the cost of assets not put to use. It includes the cost of assets of our Insulin facility, which is yet to be commissioned, advances extended and cost of assets for our new immunosuppressants plant and cost of our new project to augment our capacities for submerged fermentation and chemical synthesis operations at our new site at Plot No. 2 & 3, IV Phase, Bommasandra – Jigani Link Road, Bangalore.

The company has a capital commitment of Rs. 1,229,329 as at March 31, 2004 as compared to 257,730 as of March 31, 2003. Capital commitment as at March 31, 2004 mainly pertains to our project at the new site and the immunosuppressants facility. The proceeds raised from the IPO will be used for the capital expenditure planned.

Investments

The Company as at March 31, 2004 held investments of Rs. 89,329 as compared to Rs. 84,829 as of March 31, 2003. This increase of 5.3% is mainly on account of purchase of 448,800 shares by the Company in BBPL, a joint venture company with CIMAB SA.

The Company continues to hold investments in 2 of its subsidiaries viz., Syngene (99.99%) and Clinigene (100%) of Rs. 84,328 and Rs. 500 respectively.

Current Assets, Loans and Advances

The current assets, loans and advances have gone up from Rs. 1,371,483 to Rs. 5,441,473, recording an increase of 296.8%. This was mainly on account of increase in cash balance to Rs. 3,175,114 in March 31, 2004 from 10,217 in March 31, 2003. Of the cash balance of Rs. 3,175,114, Rs. 3,150,000 represents deposits placed with scheduled banks of un-utilised IPO funds. This deposit is a restricted deposit as at March 31, 2004.

Sundry debtors. stood at Rs. 1,159,635 (net of provision for doubtful debts of Rs. 14,764) as at March 31, 2004 as compared to Rs. 737,467 (net of provision for doubtful debts of Rs. 4,609) as at March 31, 2003. These debtors are considered good and realisable. Provision as on March 31, 2004 has been made for doubtful debtor outstanding for more than 180 days as also for others, depending on the collectibility of specific dues. Debtors. represent an outstanding of 73 days and 91 days of revenue as at March 31, 2004 and March 31, 2003 respectively on a moving average of 3.5 month's sales.

Provision for doubtful debts as a percentage of revenue are 0.3% and 0.2% as at March 31, 2004 and March 31, 2003 respectively.

Loans and advances has increased from Rs. 156,838 in March 31, 2003 to Rs. 267,203 in March 31, 2004. This increase of 70.4% is mainly on account of increase in balances with customs and excise authorities and increase in advances recoverable for goods and services rendered. Balance with customs and excise increased to Rs. 140,567 in March 31, 2004 from Rs. 78,496 as of March 31, 2003 on account of a deposit of Rs. 25,000 placed with the Central Excise Department during the current year. The increase of Rs. 34,739 in advances recoverable is attributed to balances recoverable on account of the increase in current account balance with Clinigene and BBPL, which increased from Rs. 11,371 in 2002-03 to Rs. 50,435 in 2003-04.

Current Liabilities and Provisions

The current liabilities and provisions stood at Rs. 1,275,111 as at March 31, 2004 as compared to Rs. 660,246 as of March 31, 2003. This increase is attributed to increase in sundry creditor balances by 82.8%, other liabilities by 78.1%. Increased creditor balances may be attributed to increased business activities. However, the credit terms from suppliers has dropped to 68 days in March 31, 2004 as against 88 days of purchases as of March 31, 2003 on a moving average of 4 month's purchases.

Other liabilities include provision for expenses, which increased from Rs. 63,762 as at March 31, 2003 to Rs. 118,148 as at March 31, 2004. This increase in provisions pertains to provision for IPO related expenses Rs. 14,289 in 2003-04 and increase in provision for performance bonus to employees.

The Company has also proposed a dividend of Rs. 100,000 (20.0%) for the year ended March 31, 2004 as against Rs. Nil in the previous year.

Revenues

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

	2004	2003	Growth %
INCOME			
Gross sales	5,309,108	2,746,409	93.3%
Less: Excise duty	290,284	208,216	39.4%
Net sales	5,018,824	2,538,193	97.7%
Contract research fees	6,382	5,193	22.9%
Other income	86,513	17,105	405.8%
	5,111,719	2,560,491	99.6%
EXPENDITURE			
Material costs	2,553,672	1,205,889	111.8%
Employee costs	352,849	306,959	14.9%
Operating and other expenses	576,189	401,286	43.6%
Interest and finance charges	15,677	48,920	-68.0%
	3,498,387	1,963,054	78.2%
PROFIT BEFORE DEPRECIATION AND TAXES	1,613,332	597,437	170.0%
Depreciation	140,200	121,838	15.1%
Less: Amount transferred from revaluation reserve	1,670	1,667	0.2%
	138,530	120,171	15.3%
PROFIT BEFORE TAXES	1,474,802	477,266	209.0%
Provision for income-tax			
Current taxes	194,453	75,806	156.5%
Deferred taxes	33,623	42,726	-21.3%
NET PROFIT FOR THE YEAR	1,246,726	358,734	247.5%
Balance brought forward from previous year	590,781	232,047	154.6%
PROFIT AVAILABLE FOR APPROPRIATION	1,837,507	590,781	211.0%
Issue of bonus shares	431,624	-	
Proposed dividend on equity shares	100,000	-	
Tax on proposed dividend	12,813	-	
Transfer to general reserve	249,345	-	
BALANCE, END OF THE YEAR	1,043,725	590,781	76.7%

Biocon's total income has three components:
- Sales of products manufactured by Biocon;
- Research and development fees; and
- Other income.

The following table sets out the contribution of each of these components of Biocon's income expressed as a percentage of Biocon's total income for the years ended March 31, 2004 and March 31, 2003:

	2004	2003
Sales		
Sale of products		
Biopharmaceuticals	85.2%	78.4%
Enzymes	13.0%	20.8%
Research and Development Fees	0.1%	0.2%
Other Income	1.7%	0.7%
Total Income	100.0%	100.0%

Share of revenues from sales between domestic and export markets are as follows:

	2004	%	2003	%
Domestic	2,013,129	40.1%	1,452,929	57.2%
Exports	3,005,695	59.9%	1,085,265	42.8%
Total	5,018,824	100.0%	2,538,194	100.0%

Biocon's sales grew by 97.7% to Rs. 5,018,824 in 2003-04 while the total income grew by 99.6% to Rs. 5,111,719.

The Company's export revenues from product sales have increased by 177.0% mainly driven by revenues from sale of bio-pharmaceutical products .

Revenues from sale of biopharmaceuticals registered a growth of 117.0%in March 31, 2004 over March 31, 2003, while the enzymes segment registered a growth of 25.1%.

Segment and Product-wise Performance

The segmentation of Biocon's sales is as follows:

	2004	%	2003	%
Enzymes	665,164	13.3%	531,634	20.9%
Biopharmaceuticals	4,353,660	86.7%	2,006,559	79.1%
Total	5,018,824	100.0%	2,538,194	100.0%

Enzymes

Biocon develops and markets a mix of specialty and industrial enzymes for a broad range of industries including food and beverages, animal feed, starch process, textiles, pulp and paper, and leather. The enzymes business delivered improved results, growing by 25.1% to Rs. 665,164 compared to Rs. 531,634, driven by increased sales of beverage and starch processing enzymes.

The sale of major enzymes and their share to total enzyme revenues

	2004	%	2003	%
Brewing & Beverages	267,112	40.2%	212,548	40.0%
Industrial Enzymes	180,758	27.2%	154,339	29.0%
Food Ingredients	124,130	18.7%	102,448	19.3%
Grain Processing	93,164	14.0%	62,299	11.7%
	665,164	100.0%	531,634	100.0%

Pectinase is our largest enzyme product, contributing 21.0% and 24.0% of the total enzyme sales in 2002-03 and 2003-04 respectively.

Biopharmaceuticals

In pharma, we focus on the manufacture and marketing of APIs that require fermentation and other skills and that offer large market potential.

Having begun sales in fiscal 1998, our biopharmaceuticals business has since grown to constitute 79.1% and 86.7% of our sales in 2002-03 and 2003-04, respectively.

The sale of major APIs and their share to total biopharmaceutical revenues

	2004	%	2003	%
Statins	3,028,371	69.6%	1,199,324	59.8%
Immunosuppressants	137,076	3.1%	34,948	1.7%
Anti-diabetic drugs	19,823	0.5%	25,112	1.3%
Others	1,168,389	26.8%	747,174	37.2%
	4,353,660	100.0%	2,006,559	100.0%

Statins:

Statins are cholesterol-lowering agents used to treat and prevent coronary diseases and are amongst the largest selling drugs worldwide. The Company's Statins portfolio presently comprises Lovastatin, Simvastatin, Pravastatin and Atorvastatin.

Simvastatin was the largest contributor to revenues in the year ended March 31, 2004. Biocon is currently exporting Simvastatin to Europe, Japan and Canada. Biocon is also one of the largest exporters of Lovastatin to the U.S. Both these products have been the key growth drivers in FY 2004.

Revenues from the Statins business grew by 152.5% from Rs. 1,199,324 to Rs. 3,028,371. This business was the key driver of growth in FY 2004. Its contribution to Biocon's overall operating revenues increased from 47.3% to 60.3%, enabling expansion in operating margins.

The demand outlook for Statins remains strong, especially as they are undergoing patent expiration in regulated markets. Biocon has received a Certificate of Suitability for Simvastatin, enabling access to European markets. Exports to Germany, U.K. and Canada have resulted in strong expansion of revenues from Simvastatin. Growth in Europe, following the post-patent opening of several new markets, will drive Simvastatin sales in the immediate term while the U.S. patent expires will provide the medium term opportunity. During the year, the Simvastatin manufacturing facilities were inspected and approved by US FDA.

During the year, Biocon for its Pravastatin received a Certificate of Suitability enabling access to the U.S. and European markets and its manufacturing facility was approved by US FDA.

Currently, demand for our Statins exceeds our production capacity. To meet our current demand and expected growth in demand and to reduce our reliance on outsourced intermediates, we have initiated a capacity expansion plan to significantly increase our Lovastatin, Simvastatin, Pravastatin and Atorvastatin production. We expect this capacity to be available in the first quarter of 2005.

Immunosuppressants:

Immunosuppressants prevent organ and tissue rejection in transplants and require high technology based manufacturing capabilities. Currently Biocon produces Mycophenolate Mofetil (MMF) and tacrolimus on its indigenous fermentation based platform. While MMF has been sold largely in the domestic market over the last few years, Tacrolimus was commercially launched in FY 2004. Biocon is positioning itself to enter new segments and address exports markets aggressively in future. Biocon has filed a DMF for MMF and is in the process of filing a DMF for Tacrolimus to address the US markets following patent expiry.

Revenues from immunosuppressants increased by 292.2% from Rs. 34,948 to Rs. 137,076.

Other biopharmaceutical products:

The other biopharmaceutical segments also generated robust growth of 53.9% at Rs. 1,188,213.

Upcoming bio-pharmaceutical products include Recombinant Human Insulin, which has recently completed Phase III clinical trials in India and expects regulatory approval for commercial launch in the second half of fiscal 2004.

Research and Development Fees

Research and development fees comprise fees received from clients and customers for research activities. Research activities are based on contracts that specify the nature of the activity to be carried out, basis of billing, manner of payments and are typically in the nature of time and material contracts. Research and development fees are recognised on a monthly basis as services are rendered in accordance with the terms of the applicable contracts.

Other Income

Other income consists primarily of interest income, dividend income, gain on fixed assets sold or discarded, miscellaneous income and exchange fluctuation on revenue transaction including gains on forward contracts. Other income as a percentage of total income was 0.7% and 1.7% in fiscal 2003 and fiscal 2004 respectively. 89.3% and 50.8% of other income in fiscal 2004 and fiscal 2003 is on account of exchange gain on export of products and import of raw materials. Exchange gain has increased from Rs. 8,682 in fiscal 2003 to Rs. 77,257 in fiscal 2004.

Material Costs

Material costs includes Biocon's consumption of raw materials and traded goods and increases or decreases in stock.

Because of the strong growth in sales, raw materials costs with respect to the products have increased by 111.8% over the previous year. Raw material costs as a percentage of sales have increased by 3.4% mainly due to increased outsourcing of intermediates on account of capacity constraints.

Raw material costs are to a lesser extent dependent on global petrochemical prices, which in turn often track global oil prices. This is because our biopharmaceutical and enzyme production processes involve the use of many petrochemicals, especially solvents such as ethyl acetate, methyl iodide and acetone.

Employee Costs

Staff cost comprises:

• salaries, wages, allowances and bonuses;
• contributions to provident fund;
• contributions to superannuation, gratuity and leave encashment;
• welfare expenses (including employee insurance schemes, school tuition program and other miscellaneous employee benefits); and
• directors sitting fees.

Staff costs were Rs. 306,959 and Rs. 352,849 for the fiscal years ended 2003 and 2004 respectively. This is mainly attributed to the increase in the number of our full-time employees from 538 at the beginning of fiscal 2004 to 696 at the end of fiscal 2004, salary increments and increased provision for performance bonus.

Operating and other Expenses

Operating and other expenses comprise of rent; travelling and conveyance; communication; professional charges; power and fuel; patent fees; consumables; repairs and maintenance; general expenses; freight outwards; sales promotion; commissions; bad debts write off; provisions for bad and doubtful debts; printing and stationary; insurance; rates, taxes and fees; and losses on sales of assets. Operating and other expenses have increased by 43.6% from Rs. 401,286 for the year ended March 31, 2003 to Rs. 576,189 for the year ended March 31, 2004. This is mainly on account of the following:

• An increase in legal and professional charges of Rs. 15,528 on account of increased patent filings and engagement of marketing and financial consultants.
• An increase in power and fuel costs of Rs. 43,118 on account of increase in production activity and increase in fuel tariff. However, power and fuel as a percentage of material cost has declined marginally on account of more than proportionate increase in production;
• An increase in repairs and maintenance costs of Rs. 41,269 on account of increase in plant maintenance expenditure;
• An increase in selling costs of Rs. 34,888, mainly commission costs corresponding to the increase in sales. Commission as a percentage of sales has gone up from 0.4% in fiscal 2003 to 0.8% in fiscal 2004;
• Rs. 11,206 increase in provision for doubtful debts and bad debts written off;
• Rs. 29,303 increase in miscellaneous expenditure driven by increase in R&D expenditure towards insulin trials and other R&D related costs.

A general increase in other costs have been offset by a charge towards technical know-how fees for the year ended March 31, 2003 amounting to Rs. 38,458, not incurred in the current year.

Interest and Finance Charges

Interest and finance charges declined by 68.0% in fiscal 2004 over fiscal 2003. Our interest cost declined mainly due to a substantial reduction in borrowing rates.

Depreciation

During the year depreciation has increased by Rs. 18,359 amounting to an increase of 15.3% over fiscal 2003 on account of depreciation charge for full year on additions made to fixed assets in the previous year. This cost as a percentage of sales has only grown by 0.4% mainly due to growth in sales without corresponding facilities expansion.

Provision for Taxes

Provision for current and deferred taxes in the year ended March 31, 2004 was Rs.. 228,076, compared with Rs. 118,532 in fiscal 2003. The reduction in the effective rate from 24.8 % of profit before tax in fiscal 2003 to 15.5% of profit before tax in fiscal 2004 is on account of increased effect of tax benefits received on account of export income and R&D expenditure.

Net Profit, As Restated

Net profit, for fiscal year 2004 increased by 247.5% to Rs. 1,246,726 resulting in an EPS of Rs. 13.85 on post issue capital. Net margins were higher by 1040 basis points at 24.4%.

Liquidity

Our primary liquidity needs have been to finance our working capital requirements and our capital expenditures. These costs have been funded principally by cash flows from operations and short term borrowings.
The Company also raised share capital pursuant to its IPO to fund its capital expenditures, which was held as a restricted bank deposit as at March 31, 2004.

	2004	2003
Net cash generated from operating activities	1,058,091	380,934
Net cash used for investing activities	(836,654)	(342,507)
Net cash generated from (Used in) financing activities	2,943,460	(29,163)
Net increase/(decrease) in cash and cash equivalents	3,164,897	9,264

As of March 31, 2004, cash and cash equivalents amounted to Rs. 3,175,114. The principal sources of cash and cash equivalents in fiscal 2004 were from proceeds raised from issuance of share capital Rs. 3,150,000 and cash flows from operations amounting to Rs. 1,058,091. Cash flows from operations were mainly used for purchase of fixed assets of Rs. 844,628 and repayments of secured loans of Rs. 305,549.

Operating Activities

Net Cash flows from operating activities for fiscal 2004 increase by 177.8% over fiscal 2003 reflecting the Company's strong growth in sales and profits.

Investing Activities

The Company's net cash flows used for investing activities were used primarily to fund purchase of fixed assets for its new facilities.

Financing Activities

The net cash flows raised from financing activities increased mainly on account of proceeds raised from issue of share capital. The funds raised from issue of capital have been held as fixed deposit as at March 31, 2004. During the year, the Company has repaid its long term secured loans of Rs. 305,549 and has borrowed funds from banks of Rs. 217,059 to fund its working capital requirements.

PERFORMANCE OF SUBSIDIARIES

Syngene International Private Limited

Syngene is a 99.99% owned subsidiary of Biocon Limited. Syngene was incorporated on November 18, 1993 with an authorised share capital of Rs. 5,000. Syngene is focused on in two main areas of research: Synthetic Chemistry and Molecular Biology. Syngene is also involved in Custom Chemical Synthesis.

Syngene's total income consists of net sales from Contract Research Services, with the remainder consisting largely of net sales of compounds. Syngene's contracts are largely based on time and material management. Revenues from these contracts are recognised as services are rendered, in accordance with the terms of the contract. Syngene's total revenue has increased from Rs. 262,508 to Rs. 384,869 by 46.6%. This growth in revenue has been the result of growth in the number of clients and due to higher realisation per scientist. In addition, Syngene also earned Rs. 4,928 from investment of its surplus funds in mutual fund units.

Most of Syngene's expenses comprise of raw-material costs and staff costs. Raw material cost consists of lab consumables used for research. Material cost increased by 15.5% over fiscal 2003 on account of increase in business activities. However, as a percentage of sales, material costs have declined by 5.3%. This percentage decrease was primarily due to higher income realisation on a per scientist basis and better project management. Syngene's staff cost increased from fiscal 2003 on account of increase in number of employees and increased provision for performance bonus. However, as a percentage of sales, this cost too has declined by 2.6% due to higher realisation per scientist. Other costs grew by 22.0% mainly on account of exchange loss, which moved from a gain of Rs. 384 for fiscal 2003 to a loss of Rs. 3,029 in fiscal 2004.

Net profit for fiscal 2004 increased by 95.8% to Rs. 160,507. Net margin was at 41.7% higher by 10.5% over fiscal 2003.

Abbreviated profit and loss statement - Syngene

	2004	2003
Total income	384,869	262,508
Profit before tax (PBT)	162,770	82,185
PBT margin	42.3%	31.3%
Profit after tax (PAT)	160,507	81,988
Net margin	41.7%	31.2%

Syngene contributes 7.0% to the consolidated income and 11.6% to the consolidated profits of the group. In the previous year, Syngene contributed 9.3% and 18.8% to the consolidated income and profits of the group respectively.

Clinigene International Private Limited

Clinigene is a 100% owned subsidiary of Biocon Limited. Clinigene was incorporated on August 4, 2000 with an authorised share capital of Rs. 5,000. Clinigene was established to undertake clinical development and validation for drugs and pharmaceuticals and to conduct research in the area of medical sciences for development of new and improved diagnostics and therapeutics.

Clinigene's total income principally consists of income from clinical research fees. Clinigene enters into either time and material contracts and/or fixed price arrangements. Revenue from time and material contracts are recognised on a monthly basis as services are rendered in accordance with the terms of the applicable contracts. Revenue from fixed price contracts is recognised based on the percentage completion method.

Clinigene's expenses comprise of research material costs, staff cost, other operating expense, interest cost, depreciation and provisions for current taxes. Clinigene's research material costs increased by 91.6% and cost as a percentage of sales too increased by 13.6%. Clinigene is in the process of developing its clinical research capabilities and is hiring employees which is reflected in the increase in staff cost 240.5%. Clinigene may require additional funds to develop its capabilities and become profitable. Biocon Limited is supporting it in its funding. As at March 31, 2004, it has accumulated losses of Rs. 21,193 and a working capital deficiency of Rs. 47,246.

Loss for the year ended March 31, 2004 of Rs. 18,331 has been consolidated with the profits of the group in the consolidated financial statements.

Biocon Biopharmaceuticals Private Limited

BBPL is a joint venture company and currently 51% of its shares are held by Biocon and the balance 49% by CIMAB. The Company was incorporated on June 17, 2002 with an authorised share capital of Rs. 500, which has in the current year been increased to Rs. 10,000. BBPL has been established to produce and sell a range of biologicals. BBPL is yet to commence commercial operations and is in the process of setting up its manufacturing facilities.

As at March 31, 2004, BBPL has accumulated losses of Rs. 4,856. Biocon's share in the accumulated losses of BBPL aggregates Rs. 2,477.

Consolidated Financial Statements

Biocon has prepared consolidated financials in accordance with Indian GAAP and US GAAP by consolidating the 2 subsidiaries Syngene and Clinigene and the Joint Venture Company BBPL. The abbreviated consolidated Indian GAAP and US GAAP profit and loss account is as under:

Abbreviated consolidated profit and loss statement - Indian GAAP

	2004	2003
Total Income	5,493,153	2,832,527
Profit before tax (PBT)	1,616,711	553,399
PBT margin	29.4%	19.5%
PAT after minority interest	1,386,362	435,150
Net margin	25.2%	15.4%

Abbreviated consolidated profit and loss statement - US GAAP

	2004	2003
Total Revenue	5,406,409	2,816,416
Gross profit	2,213,341	1,148,866
Gross profit margin	40.9%	40.8%
Income from operations	1,548,672	602,024
Income before income taxes (IBT)	1,616,184	567,445
IBT margin	29.9%	20.1%
Net income	1,351,747	444,335
Net margin	25.0%	15.8%

Reconciliation of Indian and US GAAP consolidated financial statements

	2004	2003
Net profit as per Indian GAAP	1,386,362	435,150
Depreciation	4,180	3,473
Deferred taxes	(34,099)	(4,865)
Amortisation of stock compensation expense	(2,635)	-
Vacation Pay	(576)	10,167
Accounting for JV	(1,581)	-
Others	96	410
Net profit as per US GAAP	1,351,747	444,335

ANNEXURE TO DIRECTORS' REPORT

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

Details of Remuneration paid during the year ended 31st March 2004

Sl. No.	Name & Designation	Age	Remuneration (Rs.)	Qualification & Experience	Date of Commencement of employment	Last employment
1	Mr. Ajay Bhardwaj President - Group Marketing	44	10,369,903	B.Tech., M.S. 20 Years	1/1/86	Project Engineer Max India Ltd-New Delhi
2	Dr. Arun Chandavarkar President - Operations & Technology	43	10,291,065	B.Tech., M.S., Ph. D. 14 Years	11/8/90	--
3	Mr. Chinappa M B General Manager - Finance	36	3,730,311	B.Com., ACA 11 years	7/12/99	Manager - Finance ITC Limited, Calcutta
4	Mr. J M M Shaw Vice Chairman	55	9,732,201	M.A (Hons) 33 Years	4/1/99	President- Berghaus International Fashion Group, Holland
5	Ms. Kiran Mazumdar-Shaw Chairman & Managing Director	51	10,859,206	B.Sc (Hons) PGD in Malting & Brewing 29 Years	12/1/78	Consultant Jupiter Breweries Ltd
6	Mr. Malay Jiban Barua Senior Manager - Marketing	36	2,499,515	B.Sc.(Tech), M.Sc.(Tech) 9 Years	6/1/95	--
7	Mr. Murali Krishnan K N President - Group Finance	48	10,291,972	B.Com. 23 Years	11/9/81	--
8	Mr. Rakesh Bamzai Vice President - Marketing	43	6,749,703	B.Sc (Tech.) 15 Years	4/19/95	Asst. G.M. - Marketing Advanced Biochemicals
9	Mr. Sandeep Rao Manager - Marketing	30	4,078,962	M.Sc, PGDM 5 Years	6/15/99	--
10	Mr. Shrikumar Suryanarayanan President - Research & Development	44	10,431,252	B.Tech., M.Tech. 20 Years	5/2/84	--

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

On behalf of Board of Directors

KIRAN MAZUMDAR-SHAW
Chairman & Managing Director

Place: Bangalore
Date: May 14, 2004

ANNEXURE TO THE DIRECTORS REPORT

Particulars under Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 for the year ended 31st March 2004

Conservation of Energy

During the year, the Company installed a heat recovery unit to the DG set for pre heating the boiler feed water. This has minimized the consumption of fuel (furnace oil) to the extent of 600 kgs per day. A cost saving of about Rs.2.5 Million per annum was attained on account of this.

FORM A

		For the year ended 31st March, 2004	For the year ended 31st March,2003
A.	Power and Fuel Consumption		
1	Electricity		
	a. Electricity Purchase		
	Unit (000)	4,274	4,483
	Total Amount (Rs. in Millions)	20.15	18.77
	Rate per Unit	4.71	4.19
	b .Own Generation from		
	Diesel Generator		
	Unit (000)	21,875.00	17,748.25
	Total Amount (Rs. in Millions)	1,24.74	86.63
	Rate per Unit	5.70	4.88
2	Furnace Oil		
	Unit (K.Ltrs)	2,196.23	1,873.22
	Total Cost (Rs. in Millions)	26.24	22.61
	Average/K.Ltrs	11,947.83	12,069.71

B. Consumption per unit of Production

The disclosure of consumption figures per unit of production is not meaningful as the operations of the Company is not power intensive and involves multiple products.

FORM B

1. Specific areas in which R&D work has been carried out by the company

The company is engaged in the manufacture of
1) Biologicals
2) Small molecule generics and
3) Industrial enzymes

In Biologicals the company is focussed on the following products
1) Recombinant human insulin
2) Streptokinase
3) Granulocyte stimulating factor (GCSF)
4) Human growth hormone (HGH)

In Small molecule generics the company is focussed on the following products.
1) Cardiovascular Drugs
2) Anti-Diabetic Drugs
3) Immunosuppressants

In the area of enzymes, the company is engaged in the product development of
1) Cellulases catering to baking, brewing, and textile industry
2) Dextranase for sugar industry
3) Pectinases for fruit juice industry
4) Glucoamylase for brewing and baking industry
5) Formulation of enzyme blends for baking, brewing, textile, paper. feed, protein hydrolysis and beverage.

2. Benefits derived as a result of the above.

Biologicals:
Process for production of recombinant human insulin from *Pichia*, a methylotropic yeast has been developed.
Process to produce Streptokinase has been developed and approval has been obtained from RCGM for conducting pre-clinical toxicology studies.
Recombinant clones for production human G-CSF and HGH from E.coli has been developed.

Small Molecule Generics:
Process for the manufacture of tacrolimus an immunosuppressant is established resulting in commercial production. Process for the manufacture of Sirolimus, another immunosuppressant is established.

Industrial Enzymes:
Increased enzyme market potential with new improved blends of enzymes

3. Future Plan of Action:

Biologicals:
New generic biologicals will be developed.

Small Molecule Generics:
Expand the portfolio of products for immunosuppressant segment.

Industrial Enzymes:
Filing of patents for the new enzyme applications
Develop the use of enzymes in Biotransformations for niche market with high value product.
Product development for Grain processing

4. Expenditure on scientific Research & Development :

	(Rs. In Million)
(a) Capital	89.9
(b) Recurring	143.4
(c) Total	233.3
(d) Total R& D expenditure as percentage of sales	4.6%

5. Technology Absorption, Adaptation and Innovation :

No imported technology during the year

6. Foreign Exchange earnings and outgo :

Please refer to information given in the notes to accounts to the annual accounts of the company in Schedule 22 Notes to accounts item no. iv to vi.

SECTION 212

Statement Pursuant To Section 212 Of The Companies Act, 1956 relating to Holding Company's interest in the subsidiary companies:

	Clinigene International Private Limited	Syngene International Private Limited	Biocon Biopharmaceuticals Private Limited
1. Financial year of the subsidiary company ended on	31st March, 2004	31st March, 2004	31st March, 2004
2.(a) Number of shares held by Biocon Limited at the end of the above date	50,000 equity shares of Rs.10/- each	28,74,830 equity shares of Rs.10/- each	4,48,800 equity shares of Rs. 10/- each
(b) Extent of Interest on above date	100%	99.99%	51%
3. Net aggregate amount of the Subsidiary Company Profit / (Loss) so far it concerns members of the Holding Company and			
(a) is not dealt in the Company's account			
1. for the financial year ended 31st March, 2004 (Rs.in '000)	(18,331.00)	160,490.00	(1,645.30)
2. for the previous financial year, since it became Subsidiary Rs in ('000)	(5,565.00)	81,979	-
(b) is dealt in the Company's account			
1. for the financial year ended 31st March, 2004	Nil	Nil	Nil
2. for the previous financial year, since it became Subsidiary	Nil	Nil	Nil

ANNEXURE TO DIRECTORS' REPORT

Corporate Governance

1. Company's philosophy on corporate governance:

Biocon Limited is committed to Good Corporate Governance. Company aims to achieve the objective of optimizing the shareholders value by ensuring effective relationship with stakeholders and protecting their interests. The company believes that the Company's business strategy and plans should be consistent with the welfare of all its key stakeholders, including shareholders, which will bring sustained corporate growth and long term benefits to all. Biocon's business policies are based on aspects like ethical conduct, health, safety, and commitment to employees and relationships. The core values of the company's governance processes include independence, integrity, accountability, transparency, responsibility and fairness. These values are followed consistently in all its corporate decisions and business dealings.

2. Board of Directors:

2.1 Composition:

The Board of directors consists of 7 members with 4 independent directors, 2 executive directors and 1 non-executive director. Ms. Kiran Mazumdar-Shaw is the Chairman and Managing Director of the Company and Mr. John Shaw is the Vice-Chairman. Ms. Kiran Mazumdar-Shaw and Mr. John Shaw conduct the day to day management of the Company, subject to the supervision and control of the Board of Directors. The independent directors on the Board are senior, competent and highly respected persons from their respective fields. The brief profile of the Company's Board of directors is as under:

Ms. Kiran Mazumdar-Shaw, 51 years, Chairman and Managing Director, is a first generation entrepreneur with more than 25 years' experience in the field of biotechnology. After graduating in B.Sc. (Zoology Hons.) from Bangalore University in 1973, she completed her post-graduate degree in malting and brewing from Ballarat College, Melbourne University in 1975. She is a founder promoter and has led the Company since its inception in 1978. She is currently the Chairman and Director of Syngene International private Ltd, Clinigene International Private Ltd and Biocon Biopharmaceutical Private Ltd. She was previously a consultant with Jupiter Breweries Limited. She is the recipient of several awards, the most noteworthy being the 'Padmashri' Award (one of the highest civilian awards in India) in 1989 conferred by the President of India, the Ernst & Young Entrepreneur of the Year Award in 2002 for the Healthcare & Life Sciences category and more recently in 2003 the BioSpectrum Person of the Year Award. She heads several biotechnology task forces including the Karnataka Vision Group on Biotechnology, an initiative by the Government of Karnataka and the National Taskforce on Biotechnology for the Confederation of Indian Industry (CII).

Mr. John Shaw, 55 years, Vice Chairman, is the controlling shareholder and director of Glentec International, one of the substantial shareholders of Biocon Ltd. He completed his M.A. (Economic Hons.) in History and Political Economy from Glasgow University, U.K. in 1970. He has 32 years' experience with Coats Viyella plc. in various capacities including finance and general administration before he came on the Board of Biocon Ltd. in 1999. He has served as Finance Director of Coats Viyella group companies in various locations around the world.

Dr. Neville Bain, 64 years, has vast experience in the field of finance and general management. He graduated from Otago University, New Zealand, with a Master of Commerce (Hons) degree and double Bachelor degrees in Accounting and Economics. He has also been awarded the degree of Doctor of Law, is a Fellow Chartered Accountant, a Fellow Cost and Management Accountant, a Fellow Chartered Secretary and a Fellow of the Institute of Directors. He spent 27 years with the Cadbury Schweppes group, having responsibility for the world-wide confectionery business and then as Deputy Chief Executive and Finance Director. This was followed by a six-year term as Chief Executive Officer of Coats Viyella plc, and then as Chairman and Director of various organisations. He is the Chairman of Hogg Robinson plc and also a board member of Scottish Newcastle plc. He has published books on Corporate Governance, Strategy, and the effective utilisation of people in organisations. He is an independent director.

Prof. Charles L. Cooney, 59 years, is the Professor of Chemical & Biochemical Engineering, Faculty Director of the Deshpande Center for Technological Innovation and Co-Director of the Program on the Pharmaceutical Industry at the Massachusetts Institute of Technology (MIT), Cambridge, U.S.A. He obtained his Bachelor's degree in Chemical Engineering from the University of Pennsylvania in 1966, his Master's degree and his Ph.D in Biochemical Engineering are from MIT in 1967 and 1970 respectively. His research interests span topics in biochemical engineering and pharmaceutical manufacturing. He is a recipient of several prestigious awards, including Gold Medal of the Institute of Biotechnology Studies (London), the Food, Pharmaceutical and Bioengineering Award from the American Institute of Chemical Engineers and the James Van Lanen Distinguished Service Award from the American Chemical Society and elected to the American Institute of Medical and Biochemical Engineers. He serves as a consultant to and/or director of a number of biotech and pharmaceutical companies globally and is on the editorial boards of several professional journals. He is an independent director.

Mr. Suresh Talwar, 65 years, is a partner of Crawford Bayley & Co., an Indian law firm of repute. He completed his B.Com from the University of Bombay in 1959, his LL.B. from the Government Law College, Bombay in 1961 and a solicitor of the Incorporated Law Society, Mumbai in 1966. His area of professional specialisation is in corporate law and other related matters. He has been the legal counsel to numerous Indian companies, multinational corporations as well as Indian and foreign banks. He is also a director of several leading companies in India. He is an independent director.

Prof. Ravi Mazumdar-, 49 years, completed his Ph.D from the University of California, Los Angeles, USA in 1983. Prior to this, he obtained his B.Tech from the Indian Institute of Technology, Bombay in 1977 and his Masters in Science from the Imperial College of Science, London in 1978. He has been a professor in several prestigious universities including Purdue University, U.S.A Columbia University, U.S.A., University of Essex, U.K., Mc Gill University, Canada and the Indian Institute of Science, Bangalore. He has over 100 refereed publications in international journals in the area of applied probability and stochastic processes, non-linear dynamical systems, statistical signal processing, queuing theory and in the control and design of high-speed networks. He has been a member of several advisory committees and working groups, including the US Congress Sub-Committee on Science and Technology. He is a Fellow of the Royal Statistical Society and a senior member of the Institute of Electrical and Electronics Engineers, Inc. He is the younger brother of Ms. Kiran Mazumdar--Shaw.

Ms. Ada K.H. Tse, 38 years, has a BA in Applied Mathematics from Harvard University, a JD from Harvard Law School and is an alumna of the Stanford Business School Executive Program. She is presently Managing Director, Direct Investment at AIG Global Investment Corporation (Asia) Limited. She previously worked with Morgan Stanley in New York and Hong Kong in financial advisory services and equity capital markets, and before that, was an attorney with Sullivan & Cromwell in New York. She has been nominated by AIG AOF as a Director pursuant to the provisions of the AIG AOF SHA. She is an independent director.

In accordance with our Articles of Association, the Board can appoint an alternate Director pursuant to the provisions of the Companies Act. Prof. Catherine Rosenberg is presently the alternate Director to Prof. Ravi Mazumdar and Mr. Santosh Senapati is presently the alternate Director to Ms. Ada K.H. Tse.

2.2 Meetings and attendance record of directors and other directorships:

During the financial year ended 31st March 2004, Board of Directors met 4 times on 17th May 2003, 18th July 2003, 18th October 2003 and 17th January 2004. The composition of the Board of Directors and their attendance at the meeting during the year and at the last Annual General Meeting as also the number of other directorships and memberships of committees are given below:

Name of the Director	No of Board meetings attended	Attendance at the last AGM	No of other Directorships (**)	Committee Membership (including Biocons') Member	Committee Membership (including Biocons') Chairman
Ms.Kiran Mazumdar-Shaw	4	Yes	3	1	-
Mr. John Shaw	4	Yes	4	1	-
Dr. Neville Bain	4	No	6	3	2
Prof. Charles Cooney	4	No	5	2	1
Dr. Ravi Mazumdar-	3	No	1	-	-
Mr. Suresh Talwar	4	No	50	10	5
Ms. Ada K H Tse*	1	NA	2	-	-
Prof. Catherine Rosenberg	1	No	1	-	-
Mr. Santosh Senapati*	1	NA	6	4	-

* Part of the year
** Includes private limited companies and foreign body corporates and alternate directorships

2.3 Remuneration of directors:

The Chairman & Managing Director and the Vice-Chairman were paid remuneration, including performance bonuses, as approved by the shareholders in the last meeting. The other non-executive directors (excluding the nominee(s) of AOF HS Mauritius Ltd) were paid sitting fees for attending the Board and Committee Meetings.

The details of remuneration and sitting fees paid or provided to each of the Directors during the year ended 31st March 2004 are given below:

Name of the Director	Salary and perquisites Rs.	Sitting Fees Rs.	Stock Options Nos.
Ms. Kiran Mazumdar-Shaw	10,859,206	-	-
Mr. John Shaw	9,732,201	-	-
Dr. Neville Bain	-	51,000	195,902
Prof. Charles Cooney	-	51,000	195,902
Dr. Ravi Mazumdar	-	23,000	-
Mr. Suresh Talwar	-	46,000	-
Ms. Ada K H Tse	-	-	-
Prof. Catherine Rosenberg	-	-	-
Mr. Santosh Senapati	-	-	-

Dr. Neville Bain and Prof. Charles Cooney were granted 4,000 stock options each, in the year 2002. The vesting period was fixed as April 2003, April 2004, April 2005 and April 2006 at 25% for every year. Post adjustment for corporate action i.e. bonus issue and split of face value of shares, which happened in November 2003, the number of shares they are entitled over 4 years period is worked out 195,902 shares each.

2.4 Re-appointment of Directors:

The Directors, Prof. Charles Cooney and Ms. Kiran Mazumdar-Shaw shall retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment. It is also proposed to reappoint Mr. John Shaw as the Vice-Chairman of the Company for a period of 5 years with effect from 1st April 2004. Their brief resumes are already provided in this report. The details of their other directorships and committee memberships are as below:

Name of the Directors	Details of other directorships/committee memberships
Prof. Charles Cooney	Genzyme Corp., USA Cuno Inc., USA BioScale Inc., USA Bio Processors, USA Intelligen Inc., USA Syngene International Private Ltd
Ms. Kiran Mazumdar-Shaw	Syngene International Private Ltd Clinigene International private Ltd Biocon Biopharmaceuticals Private Ltd
Mr. John Shaw	Syngene International Private Ltd Clinigene International private Ltd Biocon Biopharmaceuticals Private Ltd Glentec International, Mauritius

3. Audit Committee:

The Board constituted the Audit Committee on 16th April 2001. The following directors are the current members of the Committee:

a) Dr. Neville Bain
b) Prof. Charles Cooney
c) Mr. Suresh Talwar (w.e.f. July 2003)

The members of the committee are non-executive and independent directors and possess sound knowledge of accounts, finance, audit and legal matters. Dr. Neville Bain is the Chairman of the Committee and Mr. Ashok Bhandarkar, Secretary of the Company acts as the Secretary of the committee.

The terms of reference of the Audit Committee, inter alia, include overseeing financial reporting process, disclosure of financial information to ensure that the financial statements are correct, sufficient, credible, reviewing annual and quarterly financial statements with management before submission to the Board, reviewing the adequacy of the internal control systems with the Management, external and internal auditors and reviewing the Company's financial risk and management policies.

During the year 2003-04, the Committee met 3 times on 17th May 2003, 17th October 2003 and 16th January 2004 and all the members attended the meetings.

4. Remuneration (Compensation) Committee:

The Board constituted the Remuneration Committee on 16th April 2001. The following directors are the current members of the Committee:

a) Prof. Charles Cooney
b) Dr. Neville Bain

The members of the committee are non-executive and independent directors. Prof. Charles Cooney is the Chairman of the Committee and Mr. Ashok Bhandarkar, Secretary of the company acts as the Secretary of the committee.

The terms of reference of the remuneration Committee, inter alia, include determination of compensation package of executive directors and senior management of the Company, determine and supervise the bonus scheme of the company and to investigate any activities within the terms of reference, etc. The committee also oversees the employee stock option scheme and recommends the same for the approval of the Board/shareholders. The Committee is empowered to decide the eligibility of the category of employees and the terms and conditions of grants to be extended under the ESOP schemes of the Company.

The remuneration policy of the Company is broadly based on the following criteria:
a) Job responsibilities
b) Key performance areas of the employees/directors
c) Industry trend
d) Remuneration packages in other comparable companies for comparable positions

During the year 2003-04, the Committee met 3 times on 16th May 2003, 17th October 2003 and 16th January 2004 and all the members attended the meetings.

5. Shareholders/Investor Grievances Committee:

Prior to the Initial Public offering of the Company, i.e. on 17th January 2004, the Board constituted this committee with the following members:

a) Dr. Neville Bain
b) Ms. Kiran Mazumdar-Shaw
c) Mr. John Shaw

The Committee was formed to specifically redress the shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of dividends etc. Dr. Neville Bain is the Chairman of the Committee is a non-executive and independent Director.

Apart from the same, the Board had also constituted a Share transfer Committee consisting of Ms. Kiran Mazumdar- Shaw, Chairman & Managing Director, Mr. John Shaw, Vice Chairman and Mr. K N Murali Krishnan, President - Group Finance of the Company to attend to the share transfer formalities, as and when required.

Mr. K N Murali Krishnan was designated as the compliance officer under SEBI (Disclosure and Investor Protection) Guidelines, 2000 for overseeing/addressing the investor complaints. As on 31st March 2004, the Company did not have any investor complaints tobe processed/attended to. As on 31st March 2004 there were no pending share transfers.

6. General Body Meetings:

i) Location and Time of the General Body Meetings:
Generally the Annual General Meetings of the Company are convened within four months of the close of the financial year. The details of the previous Annual General Meetings are as below:

Year	Date and Time	Venue	Special resolutions passed
2000-01	27th Sept. 2001	Registered Office	Sec 81 (1A) - Issue of shares to the Biocon India Ltd employee Welfare Trust
2001-02	27th June 2002	Registered Office	Nil
2002-03	25th July 2003	Registered Office	Nil

There were no matters required tobe dealt/passed by the Company through postal ballot, as required under the provisions of Section 192A of the Companies Act, 1956.

7. Disclosures:

i) Disclosure on materially significant related party transactions i.e. transactions of the Company, which are of material nature, with it's promoters, directors, or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large:
Details are provided in Note 21 to the Notes forming part of the Accounts in accordance with provisions of Accounting Standard 18.

ii) Other pecuniary relationship or transactions of non-executive directors vis- a-vis the Company which has potential conflict with the interests of the company at large:
The Company had appointed M/s Crawford Bayley &Co., the legal firm as the legal counsel for the Company's Initial Public Offering. Company has also sought legal opinion from the firm on need basis. Mr. Suresh Talwar, director of the Company is partner in the company. However there is no potential conflict of interest of the Company at large.

iii) Penalties or strictures imposed on the company by Stock Exchanges or SEBI or any statutory authority in any matter related to capital markets during the last 3 years:
None

8. Means of Communication:

The quarterly, half-yearly and yearly financial results will be sent to the Stock Exchanges immediately after the Board approves the same. These results will normally be published in the 'Financial Express' and 'Kannada Prabha' newspapers. The results will also be posted on the website of the company viz. www.biocon.com and on the Electronic Data Information Filing and Retrieval (EDIFAR) website maintained by SEBI in association with the National Informatics Centre (NIC). The Company's website will also display all official news releases as well as the presentations made to the Institutional Investors/Analysts. MD&A forms a part of the annual report.

9. General Shareholder' Information:

i) Annual General Meeting:		
Date and Time	:	15th July 2004 at 3.30 PM
Venue	:	Sathya Sai Samskruta Sadanam, No. 20, Hosur Road, Bangalore - 560 029
ii) Financial Calendar for 2004-05	:	The following are tentative dates:
First Quarterly results	:	14th July 2004
Half-yearly Results	:	20th October 2004
Third Quarterly Results	:	20th January 2005
Annual results 2004-05	:	20th April 2005
AGM for the year 2004-05	:	20th July 2005
iii) Dates of Book Closure	:	Saturday, 3rd July 2004 to Thursday, 15th July 2004 - Both days inclusive
iv) Dividend payment date	:	On or after 20th July 2004
v) Listing on Stock Exchanges	:	The equity shares of the Company have been Listed on The National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Bandra (East), Mumbai - 400 051 and on The Stock Exchange, Mumbai P J Towers, Dalal Street, Mumbai - 400 001 Listing is effective from 7th April 2004
vi) Stock Code/Symbol	:	NSE - Biocon BSE - 532523
vii) Market Price data during 2003-04	:	Not applicable as the Company has been Listed on the stock exchanges only during the current financial year i.e. with effect 7th April 2004.

viii) Stock Performance : Not applicable due to above reasons

ix) Registrar and Transfer Agents : Karvy Computershare Private Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills, Hyderabad - 500 034

x) Share Transfer System : The shares of the Company are traded in the Compulsory demat mode for all investors.
The Share Transfer Committee approves the transfer of shares in the physical form as per the time limits specified in the Listing Agreement.

xi) Distribution of the Shareholding:
The distribution of shareholding as on 31st March 2004, pursuant to clause 35 of the listing agreement is as under:

Categories	No of Shares held	Percentage held
A) Promoters' Holding		
1 Promoters		
Indian Promoters	39,643,782	39.64
Foreign Promoters	21,896,497	21.9
2. Persons acting in concert	1,019,124	1.02
Sub-total	62,559,403	62.56
B) Non Promoters Holding		
2. Institutional Investors		
Mutual Funds and UTI	1,192,000	1.19
Banks, FIs, Insurance Companies	315,000	0.32
Foreign Institutional Investors	4,444,000	4.44
Sub-total	5,951,000	5.95
2. Others		
Pvt. Corporate Bodies	665,750	0.67
Indian Public	10,865,363	10.87
NRIs/Foreign holders/For. V.C	10,616,753	10.62
Trusts	7,207,463	7.21
Venture Capitals	2,134,268	2.13
Sub-total	31,489,597	31.49
GRAND TOTAL	100,000,000	100

xii) Dematerialization of shares and liquidity:
On 31st March 2004, shares were allotted under IPO. All these shares were issued under demat form. This is equal to 10% of the post issue Capital. As regards the pre issue shares, only 11,112,268 shares amounting to 11.11 % of the post equity share capital were in demat form, as on 31st March 2004.
As per the SEBI (DIP) Guidelines, 2000, the shares locked in for one year, i.e. till 31st March 2005 are 57,361,222 (57.36%), the shares locked in for 3 years i.e. till 31st March 2007 are 20,000,000 (20.00%).

xiii) Outstanding GDRs/ADRs/Warrants and convertible instruments,
conversion date and likely impact on equity:
Not applicable.

xiv) Plant locations:

i) 20th KM, Hosur Road, Electronic City, Bangalore - 560 100

ii) Plot No 113/C2, Bommasandra Industrial Area, Bommasandra, Bangalore - 562 158

xv) Address for correspondence:
Investor correspondence may be addressed to:

a) The Company Secretary
Biocon Limited, 20th KM, Hosur Road, Electronic City, Bangalore - 560 100

b) Karvy Computershare Private Limited
Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034

AUDITORS' CERTIFICATE

To
The Members of Biocon Limited

We have examined the compliance of conditions of corporate governance by Biocon Limited ('Company'), for the year ended on March 31, 2004, as stipulated in clause 49 of the Listing Agreement of the Company with stock exchanges.

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 the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

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

For S. R. BATLIBOI & COMPANY
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

AUDITORS' REPORT

To:
The Members of Biocon Limited (formerly Biocon India Limited)

1. We have audited the attached Balance Sheet of Biocon Limited (*formerly* Biocon India Limited) as at March 31, 2004 and also the Profit and Loss account and the Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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 (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

iii. The Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

v. On the basis of the written representations received from the directors, as on March 31, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956

vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004;

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

(c) in the case of Cash Flow statement, of the cash flows for the year ended on that date.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

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

Re: **Biocon Limited (formerly Biocon India Limited)**

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

2. The management has conducted physical verification of inventory at reasonable intervals during the year. The procedures of physical verification of inventory (except for goods in bond and in transit) followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

3. There are no parties that require to be listed in the register maintained under section 301 of the Act, accordingly, clauses (iii), (v) and (xviii) of the Companies (Auditor's Report) Order, 2003 are not applicable.

4. 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, for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls in respect of these areas.

5. The Company has not accepted any deposits from the public.

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

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

8. According to the records of the Company, the Company is regular in depositing undisputed statutory dues including withholding of taxes, provident fund, employees state insurance, income tax, sales tax, wealth tax, custom duty and other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable.

According to the records of the Company, there are no dues outstanding of sales tax, income tax under Income-tax Act 1961 ('IT Act'), customs duty, wealth tax, excise duty under Central Excise Act, 1944 ('Excise Act') on account of any dispute, other than the following:

Financial period to which the amount relates	Act	Nature of dues	Forum where dispute is pending	Amount (Rs.)
2003-04	Excise Act	Non-inclusion of freight and insurance in valuation of goods.	In process of application against demand notice	9,725
2000-01	Excise Act	Non-inclusion of freight in valuation of goods.	Superintendent of Central Excise, Bangalore	3,986
1994-95	Excise Act	Dispute in classification of certain products.	Assistant Collector of Central Excise	633,417
1993-94	IT Act	Assessment Year 1994-95	Order has been passed by the ITAT. The Company has filed a miscellaneous petition seeking rectification of certain errors in the order.	2,076,607
1994-95	IT Act	Assessment Year 1995-96	Order has been passed by the ITAT. The Company has filed a miscellaneous petition seeking rectification of certain errors in the order.	2,874,354
1995-96	IT Act	Assessment Year 1996-97	Order has been passed by the ITAT. The Company has filed a miscellaneous petition seeking rectification of certain errors in the order.	2,951,633
1996-97	IT Act	Assessment Year 1997-98	Case referred by CIT (Appeals) to assessing officer for re computing the tax payable.	3,878,830
1997-98	IT Act	Assessment Year 1998-99	Case referred by CIT (Appeals) to assessing officer for re computing the tax payable.	4,040,002

9. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.

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

11. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

12. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

13. 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.

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

15. Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

16. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment and no long-term funds have been used to finance short-term assets (excludes permanent working capital).

17. The Company did not have any outstanding debentures during the year.

18. The Company concluded its initial public offering on March 18, 2004, with the allotment of shares on March 30, 2004. The Company is yet to utilise any monies raised through the issue as of March 31, 2004, and it has deposited the money in restricted deposit accounts with scheduled banks.

19. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

BIOCON LIMITED (formerly Biocon India Limited)

BALANCE SHEET – MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 26)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3	500,000	18,377
Reserves and surplus	2(k) & 4	4,916,314	1,248,721
		5,416,314	1,267,098
Loan Funds			
Secured loans	5	472,255	582,109
Unsecured loans	6	174,657	103,545
		646,912	685,654
Deferred Tax Liability	2(i) & 7	176,680	143,057
		6,239,906	2,095,809
APPLICATION OF FUNDS			
Fixed Assets	2(a), 2(h), 2(j), 8 & 17		
Cost		1,912,290	1,553,077
Less: Accumulated depreciation		471,200	333,179
Net book value		1,441,090	1,219,898
Capital work-in-progress (including capital advances of Rs 100,990 (2003 -- Rs 12,799)]		543,125	79,844
		1,984,215	1,299,742
Long Term Investments	2(d) & 9	89,329	84,829
Current Assets, Loans and Advances			
Inventories	2(b) & 10	839,521	466,962
Sundry debtors	11	1,159,635	737,467
Cash and bank balances	12	3,175,114	10,217
Loans and advances	13	267,203	156,838
		5,441,473	1,371,484
Less: Current Liabilities and Provisions	2(e), 2(f), 2(i) & 14	1,275,111	660,246
Net Current Assets		4,166,362	711,238
		6,239,906	2,095,809

The accompanying notes 1 to 26 form an integral part of this balance sheet.

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

per Prashant Singhal
Partner
Membership No: 93283
Partner

Bangalore
May 14, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Ashok Bhandarkar
Company Secretary

Bangalore
May 14, 2004

BIOCON LIMITED (formerly Biocon India Limited)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 26)
INCOME			
Gross sales		5,309,108	2,746,409
Less: Excise duty		290,284	208,216
Net sales	2(c), 2(g)	5,018,824	2,538,193
Contract research fees	2(c), 2(g)	6,382	5,193
Other income	15	86,513	17,105
		5,111,719	2,560,491
EXPENDITURE			
Manufacturing and other expenses	2(e), 2(f), 2(h), 2(k) & 16	3,482,710	1,914,134
Interest and finance charges	2(j) & 18	15,677	48,920
		3,498,387	1,963,054
PROFIT BEFORE DEPRECIATION AND TAXES		1,613,332	597,437
Depreciation	2(a) & 8	140,200	121,838
Less: Amount transferred from revaluation reserve	2(a) & 4	1,670	1,667
		138,530	120,171
PROFIT BEFORE TAXES		1,474,802	477,266
Provision for income-tax			
Current taxes	2(i) & 20	194,453	75,806
Deferred taxes	2(i) & 7	33,623	42,726
NET PROFIT FOR THE YEAR		1,246,726	358,734
Balance brought forward from previous year		590,781	232,047
PROFIT AVAILABLE FOR APPROPRIATION		1,837,507	590,781
Issue of bonus shares		431,624	-
Proposed dividend on equity shares		100,000	-
Tax on proposed dividend		12,813	-
Transfer to general reserve		249,345	-
BALANCE, END OF THE YEAR		1,043,725	590,781
Earnings per share (Par value of Rs. 5)			
Basic and diluted (in Rs)	2(l)	13.85	3.99
Weighted average number of shares used in computing earnings per share			
Basic and diluted		90,027,322	89,916,952

The accompanying notes 1 to 26 form an integral part of this account.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Ashok Bhandarkar
Company Secretary

Bangalore
May 14, 2004

BIOCON LIMITED (formerly Biocon India Limited)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

		2004	2003 (Note 26)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		1,474,802	477,266
Adjustments for -			
Add: Non cash item/items required to be disclosed separately:			
Depreciation	138,530		120,171
Amortisation of employee compensation cost	19,934		33,864
Unrealised exchange (gain)/ loss	(24,844)		(428)
Provision for bad and doubtful debts	10,155		4,609
Interest expense	24,620		50,497
Interest income (gross)	(10,563)		(4,535)
Gain on sale of investments	-		(7)
Gain on sale of assets	(562)		(1,705)
		157,270	202,466
Changes in working capital and other provisions			
Inventories	(372,559)		(233,119)
Sundry debtors	(455,048)		(119,468)
Loans and advances	(108,570)		(55,409)
Current liabilities and provisions	558,898		200,820
		(377.279)	(207.176)
		(220,009)	(4,710)
Cash generated from operations		1,254,793	472,556
Tax paid (net of refunds)		(196,702)	(91,622)
Net cash provided by operating activities		1,058,091	380,934
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed assets			
Purchase	(844,628)		(346,875)
Sale	1,458		2,068
Interest received	11,016		2,287
Sale of investment	-		13
Purchase of investment	(4,500)		-
Net cash used for investing activities		(836,654)	(342,507)
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital	3,150,000		159
Share issue expenses	(151,411)		-
Short term borrowings, net	217,059		(30,084)
Repayment of secured loans	(337,549)		(403,946)
Receipt of secured loans	32,000		456,542
Deferred sales tax credit	71,112		47,512
Repayment of unsecured loans	-		(50,000)
Interest paid	(37,751)		(49,346)
Net cash provided/(used) for financing activities		2,943,460	(29,163)
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		3,164,897	9,264
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		10,217	953
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		3,175,114	10,217

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Ashok Bhandarkar
Company Secretary

Bangalore
May 14, 2004

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees and US Dollars in thousands, except share data including share price)

1. Background

Biocon Limited (formerly Biocon India Limited) ('Biocon' or 'the Company'), promoted by Ms Kiran Mazumdar-Shaw ('KMZ'), was incorporated at Bangalore in 1978 for manufacture of biotechnology products. On November 17, 2003, the name of the Company was changed from Biocon India Limited to Biocon Limited. The Company has its facilities at Hebbagodi and Bommasandra, Bangalore district, Karnataka and is engaged in manufacturing biotechnological products in the pharmaceutical and enzyme sectors through fermentation based technology.

In March 2002, the Company acquired 99.99 per cent of the share capital of Syngene International Private Limited ('Syngene'), a contract research company. Syngene was also promoted and controlled by KMZ and the consideration for such acquisition was the issue of 202,780 equity shares of Biocon of Rs 10 each, determined on the basis of fair values as approved by the statutory authorities.

Also, the Company, on March 31, 2001, acquired 100 per cent equity of Clinigene International Private Limited ('Clinigene'), a company that undertakes clinical research activities.

Biocon entered into an Agreement on February 22, 2002 to set up a Joint Venture Company, with CIMAB SA ('CIMAB'), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of Biopharmaceuticals, to manufacture and market products using technology and to carry out research activities. Accordingly, Biocon Biopharmaceuticals Private Limited ('BBPL') was incorporated on June 17, 2002 and, on April 18, 2003, Biocon acquired a 51 per cent shareholding in BBPL.

In March 2004, the Company completed an Initial Public Offering ('IPO') and made a fresh issue of 10,000,000 equity shares of Rs 5 each at a price of Rs 315 per share. Consequently, on April 7, 2004, the equity shares of the Company were listed on the National Stock Exchange of India and The Stock Exchange, Mumbai.

2. Summary of significant accounting policies

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

a. Fixed assets and depreciation

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

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

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

Leasehold land on a lease-cum-sale basis are capitalised at the allotment rates charged by the Municipal Authorities.

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

Assets individually costing less than Rs 5 are fully depreciated in the year of purchase.

b. Inventories

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

c. Revenue recognition

(i) Sales are recognised on despatch of goods to customers and are recorded net of excise duty, sales tax and other levies. For the purposes of disclosure in these financial statements, sales are reflected gross and net of excise duty in the profit and loss account.
(ii) Contract research fees are recognised as services are rendered, in accordance with the terms of the contracts.

d. Long term investments

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

e. Retirement benefits

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

f. Leave encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary. Upto March 31, 2003, the Company provided for leave encashment on a full liability basis. Had the Company followed its earlier accounting policy, the net profit before tax for the year would have been lower by Rs 517.

g. Foreign currency transactions

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

h. Research and development costs

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

i. Income tax

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

j. Borrowing costs

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

k. Deferred employee stock compensation costs

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

l. Earnings per share

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

m. Operating lease

Where the Company is a Lessee:

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Where the Company is a Lessor:

Assets subject to operating leases are included in fixed assets. Lease income are recognised on a straight line basis over the lease term. Costs, including depreciation are recognised as an expense. Initial direct costs such as legal costs, brokerage costs, etc are recognised immediately.

3. Share capital	2004	2003
Authorised:		
120,000,000 (2003 -- 2,000,000 equity shares of Rs 10 each) equity shares of Rs 5 each	600,000	20,000
Issued, subscribed and paid-up:		
100,000,000 (2003 -- 1,837,650 equity shares of Rs 10 each, fully paid) equity shares of Rs 5 each, fully paid	500,000	18,377

(a) Of the above equity shares:
(i) 30,800 equity shares of Rs 100 each were allotted as fully paid bonus shares by capitalisation of general reserve in the year ended March 31, 1997.
(ii) 23,471 equity shares of Rs 100 each were allotted as fully paid-up shares in the year ended March 31, 2000 pursuant to a contract for consideration other than cash.
(iii) On October 8, 2001, the Company issued 12,153 equity shares of Rs 100 each to the ESOP Trust under an Employee Stock Option Plan ('ESOP Plan') and the Trust acquired 350 equity shares of Rs 100 each from certain individuals.
(iv) On March 30, 2002, the Company acquired 99.9 per cent equity in Syngene through the issue of 202,780 equity shares of Rs 10 each. The consideration was determined on the basis of a fair valuation, as approved by the statutory authorities in India. The related share premium at Rs 403.8 per equity share has been credited to share premium account.
(v) On May 9, 2002 the Company has further issued 15,870 equity shares of Rs 10 each to the Trust under the ESOP Plan. The Trust on October 20, 2003 acquired 2,500 equity shares of Rs 10 each from certain individuals. The total shares issued to the Trust was 7,023,100 equity shares of Rs 5 each of which grants have been made for 3,940,860 equity shares of the Company under the ESOP Plan as at March 31, 2004.
(vi) In March 2004, the Company made an IPO of 10,000,000 fresh equity shares of Rs 5 each at a price of Rs 315 per share.

(b) The shareholders at the Extraordinary General Meeting ('EGM') of the Company held on February 25, 2002, approved the sub-division of equity shares of face value of Rs 100 each into ten equity shares of face value of Rs 10 each. The Board of Directors in their meeting held on March 30, 2002 passed a resolution for effecting the sub-division. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 2,000,000 equity shares of Rs 10 each and the then issued, subscribed and paid-up capital of Rs 18,218 as at March 31, 2002 was divided into 1,821,780 equity shares of Rs 10 each.

(c) The shareholders at the EGM of the Company held on November 11, 2003, approved the sub-division of equity shares of face value of Rs 10 each into 2 equity shares of Rs 5 each and increase the authorised capital from Rs 20,000 to Rs 600,000. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 4,000,000 equity shares of Rs 5 each and the issued, subscribed and paid -up capital of Rs 18,377 has been divided into 3,675,300 shares of Rs 5 each.

(d) Further, the shareholders at the EGM of the Company held on November 11, 2003 approved the allotment of 86,324,700 equity shares of Rs 5 each as bonus shares in the ratio of 1 : 23.4877958 to the shareholders existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the profit and loss account of Rs 431,624.

4. Reserves and surplus

	2004	2003
Revaluation Reserve		
Balance, beginning of the year	19,127	21,810
Less: Transfer on sale and disposal of assets	1,549	1,016
Less: Transfer to profit and loss account	1,670	1,667
	15,908	19,127
Share premium		
Balance, beginning of the year	339,889	339,889
Received during the year	3,100,000	-
Utilised towards the share issue expenses	(151,411)	-
	3,288,478	339,889
General reserve	265,060	265,060
Add: Transfer from profit and loss account	249,345	-
	514,405	265,060
Stock compensation adjustment [see Note 2(k) & 19]		
Stock options outstanding	65,291	-
Additions during the year	32,115	65,291
Deletions during the year	(2,618)	-
	94,788	65,291
Less: Deferred employee stock compensation expense	(40,990)	(31,427)
	53,798	33,864
Balance in profit and loss account	1,043,725	590,781
	4,916,314	1,248,721

(i) Share premium includes an amount of Rs 81,881 received on the allotment of 202,780 equity shares of Rs 10 each on March 30, 2002 at a premium of Rs 403.8 per equity share and Rs 3,100,000 received on the allotment of 10,000,000 equity shares pursuant to the Company's IPO in March 2004 [See Note 3 (a) (vi)].

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

	2004	2003
Stock compensation expense outstanding	31,427	65,291
Stock options granted during the year	32,115	-
Stock options cancelled/forfeited during the year	(2,618)	-
Stock compensation expense amortised during the year	(19,934)	(33,864)
Closing balance of deferred employee stock compensation expense	40,990	31,427

(iii) The Company issued 86,324,700 bonus shares of Rs 5 each through capitalisation of the balance in the profit and loss account to the extent of Rs 431,624. [See note 3(d)]

5. Secured loans	2004	2003
From banks		
Cash credit, packing credit, etc.	472,231	276,536
Term loans		
Payable within one year	24	139,234
Others	-	166,339
	472,255	582,109

(a) Cash credit, packing credit, etc

(i) On January 16, 2002, the Company renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 130,000 (2003 -- Rs 130,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debts and carry an interest rate of 2.1 per cent per annum for foreign currency denominated loans and 7.5 to 12.25 per cent per annum for rupee loans. The amount outstanding as of March 31, 2004 is Rs Nil (2003 -- Rs 39,650) inclusive of foreign currency denominated loans of Rs Nil [2003 -- Rs 39,597 (US$ 834)].

(ii) On February 7, 2003, the Company renewed its total rupee and foreign currency denominated working capital facilities with Hong kong and Shanghai Banking Corporation ('HSBC') for Rs 175,000 (2003 -- Rs 175,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2 per cent per annum for foreign currency denominated loans and 6 to 15 per cent per annum for rupee loans. The Company has utilised Rs 95,480 (2003 -- Rs 115,580) as of March 31, 2004 inclusive of foreign currency denominated loans of Rs 95,480 (US$ 2,200) [2003 -- Rs 90,256 (US$ 1,902)].

(iii) On February 25, 2003, the Company renewed its working capital facilities with Canara Bank ('CB') for Rs 130,000 (2003 -- Rs 130,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.1 per cent for foreign currency denominated loans and 8 to 11.75 per cent per annum for rupee loans. The Company has utilised Rs 116,443 (2003 -- Rs 121,306) as of March 31, 2004 inclusive of foreign currency denominated loans of Rs 116,417 (US$ 2,682) [2003 -- Rs 117,436 (US$ 2,474)].

(iv) On June 30, 2003, the Company entered into a working capital facility with Export Import Bank (' EXIM Bank') for Rs 92,860 (US$ 2,000) (2003 -- Rs Nil). An additional facility of Rs 217,000 (US$ 5,000) was availed by the Company on January 17, 2004. These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.2 per cent. The Company has utilised Rs 260,308 (US$ 5,998) (2003 -- Rs Nil) as of March 31, 2004.

(b) Term loans

(i) On April 9, 1999, the Company entered into a term loan facility with EXIM bank for Rs 126,001 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans were repayable in 9 equal half yearly instalments commencing from December 10, 2000, and were secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 10.5 per cent per annum. The Company had a balance of Rs 42,001 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

(ii) On November 5, 1999, the Company entered into a term loan facility with EXIM bank of India for Rs 46,731 for funding its fixed assets acquisitions of the Plafractor Plant. These loans were repayable in 10 equal half yearly instalments commencing from December 10, 2000, secured by a charge on the fixed assets of the Company and carry an interest rate of 7 per cent per annum. The Company had a balance of Rs 22,738 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

(iii) On May 5, 1999, the Company entered into a term loan facility with SBI for Rs 50,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans were repayable in 60 equal monthly instalments commencing from December 2000, were secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 2.99 per cent per annum for foreign currency denominated loan and 13 per cent per annum for the rupee loan. The Company had a balance of Rs 26,667 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

(iv) On February 7, 2003, the Company renewed its rupee and foreign currency denominated term loan facility with HSBC for Rs 170,000 (2003 -- 170,000) for funding its fixed asset acquisitions during the year and fully utilised this facility. The instalments commencing from November 2002, were secured by a pari passu charge over the fixed assets of the Company and loan is repayable in 44 monthly instalments and carry an interest rate of 2.77 per cent per annum for foreign currency denominated loans and 6.6 per cent per annum for rupee loans. The Company had a balance of Rs 149,167 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

The security of the Company's assets and the personal guarantee of the Managing Director created in connection with the term loans were satisfied/released by the Company, where applicable, during the year ended March 31, 2004.

(v) On July 3, 2002, the Company entered into a term loan facility with Technology development Board ('TDB') for Rs 100,000 for funding its fixed asset acquisitions of the PlaFractor™ plant. These loans repayable in half yearly instalments commencing from February 2004, were secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 5 per cent per annum. The Company had drawn upto Rs 97,000 (2003 -- Rs 65,000) from the above facility, and the Company has made an early repayment of the loan to the extent of Rs 96,976 as at March 31, 2004 and the balance was repaid in May 2004.

6. Unsecured loans	2004	2003
Deferred payment liability	174,657	103,545

(i) Under the Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 8 years with respect to sales from its Bommasandra manufacturing facility of the Company. Under the Order, the deferment amount should not exceed Rs 24,375, of which at March 31, 2004, the Company had utilised Rs 893 (2003 -- Rs 864).

(ii) Under the Agro Food Processing Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 12 years with respect to sales from Hebbagodi manufacturing facility of the Company. Under the order, the deferment amount should not exceed Rs 648,938 of which at March 31, 2004, the Company had utilised Rs 173,764 (2003 -- 102,682).

7. Deferred tax liability	Deferred tax (asset)/liability as at April 1, 2003	Current year charge/(credit)	Deferred tax (asset)/liability as at March 31, 2004
Depreciation	155,944	40,806	196,750
Employee retirement benefits	(5,989)	(3,157)	(9,146)
Disallowance under section 43B	(5,510)	(4)	(5,514)
Provision for doubtful debts	(1,653)	(3,643)	(5,296)
Others	265	(379)	(114)
	143,057	33,623	176,680
Previous Year	100,330	42,727	143,057

The Company, effective August 26, 2003 received approval from the Cochin Special Economic Zone for the setting up of a 100 percent Export Oriented Unit for the manufacture and export of all types of statins on which, the Company claims deduction under section 10B of the Income-tax Act, 1961 ('IT Act'). The Company has another EOU which was set up in 2000 on whose profits the Company is eligible to claim deduction under 10B of the IT Act.

In accordance with the provisions of section 10B of the IT Act, the Company can avail of a tax deduction in respect of 100 per cent of all export income derived from the export sales arising out of both the EOUs. Accordingly, the Company, has not recognised any additional deferred tax liability for the EOUs as it expects the timing differences originating in this period to reverse out during the tax holiday period.

8. Fixed assets

	Balance, beginning of year	Additions/charge	(Deletions)/ Adjustments	Balance, end of year
Cost/Valuation				
Land				
Freehold (revalued)	9,844	-	877	8,967
Freehold (others)	13,701	28,817	460	42,058
Leasehold	64,338	105,612	-	169,950
Buildings (revalued)	17,575	-	1,014	16,561
Buildings (others)	288,065	43,819	965	330,919
Plant and machinery	1,004,867	90,589	-	1,095,456
Research and development equipment	133,103	78,225	-	211,328
Furniture and fixtures	14,760	16,775	-	31,535
Vehicles	6,824	-	1,308	5,516
	1,553,077	363,837	4,624	1,912,290
Previous year	1,254,024	300,432	1,379	1,553,077
Accumulated depreciation				
Buildings (revalued)	8,292	1,670	342	9,620
Buildings (others)	34,585	13,156	529	47,212
Plant and machinery	248,525	104,153	-	352,678
Research and development equipment	33,377	16,876	-	50,253
Furniture and fixtures	6,086	3,224	-	9,310
Vehicles	2,314	1,121	1,308	2,127
	333,179	140,200	2,179	471,200
Previous year	211,341	121,838	-	333,179
Net book value				
Land				
Freehold (revalued)	9,844			8,967
Freehold (others)	13,701			42,058
Leasehold	64,338			169,950
Buildings (revalued)	9,283			6,941
Buildings (others)	253,480			283,707
Plant and machinery	756,342			742,778
Research and development equipment	99,726			161,075
Furniture and fixtures	8,674			22,225
Vehicles	4,510			3,389
	1,219,898			1,441,090
Previous year	1,042,683			1,219,898

Notes:

(a) Certain freehold land and buildings were revalued on November 1, 1994, based on the estimated replacement cost after considering depreciation upto that date, as per valuers reports and the resultant surplus of Rs 34,529 was credited to revaluation reserve. Of this reserve, Rs 18,621 (2003 -- Rs 15,402) has been transferred to the profit and loss account for depreciation on these assets or adjusted on the sale of these assets.

(b) The Company has capitalised net foreign exchange gains of Rs 1,403 (2003 -- Rs 102) during the year and adjusted net foreign exchange loss amounting to Rs 1,703 (2003 -- Rs Nil) in capital work-in-progress.

(c) During the year, the Company has capitalised borrowing costs identifiable to qualifying assets of Rs 7,087 (2003 -- Rs 1,664), currently reflected as capital work-in-progress.

(d) On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted land aggregating 26.75 acres to the Company for Rs 64,200 on a lease-cum sale basis for a period of 6 years. Further, during the year, the Company has acquired an additional 41.25 acres of land for Rs 99,417 from KIADB. The same is reflected at the current allotment rate, the final amount to be determined by KIADB on the completion of six years on fulfillment of certain conditions. One of the key conditions include commencement of commercial operations by the Company within 24 months of possession ie December 2002. The Company is confident of fulfilling this condition.

(e) During the year, the Company has acquired 11.8 acres of freehold land from Kiran Mazumdar-Shaw, the Managing Director, which was earlier leased to the Company,at an aggregate cost of Rs 24,926.

(f) As per the Retirement Benefit Scheme framed by the Company for senior executives, certain employees completing 12 years of service have an option to buy the Company's apartments for a consideration to be fixed by the Company. During the year, the Company has transferred an apartment to an eligible employee at the prevailing market value.

9. Long term investments (At cost)

	2004	2003
Long term Investments		
Non trade:		
Unquoted		
1,000 (2003 -- 1000) equity shares of Rs 100 each of Xcyton Diagnostics Limited, fully paid	100	100
Less: Provision for other than temporary dimunition in value	100	100
	-	-
National savings certificates	13	1
	13	1
Trade investment:		
In subsidiary companies:		
Unquoted and fully paid up		
50,000 (2003 -- 50,000) equity shares of Rs 10 each of Clinigene	500	500
2,874,830 (2003 -- 2,874,830) equity shares of Rs 10 each of Syngene	84,328	84,328
In Joint Venture Company:		
Unquoted and fully paid up		
448,800 (2003 -- Nil) equity shares of Rs 10 each of BBPL	4,488	-
	89,316	84,828
	89,329	84,829

(i) Clinigene, incorporated on August 4, 2000, is engaged in undertaking clinical research activities and has entered into contracts with domestic and international companies to undertake research activities with respect to chronic diseases such as diabetes, osteoporosis, asthma etc and became a 100 per cent subsidiary of the Company on March 31, 2001. In the current year, Clinigene has incurred significant losses of Rs 18,331 resulting in a negative net worth of Rs 20,693 and a working capital deficiency of Rs 47,246 at March 31, 2004. The management of Clinigene is making aggressive marketing efforts to sell clinical research and has set up a human pharmacology unit in association with a leading hospital in India to expand its clinical research activities and has hired certain employees in this connection, and is confident of generating profits in its immediate future. During the current year Clinigene has rendered services to Biocon for the insulin project. (See Note 21). The Company, therefore, believes that this dimunition in the value of its investment is only temporary and, accordingly, no provision is made in these financial statements.

(ii) BBPL is a joint venture between the Company and CIMAB SA, engaged in research, development , manufacturing and marketing of Biopharmaceuticals. At March 31, 2004, the aggregate amount of Biocon's interest in the assets and liabilities of BBPL is Rs 14,042 and Rs 12,030 respectively. Biocon's share in the accumulated loss of BBPL aggregates Rs 2,477. During the year, Biocon has funded the operations of BBPL and charged interest on all such funding. (See Note 21)

10. Inventories

	2004	2003
Raw materials	441,938	238,011
Goods-in-bond and in transit	42,627	16,803
Packing materials	2,244	1,446
Work-in-progress	335,329	198,608
Finished goods	17,383	12,094
	839,521	466,962

11. Sundry debtors (unsecured)

	2004	2003
Debts outstanding for a period exceeding six-months		
Considered good	16,095	32,640
Considered doubtful	14,764	4,609
Other debts		
Considered good	1,143,540	704,827
	1,174,399	742,076
Less: Provision doubtful debts	14,764	4,609
	1,159,635	737,467

12. Cash and bank balances

	2004	2003
Cash on hand	493	179
Balances with scheduled banks:		
In current accounts	14,621	28
In Exchange Earners Foreign Currency Account	-	10
In deposit accounts	10,000	10,000
Deposit amount of unutilised IPO funds	3,150,000	-
	3,175,114	10,217

The proceeds of the IPO funds are placed in short term deposits ranging from 7 days to 14 days, with four banks and is a restricted cash and bank balance as at March 31, 2004.

13. Loans and advances (Unsecured and considered good)

	2004	2003
Advances recoverable in cash or in kind or for value to be received	92,003	57,264
Deposits	30,112	18,650
Balances with Customs and Excise Authorities	140,567	78,496
Loan to Biocon India Limited Employee Welfare Trust	1,259	1,414
Advance income-tax, net of provision	3,262	1,014
	267,203	156,838
(a) Included under advances recoverable in cash or in kind or for value to be received are amounts due from:		
(i) Subsidiary companies		
Syngene	-	-
Maximum amount outstanding at any time during the year	3,156	19,057
Clinigene	34,062	9,794
Maximum amount outstanding at any time during the year	45,547	9,869
(ii) Joint Venture Company		
Biocon Biopharmaceuticals Private Limited	15,114	-
Maximum amount outstanding at any time during the year	19,394	-
(iii) Ms Kiran Mazumdar-Shaw (Managing Director)	-	9,600
Maximum amount outstanding at any time during the year	9,600	9,600
(iv) Biocon India Limited Employee Welfare Trust	1,259	1,414
Maximum amount outstanding at any time during the year	1,414	1,414

(b) Included under advances recoverable in cash or in kind is an interest bearing inter-corporate deposit given to BBPL, amounting to Rs 15,114 (2003 -- Rs Nil) as of March 31, 2004.

14. Current liabilities and provisions

	2004	2003
Sundry creditors:	976,040	534,034
Advances from customers	5,429	9,651
Interest accrued but not due	224	6,268
Other liabilities	150,645	84,573
	1,132,338	634,526
Proposed dividend	100,000	-
Tax on proposed dividend	12,813	-
Provision for employee retirement benefits	1,614	1,152
Provision for leave encashment	28,346	24,568
	1,275,111	660,246

(a) Other liabilities include Rs 93 (2003 -- Rs 970) due to Ms Kiran Mazumdar-Shaw, Managing Director and Rs Nil (2003 -- Rs 687) to Mr JMM Shaw, Director the maximum amount outstanding at any time during the year was Rs 2,745 (2003 -- Rs 1,085) and Rs 3,528 (2003 -- Rs 1,500) respectively.

(b) The names of small-scale industrial undertakings to whom amounts are outstanding for more than 30 days:

a. Acme Synthetic Chemicals
b. Anil Agro Products Pvt. Ltd.
c. Avani Enterprise
d. Bangalore Paper Filter Co.
e. Bangalore Genei Private Limited
f. Cauvery Mineral Water Private Limited
g. Drawcans Private Limited
h. Eskay Fine Chemicals
i. International Fibre Glass Products (P) Ltd.
j. Millenium Chem Pharma Pvt. Ltd.
k. Quantum Drugs & Chemicals
l. Ragukul Industries
m. Senthil Papai and Food Products Ltd.
n. Speciality Organics Private Limited

15. Other income	2004	2003
Interest income [Gross of tax deducted at source Rs 142 (2003 -- Rs 237)]	1,620	2,958
Gain on fixed assets sold, net	562	1,705
Exchange gain, net	32,675	8,316
Gain on forward cover contracts, net	44,582	365
Miscellaneous income	7,074	3,761
	86,513	17,105

16. Manufacturing and other expenses

			2004	2003
Raw materials consumed, net of duty drawback of Rs 43,901 (2003 -- Rs 18,200)			2,692,371	1,295,824
Purchase of goods for resale			3,311	11,267
Employee costs				
Salaries, wages, bonus, etc		270,537		206,474
Contribution to provident and other funds		10,658		8,613
Gratuity, superannuation, leave encashment		24,045		36,995
Employee stock compensation expense (See Note 4 & 19)		19,934		33,864
Directors sitting fees		101		24
Welfare expenses		27,574		20,989
			352,849	306,959
Operating and other expenses:				
Royalty and technical know-how fees		-		38,458
Rent		2,401		2,610
Communication		16,539		12,762
Travelling and conveyance		37,121		33,242
Professional charges		29,892		14,364
Power and fuel, net of recoveries of Rs 6,061 (2003 -- Rs 5,581)		171,125		128,007
Insurance		17,791		8,565
Rates, taxes and fees		10,301		3,091
Lab consumables		23,232		10,869
Repairs and maintenance				
Plant and machinery		58,855		40,192
Buildings		21,669		9,186
Others		26,505		16,382
Selling expenses				
Freight outwards and clearing charges		24,226		14,850
Sales promotion		20,607		16,895
Commission		39,718		17,918
Bad debts written off		5,660		-
Provision for bad and doubtful debts		10,155		4,609
Printing and stationery		9,295		7,492
Miscellaneous expenses		51,097		21,794
			576,189	401,286
(Increase)/decrease in inventories of finished goods and work-in-progress:				
Opening inventories				
Finished goods	12,094			9,294
Work-in-progress	198,608			100,206
		210,702		109,500
Closing inventories:				
Finished goods	(17,383)			(12,094)
Work-in-progress	(335,329)			(198,608)
		(352,712)		(201,702)
			(142,010)	(101,202)
			3,482,710	1,914,134

17. Research and development expenses

Research and development expenses aggregating Rs 233,372 (2003 -- Rs 114,241) includes Rs 78,225 (2003 -- Rs 34,282) on research and development equipment and Rs 11,716 (2003 -- Rs Nil) on buildings and the remaining expenses incurred by the Company have been disclosed under the appropriate account heads.

18. Interest and finance charges

	2004	2003
Interest paid on :		
Term loans	12,985	26,702
Others	8,337	19,044
	21,322	45,746
Less : Interest received from suppliers	(8,943)	(1,577)
Less : Interest Capitalised [See Note 2 (j) & 8(c)]	(7,087)	(1,664)
	5,292	42,505
Bank charges	10,385	6,415
	15,677	48,920

19. Employee stock compensation

On September 27, 2001, the Board of Directors approved the Biocon Employee Stock Option Plan ('ESOP Plan 2000') for the grant of stock options to the employees of the Company. A compensation committee has been constituted to administer the plan through the ESOP Trust.

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from Biocon and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 equity shares (pre-bonus and pre-split) of Rs 10 each and shares transferred to each employee will not exceed 10,000 equity shares (pre-bonus and pre-split) of Rs 10 each. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares. The Compensation Committee had granted 71,510 options under the ESOP Plan 2000 to be exercised at a grant price of Rs 10 (pre-bonus and pre-split). The options will vest with the employees equally over a four year period from the grant date. In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the ESOP Trust.

Further, during the year the Compensation Committee has granted 142,100 options under the ESOP Plan 2000 effective January 1, 2004 to be exercised at a grant price of Rs 5. The options will vest with the employees equally over a four year period from the grant date.

On January 18, 2004, the Board of Directors announced the Biocon Employees Stock Option Plan ('ESOP Plan 2004') for the grant of stock options to the employees of the Company, pursuant to which, the Compensation Committee on March 19, 2004 granted 422,000 options under the ESOP Plan 2004 to be exercised at a grant price of Rs 315 being the issue price determined for the IPO through the book building process. The options will vest with the employees equally over a four year period from the grant date.

The Trust had 6,181,186 equity shares of Rs 5 each (2003 -- 140,900) equity shares of Rs 10 each (pre-bonus and pre-split) as at March 31, 2004 and a summary of the activity of the Trust is as follows:

Particulars	2004 (Equity shares of Rs 5 each post sub-division and bonus issue)	2003 (Equity shares of Rs 10 each)
Opening balance of equity shares not granted to employees and available with the Trust	3,398,402	125,030
Add: Acquired by the Trust	122,438	15,870
Less: Options granted during the year	(564,100)	(71,510)
Add: Options cancelled and lapsed	125,500	-
Closing balance of shares not granted to employees and available with the Trust	3,082,240	69,390
Options granted and exercised at year end	841,914	-
Options granted and eligible for exercise at year end	844,975	17,878
Options granted but not eligible for exercise at year end	2,253,971	53,632
Total employee stock compensation cost as at year end	94,788	65,291
Vesting period of options		
-- Primarily progressively over four years		
Employee stock compensation expense		
-- Amortised during the year	19,934	33,864

The fair values of the equity shares have been determined by management on the dates of the grants for ESOP 2000 based on a valuation by an independent appraiser. As per the terms of the ESOP Plan 2004, the exercise price equals the IPO price, and accordingly no compensation cost has been recorded.

20. Current taxes

The tax charge of Rs 194,453 (2003 -- Rs 75,806) is based on the earnings for the year ended March 31, 2004.

21. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2003 to March 31, 2004	Balance as at March 31, 2004 (Payable)/receivable	April 1, 2002 to March 31, 2003	Balance as at March 31, 2003 (Payable)/receivable
1	Kiran Mazumdar-Shaw	Managing Director	Rent expense	720	-	960	-
			Lease deposit paid/(received)	(9,600)	-	-	9,600
			Salary and perquisites	10,859	(93)	10,187	(970)
			Land purchased	24,926	-	-	-
2	JMM Shaw	Director	Salary and perquisites	9,732	-	9,217	(687)
3	Syngene International Private Limited	Subsidiary company	Interest income on current account transactions	-	-	406	-
			Current account:				
			Due to Syngene	-	-	425	-
			Due from Syngene	3,156	-	19,057	-
			Purchase of fixed assets	-	-	1,548	-
			Rent income	1,140	-	1,140	-
			Rent deposit received	-	(600)	-	(600)
			Power charges received	5,581	-	5,101	-
			Management charges received	600	-	-	-
			Communication expenses paid	-	-	1,000	-
4	Clinigene International Private Limited	Subsidiary company	Power charges	480	-	480	-
			Rent income	240	-	-	-
			Management charges received	150	-	-	-
			Professional charges paid	12,215	-	-	-
			Interest income on current account transactions	-	-	351	277
			Current account: Due from Clinigene	34,884	34,062	9,039	9,517
5	Biocon Biopharmaceuticals [Joint venture company, from April 18, 2003]	Joint venture company	Interest income on current account transactions	237	237	-	-
			Current account: Due from BBPL	19,157	14,877	-	-
6	Biocon India Limited Employee Welfare Trust	ESOP Trust	Administration of the ESOP plan Loan to the Trust/(repaid)	(155)	1,259	159	1,414

(a) The accumulated compensation cost as at March 31, 2004 include Rs 22,208 (2003 -- Rs 14,235) incurred towards employee compensation cost for options granted to employees of Syngene and Clinigene. The corresponding compensation cost amortised during the year is Rs 4,723 (2003 -- Rs 7,416). The Company has not charged this amortisation to Syngene and Clinigene.

(b) The Company has given corporate guarantees of Rs 80,000 (2003 -- Rs 80,000) to the Customs and Excise department ('CED') on behalf of Syngene and Syngene has furnished a corporate guarantee of Rs 165,000 (2003 -- Rs 15,000) on behalf of the Company to the CED.

22. Supplementary profit and loss data

	2004	2003
(i) Payments to auditors		
a) Statutory audit	1,300	900
b) Tax audit	100	100
c) Other matters (IPO services)	2,500	-
d) Reimbursement of out-of-pocket expenses	54	-
	3,954	1,000
(ii) Managerial remuneration		
a) Remuneration to Managing Director		
Salary	5,551	5,764
Perquisites	1,238	627
Contribution to provident and superannuation funds	833	778
Statutory bonus	576	576
Performance bonus	2,661	2,442
	10,859	10,187
b) Remuneration to whole-time Director		
Salary	5,551	5,764
Perquisites	618	2
Contribution to superannuation fund	463	433
Statutory bonus	576	576
Performance bonus	2,524	2,442
	9,732	9,217
c) Computation of net profits in accordance with Section 349 of the Act		
Net profit for the year before tax	1,474,802	477,266
Add:		
Depreciation provided in the accounts	138,530	120,171
Managerial remuneration	20,591	19,404
Directors sitting fees	101	24
Provision for bad and doubtful debts	10,155	4,609
	1,644,179	621,474
Less:		
Depreciation under Section 350 of the Act	138,530	120,171
Profit on sale of assets	562	1,705
Profit on sale of investment	-	7
	139,092	121,883
Net Profit for Section 198 of the Act	1,505,087	499,591
Maximum remuneration payable to directors	150,509	49,959
Remuneration paid to Managing Director	10,859	10,187
Remuneration paid to whole time Director	9,732	9,217

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

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

a) Licenced capacity, installed capacity and actual production :

Class of goods	Licenced Capacity Kg.	Installed Capacity Kg.	Actual Production Current year Kg.	Actual Production Previous year Kg.
Biochemicals:				
Enzymes	*	**	2,438,739	2,049,462
Pharmaceutical	*	**	2,796,065	1,879,443

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

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

b) Inventories and sales

Description	Opening Stock Quantity Kg.	Opening Stock Value Rs.	Sales Quantity Kg.	Sales Value Rs.	Closing Stock Quantity Kg.	Closing Stock Value Rs.
2004						
Biochemicals						
Manufacturing:						
Enzymes	13,757	3,010	2,435,467	659,707	17,029	6,733
Pharmaceutical	9,740	5,897	2,804,560	4,352,216	1,245	10,454
Trading:						
Enzymes	4,457	611	28,565	5,458	2,028	192
Pharmaceutical	472	2,576	1,702	1,443	60	4
		12,094		5,018,824		17,383
2003						
Biochemicals						
Manufacturing:						
Enzymes	5,303	2,130	2,041,008	527,218	13,757	3,010
Pharmaceutical	485	2,044	1,870,188	1,997,930	9,740	5,897
Trading:						
Enzyme	7,103	1,378	29,433	4,417	4,457	611
Pharmaceutical	717	3,742	9,235	8,629	472	2,576
		9,294		2,538,194		12,094

c) Purchase of traded goods:

	2004		2003	
	Quantity Kg.	Value	Quantity Kg.	Value
Biochemicals	27	3,311	36	11,267

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

	2004		2003	
	Quantity Kg.	Amount	Quantity Kg.	Amount
Enzymes & Chemicals	12,451,979	2,644,541	10,518,804	1,248,472
Packing materials	-	15,066	-	10,685
Others	-	32,764	-	36,667
	12,451,979	2,692,371	10,518,804	1,295,824

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

	2004		2003	
	Value	Percent	Value	Percent
Imported	2,112,019	78.44	825,157	63.68
Indigenous	580,352	21.56	470,667	36.32
	2,692,371		1,295,824	

(iv) Value of imports calculated on C.I.F. basis :	2004	2003
Raw materials	1,949,478	696,569
Packing materials	232	32
Capital goods	161,973	40,549
	2,111,683	737,150
(v) Earnings in foreign currency:		
Export of goods on FOB basis	2,999,826	1,081,004
Research and development fees	4,582	2,443
Recovery of freight, insurance etc on exports	1,287	1,818
	3,005,695	1,085,265
(vi) Expenditure in foreign currency :		
Technical fees	-	38,058
Sales commission	28,090	6,727
Interest on Foreign Currency Non-Resident loans	7,000	2,962
Travel and Conveyance	11,616	13,043
Patent fees	11,140	4,907
Others	38,634	14,286
	96,480	79,983

23. Commitments	2004	2003
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	1,229,329	257,730
(b) Operating lease commitments Where the Company is a lessee: (i) Rent The Company had entered into a lease agreement for land. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs 720 (2003 -- Rs 960). However, the Company has, on December 23, 2003 acquired the land and there are no committed lease rentals in future towards the lease of such land.		
(ii) Vehicles The Company has taken vehicles for certain employees under operating leases, which expire in August 2007. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs 1,465 (2003 -- Rs 220). The committed lease rental in the future are:		
Not later than one year	1,574	478
Later than one year and not later than five years	3,458	1,517
Where the Company is a lessor: (i) Rent The Company has leased out certain parts of its building on an operating lease, which expire over a period ranging from 2004 to 2011. Gross rental income for the year ended March 31, 2004 aggregated to Rs 1,380 (2003 -- Rs 1,140). There are no uncollectible minimum lease payments at the balance sheet date. Future minimum lease receipts under operating lease is as follows:		
Not later than one year	780	1,380
Later than one year and not later than five years	2,880	3,120
Later than five years	840	1,380
24. Contingent liabilities		
(a) Taxation matters under appeal	7,631	7,631
(b) Corporate guarantee given in favour of Customs and Excise Department in respect of certain performance obligations of Syngene. The Company is informed that the necessary terms and conditions have been complied with and no liability has arisen.	80,000	80,000
(c) Claims against the Company not acknowledged as debts	2,170	2,374
(d) The Company has provided a letter of commitment to fund the operations of its wholly owned subsidiary Clinigene. (Seen Note 9(i))		

25. Segmental information

Business segments

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

April 1, 2003 to March 31, 2004

Particulars	Enzyme	Pharma	Unallocated	Eliminations	Total
Revenues					
External sales, net	665,164	4,353,660	-	-	5,018,824
Inter-segment transfers	35,832	-	-	(35,832)	-
Total revenues	700,996	4,353,660	-	(35,832)	5,018,824
Costs					
Segment costs	(419,478)	(2,544,440)	-	-	(2,963,918)
Inter-segment transfers	-	(35,832)	-	35,832	-
Result					
Segment result	281,518	1,773,388	-	-	2,054,906
Corporate expenses	-	-	(518,792)	-	(518,792)
Other income	-	-	91,275	-	91,275
Interest income	-	-	1,620	-	1,620
Operating profit					1,629,009
Depreciation	(18,602)	(62,570)	(57,358)	-	(138,530)
Interest expense	-	(7,843)	(7,834)	-	(15,677)
Income taxes - Current and deferred	-	-	(228,076)	-	(228,076)
Net profit					1,246,726
Other information					
Segment assets	508,741	3,110,415	-	-	3,619,156
Unallocated corporate assets	-	-	3,895,861	-	3,895,861
Total assets					7,515,017
Segment liabilities	77,843	848,304	-	-	926,147
Unallocated corporate liabilities	-	-	1,172,556	-	1,172,556
Total liabilities					2,098,703
Capital expenditure	19,858	22,457	321,522	-	363,837

April 1, 2002 to March 31, 2003

Particulars	Enzyme	Pharma	Unallocated	Eliminations	Total
Revenues					
External sales, net	531,634	2,006,559	-	-	2,538,193
Inter-segment transfers	55,497	-	-	(55,497)	-
Total revenues	587,131	2,006,559	-	(55,497)	2,538,193
Costs					
Segment costs	(355,347)	(1,140,335)	-	-	(1,495,682)
Inter-segment transfers	-	(55,497)	-	55,497	-
Result					
Segment result	231,784	810,727	-	-	1,042,511
Corporate expenses	-	-	(418,452)	-	(418,452)
Other income	-	-	19,340	-	19,340
Interest income	-	-	2,958	-	2,958
Operating profit					646,357
Depreciation	(17,971)	(59,949)	(42,251)	-	(120,171)
Interest expense	-	(15,097)	(33,823)	-	(48,920)
Income taxes - Current and deferred	-	-	(118,532)	-	(118,532)
Net profit					358,734
Other information					
Segment assets	479,692	1,827,845	-	-	2,307,537
Unallocated corporate assets	-	-	448,518	-	448,518
Total assets					2,756,055
Segment liabilities	6,438	326,722	-	-	333,160
Unallocated corporate liabilities	-	-	1,155,797	-	1,155,797
Total liabilities					1,488,957
Capital expenditure	63,720	111,552	125,160	-	300,432

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Company comprise export sales and contract research fees contributing to approximately 60 percent (2003 -- 43 per cent). The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Company's sale by geographical markets

Revenues, net	2004	2003
India	2,019,511	1,458,121
Exports (on FOB basis)	3,005,695	1,085,265
Total	5,025,206	2,543,386

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

	Carrying amount of segment assets	
	2004	2003
India	6,882,336	2,510,772
Outside India	632,681	245,283
	7,515,017	2,756,055

Carrying amount of segment assets outside India represents receivables from export sales.

Segment revenue and result

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

Inter-segment transfers

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

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments and current assets Segment liabilities comprise of loan funds which can be identified directly against the respective segments and includes segment current liabilities and provisions. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

26. Prior year comparatives

The financial statements for the year ended March 31, 2003, which are presented for comparative purposes, have been reclassified to conform with current year's presentation, wherever applicable.

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Ashok Bhandarkar
Company Secretary

Bangalore
May 14, 2004

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in Indian Rupees thousands, except share data including share price)

(a) Registration Details	
Registration No.	**3417**
State Code	**08**
Balance Sheet Date	**March 31, 2004**
(b) Capital raised during the year	
Public Issue	3,150,000
Right Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
(c) Position of mobilisation and deployment of funds	
Total Liabilities and shareholders funds	7,515,017
Total Assets	7,515,017
Sources of Funds	
Paid up Capital	500,000
Reserves	4,916,314
Secured Loans	472,255
Unsecured Loans	174,657
Deferred tax liability	176,680
Application of Funds	
Net Fixed Assets	1,441,090
Capital work in progress	543,125
Long term Investments	89,329
Net Current Assets	4,166,362
(d) Performance of the Company	
Turnover	5,111,719
Total expenditure	3,636,917
Profit before tax	1,474,802
Profit after tax	1,246,726
Earnings per share in Rupees	13.85
Dividend rate %	20%
(e) Generic Name of principal products of Company	
Item Code No (ITC Code)	350790
Product Description	Enzymes for Pharmaceutical use
Item Code No.(ITC Code)	280000 & 290000
Product Description	Organic & Inorganic Chemicals

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Syngene International Private Limited

DIRECTOR'S REPORT

Dear Shareholders,
Your Directors have great pleasure in presenting the Eleventh Annual Report on the business and operations of the Company, along with its Audited Accounts, for the year ended 31st March 2004.

Financial Highlights :

Financial Results for the year ended:

	March 31, 2004	March 31, 2003
		Rs. in Thousands
Total revenues	384,869	262,508
Total expenditure	200,273	162,659
Profit before interest depreciation and tax	184,596	99,849
Interest	346	1,293
Depreciation	21,480	16,371
Profit before tax	162,770	82,185
Provision for tax	2,263	197
Profit after tax	160,507	81,988
Surplus brought forward from previous year	87,310	5,322
Profit available for Appropriation	247,817	87,310

Appropriated as follows:

	March 31, 2004	March 31, 2003
		Rs. in Thousands
Transfer to General Reserve	-	-
Dividend – interim	-	-
Dividend – proposed	-	-
Corporate tax on proposed dividend	-	-
Balance carried to Balance Sheet	247,817	87,310

Performance Analysis:

For the Financial Year 2003-04, Syngene continued to register a strong growth of 46.4 % in revenues from Rs. 262,508 thousand to Rs. 384,869 thousand, and 96.3 % at the profit after tax level from Rs. 81,988 thousand to Rs. 160,507 thousand.

Syngene has gained a strong leadership profile in the research services sector and continues to forge ahead. Syngene already enjoys an excellent reputation amongst global pharma companies as well as with a number of biotechnology companies in the US and Europe. Recently Syngene has enrolled a few customers from Japan and Australia, which we expect to be enlarged in the year ahead.

The business of research services represents a significant growth opportunity for the future, based on rapidly growing need for the outsourcing of research services. To meet the growing demand for Syngene's R&D services, the Company is setting up a new R&D facility, which is expected to be operational in the second half of the calendar year 2004. This new facility will substantially increase the existing business of your Company.

Personnel:

Syngene acknowledges the focused and collaborative efforts of its employees that has helped achieve the current level of growth built on a strong international reputation. The remuneration structure links rewards directly with performance. In addition, the Company continues to focus on training and development and performance management.

The total employee strength as at the end of the financial year 2003-04 was 277, as against 182 at the end of the previous financial year.

Directors:

Prof. Charles Cooney and Ms. Kiran Mazumdar-Shaw retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-election.

Auditors:

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

Fixed Deposits :

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

Particulars Of Employees Under Section 217 (2a):

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

Directors' Responsibility Statement:

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby confirm as under:

i) that in preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

ii) that they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

iii) that they 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;

iv) that they have prepared the annual accounts on a going concern basis.

Particulars Of Research & Development, Conservation Of Energy, Technology Absorption, Etc.:

Syngene's primary business is Custom Research. The Company is a certified ISO 9001 company and all research projects are conducted in conformance with ISO 9001 systems. Syngene's key strengths lie in the areas of molecular biology and synthetic chemistry which has met with the research expectations of leading pharmaceuticals/ bio-pharma players. The Department of Science & Industrial Research, Government of India has also recognized Syngene as an approved Research Company.

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

The Company has not bought any technology for absorption.

Foreign Exchange Earnings & Outflow:

Total earnings in foreign exchange during the year - Rs. 379,242 thousand (Previous year Rs. 261,957 thousand)
Total out flow of foreign exchange during the year - Rs. 52,568 thousand (Previous year Rs. 34,659 thousand)

For and on behalf of the Board

KIRAN MAZUMDAR-SHAW
Chairman

May 13, 2004

ANNEXURE TO DIRECTORS' REPORT

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

Details of Remuneration paid during the year ended 31st March 2004

Sl. No.	Name & Designation	Age	Remuneration (Rs.)	Qualification & Experience	Date of Commence-ment of employment	Last employment
1	Dr. Goutam Das Chief Operating Officer	48	7,843,820	M.Sc., Ph. D. 16 years	01.08.1994	Sr. Scientist Astra Research Centre Bangalore
2	Dr. Sambasivam Ganesh Chief Scientific Manager	39	3,145,003	M.Sc., Ph. D. 10 Years	16.05.1994	-

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

On behalf of Board of Directors

KIRAN MAZUMDAR-SHAW
Chairman

Place: Bangalore
Date: May 13, 2004

AUDITORS' REPORT

To
The Members of Syngene International Private Limited

1. We have audited the attached Balance Sheet of SYNGENE INTERNATIONAL PRIVATE LIMITED as at March 31, 2004 and also the Profit and Loss account and the Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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 (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

iii. The Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

v. On the basis of the written representations received from the directors, as on March 31, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004;

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

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

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

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

Re: Syngene International Private Limited

1. The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. All fixed assets have been physically verified by the management during the year, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification. There was no substantial disposal of fixed assets during the year.

2. The management has conducted physical verification of inventory at reasonable intervals during the year. The 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. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

3. As informed to us, the Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

4. 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, for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls in respect of these areas.

5. 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. In our opinion and according to the information and explanations given to us, the transactions with parties with whom transactions exceeding value of Rs 500,000 have been entered into during the financial year are reasonable having regard to the prevailing market prices at the relevant time.

6. The Company has not accepted any deposits from the public.

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

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

9. According to the records of the Company, the Company is regular in depositing undisputed statutory dues including provident fund, income-tax, sales-tax, wealth tax, custom duty, excise duty and other statutory dues applicable to it with the appropriate authorities though there are slight delays in two of the cases relating to withholding of income taxes amounting to Rs 626,799. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable. According to the information and explanation given to us, there are no dues of sales tax, income tax, custom duty, wealth tax and excise duty which have not been deposited on account of any dispute.

10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.

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

12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

14. 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.

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

16. The Company did not have any term loans outstanding during the year.

17. The Company did not have any outstanding borrowings during the year.

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

19. The Company did not have any outstanding debentures during the year.

20. The Company has not raised any money through a public issue during the year.

21. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

SYNGENE INTERNATIONAL PRIVATE LIMITED

BALANCE SHEET – MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 19)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3	28,750	28,750
Reserves and surplus	4	293,610	133,103
		322,360	161,853
APPLICATION OF FUNDS			
Fixed Assets	2(a) & 5		
Cost		205,924	171,076
Less: Accumulated depreciation		61,112	39,641
Net book value		144,812	131,435
Capital work-in-progress [including capital advances of Rs 3,677 (2003 -- Rs Nil)]		24,028	9
		168,840	131,444
Investments	2(b) & 6	221,329	50,000
Current Assets, Loans And Advances			
Inventories	2(c) & 7	17,036	12,093
Sundry debtors	8	28,297	10,697
Cash and bank balances	9	23	16,120
Loans and advances	10	4,150	4,245
		49,506	43,155
Less: Current Liabilities And Provisions	2(e), 2(f), 2(h) & 11	117,315	62,746
Net Current Liabilities		67,809	19,591
		322,360	161,853

The accompanying notes 1 to 19 form an integral part of this balance sheet.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

J Sridevi
Company Secretary

Bangalore
May 13, 2004

SYNGENE INTERNATIONAL PRIVATE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 19)
INCOME			
Contract research fees	2(d)(i) & 2(g)	319,239	225,153
Sale of compounds	2(d)(ii) & 2(g)	60,003	36,804
Interest income		699	551
[gross of tax deducted at source - Rs 158 (2003 -- Rs 81)]			
Dividend income		4,928	-
		384,869	262,508
EXPENDITURE			
Contract research and other operating expenses	2(e), 2(f), 2(j) & 13	200,273	162,659
Interest and finance charges	14	346	1,293
		200,619	163,952
PROFIT BEFORE DEPRECIATION AND TAX		184,250	98,556
Depreciation	2(a) & 5	21,480	16,371
PROFIT BEFORE TAX		162,770	82,185
Provision for taxation			
Current	2(h) & 12(a)	2,263	8,038
Deferred	2(h) & 12(b)	-	(7,841)
NET PROFIT FOR THE YEAR		160,507	81,988
Balance brought forward from previous year		87,310	5,322
BALANCE, END OF THE YEAR		247,817	87,310
Earnings per share (equity shares, par value Rs 10 each)	2(i)		
Basic and diluted (in Rs)		55.83	28.52
Weighted average number of shares used in computing earnings per share, basic and diluted		2,875,000	2,875,000

The accompanying notes 1 to 19 form an integral part of this account.

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

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Bangalore
May 13, 2004

Murali Krishnan K N
President - Group Finance

J Sridevi
Company Secretary

Bangalore
May 13, 2004

SYNGENE INTERNATIONAL PRIVATE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

		2004	2,003 (Note 19)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		162,770	82,186
Adjustments for			
Add: Non cash item/items required to be disclosed separately:			
Depreciation	21,480		16,371
Interest and finance charges	346		1,293
Interest income (gross)	(699)		(551)
Gain on sale of asset	(9)		-
Gain on sale of investment	(15)		-
Dividend income	(4,928)		-
		16,175	17,113
Changes in working capital and other provisions			
Inventories	(4,943)		(3,972)
Sundry debtors	(17,600)		4,936
Loans and advances	(74)		996
Current liabilities and provisions (includes book overdraft)	53,691		15,299
		31,074	17,259
Cash generated from operations		210,019	116,557
Tax paid		(679)	(4,114)
Net cash provided by operating activities		209,340	112,443
II. CASH FLOWS FROM INVESTING ACTIVITIES :			
Fixed assets			
Purchase		(59,619)	(59,799)
Sale		46	1,548
Dividend received		4,928	-
Interest received		868	551
Purchase of investments		(539,433)	(50,000)
Sale of investments		368,118	-
Net cash (used) for investing activities		(225,091)	(107,700)
III. CASH FLOWS FROM FINANCING ACTIVITIES :			
Repayments of secured loans		-	(2,801)
Interest and finance charges paid		(346)	(1,293)
Corporate tax on dividend		-	(2,199)
Net cash (used) for financing activities		(346)	(6,293)
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		(16,097)	(1,550)
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		16,120	17,670
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		23	16,120

S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

J Sridevi
Company Secretary

Bangalore
May 13, 2004

SYNGENE INTERNATIONAL PRIVATE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

1. Background

Syngene International Private Limited ('Syngene' or 'the Company') was promoted by Ms Kiran Mazumdar-Shaw, a promoter of Biocon Limited (formerly Biocon India Limited) ('Biocon'), and was incorporated at Bangalore in 1993. At March 30, 2002, 99.9 per cent of the equity shares of the Company were transferred to Biocon and, resultantly, the Company became the subsidiary of Biocon.

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

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

2. Summary of significant accounting policies

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

a. Fixed assets and depreciation

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

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

Assets individually costing less than Rs 5 are fully depreciated in the year of purchase.

b. Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value and determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

c. Inventories

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

d. Revenue recognition

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

(ii) Sale of compounds
Sales are recognised on dispatch of goods to customers, and comprise amounts invoiced for goods sold.

e. Retirement benefits

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

f. Leave encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary. Upto March 31, 2003, the Company provided for leave encashment on a full liability basis. The impact on net profit before taxes as a result of this change is not material.

g. Foreign currency transactions

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

h. Income tax

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

i. Earnings per share

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

j. Operating lease

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

3. Share capital	2004	2003
Authorised:		
3,500,000 (2003 -- 3,500,000) equity shares of Rs 10 each	35,000	35,000
Issued, subscribed and paid up : 2,875,000 (2003 -- 2,875,000) equity shares of Rs 10 each fully paid	28,750	28,750

Of the above, 2,874,830 (2003 -- 2,874,830) equity shares are held by Biocon, the holding company.

4. Reserves and surplus		
General reserve	45,600	45,600
Share premium account	193	193
Balance in Profit and loss account	247,817	87,310
	293,610	133,103

5. Fixed assets

	Balance, beginning of year	Additions/charge	Deletions	Balance, end of year
Cost				
Buildings	16,557	652	-	17,209
Plant and machinery	144,092	33,610	46	177,656
Furniture and fixtures	8,674	632	-	9,306
Vehicles	1,753	-	-	1,753
	171,076	34,894	46	205,924
Previous year	102,375	71,255	2,554	171,076
Accumulated depreciation				
Buildings	2,027	686	-	2,713
Plant and machinery	33,889	19,016	9	52,896
Furniture and fixtures	2,995	1,486	-	4,481
Vehicles	730	292	-	1,022
	39,641	21,480	9	61,112
Previous year	24,277	16,371	1,007	39,641
Net book value				
Buildings	14,530			14,496
Plant and machinery	110,203			124,760
Furniture and fixtures	5,679			4,825
Vehicles	1,023			731
	131,435			144,812
Previous year	78,098			131,435

Note:
The Company has capitalised foreign exchange gain/(loss) of Rs 377 [2003 -- (Rs 370)] during the year.

6. Investments	2004	2003
Long term and non-trade		
Unquoted:		
1,000 equity shares (2003 -- 1,000 equity shares) of Rs 100		
each of Xcyton Diagnostics Limited, fully paid	100	100
Less: Provision for other than temporary dimunition in value	100	100
	-	-
Current and unquoted (at lower of cost and fair market value)		
Nil units (2003 -- 5,000,000) of Rs 10 each		
in IL&FS Fixed Maturity Plan	-	50,000
[Market Value Rs Nil (2003 -- Rs 50,087)]		
1,477,110.536 units (, 2003 -- Nil) of Rs 10 each in Reliance Mutual Fund	15,252	-
[Market Value Rs 15,252(2003 -- Rs Nil)]		
5,017,850 units (2003 -- Nil) of Rs 10 each in Reliance Fixed Term Scheme	50,179	-
[Market Value Rs 50,323 (2003 -- Rs Nil)]		
2,836,074.976 units (2003 -- Nil) of Rs 10 each in LIC Mutual Fund	30,480	-
[Market Value Rs 30,563 (2003 -- Rs Nil)]		
4,500,000 units (2003 -- Nil) of Rs 10 each in JM Mutual Fund - FMP	45,000	-
[Market Value Rs 45,118 (2003 -- Rs Nil)]		
1,371,611.256 units (2003 -- Nil) of Rs 10 each in TATA Mutual Fund	15,252	-
[Market Value Rs 15,252 (2003 -- Rs Nil)]		
1,960,651.175 units (2003 -- Nil) of Rs 10 each in HSBC Mutual Fund	19,973	-
[Market Value Rs 19,976 (2003 -- Rs Nil)]		
2,018,578.366 units (2003 -- Nil) of Rs 10 each in Alliance Manager Fund	20,186	-
[Market Value Rs 20,186 (2003 -- Rs Nil)]		
1,500,000 units (2003 -- Nil) of Rs 10 each in Grindlays Fixed Term Scheme	15,000	-
[Market Value Rs 15,000, (2003 -- Rs Nil)]		
941,229.601 units (2003 -- Nil) of Rs 10 each in HDFC Cash Management	10,007	-
[Market Value Rs 10,007 (2003 -- Rs Nil)]		
	221,329	50,000
Aggregate amount of unquoted investments	221,329	50,000
The following investments were purchased and sold during the period from April 1, 2003 to March 31, 2004:	Purchase	Sale
13,456,605 units of Rs 10 each in HSBC - Cash Fund	137,093	137,093
11,000,000 units of Rs 10 each in Reliance Mutual Fund	110,000	110,000
Purchase of 8,142.207 units of Rs 1,244.429 each in		
Franklin Templeton Investment Fund	10,132	10,131
(Sale of 8,142.207 units of Rs 1,244.3650 each)		
Purchase of 1,402,953.749 units of Rs 10.7667 each in ING Vysya Mutual Fund		
(Sale of 1,402,953.749 units of Rs 10.7740 each in ING Vysya Mutual Fund)	15,105	15,115
Purchase of 3,560,757 units of Rs 10.022 each in JM Mutual Fund		
(Sale of 3,560,757 units of Rs 10.025 each in JM Mutual Fund)	35,686	35,695
Purchase of 1,004,069 units of Rs 10.047 each in Canara Bank Mutual Fund		
(Sale of 1,004,069 units of Rs 10.044 each in Canara Bank Mutual fund)	10,088	10,085

7. Inventories

Chemicals and reagents	17,036	12,093

8. Sundry debtors (unsecured and considered good)

Debts outstanding for a period exceeding six-months	-	996
Other debts	28,297	9,701
	28,297	10,697

9. Cash and bank balances

	2004	2003
Cash on hand	10	7
Balances with scheduled banks in:		
Cash credit account	13	13
Current account	-	1,100
Deposit account	-	15,000
	23	16,120

Deposit account includes a deposit made of Rs 12,000 (2003 -- Rs 10,000) under the flexi-deposit account allowing the Company to avail overdraft facility upto Rs 12,000 (2003 -- Rs 10,000) at an interest rate of 2 per cent above fixed deposit rate. The Company has drawn Rs 19,774 (2003 -- Rs Nil) against this facility as at March 31, 2004. The book overdraft net of deposit is disclosed under current liabilities.

10. Loans and advances (unsecured and considered good)

	2004	2003
Advances recoverable in cash or in kind or for value to be received	3,458	3,553
Deposits	692	692
	4,150	4,245

11. Current liabilities and provisions

	2004	2003
Current liabilities:		
Sundry creditors	45,116	18,866
Advances from customers	31,271	18,005
Balance in current account with bank represents book overdraft	5,797	-
Other liabilities	25,380	18,923
	107,564	55,794
Provisions:		
For leave encashment	5,133	3,918
Taxation, net of advance tax	4,618	3,034
	9,751	6,952
	117,315	62,746

(a) The names of small-scale industrial undertakings to whom monies are outstanding for greater than 30 days:

(a) Bangalore Genei Private Limited
(b) Millenium Chem Pharma Private Limited
(c) Prince Chemicals
(d) Hermes Laboratories

(b) The maximum amount outstanding during the year to Biocon was Rs 3,156 (2003 -- Rs 19,057).

12. Taxation

(a) Current tax

The Company claims deduction under section 10B of the Act for a period of ten years from the date of set-up/approval by Cochin Export Processing Zone of its 100 per cent Export Oriented Units.

(b) Deferred tax

The Company, constituting two 100 per cent Export Oriented Units (approved by the Cochin Export Processing Zone on December 14, 1998 and the Cochin Special Economic Zone on August 24, 2001), claims deduction under section 10B of the Income-tax Act, 1961 (‘the Act‘).

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

13. Contract research and other operating costs

	2004	2003
Research material costs		
Chemicals and reagents consumed	79,237	68,609
Employee costs		
Salaries, wages, bonus and incentives	80,962	59,804
Contribution to provident fund	3,359	2,568
Gratuity, superannuation and leave encashment	6,780	7,562
Welfare expenses	2,755	1,846
Director's sitting fees	48	24
Selling, general and administrative expenses		
Rent	1,140	900
Communication [net of receipt of Rs Nil (2003 -- Rs 1,000) from Biocon]	1,065	1,154
Travelling and conveyance	4,341	4,793
Professional charges	1,446	843
Power	5,581	5,101
Insurance	308	254
Rates, taxes and fees	84	42
Repairs and maintenance		
Plant and machinery	3,069	3,265
Buildings	722	823
Others	3,008	2,661
Selling expenses		
Freight outwards and clearing charges	1,571	974
Sales promotion	335	223
Printing and stationery	829	601
Exchange fluctuation (net)	3,029	(384)
Miscellaneous expenses	604	996
	200,273	162,659

14. Interest and finance charges

Interest expense	47	652
Bank charges	299	641
	346	1,293

15. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2003 to March 31, 2004	Balance as at March 31, 2004	April 1, 2002 to March 31, 2003	Balance as at March 31, 2003
(a)	Biocon Limited (formerly Biocon India Limited)	Holding Company	Interest expense on current account transactions	-	-	406	-
			Current account:				
			Due from Biocon	-	-	425	-
			Due to Biocon	3156	-	19,057	-
			Rent expense	1,140	-	1,140	-
			Management charges paid (Note (iii))	600	-	-	-
			Rent deposit paid	-	600	-	600
			Power charges paid	5,581	-	5,101	-
			Communication expense received	-	-	1,000	-
			Sale of fixed assets	-	-	1,548	-
(b)	Clinigene International Private Limited	Associate company	Rent income	-	-	240	-

(c) Apart from the transactions specified above:

Notes:

(i) Biocon has given corporate guarantees of Rs 80,000 (2003 -- Rs 80,000) to the Customs and Excise department ('CED') on behalf of the Company and the Company has furnished a corporate guarantee of Rs 165,000 (2003 -- Rs 15,000) on behalf of Biocon to the CED.

(ii) Biocon has given stock options in Biocon to certain employees of the Company in respect of which no charges have been made by Biocon. The corresponding compensation cost amortised during the year is Rs 4,616 (2003 -- Rs 7,416), which is recorded in the books of Biocon.

(iii) Effective January 1, 2004, Biocon has entered into an agreement to provide general management support, for which an agreed upon management charge has been levied.

16. Supplementary profit and loss data

	2004	2003
a. Payment to auditors (included in professional charges)		
Statutory audit	190	175
Tax audit	35	50
Other matters	148	-
	373	225

b. Consumption of laboratory chemical	2004		2003	
	Quantity	Amount	Quantity	Amount
Chemicals and reagents	*	79,237	*	68,609
	Per cent	Amount	Per cent	Amount
Imported	29	23,171	27	18,195
Indigenous	71	56,066	73	50,414
		79,237		68,609

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

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

	2004	2003
c .Value of imports on CIF basis		
Chemicals and reagents	20,904	13,083
Capital goods	30,158	18,864
	51,062	31,947
d. Expenditure in foreign currency		
Travel	1,280	2,208
Others	226	504
	1,506	2,712
e. Earnings in foreign exchange		
Exports on FOB basis	60,003	36,686
Recovery of freight, insurance etc on exports	-	118
Contract research fees	319,239	225,153
	379,242	261,957

17. Commitments

	2004	2003
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	37,574	1,186
(b) Operating lease commitments		
(i) Rent		
The Company has entered into lease agreements which expires over a period ranging from 2004 to 2011. Gross rental expenses for the year ended 2004 aggregated to Rs 1,140 (2003 -- Rs 1,140). The committed lease rental in the future are:		
Not later than one year	590	1,140
Later than one year and not later than five years	2,160	2,160
Later than five years	840	1,380
(ii) Vehicles		
The Company has taken vehicles for certain employees under operating leases, which expire in December 2007. Gross rental expenses for the year ended 2004 aggregated to Rs 190 (2003 -- Rs Nil). The committed lease rental in the future are:		
Not later than one year	259	-
Later than one year and not later than five years	712	-

18. Contingent liabilities

The Company has given two corporate guarantees in favour of the CED in respect of certain performance obligations of Biocon aggregating to Rs 165,000 (2003 -- Rs 15,000). The Company is informed that the necessary terms and conditions have been complied with and no liability has arisen till date (See Note 15).

19. Prior year comparatives

The financial statements for the year ended March 31, 2003, which are presented for comparative purposes, have been reclassified to conform with current year's presentation, wherever applicable.

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw Director	JMM Shaw Director
Murali Krishnan K N President -- Group Finance	J Sridevi Company Secretary

Bangalore
May 13, 2004

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in Indian Rupees thousands, except share data including share price)

(a) Registration Details	
Registration number	**14937**
State code	**08**
Balance Sheet date	**March 31, 2004**
(b) Capital raised during the year	
Public issue	-
Right issue	-
Bonus issue	-
Private placement	-
(c) Position of mobilisation and deployment of funds	
Total liabilities	439,675
Total assets	439,675
Sources of funds	
Paid up capital	28,750
Reserves & surplus	293,610
Application of funds	
Net Fixed Assets	144,812
Capital WIP	24,028
Investments	221,329
Net Current Liabilities	67,809
(d) Performance of the Company	
Turnover	384,869
Total expenditure	222,099
Profit before Tax	162,770
Profit after Tax	160,507
Earnings per share (in Rupees)	55.83
Dividend rate	-
(e) Generic Name of principal products/services of Company	
Product description	Item Code No (ITC code)
Catalytic Preparations	381500
Other Organic Compounds	294200

Clinigene International Private Limited

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors take great pleasure in presenting their Fourth Annual Report on the business and operations of the Company, along with its Audited Accounts, for the year ended 31st March 2004.

Financial Highlights :

The Financial Results for year ended:

	March 31, 2004	March 31, 2003
		Rs. in Thousand
Total revenues	13,334	11,073
Total expenditure	29,627	15,881
Profit /(Loss) before interest depreciation and tax	(16,293)	(4,808)
Interest	66	355
Depreciation	1,972	889
Profit /(Loss) before tax	(18,331)	(6,052)
Provision for tax	-	(487)
Profit /(Loss) after tax	(18,331)	(5,565)
Surplus brought forward from previous year	(3,865)	1,700
Profit available for appropriation	(22,196)	(3,865)

Appropriated as follows:

	March 31, 2004	March 31, 2003
Transfer to General Reserve	-	-
Dividend – interim	-	-
Dividend – proposed	-	-
Corporate tax on proposed dividend	-	-
Balance carried to Balance Sheet	(22.20)	(3.87)

Financial Analysis:

For the financial year under review, the Company incurred a loss of Rs. 18,331 thousand as against a loss of Rs. 5,565 thousand in the previous year. This is mainly attributable to the increased spend on expanding the range of clinical capabilities as well as additional costs incurred with respect to in-house research projects focussed on novel Biomarkers for Diabetes. During the year, Clinigene successfully completed Phase III Clinical Trials for recombinant Human Insulin on behalf of Biocon Limited.

During the year under review, Clinigene has focused on building its capability base, and today is poised to extend its business activities to offer third party clinical services. The Company proposes to undertake bio-equivalence and bio-availability studies as well as Phase I to IV human clinical trials. Clinigene will differentiate itself through a strategy focused on shortening time-to-market, cost efficiency through quality and proficiency leveraging on its valuable disease registries and access to a well-compiled database of quality investigators and medical centres.

During the year Clinigene inaugurated its state-of-the-art Human Pharmacology Unit at Sagar Apollo Hospital at Bangalore.
Clinigene is also developing disease specific databases that are compliant with highest global standard, to enable the Company to have a unique competitive edge with which drive growth in the future.

Clinigene's Laboratory, which is accredited by the College of American Pathologists, supports the above activities.

During the year, Clinigene was recognised as an approved Research Company by the Department of Science and Industrial Research, Government of India, entitling the Company to a 10-year tax holiday under the Indian Income Tax Act.

Personnel:
The Company acknowledges the sincere and committed efforts of its team that has enabled the successful implementation of its various business initiatives.

Directors:
Ms. Kiran Mazumdar-Shaw retires by rotation at the ensuing Annual General Meeting and being eligible, offers herself for re-election.

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

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

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

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

i) In preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

ii) We have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

iii) We 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;

iv) We have prepared the annual accounts on a going concern basis.

Particulars Of Research & Development, Conservation Of Energy, Technology Absorption, Etc.:

The Company's primary business is Clinical Research and Development. All clinical trials are being carried out in compliance with ICH-GCP guidelines. Laboratory data meets CAP specifications. A state of the art Human Pharmacology Unit has been set up to conduct Phase I, Bio-equivalence and Bio-availability studies. The Company has also endeavoured to identify new biomarkers (Diagnostics, Prognostic & therapeutic) in diseases such as diabetes using Proteomic analysis with the Indian Institute of Science and bioinformatic analysis with Strand Genomics.

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

The Company has not bought any technology for absorption.

Foreign Exchange Earnings & Outflow:

Total earnings in foreign exchange during the year - Rs. Nil (Previous Year Rs.8,347 thousand)
Total out flow of foreign exchange during the year - Rs. 118 thousand (Previous Year Rs. 188 thousand)

For and on behalf of the Board of Directors,

Kiran Mazumdar-Shaw
Chairman

May 13, 2004

ANNEXURE TO DIRECTORS' REPORT

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

Details of Remuneration paid during the year ended 31st March 2004

Sl. No.	Name & Designation	Age	Remuneration (Rs.)	Qualification & Experience	Date of Commence-ment of employment	Last employment
1	Dr. Ramananda S Nadig Vice President - Medical services	49	1,799,679	M.B.B.S., M.D. 25 Years	07.11.2002	Regional Medical Director Novo Nordisk India Pvt. Ltd, Bangalore

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

On behalf of Board of Directors

KIRAN MAZUMDAR-SHAW
Chairman

Place: Bangalore
Date: May 13, 2004

AUDITORS' REPORT

To
The Members of Clinigene International Private Limited

1. We have audited the attached Balance Sheet of CLINIGENE INTERNATIONAL PRIVATE LIMITED as at March 31, 2004 and also the Profit and Loss account and the Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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 (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

iii. The Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

v. On the basis of the written representations received from the directors, as on March 31, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004;

(ii) in the case of the Profit and Loss account, of the loss for the year ended on that date; and

(iii) in the case of Cash Flow statement, of the cash flows for the year ended on that date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

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

Re: Clinigene International Private Limited

1. The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. All fixed assets have been physically verified by the management during the year, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification. There was no disposal of fixed asset during the year.

2. The management has conducted physical verification of inventory at reasonable intervals during the year. The 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. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

3. The rate of interest and other terms and conditions of the loan taken by the Company during the year, from a company listed in the register maintained under section 301 of the Companies Act, 1956 ('the Act'), is not prima facie prejudicial to the interests of the Company. The maximum amount involved during the year was Rs 45,547,298 and the balance outstanding at March 31, 2004 was Rs 34,062,288 and the terms of repayment have not been stipulated. The Company has not taken/ granted any other loans from/ to companies, firms or other parties listed in the register maintained under section 301 of the Act.

4. 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, for the purchase of fixed assets and the sale of services. During the course of our audit, no major weakness has been noticed in the internal controls in respect of these areas.

5. 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. In our opinion and according to the information and explanations given to us, the transactions with parties with whom transactions exceeding value of Rs 500,000 have been entered into during the financial year are reasonable having regard to the prevailing market prices at the relevant time.

6. The Company has not accepted any deposits from the public.

7. The provisions relating to internal audit are not applicable to the Company.

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

9. According to the records of the Company, *except for a delay in one case of service tax remittance*, the Company is generally regular in depositing undisputed statutory dues including withholding of taxes, provident fund, income tax, sales tax, custom duty and other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable. According to the information and explanations given to us, there are no dues of sales tax, income tax, custom duty, wealth tax and excise duty which have not been deposited on account of any dispute.

10. The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the financial year immediately preceding such financial year.

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

12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

14. 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.

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

16. The Company did not have any term loans outstanding during the year.

17. According to the information and explanations given to us and on overall examination of the balance sheet of the Company, we report that the Company has used funds raised on short-term basis for long-term investment. The Company has utilized the funds received form Biocon towards setting up of its laboratory. The borrowing as on March 31, 2004 amounted to Rs 34,062,288.

18. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Act.

19. The Company did not have any outstanding debentures during the year.

20. The Company has not raised any money through a public issue during the year.

21. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

CLINIGENE INTERNATIONAL PRIVATE LIMITED

BALANCE SHEET – MARCH 31, 2004

(All amounts in Indian Rupees thousands, except for share data including share price)

	Notes	2004	2003 (Note 15)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3 (a)	500	500
Reserves and surplus	3 (b)	1,003	1,003
		1,503	1,503
APPLICATION OF FUNDS			
Fixed Assets	2(a) & 4		
Cost		25,255	9,639
Less: Accumulated depreciation		3,816	1,844
Net book value		21,439	7,795
Capital work-in-progress [including capital advance of Rs. 182 (2003 -- Rs Nil)]		5,114	-
		26,553	7,795
Current Assets, Loans and Advances			
Sundry debtors	5	489	5,139
Cash and bank balance	6	2	1
Loans and advances	7	1,932	2,147
		2,423	7,287
Less: Current Liabilities and Provisions	2(d), 2(e) & 8	49,669	17,444
Net Current Liabilities		47,246	10,157
Profit and loss account		22,196	3,865
		1,503	1,503

The accompanying notes 1 to 15 form an integral part of this balance sheet.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Bangalore
May 13, 2004

CLINIGENE INTERNATIONAL PRIVATE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except for share data including share price)

	Notes	2004	2003 (Note 15)
INCOME			
Contract research fees	2(c)	13,328	11,073
Other income		6	-
		13,334	11,073
EXPENDITURE			
Contract research and other operating expenses	2(d), 2(e), 2(f), 2(i) & 9	29,627	15,881
Interest and finance charges	10	66	355
		29,693	16,236
LOSS BEFORE DEPRECIATION AND TAXATION		16,359	5,163
Depreciation	2(a) & 4	1,972	889
LOSS FOR THE YEAR		18,331	6,052
Provision for taxation			
Current	2(g)	-	-
Deferred	2(g)	-	487
LOSS AFTER TAXES		18,331	5,565
Balance brought forward from previous year		3,865	(1,700)
BALANCE, END OF THE YEAR		22,196	3,865
Loss per share (equity shares, par value Rs 10 each)	2(h)		
Basic and diluted (in Rs)		366.62	111.30
Weighted average number of shares used in computing earnings per share, basic and diluted		50,000	50,000

The accompanying notes 1 to 15 form an integral part of this balance sheet.

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

For and on behalf of the Board of Directors

Prashant Singhal
Partner
Membership No: 93283

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Bangalore
May 13, 2004

Murali Krishnan K N
President - Group Finance

Bangalore
May 13, 2004

CLINIGENE INTERNATIONAL PRIVATE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except for share data including share price)

		2004	2003 (Note 15)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Loss before tax		18,331	6,052
Adjustments for -			
Less: Non cash item/items required to be disclosed separately :			
Depreciation	1,972		889
Provision for doubtful debts	1,194		-
Interest and finance charges	66		355
Other income	(6)		-
		3,226	1,244
(Increase)/decrease in working capital and other provisions:			
Inventories	-		688
Sundry debtors	3,456		3,156
Loans and advances	215		(2,104)
Current liabilities and provisions (including book overdraft)	4,773		(2,901)
		8,444	(1,161)
		11,670	83
Cash used in operations		(6,661)	(5,969)
Taxes paid		(38)	(2,051)
Net cash used in operations		(6,699)	(8,020)
II. CASH FLOWS FROM INVESTING ACTIVITIES :			
Purchase of fixed assets		(17,503)	(910)
Net cash used in investing activities		(17,503)	(910)
III. CASH FLOWS FROM FINANCING ACTIVITIES :			
Receipt of loans from Biocon, net		24,269	9,794
Interest and finance charges paid		(66)	(355)
Coporate dividend tax		-	(510)
Net cash provided by financing activities		24,203	8,928
IV. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)		1	(2)
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1	3
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		2	1

S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 13, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Bangalore
May 13, 2004

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

1. Background

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

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

The Company has incurred a loss of Rs 18,331 (accumulated losses of Rs 22,196) for the year ended March 31, 2004 resulting in a negative net worth of Rs 20,693 and a working capital deficiency of Rs 47,246 at March 31, 2004. The Company is making aggressive marketing efforts to sell clinical research and in the current year, has set up an human pharmacology unit in association with a leading hospital in India to expand its clinical research activities, has hired certain employees in this connection and is confident of generating profits in its near future. During the current year, the Company has entered into a contract with Biocon to provide clinical trials for the insulin project. Further, the Company is engaged in research activities, the benefit of which is anticipated to be received after a period of two to three years. Biocon, the holding company, has committed to fund capital and operating expenditure requirements of the Company until the Company achieves its planned growth and is able to fund its own operations.

2. Summary of significant accounting policies

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

a. Fixed assets and depreciation

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

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

Leasehold improvements are being depreciated over the lease term.

Assets individually costing less than Rs 5 are fully depreciated in the year of purchase.

b. Inventories

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

c. Revenue Recognition

The Company enters into two types of contract research arrangements and the revenues therefrom are recognised on the following basis:

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

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

d. Retirement benefits

The Company has schemes of retirement benefits for gratuity and superannuation, in respect of which, the Company's contributions are charged to the profit and loss account. The gratuity and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity, the liability is accrued based on an independent actuarial valuation at the year-end. In respect of superannuation, the Company has accrued the liability, based on the schemes of the Company.

e. Leave encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary. Upto March 31, 2003, the Company provided for leave encashment on a full liability basis. The impact on the net loss as a result of this change is not material.

f. Foreign currency transactions

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

g. Income tax

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

h. Loss per share

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

i. Operating lease

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

3(a) Share capital	2004	2003
Authorised:		
500,000 (2003 -- 500,000) equity shares of Rs 10 each	5,000	5,000
Issued, subscribed and paid-up:		
50,000 (2003 -- 50,000) equity shares of Rs 10 each, fully paid	500	500
At March 31, 2004, the entire share capital of the Company was held by Biocon, the holding company and its nominee.		
3(b) Reserves and surplus		
General reserve	1,003	1,003

4. Fixed assets

	Balance, beginning the year	Additions/charge	Balance, end of the year
Cost			
Leasehold improvements	-	1,857	1,857
Plant and machinery	8,089	9,615	17,704
Air conditioners	231	752	983
Furniture and fixtures	806	1,913	2,719
Computers	513	1,479	1,992
	9,639	15,616	25,255
Prior year	6,846	2,793	9,639
Accumulated depreciation			
Leasehold improvements	-	76	76
Plant and machinery	1,440	1,194	2,634
Air conditioners	17	71	88
Furniture and fixtures	56	205	261
Computers	331	426	757
	1,844	1,972	3,816
Prior year	955	889	1,844
Net book value			
Leasehold improvements	-		1,781
Plant and machinery	6,649		15,070
Air conditioners	214		895
Furniture and fixtures	750		2,458
Computers	182		1,235
	7,795		21,439
Prior year	5,891		7,795

The Company has capitalised foreign exchange losses of Rs 19 (2003 --Rs 6) during the year and net foreign exchange gain included in Capital work-in-progress amount to Rs 28 (2003 -- Rs Nil).

	2004	2003
5. Sundry debtors (unsecured, considered good)		
Outstanding for more than six months		
Considered good	-	4,883
Considered doubtful	1,194	-
Others		
Considered good	489	256
	1,683	5,139
Less: Provision for doubtful debts	1,194	-
	489	5,139
6. Cash and bank balances		
Cash on hand	2	1
7. Loans and advances (unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	240	174
Prepaid expenses	597	901
Deposits	1,095	1,072
	1,932	2,147
8. Current liabilities and provisions		
Current liabilities		
Sundry creditors	6,488	2,602
Balance due to Biocon	34,062	9,794
Balance in current account with bank represents book overdraft	1,657	352
Other liabilities	5,059	2,335
	47,266	15,083
Provisions		
For leave encashment	161	75
Taxation, net of advance tax	2,242	2,286
	2,403	2,361
	49,669	17,444

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

(b) The maximum amount outstanding during the year to Biocon was Rs 45,547 (2003 -- Rs 9,869).

9. Contract research and other operating expenses

	2004	2003
Chemicals and reagents consumed	4,875	2,545
Consultancy fees	7,841	7,124
Employee costs		
Salaries, wages, bonus, etc	9,090	2,718
Contribution to provident fund	432	-
Gratuity, superannuation and leave encashment	322	228
Welfare expenses	282	28
Power	513	480
Rent	360	300
Communication	184	224
Travelling and conveyance	1,133	454
Professional charges	367	493
Insurance	30	9
Rates and taxes	32	14
Lease rentals	159	163
Exchange differences	147	31
Repairs and maintenance		
Buildings	304	20
Others	707	335
Sales promotion	69	39
Provision for bad and doubtful debts	1,194	-
Printing and stationery	333	94
Miscellaneous expenses	1,253	582
	29,627	15,881

10. Interest and finance charges

	2004	2003
Interest expense	-	350
Bank charges	66	5
	66	355

11. Income taxes

During the year ended March 31, 2004, the Company obtained an approval from the Department of Scientific and Industrial Research for exemption of profits under section 80-IB (8A) of the Income - tax Act 1961. Further, during the year, the Company has incurred book losses of Rs 18,331 resulting in a tax loss carry-forward situation. Based on the above, the Company has not recognized the net deferred tax asset resulting from the tax loss carry forward as at March 31, 2004, as currently, although the management is confident of achieving profitability, there is no virtual certainty that it would reverse the tax loss carry forwards.

12. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 01, 2003 to March 31, 2004	Balance as at March 31, 2004	April 01, 2002 to March 31, 2003	Balance as at March 31, 2003
1	Biocon Limited	Holding company	Interest expense on current account transactions	-	-	351	277
			Current account: Due to Biocon	34,884	34,062	9,519	9,517
			Management charges paid (Note (ii))	150	-	-	-
			Professional services rendered (Note (iii))	12,215	-	-	-
			Rent paid	240	-	-	-
			Power charges paid	480	-	480	-
2	Syngene International Private Limited	Associate Company	Rent paid	-	-	240	-

Notes:

(i) Biocon has given stock options in Biocon to certain employees of the Company in respect of which no charges have been made by Biocon. The corresponding compensation cost amortised during the year is Rs 107 (2003 -- Rs Nil), which is recorded in the books of Biocon.

(ii) Effective January 1, 2004, Biocon has entered into an agreement to provide general management support, for which an agreed upon management charge has been levied.

(iii) During the year Clinigene entered into an agreement with Biocon to provide professional services in the nature of clinical trials for Biocon's insulin project.

13. Supplementary profit and loss data

	2004	2003
(a) Payments to auditors (included in Professional charges)		
Statutory audit	100	60
Tax audit	25	15
Other matters	7	-
	132	75
(b) Value of imports on CIF basis		
Capital goods	4,928	1,211
(c) Earnings in foreign currency		
Contract research fees	-	8,347
(d) Expenditure in foreign currency		
Travel expenses	-	91
Others	118	97
	118	188

14. Commitments

	2004	2003
(a) Capital Commitments Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	17,763	98

(b) Operating lease commitments

(i) Rent

The Company has entered into lease agreements which expire in 2008. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs 360 (2003 -- Rs 300). The committed lease rental in the future are:

	2004	2003
Not later than one year	810	240
Later than one year and not later than five years	2,970	960

(ii) Vehicles

The Company had taken a vehicle for an employee under operating lease, which was to expire in November 2006. This agreement was foreclosed during the year and accordingly, there are no future committed lease rental payments at March 31, 2004. Gross rental expenses for the period ended March 31, 2004 aggregated to Rs 159 (2003 -- Rs 163).

	2004	2003
Not later than one year	-	238

15. Prior year comparatives

The financial statements for the year ended March 31, 2003, which are presented for comparative purposes, have been reclassified to conform with current year's presentation, wherever applicable.

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw Director	JMM Shaw Director

Murali Krishnan K N
President - Group Finance

Bangalore
May 13, 2004

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in Indian Rupees thousands, except share data including share price)

(a) Registration details	
Registration No.	**27566**
State Code	**08**
Balance Sheet Date	**March 31, 2004**
(b) Capital raised during the year	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
(c) Position of mobilisation and deployment of funds	
Total liabilities and shareholders funds	51,172
Total assets	51,172
Sources of funds	
Paid up capital	500
Reserves & surplus	1,003
Application of funds	
Net fixed assets	21,439
Capital work in progress	5,114
Net current liabilities	47,246
Accumulated losses	22
(d) Performance of the Company	
Turnover	13,334
Total expenditure	31,665
Loss before tax	18,331
Loss after tax	18,331
Loss per share in Rupees	366.62
Dividend rate	-
(e) Generic names of three principal products/services of the Company	
The Company is principally engaged in providing contract research services in the field of medical research.	

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Biocon Biopharmaceuticals Private Limited

DIRECTOR'S REPORT

Dear Shareholders,
Your Directors have great pleasure in presenting the Second Annual Report, and the Audited Accounts of the Company, for the period ended 31st March 2004.

Highlights:

The Company is a 51:49 Joint Ventures between Biocon Ltd. and CIMAB S.A.

The Company proposes to commercialize the production of monoclonal antibodies and Erythropoietin (EPO) using a specialized Mammalian cell culture technology and Granulocyte Colony Stimulating Factor (GCSF) through bacterial fermentation. The monoclonal antibody is a NBE (New Biological Entity) for the treatment of head and neck cancers and represents a significant initiative in the Company's foray into original molecules through extensive clinical testing.

Construction of a state of the art Biologicals facility for the above-mentioned products has commenced and the project is expected to be completed by March 2006. The facility will be a multi-product plant capable of handling several products in campaigns.

The Company is in a development stage and had no revenues for the FY 2004-04. Expenses incurred by the company towards salaries, travel, etc have been charged off resulting in a net loss of Rs. 3,226 thousand.

Share Capital:

The equity capital of the Company has been enhanced from Rs.0.1 million to Rs. 8.8 million by issue and allotment of additional shares to the promoters of the company viz. Biocon Ltd. and CIMAB SA Cuba. Out of the enhanced share capital, 51% of shares amounting to 448,800 shares were allotted to Biocon Ltd. by converting the balance in the current account (payable to Biocon) by way of Cash consideration and the balance 49% shares amounting to 431,200 equity shares of Rs. 10 each were allotted to CIMAB SA Cuba by way of non cash consideration, in view of technology transfer.

In order to give effect to the above increase in issued share capital, during the year, the Authorised Share Capital of the Company was enhanced from 0.5 Million (50,000 equity shares of Rs. 10 each) to Rs. 10 million (100,000 equity shares of Rs. 10 each).

Directors:

Ms. Kiran Mazumdar- Shaw and Dr. Patricia Sierra Blazquez retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Auditors:

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

Personnel:
The information required to be furnished under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules, and 1975 is not applicable, as there were no employees in the Company who were in receipt of remuneration in excess of the limit specified therein.

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

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

i) In preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

ii) We have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

iii) We 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;

iv) We have prepared the annual accounts on a going concern basis.

Particulars Of Research & Development, Conservation Of Energy, Technology Absorption, Etc.:
The Company is yet to commence operations or any research and development activities. However, it is in the process of transfer of technology from CIMAB S.A. to the Company.

Information pertaining to conservation of energy is not applicable and has not been furnished, as the Company is yet to commence commercial operations.

Foreign Exchange Earnings & Outflow:
The Company has not generated earnings in foreign exchange and no expenditure of revenue or capital nature have been incurred in foreign currency during the period.

By order of the Board of Directors

Kiran Mazumdar-Shaw
Chairman

April 2,2004

COMPLIANCE CERTIFICATE

COMPANY NO : 30643 Authorised Capital Rs. 100 Lakhs

To
THE MEMBERS
M/s. BIOCON BIOPHARMACEUTICALS PRIVATE LIMITED
BANGALORE .

I have examined the registers, records, books and papers of M/s. BIOCON BIOPHARMACEUTICALS PRIVATE LIMITED as required to be maintained under the Companies Act, 1956, (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the Financial Year ended on 31-03-2004 (Financial Year). In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I Certify that in respect of the aforesaid Financial Year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this Certificate, as per the provision of the Act and the rules made there under and all entries therein have been duly recorded.

2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this Certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities within the time prescribed under the Act and the rules made there under.

3. The Company being a Private Limited Company has the minimum prescribed Paid-Up Capital and its maximum number of members during the said Financial Year was 2, excluding its present and past employees and the Company during the Year under scrutiny;
(i) has not invited public to subscribe for its shares or debentures; and
(ii) has not invited or accepted any deposits from persons other than its Members, Directors or their relatives.

4. The Board of Directors duly met 4 times respectively on 18.04.2003, 12.09.2003, 31.12.2003, and on 28.01.2004 in respect of which meetings proper notices were given and the proceedings were properly recorded and signed including the circular resolutions passed in the Minutes Book maintained for the purpose.

5. The Company was not required to close its Register of Members or Debenture holders during the Financial Year.

6. The Annual General Meeting for the Financial Year ended on 31.03.2003 was held on 12.09.2003 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.

7. One Extra Ordinary Meeting was held during the Financial Year after giving Notice to the Members of the Company and the Resolutions passed thereat were duly recorded in the Minutes Book Maintained for the Purpose.

8. The Company has not advanced any loans to its Directors or Persons or firms or Companies referred to under Section 295 of the Act.

9. The Company has duly complied with the provisions of Section 297 of the Act in respect of contracts specified in that Section.

10. The Company has made necessary entries in the Register maintained under Section 301 the Act.

11. As there were no instances falling within the purview of Section 314 of the Act, the Company has not obtained any approvals from the Board of Directors, Members or Central Government, as the case may be.

12. The Company has not issued any duplicate Share Certificates during the Financial Year.

13. The Company has:
(i) Delivered all the Certificates on lodgment thereof for transfer/transmission in accordance with the provisions of the Act.
(ii). The Company has not deposited any amount in a separate Bank Account as no dividend declared during the financial year .
(iii). The Company has not posted warrants to any member of the company as no dividend was declared during the Financial Year.
(iv). Not applicable.
(v) . Duly complied with the requirements of section 217 of the Act.

14. The Board of Directors of the Company is duly constituted. and the appointment of Directors , Additional Directors, Alternative Directors, and Directors to fill casual Vacancies have been duly made.

15. The Company has not appointed any Managing/Whole Time Director, Manager during the financial year.

16. The Company has not appointed any Sole Selling Agents during the Financial Year.

17. The Company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar of Companies and/or such authorities prescribed under the various provisions of the Act.

18. The Directors have disclosed their interest in other firms/Companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.

19. The Company has issued 8,70,000/- equity Shares of Rs.10/- each during the financial year and complied with the Provisions of the Act.

20. The Company has not bought back any Shares during the Financial Year.

21. There was no redemption of Preference Shares or Debentures during the Financial Year.

22. There were no transactions necessitating the Company to keep in abeyance the Rights to Dividend, Rights Shares and Bonus Shares pending Registration of Transfer of Shares.

23. The Company has not invited / accepted any deposits including any unsecured loans falling within the purview of Section 58A during the Financial Year.

24. The Amount borrowed by the Company from Directors, Members, Public, Financial Institutions, Banks and others during the financial year are with in the borrowing limits of The Company.

25. The Company has not made any loans or advances or given guarantees or provided securities in other Bodies Corporate and consequently no entries have been made in the register kept for the purpose.

26. The Company has not altered the provisions of the Memorandum with respect to situation of the Company's Registered Office from one State to another during the Year under scrutiny.

27. The Company has not altered the provisions of the Memorandum with respect to the Objects of the Company during the Year under scrutiny.

28. The Company has not altered the provisions of the Memorandum with respect to name of the Company during the Year under scrutiny.

29. The Company has altered the provisions of the Memorandum with respect to Share Capital of the Company during the Year under scrutiny and complied with the Provisions of the Act.

30. The Company has not altered its Articles of Association during the financial year.

31. There was no prosecution initiated against or show cause notices received by the Company during the Financial Year, for offences under the Act.

32. The Company has not received any money as security from its employees during the Financial Year.

33. The Company has not constituted any separate Trust for its employees and hence the question of deposit of contribution with prescribed authorities Pursuant to Section 418 of the Act does not apply.

Place: Bangalore	Signature : Sd/-
Date : April 2,2004	Name of the Company Secretary : Sundaresh.A.V.
	C.P. NO. : 2022

Forms and Returns as filed by the company with Registrar of Companies, Regional Director, Central Government or other authorities during the Financial Year ended 31st March 2004.

Annexure A

Registers as maintained by the Company

1. Minutes Book of Board & General Meeting with Attendance Register.
2. Register of Members. U/s. 150
3. Register of Directors U/s. 303
4. Register of Share Transfers
5. Register of contracts for which Directors are interested u/s 301 of the Act

Annexure B

1. Form No 2 dated 18.04.03	- filed on 14.05.2003
2. Form No 32 dated 18.04.2003	- filed on 14.05.2003
3. Balance Sheet for the year ended 31/03/2003	- filed on 10.10.2003
4. Annual Return as on 12/09/2003	
5. Form 32 dt 12.09.2003	- filed on 10.10.2003
6. Form No: 05 & 23 dt 09.02.2004	- filed on 09.03.2004

AUDITORS' REPORT

To
The Members of Biocon Biopharmaceuticals Private Limited

1. We have audited the attached Balance Sheet of BIOCON BIOPHARMACEUTICALS PRIVATE LIMITED as at March 31, 2004 and also the Profit and Loss account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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 (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

iii. The Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of account.

iv. In our opinion, the Balance Sheet and Profit and Loss account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

v. On the basis of the written representations received from the directors, as on March 31, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004; and

(ii) in the case of the Profit and Loss account, of the loss for the year ended on that date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 2, 2004

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

Re: **Biocon Biopharmaceuticals Private Limited**

1. The Company is maintaining proper records showing full particulars of the only fixed asset purchased, which is a computer system, which has been physically verified during the year. There were no disposals of fixed assets during the year.
2. The Company is in the development stage and has no inventory, hence, clause 4(ii) of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company.
3. The rate of interest and other terms and conditions of the loan taken by the Company during the year, from a company listed in the register maintained under section 301 of the Companies Act, 1956 ('the Act'), is not prima facie prejudicial to the interests of the Company. The maximum amount involved during the year was Rs 19,394,173 and the balance outstanding at March 31, 2004 was Rs 15,114,159 and the terms of repayment have not been stipulated. The Company has not taken/ granted any other loans from/ to companies, firms or other parties listed in the register maintained under section 301 of the Act.
4. 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, for the purchase of fixed assets. During the course of our audit, no major weakness has been noticed in the internal controls in respect of this area .
5. 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. In our opinion and according to the information and explanations given to us, the transactions with parties with whom transactions exceeding value of Rs 500,000 have been entered into during the financial year are reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public.
7. The provisions relating to internal audit are not applicable to the Company.
8. The Central Government has not prescribed maintenance of cost records by the Company under section 209(1)(d) of the Act.
9. According to the records of the Company, though there are delays in a few cases, the Company is generally regular in depositing undisputed statutory dues including withholding of taxes and other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable. According to the information and explanations given to us, there are no dues of sales tax, income tax, custom duty, wealth tax and excise duty which have not been deposited on account of any dispute.
10. The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the financial year immediately preceding such financial year.
11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
12. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
14. 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.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
16. The Company did not have any term loans outstanding during the year.
17. According to the information and explanations given to us and on overall examination of the balance sheet of the Company, we report that the Company has used funds raised on short-term basis for long-term investment. The equity funds raised by the Company have been utilised towards long term investment. The amount outstanding to Biocon as on March 31, 2004 amounted to Rs 15,114,159.
18. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Act.
19. The Company did not have any outstanding debentures during the year.
20. The Company has not raised any money through a public issue during the year.
21. Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 2, 2004

BIOCON BIOPHARMACEUTICALS PRIVATE LIMITED

BALANCE SHEET -- MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 10)
SOURCES OF FUNDS			
Shareholders' Funds			
Share capital	3	8,800	100
		8,800	100
APPLICATION OF FUNDS			
Fixed Assets	2(a)		
Cost		92	-
Less: Accumulated depreciation		29	-
Net book value		63	-
Capital work in progress [including capital advances Rs 5,804 (2003 -- Rs Nil)]		27,468	-
		27,531	
Current Assets, Loans And Advances			
Cash and bank balances	4	2	100
		2	100
Less: Current Liabilities And Provisions	5	23,589	1,630
Net Current Liabilities		23,587	1,530
Expenditure Pending Allocation	2(b) & 6	-	1,630
Profit And Loss Account		4,856	-
		8,800	100

The accompanying notes 1 to 10 form an integral part of this balance sheet.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 2, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Bangalore
April 2, 2004

BIOCON BIOPHARMACEUTICALS PRIVATE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	April 1, 2003 to March 31, 2004	June 17, 2002 to March 31, 2003 (Note 10)
INCOME		-	-
		-	-
EXPENDITURE	2(e)		
Travel and conveyance		895	-
Rates and taxes		660	-
Legal and professional fees		273	-
Salaries, bonus and other benefits	2(c) & 2(d)	1,146	-
Directors sitting fees		40	-
Printing and Stationery		36	-
Depreciation	2(a)	29	-
Interest and bank charges (net of Rs 104, being capitalised)	2(f)	137	-
Miscellaneous expenses		10	-
		3,226	-
Loss for the year		3,226	-
Loss, beginning of the year/period		-	-
Adjustment for amortisation of expenditure pending allocation in accordance with the transitional provisions of AS 26	2(b) & 6	1,630	-
Loss, end of the year/period		4,856	-
Loss per Share (equity shares, par value of Rs 10 each)			
Basic and Diluted (in Rs)	2(g)	133.14	-
Weighted Average number of shares in computing earnings per share			
Basic and Diluted		24,235	10,000

The accompanying notes 1 to 10 form an integral part of this account.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
April 2, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Bangalore
April 2, 2004

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

1. Background

Biocon Biopharmaceuticals Private Limited ('the Company') was incorporated in India on June 17, 2002 primarily to carry on the business of manufacture and marketing a select range of biopharmaceutical and biotechnology products.

Biocon Limited (formerly Biocon India Limited) ('Biocon'), entered into a collaboration agreement with CIMAB SA, Cuba ('CIMAB') on February 22, 2002 to set up a joint venture Company to carry on the business of research, development, manufacturing and marketing of biopharmaceuticals. The equity participation by Biocon and CIMAB was agreed to be 51 per cent and 49 per cent respectively.

The Company received the approval from the Foreign Investment Promotion Board ('FIPB'), Government of India on February 26, 2003 for foreign equity participation of 49 per cent in the paid up capital of the Company in lieu of technology transferred to the Company. On April 18, 2003, Biocon acquired the shares from the subscribers to the memorandum and the Company issued further shares to Biocon and CIMAB resulting in equity participation of 51 per cent and 49 per cent, respectively.

The Company is in the development stage and, as at March 31, 2004, is in the process of setting up production facilities at Bommasandra, Bangalore. Biocon has acquired land at Bommasandra, part of which is proposed to be used by the Company.

2. Summary of significant accounting policies

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

a. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The Company capitalises all costs relating to the acquisition and installation of fixed assets. Fixed assets are depreciated pro rata to the period of use, on the straight-line method at the annual rates based on the estimated useful lives.

	Per cent
Computers	33.33

Assets costing less than Rs 5 are fully depreciated in the year of purchase.

b. Expenditure pending allocation

Consequent to the adoption of AS 26, as disclosed above, the Company has revised its accounting policy and has fully amortised the expenditure pending allocation at March 31, 2003. The change in the accounting policy has resulted in the expensing of Rs 1,630 relating to expenditure pending allocation at March 31, 2003 and, consequently, in accordance with the transitional provisions of AS 26, adjusted this amount to the accumulated losses at April 1, 2003.

c. Retirement benefits

The Company has schemes of retirement benefits for gratuity and superannuation, in respect of which, the Company's contributions are charged to the profit and loss account. The gratuity and superannuation fund benefits of the Company are administered by a trust formed for this purpose through the group gratuity and superannuation scheme with Birla Sun Life Insurance Company Limited ('Birla Sunlife'). In respect of gratuity, the liability is accrued based on an independent actuarial valuation at the year-end. In respect of superannuation, the Company has accrued the liability, based on the schemes of the Company.

d. Leave encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary.

e. Foreign currency transactions

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

f. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying fixed asset are capitalised as a part of the cost of the asset.

g. Loss per share

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

3. Share capital

	2004	2003
Authorised:		
1,000,000 (2003 -- 50,000) equity shares of Rs 10 each	10,000	500
Issued, subscribed and paid-up:		
880,000 (2003 -- 10,000) equity shares of Rs 10 each, fully paid	8,800	100

Of the above equity shares:

(i) Biocon holds 448,800 equity shares and CIMAB holds 431,200 equity shares of Rs 10 each, respectively.

(ii) On April 18, 2003, Ms Kiran Mazumdar-Shaw and Mr JMM Shaw, the subscribers to the memorandum, transferred 5,000 equity shares each of Rs 10 each to Biocon.

(iii) On March 30, 2004, 421,400 equity shares of Rs 10 each were allotted to CIMAB, as fully paid up shares, for consideration other than cash, in connection with the transfer of technology, pursuant to a joint venture agreement.

	2004	2003
4. Cash and bank balances		
Cash on hand	2	100
5. Current liabilities and provisions		
Capital creditors	4,502	-
Other liabilities	1,734	53
Balance in current account with bank represents book overdraft	2,239	-
Payable to Biocon	15,114	1,577
	23,589	1,630

The maximum amount outstanding during the year to Biocon was Rs 19,394 (2003 -- Rs 1,577).

There are no amounts due to small scale industrial undertakings.

6. Expenditure pending allocation	April 1, 2003 to March 31, 2004	June 17, 2002 to March 31, 2003
Travel and conveyance	-	1,534
Preliminary expenses	-	33
Audit fees	-	53
Miscellaneous expenses	-	10
	-	1,630

7. Related party transactions

Name of the related party	Description	April 1, 2003 to March 31, 2004	Balance as at March 31, 2004	June 17, 2002 to March 31, 2003	Balance as at March 31, 2003
Biocon Limited [Holding company, from April 18, 2003]	Interest expense	237	237	-	-
	Due to Biocon	19,157	14,877	-	-

	April 1, 2003 to March 31, 2004	June 17, 2002 to March 31, 2003
8. Supplementary profit and loss data		
a. Payments to Auditors (included in Legal and professional fees)		
Statutory audit	250	50
9. Capital Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	70,115	-

10. Prior-period comparatives

The financial statements as at March 31, 2003, have been reclassified, where necessary, to conform with the current period's presentation. The financial statements for the prior period are from the date of incorporation (June 17, 2002) to March 31, 2003 and are not comparable with the current year.

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President -- Group Finance

Bangalore
April 2, 2004

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(All amounts in Indian Rupees thousands, except share data including share price)

(a) Registration Details	
Registration No.	**030643**
State Code	**08**
Balance Sheet Date	**31-Mar-2004**
(b) Capital raised during the period	
Public issue	Nil
Right issue	Nil
Bonus issue	Nil
Private placement	8,700
(c) Position of Mobilisation and Deployment of Funds	
Total liabilities and shareholders funds	27,533
Total assets	27,533
Sources of funds	
Paid up capital	8,800
Application of Funds	
Net fixed assets	63
Capital work in progress	27,468
Net current liabilities	23,587
Profit and loss account	4,856
(d) Performance of the Company	
Turnover	-
Total expenditure	3,226
Loss before Tax	3,226
Loss after Tax	3,226
Loss per share in Rupees	133.14
Dividend rate	-
(e) Generic names of principal products of the Company	
Item Code No (ITC Code)	Not applicable.
Product Description	(Yet to commence production)

Biocon Limited and Subsidiaries INDIAN GAAP

AUDITORS' REPORT

To
The Board of Directors of Biocon Limited (formerly Biocon India Limited)

1. We have audited the attached consolidated balance sheet of Biocon Limited ('Biocon'), its subsidiaries, Syngene International Private Limited and Clinigene International Private Limited, and its joint venture company, Biocon Biopharmaceuticals Private Limited (together referred to as 'the Group' as described in Note 2(a)), as at March 31, 2004, the consolidated profit and loss account and the consolidated cash flow statement for the year then ended annexed thereto, prepared in accordance with accounting principles generally accepted in India. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the 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. We report that the consolidated financial statements have been prepared by the Group in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements, and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India and on the basis of the separate financial statements of Biocon and its aforesaid subsidiaries and joint venture company, included in the consolidated financial statements.

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

a. the consolidated balance sheet gives a true and fair view of the consolidated state of affairs of the Group as at March 31, 2004;

b. the consolidated profit and loss account gives a true and fair view of the consolidated results of the Group for the year then ended; and

c. the consolidated cash flow statement gives a true and fair view of the consolidated cash flows of the Group for the year then ended.

For S. R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner

Membership No: 93283

Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED BALANCE SHEET -- MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 28)
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	3	500,000	18,377
Reserves and surplus	2(a), 2(l) & 4	5,130,602	1,323,373
Less : Loan to Biocon India Limited Employee Welfare Trust ('the ESOP Trust')	20	(1,259)	(1,414)
		5,629,343	1,340,336
Minority Interest	5	21	11
Loan Funds			
Secured loans	6	472,255	582,109
Unsecured loans	7	174,657	103,545
		646,912	685,654
Deferred Tax Liability	2(j) & 8	176,680	143,057
		6,452,956	2,169,058
APPLICATION OF FUNDS			
Fixed Assets	2(b), 2(i), 2(k) & 9		
Cost		2,145,665	1,735,111
Less: Accumulated depreciation		538,293	375,982
Net book value		1,607,372	1,359,129
Capital work-in-progress [including capital advances of Rs 107,809 (2003 -- Rs 12,799)]		586,225	79,853
		2,193,597	1,438,982
Investments	2(e) & 10	221,342	50,001
Current Assets, Loans and Advances			
Inventories	2(c) & 11	856,558	479,055
Sundry debtors	12	1,188,421	753,302
Cash and bank balances	13	3,169,343	26,338
Loans and advances	14	226,992	151,009
		5,441,314	1,409,704
Less: Current Liabilities and Provisions	2(f), 2(g), 2(j) & 15	1,403,297	729,629
Net Current Assets		4,038,017	680,075
		6,452,956	2,169,058

The accompanying notes 1 to 28 form an integral part of this balance sheet.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

For and on behalf of the Board of Directors

Kiran Mazumdar-Shaw
Director

JMM Shaw
Director

Murali Krishnan K N
President - Group Finance

Ashok Bhandarkar
Company Secretary

Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 28)
INCOME			
Gross sales		5,309,108	2,746,409
Less: Excise duty		290,284	208,216
Net sales	2(d) & 2(h)	5,018,824	2,538,193
Contract research fees	2(d) & 2(h)	387,585	278,223
Other income	16	86,744	16,111
		5,493,153	2,832,527
EXPENDITURE			
Manufacturing,			
contract research and other expenses	2(f), 2(g), 2(h), 2(i), 2(l), 2(n) & 17	3,697,523	2,091,886
Interest and finance charges	2(k) & 19	16,091	49,811
		3,713,614	2,141,697
PROFIT BEFORE DEPRECIATION AND TAXES		1,779,539	690,830
Depreciation	2(b) & 9	164,498	139,098
Less: Amount transferred from revaluation reserve	2(b) & 4	1,670	1,667
		162,828	137,431
PROFIT BEFORE TAXES		1,616,711	553,399
Provision for income-tax			
Current taxes	2(j) & 22	196,716	83,846
Deferred taxes	2(j) & 8	33,623	34,398
PROFIT FOR THE YEAR		1,386,372	435,155
Minority interest	5	10	5
NET PROFIT FOR THE YEAR		1,386,362	435,150
Balance brought forward from previous year		647,336	212,186
PROFIT AVAILABLE FOR APPROPRIATION		2,033,698	647,336
Issue of bonus shares		431,624	-
Proposed dividend on equity shares		100,000	-
Tax on proposed dividend		12,813	-
Transfer to general reserve		249,345	-
BALANCE, END OF THE YEAR		1,239,916	647,336
Earnings per share (Par value of Rs 5)	2(m) & 21		
Basic (in Rs)		16.37	5.18
Diluted (in Rs)		15.95	5.02
Weighted average number of shares used in computing			
earnings per share -- Basic		84,691,111	83,974,925
earnings per share -- Diluted		86,945,082	86,601,599

The accompanying notes 1 to 28 form an integral part of this account.

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

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Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees thousands, except share data including share price)

	Notes	2004	2003 (Note 28)
I. CASH FLOWS FROM OPERATING ACTIVITIES :			
Net profit before tax		1,616,711	553,399
Adjustments for			
Less: Non cash item/items required to be disclosed separately			
Depreciation	163,659		137,431
Unrealised exchange (gain)/loss	(24,844)		(428)
Amortisation of employee compensation cost	19,934		33,864
Provision for bad and doubtful debts	11,348		4,609
Interest expense	25,103		53,053
Interest income (gross)	(10,288)		(4,328)
Dividend earned (gross)	(5,852)		-
Gain on sale of investment	(15)		(7)
Gain on assets sold	(571)		(1,705)
		178,474	222,489
Changes in working capital and other provisions			
Inventories	(377,503)		(236,404)
Sundry debtors	(469,192)		(111,376)
Loans and advances	(76,604)		(46,722)
Current liabilities and provisions (incl book overdraft)	606,207		213,218
		(317,092)	(181,284)
		(138,618)	41,205
Cash generated from operations		1,478,093	594,604
Tax paid (net of refunds)		(197,424)	(97,787)
Net cash provided by operating activities		1,280,669	496,817
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed assets			
Purchase	(927,735)		(407,700)
Sale	1,505		2,068
Interest received	10,909		2,080
Dividend received	5,852		-
Sale of investment	368,120		13
Purchase of investment	(539,445)		(50,000)
Net cash used for investing activities		(1,080,796)	(453,539)
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital	3,150,000		159
Share issue expenses	(151,411)		-
Proceeds from employees for share purchase through ESOP Trust	155		-
Short term borrowings, net	217,059		(32,885)
Repayment of secured loans	(337,549)		(403,946)
Receipt of secured loans	32,000		456,542
Deferred sales tax credit	71,112		47,512
Repayment of unsecured loans	-		(50,000)
Interest paid	(38,234)		(50,238)
Corporate dividend tax	-		(2,709)
Net cash used for financing activities		2,943,132	(35,565)
IV. NET CHANGE IN CASH AND CASH EQUIVALENTS (I+II+III)		3,143,005	7,713
V. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		26,338	18,625
VI. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (IV + V)		3,169,343	26,338

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

Prashant Singhal
Partner
Membership No: 93283

Bangalore
May 14, 2004

For and on behalf of the Board of Directors

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Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

(All amounts in Indian Rupees and US Dollars in thousands, except share data including share price)

1. Background

a. Incorporation and history

Biocon Limited (formerly Biocon India Limited) ('Biocon' or 'the Company'), promoted by Ms Kiran Mazumdar Shaw ('KMZ'), was incorporated at Bangalore in 1978 for manufacture of biotechnology products. On November 17, 2003, the name of the Company was changed from Biocon India Limited to Biocon Limited. Syngene International Private Limited ('Syngene') promoted by KMZ, was incorporated at Bangalore in 1993. At March 30, 2002, Biocon acquired 99.99 per cent of the equity shares of Syngene and, resultantly, the company became the subsidiary of Biocon. Clinigene International Private Limited ('Clinigene') was incorporated on August 4, 2000 at Bangalore and became a wholly owned subsidiary of Biocon on March 31, 2001.

Biocon entered into an Agreement on February 22, 2002 to set up a Joint Venture Company, with CIMAB SA ('CIMAB'), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of Biopharmaceuticals, to manufacture and market products using technology and to carry out research activities. Accordingly, Biocon Biopharmaceuticals Private Limited ('BBPL') was incorporated on June 17, 2002 and, on April 18, 2003, Biocon acquired a 51 per cent shareholding in BBPL.

In March 2004, the Company completed an Initial Public Offering ('IPO') and made a fresh issue of 10,000,000 equity shares of Rs 5 each at a price of Rs 315 per share. Consequently, on April 7, 2004, the equity shares of the Company were listed on the National Stock Exchange of India and The Stock Exchange, Mumbai.

Biocon, together with its subsidiaries, Syngene and Clinigene and the joint venture company, BBPL hereinafter is collectively referred to as 'the Group'.

b. Operations

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

During the year ended March 31, 2003, the Group expanded its operations through Syngene by almost doubling its capacity for undertaking contract research activities by commercialising its second 100 per cent Export Oriented Unit (approved by Cochin Export Processing Zone) at Bommasandra, Bangalore. The Group is making aggressive marketing efforts through Clinigene to sell clinical research and has recently set up a human pharmacology unit in association with a leading hospital in India to expand its clinical research activities.

2. Summary of significant accounting policies

a. Basis of presentation and consolidation

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting and to comply in all material respects with the generally accepted accounting principles in India including the mandatory accounting standards issued by the Institute of Chartered Accountants of India to reflect the financial position and the results of operations of Biocon together with its subsidiary companies, Syngene and Clinigene and joint venture company, BBPL.

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

The consolidated financial statements of the Group have been prepared based on a line-by-line consolidation of the balance sheet, statement of profit and loss and cash flows of Biocon, Syngene, Clinigene and BBPL as at March 31, 2004. In respect of the joint venture company, the Group applies the proportionate consolidation method. All material inter-company transactions and balances between the entities included in the consolidated financial statements have been eliminated.

In accordance with the "Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 (SEBI guidelines) issued by Securities and Exchange Board of India ('SEBI'), the Group has also consolidated the ESOP Trust. [Refer note 20].

The significant accounting policies adopted by the Group in respect of the consolidated financial statements are detailed as follows:

b. Fixed assets and depreciation

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

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

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

Goodwill is amortised over a period of 5 years and assessed for impairment at each balance sheet date.

Leasehold land on a lease-cum-sale basis are capitalised at the allotment rates currently charged by the Municipal Authorities. Leasehold improvements are being depreciated over the lease term.

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

Assets individually costing less than Rs 5 are fully depreciated in the year of purchase.

c. Inventories

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

d. Revenue recognition

i. Sale of pharmaceuticals, enzymes and compounds

Sales are recognised on despatch of goods to customers and are recorded net of excise duty, sales tax and other levies. For the purpose of disclosure in these consolidated financial statements, sales is reflected gross and net of excise duty in the consolidated profit and loss account.

ii. Contract research agreements

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

a. Time and material management

Revenues are recognised as services are rendered, in accordance with contractual agreements.

b. Fixed price arrangements

Revenues relating to fixed price contracts are recognised based on the percentage of completion method.

e. Investments

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

f. Retirement benefits

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

g. Leave encashment

Liability for leave encashment is in accordance with the rules of the Group and is provided on the basis of an actuarial valuation performed by an independent actuary. Upto March 31, 2003, the Group provided for leave encashment on a full liability basis. Had the Group followed its earlier accounting policy, the profit before tax for the year would have been lower by Rs 579.

h. Foreign currency transactions

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

i. Research and development costs

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

j. Income tax

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

k. Borrowing costs

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

l. Deferred employee stock compensation costs

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

m. Earnings per share

The earnings considered in ascertaining the Group's earnings per share comprise of the net profit after tax. The number of shares used in computing the basic earnings per share is the weighted average number of shares outstanding during the year and are adjusted for bonus shares and sub-division of shares for all years presented in these consolidated financial statements. The number of shares used in computing diluted earnings per share comprises the weighted average share considered for deriving basic earnings per share, and also the weighted average number of shares, if any which would have been issued on the conversion of all dilutive potential equity shares. The shares issued to the ESOP Trust have been considered as outstanding for basic earnings per share purposes, to the extent these shares have been allocated to the employees' pursuant to the ESOP scheme and are eligible for exercise. For dilutive EPS purpose, the shares, which are not yet eligible for exercise, have been considered as dilutive potential equity shares.

n. Operating lease

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

3. Share capital

	2004	2003
Authorised:		
120,000,000 (2003 -- 2,000,000 equity shares of Rs 10 each) equity shares of Rs 5 each	600,000	20,000
Issued, subscribed and paid-up:		
100,000,000 (2003 -- 1,837,650 equity shares of Rs 10 each, fully paid) equity shares of Rs 5 each, fully paid	500,000	18,377

(a) Of the above equity shares:

(i) 30,800 equity shares of Rs 100 each were allotted as fully paid bonus shares by capitalisation of general reserve in the year ended March 31, 1997.

(ii) 23,471 equity shares of Rs 100 each were allotted as fully paid-up shares in the year ended March 31, 2000 pursuant to a contract for consideration other than cash.

(iii) On October 8, 2001, Biocon issued 12,153 equity shares of Rs 100 each to the ESOP Trust under an Employee Stock Option Plan ('ESOP Plan') and the ESOP Trust acquired 350 equity shares of Rs 100 each from certain individuals.

(iv) On March 30, 2002, Biocon acquired 99.9 per cent equity in Syngene through the issue of 202,780 equity shares of Rs 10 each. The consideration was determined on the basis of a fair valuation, as approved by the statutory authorities in India. The related share premium at Rs 403.8 per equity share has been credited to share premium account.

(v) On May 9, 2002 Biocon has further issued 15,870 equity shares of Rs 10 each to the ESOP Trust under the ESOP Plan. The ESOP Trust on October 20, 2003 acquired 2,500 equity shares of Rs 10 each from certain individuals. The total shares issued to the Trust was 7,023,100 equity shares of Rs 5 each, of which grants have been made for 3,511,020 equity shares of Biocon under the ESOP Plan as at March 31, 2004 (Refer Note 20).

(vi) In March 2004, Biocon made an IPO of 10,000,000 fresh equity shares of Rs 5 each at a price of Rs 315 per share.

(b) The shareholders at the Extraordinary General Meeting ('EGM') of Biocon held on February 25, 2002, approved the sub-division of equity shares of face value of Rs 100 each into ten equity shares of face value of Rs 10 each. The Board of Directors in their meeting held on March 30, 2002 passed a resolution for effecting the sub-division. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 2,000,000 equity shares of Rs 10 each and the then issued, subscribed and paid-up capital of Rs 18,218 as at March 31, 2002 was divided into 1,821,780 equity shares of Rs 10 each.

(c) The shareholders at the EGM of Biocon held on November 11, 2003, approved the sub-division of equity shares of face value of Rs 10 each into 2 equity shares of Rs 5 each and increase in authorised capital from Rs 20,000 to Rs 600,000. Subsequent to this sub-division, the authorised equity share capital of Rs 20,000 has been divided into 4,000,000 equity shares of Rs 5 each and the issued, subscribed and paid -up capital of Rs 18,377 has been divided into 3,675,300 shares of Rs 5 each.

(d) Further, the shareholders at the EGM of Biocon held on November 11, 2003 approved the allotment of 86,324,700 equity shares of Rs 5 each as bonus shares in the ratio of 1 : 23.4877958 to the shareholders existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the profit and loss account of Rs 431,624.

4. Reserves and surplus	2004	2003
Capital Reserve	17,094	17,094
Revaluation Reserve		
Balance, beginning of the year	19,127	21,810
Less: Transfer on sale and disposal of land	1,549	1,016
Less: Transfer to profit and loss account	1,670	1,667
	15,908	19,127
Share Premium		
Balance, beginning of the year	339,889	339,889
Received during the year	3,100,000	-
Utilised towards the share issue expenses	(151,411)	-
	3,288,478	339,889
General Reserve		
Balance, beginning of the year	266,063	266,063
Add: Transfer from Profit and Loss Account	249,345	-
	515,408	266,063
Stock compensation adjustment (See note 2(l) & 20)		
Stock options outstanding	65,291	-
Additions during the year	32,115	65,291
Deletions during the year	(2,618)	-
Less: Deferred employee stock compensation expense	(40,990)	(31,427)
	53,798	33,864
Balance in profit and loss account	1,239,916	647,336
	5,130,602	1,323,373

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

(ii) Share premium includes an amount of Rs 81,881 received on the allotment of 202,780 equity shares of Rs 10 each on March 30, 2002 at a premium of Rs 403.8 per equity share.

(iii) Deferred employee stock compensation expense (See Note 20):

Stock compensation expense outstanding	31,427	65,291
Stock options granted during the year	32,115	-
Stock options cancelled/forfeited during the year	(2,618)	-
Stock compensation expense amortised during the year	(19,934)	(33,864)
Closing balance of deferred employee stock compensation expense	40,990	31,427

(iv) Biocon issued 86,324,700 bonus shares of Rs 5 each through capitalisation of the balance in the profit and loss account to the extent of Rs 431,624. [See note 3(d)]

5. Minority interest

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

The share of the net results of operations attributabe to the minority shareholders is as follows:	2004	2003
As per last balance sheet	11	6
Profit for the year	10	5
	21	11

6. Secured loans

	2004	2003
From banks		
Cash credit, packing credit, etc.	472,231	276,536
Term loans		
Payable within one year	24	139,234
Others	-	166,339
	472,255	582,109

(a) Cash credit, packing credit, etc

(i) On January 16, 2002, the Company renewed its total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs 130,000 (2003 -- Rs 130,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debts and carry an interest rate of 2.1 per cent per annum for foreign currency denominated loans and 7.5 to 12.25 per cent per annum for rupee loans. The amount outstanding as of March 31, 2004 is Rs Nil (2003 -- Rs 39,650) inclusive of foreign currency denominated loans of Rs Nil [2003 -- Rs 39,597 (US$ 834)].

(ii) On February 7, 2003, the Company renewed its total rupee and foreign currency denominated working capital facilities with Hongkong and Shanghai Banking Corporation ('HSBC') for Rs 175,000 (2003 -- Rs 175,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2 per cent per annum for foreign currency denominated loans and 6 to 15 percent per annum for rupee loans. The Company has utilised Rs 95,480 (2003 -- Rs 115,580) as of March 31, 2004 inclusive of foreign currency denominated loans of Rs 95,480 (US$ 2,200) [2003 -- Rs 90,256 (US$ 1,902)].

(iii) On February 25, 2003, the Company renewed its working capital facilities with Canara Bank ('CB') for Rs 130,000 (2003 -- Rs 130,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.1 per cent for foreign currency denominated loans and 8 to 11.75 per cent per annum for rupee loans. The Company has utilised Rs 116,443 (2003 -- Rs 121,306) as of March 31, 2004 inclusive of foreign currency denominated loans of Rs 116,417 (US$ 2,682)
[2003 -- Rs 117,436 (US$ 2,474)].

(iv) On June 30, 2003, the Company entered into a working capital facility with Export Import Bank (' EXIM Bank') for Rs 92,860 (US$ 2,000) (2003 -- Rs Nil). An additional facility of Rs 217,000 (US$ 5,000) was availed by the Company on January 17, 2004. These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.2 per cent. The Company has utilised Rs 260,308 (US$ 5,998) [2003 -- Rs Nil) as of March 31, 2004.

(b) Term loans

(i) On April 9, 1999, the Company entered into a term loan facility with EXIM bank for Rs 126,001 for funding its fixed asset acquisitions of the of the Submerged Fermentation Plant. These loans were repayable in 9 equal half yearly instalments commencing from December 10, 2000, and were secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 10.5 per cent per annum. The Company had a balance of Rs 42,001 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

(ii) On November 5, 1999, the Company entered into a term loan facility with EXIM bank of India for Rs 46,731 for funding its fixed assets acquisitions of the Plafractor Plant. These loans were repayable in 10 equal half yearly instalments commencing from December 10, 2000, secured by a charge on the fixed assets of the Company and carry an interest rate of 7 per cent per annum. The Company had a balance of Rs 22,738 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

(iii) On May 5, 1999, the Company entered into a term loan facility with SBI for Rs 50,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans were repayable in 60 equal monthly instalments commencing from December 2000, were secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 2.99 per cent per annum for foreign currency denominated loan and 13 per cent per annum for the rupee loan. The Company had a balance of Rs 26,667 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

(iv) On February 7, 2003, the Company renewed its rupee and foreign currency denominated term loan facility with HSBC for Rs 170,000 (2003 -- 170,000) for funding its fixed asset acquisitions during the year and fully utilised this facility. The instalments commencing from November 2002, were secured by a pari passu charge over the fixed assets of the Company and loan is repayable in 44 monthly instalments and carry an interest rate of 2.77

per cent per annum for foreign currency denominated loans and 6.6 per cent per annum for rupee loans. The Company had a balance of Rs 149,167 drawn but not due as of March 31, 2003, which was paid off in full during the year ended March 31, 2004.

The security of the Company's assets and the personal guarantee of the Managing Director created in connection with the term loans were satisfied/released by the Company, where applicable, during the year ended March 31, 2004.

(v) On July 3, 2002, the Company entered into a term loan facility with Technology development Board ('TDB') for Rs 100,000 for funding its fixed asset acquisitions of the PlaFractor plant. These loans repayable in half yearly instalments commencing from February 2004, were secured by a first pari passu mortgage and charge on the fixed assets of the Company and carry an interest rate of 5 per cent per annum. The Company had drawn upto Rs 97,000 (2003 -- Rs 65,000) from the above facility, and the Company has made an early repayment of the loan to the extent of Rs 96,976 as at March 31, 2004 and the balance was repaid in May 2004.

7. Unsecured loans	2004	2003
Deferred payment liability	174,657	103,545

(i) Under the Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 8 years with respect to sales from its Bommasandra manufacturing facility of the Company. Under the Order, the deferment amount should not exceed Rs 24,375, of which at March 31, 2004, the Company had utilised Rs 893 (2003 -- Rs 864).

(ii) Under the Agro Food Processing Industrial Policy of the Government of Karnataka, the Company on November 18, 2000 obtained an order from Karnataka Sales Tax Authority for allowing deferment of sales tax (including turnover tax) for a period upto 12 years with respect to sales from Hebbagodi manufacturing facility of the Company. Under the order, the deferment amount should not exceed Rs 648,938 of which at March 31, 2004, the Company had utilised Rs 173,764 (2003 -- 102,682).

8. Deferred tax liability

	Deferred tax (asset)/liability as at April 1, 2003	Current year charge/(credit)	Deferred tax (asset)/liability as at March 31, 2004
Depreciation	155,944	40,806	196,750
Employee retirement benefits	(5,989)	(3,157)	(9,146)
Disallowance under section 43B	(5,510)	(4)	(5,514)
Provision for doubtful debts	(1,653)	(3,643)	(5,296)
Others	265	(379)	(114)
	143,057	33,623	176,680
Previous year	108,658	34,399	143,057

(I) On August 26, 2003 Biocon received approval from the Cochin Special Economic Zone for the setting up of a 100 per cent Export Oriented Unit for the manufacture and export of all types of statins on which, Biocon claims deduction under section 10B of the Income-tax Act, 1961 ('IT Act'). The Company has another EOU which was set up in 2000, on whose profits the Company is eligible to claim deduction under 10B of the IT Act.

In accordance with the provisions of section 10B of the IT Act, Biocon can avail of a tax deduction in respect of 100 per cent of all export income derived from the export sales arising from both the units. Accordingly, Biocon has not recognised any additional deferred tax liabilty for these EOUs as it expects the timing differences originating in this period to reverse out during the tax holiday period.

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

(iii) During the year ended March 31, 2004, Clinigene obtained an approval from the Department of Scientific and Industrial Research for deduction of profits under section 80-IB (8A) of the IT Act. Further, during the year, the Clinigene has incurred book losses of Rs 18,331 resulting in a tax loss carry-forward situation. Based on the above, Clinigene has not recognized the net deferred tax asset resulting from the tax loss carry forward as at March 31, 2004, as currently, although Clinigene is confident of achieving profitablility, there is no virtual certainty that it would reverse the tax loss carry forwards.

9. Fixed assets

	Balance, beginning of year	Additions/charge	Deletions/ Adjustments	Balance, end of the year
Cost/Valuation				
Goodwill	312	831	-	1,143
Land				
Freehold (revalued)	9,844	-	877	8,967
Freehold (others)	13,701	28,818	460	42,059
Leasehold	64,338	105,612	-	169,950
Buildings (revalued)	17,575	-	1,014	16,561
Buildings (others)	305,318	44,471	965	348,824
Leasehold improvements	-	1,857	-	1,857
Plant and machinery	1,158,103	136,090	46	1,294,147
Research and development equipment	133,103	78,226	-	211,329
Furniture and fixtures	24,240	19,319	-	43,559
Vehicles	8,577	-	1,308	7,269
	1,735,111	415,224	4,670	2,145,665
Previous year	1,363,556	372,934	1,379	1,735,111
Accumulated depreciation				
Goodwill	312	831	-	1,143
Buildings (revalued)	8,292	1,670	342	9,620
Buildings (others)	37,308	13,842	529	50,621
Leasehold improvements	-	76	-	76
Plant and machinery	284,513	124,874	8	409,379
Research and development equipment	33,377	16,876	-	50,253
Furniture and fixtures	9,137	4,915	-	14,052
Vehicles	3,043	1,414	1,308	3,149
	375,982	164,498	2,187	538,293
Previous year	236,884	139,098	-	375,982
Net book value				
Goodwill	-			-
Land				
Freehold (revalued)	9,844			8,967
Freehold (others)	13,701			42,059
Leasehold	64,338			169,950
Buildings (revalued)	9,283			6,941
Buildings (others)	268,010			298,203
Leasehold improvements	-			1,781
Plant and machinery	873,590			884,768
Research and development equipment	99,726			161,076
Furniture and fixtures	15,103			29,507
Vehicles	5,534			4,120
	1,359,129			1,607,372
Previous year	1,126,672			1,359,129

(a) Biocon acquired 100 per cent shareholding in Clinigene on March 31, 2001, at a consideration of Rs 500. As of March 31, 2001, the net assets of Clinigene were Rs 188,385 resulting in a goodwill of Rs 312. The goodwill was fully amortised during the year ended March 31, 2001.

(b) Biocon acquired 51 per cent shareholding in BBPL on April 18, 2003, at a consideration of Rs 102. As of April 18, 2003, Biocon's share of the negative net worth of BBPL was Rs 729 resulting in a goodwill of Rs 831. The goodwill was fully amortised during the year ended March 31, 2004.

(c) Certain freehold land and buildings were revalued on November 1, 1994, based on the estimated replacement cost after considering depreciation upto that date, as per valuers reports and the resultant surplus of Rs 34,529 was credited to revaluation reserve. Of this reserve, Rs 18,621 (2003 -- Rs 15,402) has been transferred to the profit and loss account for depreciation on these assets or adjusted on the sale of these assets.

(d) The Group has capitalised net foreign exchange gain of Rs 1,761(2003 -- Rs 275) during the year and adjusted net foreign exchange loss amounting to Rs 1,674 (2003 -- Rs Nil) in capital work-in-progress.

(e) During the year, the Group has capitalised borrowing costs identifiable to qualifying assets of Rs 7,087 (2003 -- Rs 1,664), currently reflected as capital work-in-progress.

(f) On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted land aggregating 26.75 acres to the Company for Rs 64,200 on a lease-cum sale basis for a period of 6 years. Further, during the year the Company has acquired an additional 41.25 acres of land for Rs 99,417 from KIADB. The same is reflected at the current allotment rate, the final amount to be determined by KIADB on the completion of six years on fulfillment of certain conditions. One of the key conditions include commencement of commercial operations by the Company within 24 months of possession ie December 2002. The Company is confident of fulfilling this condition.

(g) During the year, the Company has acquired 11.8 acres of freehold land from Kiran Mazumdar Shaw, the Managing Director, which was earlier leased to the Company, at an aggregate cost of Rs 24,926.

(h) As per the Retirement Benefit Scheme framed by the Company for senior executives, certain employees completing 12 years of service have an option to buy the Company's apartments for a consideration to be fixed by the Company. During the year, the Company has transferred an apartment to an eligible employee at the prevailing market value.

10. Investments (At cost)

	2004	2003
Long term investments		
Non trade:		
Unquoted		
2,000 (2003 -- 2000) equity shares of Rs 100 each of Xcyton Diagnostics Limited, fully paid	200	200
Less: Provision for other than temporary dimunition in value	200	200
	-	-
National Savings Certificates	13	1
	13	1
Current and unquoted (at lower of cost and fair market value)		
5,000,000 units (2003 -- 5,000,000) of Rs 10 each in IL&FS Fixed Maturity Plan	-	50,000
[Market Value Rs. 50,653 (2003 -- Rs 50,087)]		
1,477,110.536 units (2003 -- Nil) of Rs 10 each in Reliance Mutual Fund	15,252	-
[Market Value Rs 15,252 (2003 -- Rs Nil)]		
5,017,850 units (2003 -- Nil) of Rs 10 each in Reliance Fixed Term Scheme	50,179	-
[Market Value Rs 50,323 (2003 -- Rs Nil)]		
2,836,074.976 units (2003 -- Nil) of Rs 10 each in LIC Mutual Fund	30,480	-
[Market Value Rs 30,563 (2003 -- Rs Nil)]		
4,500,000 units (2003 -- Nil) of Rs 10 each in JM Mutual Fund - FMP	45,000	-
[Market Value Rs 45,118 (2003 -- Rs Nil)]		
1,371,611.256 units (2003 -- Nil) of Rs 10 each in TATA Mutual Fund	15,252	-
[Market Value Rs 15,252 (2003 -- Rs Nil)]		
1,960,651.175 units (2003 -- Nil) of Rs 10 each in HSBC Mutual Fund	19,973	-
[Market Value Rs 19,976 (2003 -- Rs Nil)]		
2,018,578.366 units (2003 -- Nil) of Rs 10 each in Alliance Manager Fund	20,186	-
[Market Value Rs 20,186 (2003 -- Rs Nil)]		
1,500,000 units (2003 -- Nil) of Rs 10 each in Grindlays Fixed Term Scheme	15,000	-
[Market Value Rs 15,000 (2003 -- Rs Nil)]		
941,229.601 units (2003 -- Nil) of Rs 10 each in HDFC Cash Management	10,007	-
[Market Value Rs 10,007 (2003 -- Rs Nil)]		
	221,329	50,000
Aggregate amount of unquoted investments	221,342	50,001

The following investments were purchased and sold during the period from April 1, 2003 to March 31, 2004:	Purchase	Sale
13,456,605 units of Rs 10 each in HSBC - Cash Fund	137,093	137,093
11,000,000 units of Rs 10 each in Reliance Mutual Fund	110,000	110,000
Purchase of 8,142.207 units of Rs 1,244.429 each in Franklin Templeton Investment Fund	10,132	10,132
(Sale of 8,142.207 units of Rs 1,244.3650 each)		
Purchase of 1,402,953.749 units of Rs 10.7667 each in ING Vysya Mutual Fund (Sale of 1,402,953.749 units of Rs 10.7740 each in ING Vysya Mutual Fund)	15,105	15,115
Purchase of 3,560,757 units of Rs 10.022 each in JM Mutual Fund (Sale of 3,560,757 units of Rs 10.025 each in JM Mutual Fund)	35,686	35,695
Purchase of 1,004,069 units of Rs 10.047 each in Canara Bank Mutual Fund (Sale of 1,004,069 units of Rs 10.044 each in Canara Bank Mutual fund)	10,088	10,085

11. Inventories

	2004	2003
Raw materials	458,975	250,104
Goods-in-bond / goods-in-transit	42,627	16,803
Packing materials	2,244	1,446
Work-in-progress	335,329	198,608
Finished goods	17,383	12,094
	856,558	479,055

12. Sundry debtors (unsecured)

	2004	2003
Debts outstanding for a period exceeding six-months		
Considered good	16,095	38,519
Considered doubtful	15,957	4,609
Other debts		
Considered good	1,172,326	714,783
	1,204,378	757,911
Less: Provision for doubtful debts	15,957	4,609
	1,188,421	753,302

13. Cash and bank balances	2004	2003
Cash on hand	506	187
Balances with scheduled banks:		
In current accounts	14,634	1,141
In exchange earners foreign currency account	-	10
In deposit accounts	4,203	25,000
Deposit amount of unutilised IPO funds	3,150,000	-
	3,169,343	26,338

The proceeds of the IPO funds are placed in short term deposits ranging from 7 days to 14 days, with four banks and is a restricted cash and bank balance as at March 31, 2004.

Deposit account includes a deposit made of Rs 12,000 (2003 -- Rs 10,000) under the flexi-deposit account allowing Syngene to avail overdraft facility upto Rs 12,000 (2003 -- Rs 10,000) at an interest rate of 2 per cent above the fixed deposit rate. Syngene has drawn Rs 19,774 (2003 -- Rs Nil) against this facility as at March 31, 2004. The book overdraft, net of deposit is disclosed under current liabilities.

14. Loans and advances (Unsecured and considered good)	2004	2003
Advances recoverable in cash or in kind or for value to be received	54,527	52,099
Deposits	31,899	20,414
Balances with Customs and Excise Authorities	140,566	78,496
	226,992	151,009

Deposits include Rs Nil (2003 -- Rs 9,600) paid to Ms Kiran Mazumdar Shaw, Managing Director, towards security deposit for lease of land. The maximum amount due at any time during the year was Rs 9,600 (2003 -- Rs 9,600) (Refer Note 23)

15. Current liabilities and provisions	2004	2003
Sundry creditors	1,030,082	555,502
Advances from customers	36,699	27,656
Balance in current account with bank represents book overdraft	2,799	352
Interest accrued but not due	224	6,268
Other liabilities	181,812	105,831
	1,251,616	695,609
Proposed dividend	100,000	-
Tax on proposed dividend	12,813	-
Provision for employee retirement benefits	1,614	1,152
Provision for leave encashment	33,655	28,561
Provision for taxation, net of advance tax	3,599	4,307
	151,681	34,020
	1,403,297	729,629

Other liabilities include Rs 93 (2003 --Rs 970) due to Ms Kiran Mazumdar Shaw, Managing Director and Rs Nil (2003 -- Rs 687) to Mr. JMM Shaw, Director. The maximum amount outstanding at any time during the year was Rs 2,745 (2003 -- Rs 1,085) and Rs 3,528 (2003 -- Rs 1,500) respectively.

16. Other income

	2004	2003
Interest income from investments (Gross) [tax deducted at source Rs 300 (2003 -- Rs 318)]	1,275	2,751
Dividend income	5,852	-
Exchange gain (net)	29,500	8,669
Gain on forward cover contracts, net	44,582	365
Gain on fixed assets/investments sold, net	586	1,705
Miscellaneous income	4,949	2,621
	86,744	16,111

17. Manufacturing, contract research and other expenses

		2004	2003
Raw materials consumed, net of duty drawback of Rs 43,901 (2003 -- Rs 18,200)		2,776,483	1,366,978
Purchase of goods for resale		3,311	11,267
Employee costs			
Salaries, wages, bonus, etc	361,093		268,996
Group's contribution to provident and other fund	14,449		11,181
Gratuity, superannuation, leave encashment	31,199		44,785
Employee stock compensation expense (See Note 2 (a), 4 & 20)	19,934		33,864
Directors sitting fees	169		48
Welfare expenses	30,639		22,862
		457,483	381,736
Operation and other expenses:			
Royalty and technical fees	-		38,458
Rent	2,521		2,670
Communication expenses	17,794		14,140
Travelling and conveyance	43,052		38,489
Professional charges	38,934		22,825
Power and fuel	177,219		133,588
Insurance	18,129		8,827
Rates, taxes and fees	10,759		3,147
Lab consumables	23,232		10,869
Repairs and maintenance			
Plant and machinery	62,005		43,528
Buildings	22,696		10,029
Others	30,171		19,308
Selling expenses			
Freight outwards and clearing charges	25,892		15,824
Sales promotion expenses	20,898		17,157
Commission and brokerage	39,734		17,918
Bad debts written off	5,660		-
Provision for bad and doubtful debts	11,348		4,609
Printing and stationery	10,477		8,186
Miscellaneous expenses	41,735		23,535
		602,256	433,107
(Increase)/decrease in inventories of finished goods and work-in-progress:			
Opening inventories:			
Finished goods	12,094		9,294
Work-in-progress	198,608		100,206
	210,702		109,500
Closing inventories:			
Finished goods	(17,383)		(12,094)
Work-in-progress	(335,329)		(198,608)
	(352,712)		(210,702)
		(142,010)	(101,202)
		3,697,523	2,091,886

18. Research and development expenses

Research and development expenses aggregating Rs 233,372 (2003 -- Rs 114,241) includes Rs 78,226 (2003 -- Rs 34,282) on research and development equipment and Rs 11,716 (2003 -- Rs Nil) on buildings and the remaining expenses incurred by the Company have been disclosed under the appropriate account heads.

19. Interest and finance charges

	2004	2003
Interest paid on :		
Term loans	12,985	26,702
Others	8,454	19,290
	21,439	45,992
Less : Interest received from suppliers	(9,012)	(1,577)
Less : Interest capitalised [See Note 2 (k) & 9(e)]	(7,087)	(1,664)
	5,340	42,751
Bank charges	10,751	7,060
	16,091	49,811

20. Employee stock compensation

On September 27, 2001, Biocon's Board of Directors approved the Biocon Employee Stock Option Plan ('ESOP Plan 2000') for the grant of stock options to the employees of the Group. A compensation committee has been constituted to administer the plan through the ESOP Trust.

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from Biocon and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 250,000 equity shares (pre-bonus and pre-split) of Rs 10 each and shares transferred to each employee will not exceed 10,000 equity shares (pre-bonus and pre-split) of Rs 10 each. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares. The Compensation Committee had granted 71,510 options under the ESOP Plan 2000 to be exercised at a grant price of Rs 10 (pre-bonus and pre-split). The options will vest with the employees equally over a four year period from the grant date. In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the ESOP Trust.

Further, during the year the Compensation Committee has granted 142,100 options under the ESOP Plan 2000 effective January 1, 2004 to be exercised at a grant price of Rs 5. The options will vest with the employees equally over a four year period from the grant date.

On January 16, 2004, the Borad of Directors announced the Biocon Employees Stock Option Plan (ESOP Plan 2004) for the grant of stock options to the employes of the Company, pursuant to which, the Compensation Committee on March 19, 2004 granted 422,000 options under the ESOP Plan 2004 to be exercised at a grant price of Rs 315 being the issue price determined for the IPO through the book building process. The options will vest with the employees equally over a four year period from the grant date.

The Securities and Exchange Board of India ('SEBI') has issued the Employee Stock Option Scheme and Stock Purchase Guidelines, 1999 ('SEBI guidelines') which are applicable to stock option schemes for employees of all listed companies. Biocon, though not listed has followed these guidelines for accounting of ESOP costs [Refer Note 2(a)]. In accordance with these guidelines, the excess of market price of the underlying equity shares on the date of the grant of the stock options over the exercise price of the options is to be recognised in the books of account and amortised over the vesting period. For basic EPS purposes, the shares outstanding including the options exercised by the employees have been considered [Refer Note 2(m)]. For diluted EPS purpose, the shares, which are not yet eligible for exercise, have also been considered as outstanding to the extent these shares are diluted. The loan granted to the ESOP trust has been presented as a separate component of shareholders' funds.

The Trust had 6,181,186 equity shares of Rs 5 each (2003 -- 140,900) equity shares of Rs 10 each(pre-bonus and pre-split) as at March 31, 2004 and a summary of the activity of the Trust is as follows:

Particulars	2004 (Equity shares of Rs 5 each post subdivision and bonus issue)	2003 (Equity shares of Rs 10 each)
Opening balance of equity shares not granted to employees and available with the Trust	3,398,402	125,030
Add: Acquired by the Trust	122,438	15,870
Less: Options granted during the year	(564,100)	(71,510)
Add: Options cancelled and lapsed	125,500	-
Closing balance of shares not granted to employees and available with the Trust	3,082,240	69,390
Options granted and exercised at year end	841,914	-
Options granted and eligible for exercise at year end	844,975	17,878
Options granted but not eligible for exercise at year end	2,253,971	89,388
Total compensation cost as at year end	97,406	65,291
Vesting period of options		
-- Primarily progressively over four years		
Employee stock compensation expense		
-- Amortised during the year	19,934	33,864

The estimated fair values of the equity shares have been determined by management on the dates of the grants for ESOP 2000 based on a valuation by an independent appraiser. As per the terms of the ESOP Plan 2004, the exercise price equals the price determined for the IPO through the book building process for the options granted on March 19, 2004. Accordingly no compensation cost has been recorded, as the exercise price equals the fair value of the shares on the date of the IPO.

21. Reconciliation of basic and diluted shares used in computing earning per share	2004	2003
Basic weighted average shares outstanding	84,691,111	83,974,925
Add: Effect of dilutive shares not eligible for exercise under ESOP	2,253,971	2,626,674
Weighted average shares outstanding and potential shares outstanding	86,945,082	86,601,599

22. Current taxes

The current tax charge of Rs 196,716 (2003 -- Rs 83,846) is based on the earnings for the year ended March 31, 2004.

23. Related party transactions

Sl No	Name of the related party	Relationship	Description	April 1, 2003 to March 31, 2004	Balance as at March 31, 2004 (Payable) /receivable	April 1, 2002 to March 31, 2003	Balance as at March 31, 2003 (Payable) /receivable
1	Kiran Mazumdar Shaw	Managing Director	Rent expense	720	-	960	-
			Lease deposit paid/(received)	(9,600)	-	-	9,600
			Salary and perquisites	10,859	(93)	10,187	(970)
			Land purchased	24,926	-	-	-
2	JMM Shaw	Director	Salary and perquisites	9,732	-	9,217	(687)

24. Commitments

	2004	2003
(a) Capital commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for, net of advances	1,320,425	259,014
(b) Operating lease commitments		
(i) Rent : Land The Company had entered into a lease agreement for land. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs 720 (2003 -- Rs 960). However, the Company has, on December 23, 2003 acquired the land and there are no committed lease rentals in future towards the lease of such land.		
(ii) Rent : Office space Clinigene has entered into a lease agreement which expires in 2008. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs 120 (2003 -- Rs Nil). The committed lease rental in the future are:		
Not later than one year	570	-
Later than one year and not later than five years	2,250	-
(iii) Vehicles : The Group has taken vehicles for certain employees under operating leases, which expire in August 2007. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs 1,814 (2003 -- Rs 220). The committed lease rental in the future are:		
Not later than one year	1,833	716
Later than one year and not later than five years	4,170	2,152

25. Contingent liabilities

	2004	2003
(a) Taxation matters under appeal	7,631	7,631
(b) Corporate guarantees		
(i) Corporate guarantee given by Biocon in favour of CED in respect of certain performance obligations of Syngene.	80,000	80,000
(ii) Corporate guarantee given by Syngene in favour of CED in respect of certain performance obligations of Biocon.	165,000	15,000
The Group is informed that the necessary terms and conditions have been complied with and no liability has arisen.	245,000	95,000
(c) Claims against the Group not acknowledged as debts	2,170	2,374

26. Segmental information

Business segments

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

April 1, 2003 to March 31, 2004

Particulars	Enzyme	Pharma	Contract Research	Joint Venture	Unallocated	Eliminations	Total
Revenues							
External sales	665,164	4,353,660	387,585	-	-	-	5,406,409
Inter-segment transfers	35,832	-	-	-	-	(35,832)	-
Total revenues	700,996	4,353,660	387,585	-	-	(35,832)	5,406,409
Costs							
Segment costs	(419,478)	(2,544,440)	(224,534)	-	-	-	(3,188,452)
Inter-segment transfers	-	(35,832)	-	-	-	35,832	-
Result							
Segment result	281,518	1,773,388	163,051	-	-	-	2,217,957
Corporate expenses	-	-	-	(1,561)	(507,510)	-	(509,071)
Other income	-	-	-	-	85,469	-	85,469
Interest income	-	-	-	-	1,275	-	1,275
Operating profit							1,795,630
Depreciation	(18,602)	(62,570)	(23,452)	(15)	(58,189)	-	(162,828)
Interest expense	-	(7,843)	(412)	(70)	(7,766)	-	(16,091)
Income taxes - Current and deferred	-	-	-	-	(230,339)	-	(230,339)
Minority Interest	-	-	-	-	(10)	-	(10)
Net profit							1,386,362
Other information							
Segment assets	508,741	3,110,415	468,651	14,042	-	-	4,101,848
Unallocated corporate assets	-	-	-	-	3,754,405	-	3,754,405
Total assets							7,856,253
Segment liabilities	77,843	848,304	132,922	(12,030)	-	-	1,047,039
Unallocated corporate liabilities	-	-	-	-	1,179,849	-	1,179,849
Total liabilities							2,226,888
Capital expenditure	19,858	22,457	21,697	47	351,165	-	415,224

April 1, 2002 to March 31, 2003

Particulars	Enzyme	Pharma	Contract Research	Joint Venture	Unallocated	Eliminations	Total
Revenues							
External sales	531,634	2,006,559	278,223	-	-	-	2,816,416
Inter-segment transfers	55,497	-	-	-	-	(55,497)	-
Total revenues	587,131	2,006,559	278,223	-	-	(55,497)	2,816,416
Costs							
Segment costs	(355,347)	(1,140,335)	(169,990)	-	-	-	(1,665,672)
Inter-segment transfers	-	(55,497)	-	-	-	55,497	-
Result							
Segment result	231,784	810,727	108,233	-	-	-	1,150,744
Corporate expenses	-	-	-	-	(426,214)	-	(426,214)
Other income	-	-	-	-	13,360	-	13,360
Interest income	-	-	-	-	2,751	-	2,751
Operating profit							740,641
Depreciation	(17,971)	(59,949)	(17,260)	-	(42,251)	-	(137,431)
Interest expense	-	(15,097)	-	-	(34,714)	-	(49,811)
Income taxes - Current and deferred	-	-	-	-	(118,244)	-	(118,244)
Minority interest	-	-	-	-	(5)	-	(5)
Net profit							435,150
Other information							
Segment assets	479,692	1,827,845	173,560	-	-	-	2,481,097
Unallocated corporate assets	-	-	-	-	417,590	-	417,590
Total assets							2,898,687
Segment liabilities	6,438	326,722	64,724	-	-	-	397,884
Unallocated corporate liabilities	-	-	-	-	1,160,456	-	1,160,456
Total liabilities							1,558,340
Capital expenditure	63,720	111,552	74,049	-	123,612	-	372,933

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Group comprise export sales and contract research fees contributing to approximately 63 per cent (2003 -- 48 per cent). The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Group's sale by geographical markets

Revenues, net	2004	2003
India	2,011,094	1,461,557
Exports (on FOB basis)	3,395,315	1,354,859
Total	5,406,409	2,816,416

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

	Carrying amount of segment assets	
	2004	2003
India	7,195,006	2,637,824
Outside India	661,246	260,863
	7,856,252	2,898,687

Carrying amount of segment assets outside India represents receivables from export sales.

Segment revenue and result

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

Inter-segment transfers

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

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments and current assets. Segment liabilities comprise of loan funds which can be identified directly against the respective segments and includes segment current liabilities and provisions. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

27. Interest in Joint Venture

Biocon has a 51 per cent interest in the assets, liabilities and expenses of BBPL, which is yet to commence operations. Biocon's share of the assets and liabilities of the jointly controlled entity have been consolidated on a line by line basis. The summary of proportionate assets and liabilities consolidated with financial statements of the Group are as follows:

Proportionate assets and liabilities	March 31, 2004
Fixed assets	
Cost	47
Less: Accumulated depreciation	15
Net book value	32
Capital work in progress, including capital advances	14,009
	14,041
Current assets, loans and advances	
Cash and bank balances	1
Less: Current liabilities and provisions	12,030
Net current liabilities	(12,029)
Accumulated losses	2,476
Share capital	4,488

Current liabilities and provisions include
Biocon's share in advances given to BBPL aggregating Rs 7,708.

Proportionate expenses for the period April 18, 2003 to March 31, 2004	
Expenditure	
Manufacturing, contract research and other expenses	1,631
Depreciation	15
	1,646

28. Prior year comparatives

The financial statements for the year ended March 31, 2003, which are presented for comparative purposes, have been reclassified to conform with current year's presentation, wherever applicable.

For and on behalf of the Board of Directors

Kiran Mazumdar Shaw Director	JMM Shaw Director
Murali Krishnan K N President - Group Finance	Ashok Bhandarkar Company Secretary

Bangalore
May 14, 2004

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Biocon Limited and Subsidiaries US GAAP

REPORT OF INDEPENDENT AUDITORS

To
The Board of Directors and Stockholders of Biocon Limited (formerly Biocon India Limited):

We have audited the accompanying consolidated balance sheets of Biocon Limited (formerly Biocon India Limited), a company incorporated in India, and its subsidiaries (collectively referred to as the 'Group') as of March 31, 2004 and 2003, and the consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our 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 mis-statement. 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 consolidated financial position of the Group as of March 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young

Bangalore, India
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands of Indian Rupees and US Dollars, except share data including share price)

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
ASSETS			
Current assets			
Cash and cash equivalents	349	15,139	1,338
Marketable securities, available for sale	5,102	221,414	50,000
Time deposits	-	-	5,000
Restricted time deposits	72,677	3,154,203	20,000
Trade receivables, net	27,383	1,188,421	753,302
Employee receivables	144	6,263	6,212
Inventories	19,736	856,558	479,055
Deferred income taxes, net	335	14,557	6,789
Other current assets	4,694	203,713	116,931
Total current assets	130,420	5,660,268	1,438,627
Non-current assets			
Goodwill	507	22,002	22,002
Property, plant and equipment, net	49,325	2,140,685	1,392,625
Due from related party	-	-	9,600
Employee receivables	362	15,731	15,121
Other non current assets	38	1,644	3,145
TOTAL ASSETS	180,652	7,840,330	2,881,120
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	27,647	1,199,865	661,332
Advance from customers	845	36,699	27,656
Short term borrowings	10,945	475,030	276,888
Current portion of long term debt	1	24	139,234
Accrued employee benefits	826	35,844	29,713
Income taxes payable	83	3,599	4,307
Other current liabilities	5	224	6,267
Total current liabilities	40,352	1,751,285	1,145,397
Non-current liabilities			
Long term debt	-	-	166,339
Deferred income taxes, net	5,051	219,239	143,750
Deferred sales taxes liability	4,024	174,657	103,545
TOTAL LIABILITIES	49,427	2,145,181	1,559,031
Stockholders' equity (Refer to Note 16)			
Common stock (Authorised share capital 120,000,000 (2003 – 120,000,000) equity shares of Rs. 5 each), issued and outstanding 100,000,000 (2003 – 90,000,000) equity shares of Rs. 5 each)	11,521	500,000	18,377
Additional paid-in capital	77,333	3,356,261	375,540
Deferred compensation cost	(944)	(40,990)	(31,427)
Loan to ESOP Trust	(29)	(1,259)	(1,414)
Retained earnings	43,344	1,881,137	961,013
Total stockholders' equity	131,225	5,695,149	1,322,089
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	180,652	7,840,330	2,881,120

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

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED STATEMENTS OF INCOME

(All amounts in thousands of Indian Rupees and US Dollars, except share data including share price)

	Year ended March 31, 2004 In US$ (Refer Note 2.2)	Year ended March 31, 2004 In Rs.	Year ended March 31, 2003 In Rs.
Revenues			
Sale of products, net of excise duty of Rs. 290,284 (2003 – Rs. 208,216) and sales tax of Rs. 90,374 (2003 -- Rs. 63,077)	115,641	5,018,824	2,538,193
Contract research services	8,931	387,585	278,223
Total revenues	124,572	5,406,409	2,816,416
Cost of revenues (excluding depreciation shown separately below)			
Cost of products sold	68,293	2,963,917	1,489,050
Cost of contract research services	5,280	229,151	178,500
Gross profit	50,999	2,213,341	1,148,866
Operating expenses			
Research and development expenses	3,043	132,065	79,957
Selling, general and administrative expenses	8,616	373,956	332,927
Depreciation	3,656	158,648	133,958
Income from operations	35,684	1,548,672	602,024
Interest expense	371	16,091	50,689
Interest income	(29)	(1,275)	(2,751)
Other (income) / expense, net	(1,971)	(85,555)	(13,359)
Losses in joint venture	74	3,227	-
Income before income taxes	37,239	1,616,184	567,445
Provision for income taxes	6,093	264,437	123,110
Net income	31,146	1,351,747	444,335
Basic earnings per share (in US$, Rs.)	0.37	15.96	5.29
Diluted earnings per share (in US$, Rs.)	0.36	15.55	5.13
Weighted average number of common shares used in computing earnings per share (Refer to Note 17)			
Basic earnings per share	84,691,111	84,691,111	83,974,925
Diluted earnings per share	86,945,082	86,945,082	86,601,599

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

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(All amounts in thousands of Indian Rupees and US Dollars, except share data including share price)

Particulars	Common Stock		Additional	Deferred	Loan to	Retained	
	Shares	Amount	paid-in capital	compensation cost	ESOP Trust	earnings	Total
Balances as of March 31, 2002	89,254,497	18,218	310,249	-	(1,215)	516,678	843,930
Loan to ESOP Trust					(40)		(40)
Common stock issued for cash	745,503	159			(159)		-
Compensation related to stock option grants (Refer to Note 17)			65,291	(65,291)			-
Amortisation of compensation costs				33,864			33,864
Net income for the year						444,335	444,335
Balances as of March 31, 2003	90,000,000	18,377	375,540	(31,427)	(1,414)	961,013	1,322,089
Repayment of loan by ESOP Trust					155		155
Cancellation/forfeiture of stock options			(2,617)	2,617			-
Compensation related to stock option grants (Refer to Note 17)			32,114	(32,114)			-
Shares granted to non-employees			2,635				2,635
Amortisation of compensation costs				19,934			19,934
Bonus shares issued (Refer to Note 16)		431,623				(431,623)	-
Common stock issued for cash	10,000,000	50,000	3,100,000				3,150,000
Share issue related expenses			(151,411)				(151,411)
Net income for the year						1,351,747	1,351,747
Balance as of March 31, 2004	100,000,000	500,000	3,356,261	(40,990)	(1,259)	1,881,137	5,695,149
In US $ (Refer to Note 2.2)		11,521	77,333	(944)	(29)	43,344	131,225

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

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands of Indian Rupees and US Dollars, except share data including share price)

	Year ended March 31, 2004 In US$ (Refer Note 2 b)	Year ended March 31, 2004 In Rs.	Year ended March 31, 2003 In Rs.
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	31,146	1,351,747	444,335
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,656	158,648	133,958
Amortisation of stock compensation cost	459	19,934	33,864
Shares granted to non-employees	61	2,635	-
Provision for doubtful receivables	261	11,348	4,609
Gain on assets sold, net	(13)	(571)	(1,705)
Gain on sale of investment	(2)	(100)	(7)
Unrealised exchange gain, net	(572)	(24,844)	(428)
Dividend earned	(135)	(5,852)	-
Deferred tax expense, net	1,560	67,722	39,264
Changes in assets and liabilities:			
Trade receivables	(10,811)	(469,193)	(115,741)
Employee receivables	(15)	(660)	(6,305)
Inventories	(8,698)	(377,503)	(236,926)
Other current assets	(1,965)	(85,281)	(45,354)
Due from related parties	221	9,600	6,127
Current and non current liabilities	13,329	578,467	215,399
Net cash provided by operating activities	28,482	1,236,097	471,090
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(12,429)	(539,434)	(50,000)
Sale of marketable securities	8,482	368,120	13
Dividend received	135	5,852	-
Investment in time deposits, net	115	5,000	(5,000)
Investment in restricted time deposits, net	(72,217)	(3,134,203)	(20,000)
Purchase of property, plant and equipment	(21,036)	(912,949)	(407,700)
Sale of property, plant and equipment	35	1,505	2,068
Net cash used in investing activities	(96,915)	(4,206,109)	(480,619)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the issuance of share capital	72,581	3,150,000	159
Share issue expenses	(3,489)	(151,411)	-
(Loan to)/Repayment from the ESOP Trust	4	155	(198)
Receipt/(repayment) of short-term borrowings, net	5,058	219,506	(104,461)
Repayment of long term debt	(7,778)	(337,549)	(403,946)
Receipt of long term debt	737	32,000	456,542
Payment of capital lease obligations	-	-	(655)
Deferred sales tax liability	1,638	71,112	47,512
Corporate dividend tax	-	-	(2,711)
Net cash generated from /(used for) financing activities	68,751	2,983,813	(7,758)
Net change in cash and cash equivalents	318	13,801	(17,287)
Cash and cash equivalents at the beginning of the year	31	1,338	18,625
Cash and cash equivalents at the end of the year	349	15,139	1,338
SUPPLEMENTARY DISCLOSURE FOR CASH ACTIVITIES			
Cash paid for interest	881	38,235	48,574
Cash paid for income taxes	4,549	197,424	97,787

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

Kiran Mazumdar-Shaw
Managing Director

JMM Shaw
Director

Bangalore
May 14, 2004

BIOCON LIMITED (formerly BIOCON INDIA LIMITED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 2004 AND MARCH 31, 2003

(All amounts in thousands of Indian Rupees and US Dollars, except share data including share price)

1. Company overview and description of business

1.1 Incorporation and history

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

As of March 31, 2004, the Company has a controlling interest in the following entities:

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

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

Biocon has entered into an Agreement on February 22, 2002 to set up a Joint Venture Company, Biocon Biopharmaceuticals Private Limited ('BBPL') with CIMAB SA ('CIMAB'), a company organised and existing under the laws of Cuba and engaged in research, development, manufacturing and marketing of biopharmaceuticals, manufacture and market products using CIMAB technology and to carry out research activities. On April 18, 2003, Biocon purchased 10,200 shares of Rs. 10 each, at par for an equity participation of 51 per cent in BBPL. Further, on March 30, 2004, Biocon purchased 438,600 shares of Rs. 10 each, at par in BBPL, thus maintaining its equity participation of 51 per cent in BBPL. Biocon and CIMAB have equal participation rights, in the operations of BBPL, therefore the investment in the joint venture BBPL has been accounted based on the equity method. BBPL has not yet commenced revenue-generating operations. Biocon is responsible for financing of the capital expenditure requirements of BBPL. It is expected that the joint venture partner will provide their share of the capital invested by Biocon in the form of technology and design transfers.

In March 2004, the Company completed an Initial Public Offering ('IPO') and made a fresh issue of 10,000,000 equity shares of Rs. 5 each at a price of Rs. 315 per equity share. Consequently, on April 7, 2004, the equity shares of the Company were listed on the National Stock Exchange of India and the The Stock Exchange, Mumbai, India.

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

1.2 Operations

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

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

Enzymes
The enzymes business comprises the development, manufacture and sale of single component enzymes, proprietary formulations and enzyme systems to cater to the demand of a number of diverse industries including food and beverages, textiles, starch, brewing, distilling etc.

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

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

2. Significant Accounting Policies

2.1. Principles of consolidation

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

The Group accounts for investments in the joint venture, BBPL by the equity method of accounting as its joint venture partner has participating rights over the operating and financing policies of BBPL. The Group has recognised the entire accumulated loss of BBPL, amounting to Rs. 3,227 (2003 – Rs. Nil) in these consolidated financial statements. The carrying value of the investment in BBPL as of March 31, 2004 was Rs. 430.

The equity and net profit attributable to minority shareholders' interest as of March 31, 2004 are Rs. 21 (2003 -- Rs. 11) and Rs. 10 (2003 -- Rs. 5) respectively. It has not been separately disclosed in these consolidated financial statements, as the amounts are insignificant.

2.2. Basis of presentation

For the convenience of readers, the balance sheet as of March 31, 2004 and the statement of income for the year then ended have been translated into United States Dollars ('US$') using the Federal Reserve Bank of New York's noon buying rate as confirmed by Hong Kong and Shanghai Banking Corporation ('HSBC') as of March 31, 2004 which was 1US$ = Rs. 43.40. The convenience translation should not be construed as a representation that the Rs. amounts or the US$ amounts referred to in these financial statements have been, could have been, or could in the future be, converted into US$ or Rs., as the case may be, at this or at any other rate of exchange, or at all.

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

The shareholders at the EGM of the Company held on November 11, 2003, approved the sub-division of equity shares of face value of Rs. 10 each into 2 equity shares of Rs. 5 each and increased the authorised capital from Rs. 20,000, to Rs. 600,000. Subsequent to this sub-division, the authorised equity share capital of Rs. 20,000, has been divided into 4,000,000 equity shares of Rs. 5 each and the issued, subscribed and paid -up capital of Rs. 18,377 has been divided into 3,675,300 shares of Rs. 5 each.

Further, the shareholders at the EGM of the Company held on November 11, 2003 approved the allotment of 86,324,700 equity shares of Rs. 5 each as bonus shares in the ratio of 1:23.4877958 to the shareholders existing as on November 11, 2003, which was the approved record date for this purpose, by capitalisation of the balance in the retained earnings of Rs. 431,623. The stock split and stock dividend has been retroactively reflected in the financial statements.

The Group also separately prepares its consolidated financial statements for the same period in accordance with accounting principles generally accepted in India ('Indian GAAP'). The principle differences between Indian GAAP and US GAAP relate to the treatment of certain deferred tax items, the method of charging depreciation, accruing for vacation pay and the accounting for Biocon's interest in the joint venture.

2.3. Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates.

2.4. Foreign currency transactions

Monetary assets and liabilities in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the date of the transaction. All foreign exchange gains and losses are recorded in the consolidated statements of income. The net foreign exchange gain recorded in the income statement, as a part of 'Other income' is Rs. 74,082 (2003 – Rs. 9,034) during the year ended March 31, 2004.

2.5. Revenue recognition

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

(i) Revenue from sale of products

Revenue is recognised when significant risks and rewards in respect of ownership of the products are transferred to the customer. Revenue is recognised when the following criteria are met:

- Persuasive evidence of an arrangement exists;
- The price to the buyer is fixed and determinable; and
- Collectibility of the sales price is reasonably assured.

Revenue from domestic sales is recognised on despatch of the products to customers, from the factories of the Group. Revenue from export sales is recognised on shipment of products. Revenues do not include shipping and handling charges reimbursed by the customers amounting to Rs. 4,161 (2003 – Rs. 4,726) during the year ended March 31, 2004.

(ii) Contract research revenues

Revenues from contract research services comprise fees received for research activities carried out for customers in the fields of molecular biology and synthetic chemistry. Research activities are based on contracts that specify the nature of activity to be carried out, basis of billings, manner of payments and are typically in the nature of time and material contracts. Revenues are recognised as services are rendered, in accordance with the terms of the cotracts.

2.6. Cost of revenues

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

2.7. Research and development costs

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

2.8. Cash and cash equivalents

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

2.9. Marketable securities

Management determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. As of March 31, 2004, all marketable securities were classified as available-for-sale and consisted of units of highly liquid mutual funds whose cost closely approximates the fair market value.

Available-for-sale securities are carried at fair market value with unrealised gains and losses recorded in other comprehensive income, which is a component of stockholders' equity. Realised gains and losses, and decline in value judged to be other than temporary on available-for-sale securities are included in the consolidated statement of income.

2.10. Inventories

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

Inventories are reviewed on a regular basis for identification of slow-moving and obsolete inventory, which are written down in the period of identification and are included in cost of products sold.

2.11. Property, plant and equipment

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

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

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

Costs of normal repairs and maintenance are charged to income as incurred. Major replacements or betterment of property, plant and equipment are capitalised. During the year the Group has incurred Rs. 84,701 (2003 – Rs. 53,557) towards normal repairs and maintenance.

2.12. Impairment of long-lived assets

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

2.13. Goodwill

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

The impairment test is conducted at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. Fair value is primarily determined by computing the future discounted cash flows expected to be generated by the reporting unit. If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, the fair value of the reporting unit is then allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. This implied fair value is then compared with the carrying amount of the reporting unit goodwill, and if it were less, the Group would then recognise an impairment loss. No goodwill impairment losses have been recognised in any of the periods presented herein (Refer to Note 3).

2.14. Operating leases

Lease rental expenses on operating leases are charged to expense over the lease term on a straight-line basis.

2.15. Employee benefits

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

The Superannuation Plan is a defined contribution pension plan for all employees of the Group. The Group contributes to employees' superannuation fund at 15 per cent of the employee's base salary. The superannuation schemes of the Group are administered by a trust formed for this purpose through the superannuation scheme with Birla Sunlife Insurance Company Limited ('Birla Sunlife').

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

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

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

2.16. Income taxes

The Group records income taxes in accordance with the liability method of accounting. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity in the Group. Deferred income taxes are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. Deferred tax assets are recognised subject to a valuation allowance, when it is more likely than not that asset would be realised.

2.17. Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income" establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. The unrealised gains on marketable securities for the year ended March 31, 2004 and 2003 were insignificant, and thus have been recorded as a component of operations.

2.18. Stock-based compensation

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

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

Had compensation cost for the Group's stock based compensation been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the impact on the Group's net income of Rs. 1,351,747 for the year ended March 31, 2004 and Rs. 444,335 for the year ended March 31, 2003 would have been negligible.

For purposes of applying SFAS No. 123, the estimated fair value of stock options granted during the year is given in the table below. The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

	ESOP 2000	ESOP 2004
Expected volatility	40%	40%
Expected dividend yield	0.0%	20%
Risk-free interest rate	5%	5%
Expected life (in years)	2.5	3.0
		Fair value (in Rs.)
ESOP 2000 – Grant 1 in April 2002		18.58
ESOP 2000 – Grant 2 in January 2004		226.57
ESOP 2004 – Grant 1 in March 2004		18.23

2.19. Derivative instruments and hedging activities

The Group enters into forward foreign exchange contracts where the counter party is generally a bank. The Group purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable. The Company has not designated these contracts as hedges in accordance with the requirements of SFAS 133. Accordingly, these instruments are recorded on the balance sheet at fair value with the difference being recognised in earnings immediately. The amount of open foreign currency contracts as of March 31, 2004 is US$ 11,194, which expires over the next three months.

2.20. Earnings per share

Basic earnings per share is computed by dividing the net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the weighted average of common and dilutive common equivalent shares outstanding during the year, using the treasury stock method for shares which have been granted to employees pursuant to the Employees Stock Option Purchase adopted by the Group, except where the result would be anti-dilutive.

2.21. Recent accounting pronouncements

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. In respect of variable interest entities created before February 1, 2003, FIN No. 46 will be applicable from fiscal periods beginning after June 15, 2003 and is not expected to have a material impact on the consolidated financial statements of the Group.

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. The initial adoption of SFAS No.149 has not had a material impact on the Group's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The initial adoption of SFAS No.150 has not had a material impact on the Group's consolidated financial statements.

3. Acquisition Of Minority Interest In Syngene

As of April 1, 2001 the Control Group had an effective ownership interest in Syngene of 73 per cent. In March 2002, the Control Group transferred its 73 per cent ownership interest in Syngene to Biocon in exchange for Biocon shares and the Company acquired the balance 27 per cent from the minority shareholders on March 30, 2002, in exchange of its 2,652,518 equity shares with a par value of Rs. 5 each. The transaction was accounted for under the purchase method of accounting. The fair value of the purchase consideration based on the fair value of Biocon's equity shares was determined to be Rs. 49,123, which was higher than the fair value of the corresponding share of net assets acquired of Rs. 27,121. This resulted in goodwill of Rs. 22,002 being created as part of this acquisition.

The Company has identified Syngene's contract research business as the reporting level unit and has assigned assets acquired and liabilities assumed to this unit. The fair value of the reporting unit is determined based on future cash flows of the business, discounted at the rate of 9 per cent per annum, for 4 years on an unleveraged basis, projecting a future likely growth rate of 10 per cent per annum. As of March 31, 2004, management believes that such goodwill is not impaired.

4. Cash And Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances available in current accounts.

	March 31, 2004 In US$ (Refer to Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Cash on hand	12	506	187
Bank balances	337	14,633	1,151
	349	15,139	1,338

5. Restricted And Other Time Deposits

Restricted time deposits as of March 31, 2004 and March 31, 2003 includes Rs. 22,000 maturing over the next 2 to 5 months used as a lien executed for availing an overdraft facility of Rs. 22,000 to finance working capital, repayable on demand, carrying an interest rate of 2 per cent above the time deposit rate, per annum. The Group has utilised the facility during the year and the overdrawn balances as of March 31, 2004 and March 31, 2003 aggregate Rs. 17,797 and Rs. Nil respectively. Restricted time deposits also include a deposit of unutilised IPO funds aggregating Rs. 3,150,000, which matures by April 14, 2004.

6. Marketable Securities, Available For Sale

	March 31, 2004 Cost In Rs.	March 31, 2004 Fair Value In Rs.	March 31, 2003 Cost In Rs.	March 31, 2003 Fair Value In Rs.
IL&FS Fixed Maturity Plan	-	-	50,000	50,000
JM Mutual Fund	45,000	45,000	-	-
LIC Mutual Fund	30,480	30,563	-	-
TATA Mutual Fund	15,252	15,252	-	-
Reliance Fixed Term Scheme	50,179	50,178	-	-
Reliance Mutual Fund	15,259	15,252	-	-
HSBC Mutual Fund	19,973	19,976	-	-
HSBC Cash Management Fund	10,008	10,007	-	-
Alliance Mutual Fund	20,188	20,186	-	-
Grindlays Fixed Term Scheme	15,000	15,000	-	-
	221,339	221,414	50,000	50,000
In US$ (Refer to Note 2.2)	5,100	5,102		

These are highly liquid mutual funds where the cost approximates the fair market value. The gross realized gains in the form of dividend on marketable securities for the year ended March 31, 2004 amounts to Rs. 5,852 (2003 – Rs. Nil) and has been included as a part of Other Income.

7. Trade Receivables, Net

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Trade receivables	27,751	1,204,378	757,911
Less: Provision for doubtful receivables	368	15,957	4,609
	27,383	1,188,421	753,302

During the year ended March 31, 2004, the Group had written off Rs. 5,660 (2003 -- Rs. Nil) being irrecoverable amounts from identified customers. The net provision for doubtful receivables of Rs. 11,348 (2003 – Rs. 4,609) made during the year ended March 31, 2004 has been made on the basis of specific customer identification.

8. Inventories

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Raw materials	10,575	458,975	250,104
Goods-in-transit and in bond	982	42,627	16,803
Packing materials	52	2,244	1,446
Work-in-progress	7,726	335,329	198,608
Finished goods	401	17,383	12,094
	19,736	856,558	479,055

During the year, the Group has written off Rs. 14,525 (2003 -- Rs. 12,081) towards identified obsolete and slow moving inventory.

9. Property, Plant And Equipment, Net

	Estimated useful life (In years)	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Land		967	41,951	13,594
Advance paid towards acquisition of Land		3,913	169,812	64,200
Buildings	25	7,974	346,073	302,567
Plant, machinery and equipment	3 – 11	29,671	1,287,727	1,151,715
Research and development equipment	9	4,819	209,161	130,936
Furniture and fixtures	6	1,042	45,225	24,048
Vehicles	6	165	7,159	8,467
Capital work-in-progress		13,187	572,302	79,852
		61,738	2,679,410	1,775,379
Accumulated depreciation		(12,413)	(538,725)	(382,754)
Property, plant and equipment, net		49,325	2,140,685	1,392,625

During the year, the Group has capitalised borrowing costs identifiable to property, plant and equipment of Rs. 7,087 (2003 -- Rs. 1,664).

On December 5, 2002, Karnataka Industrial Areas Development Board ('KIADB') allotted land aggregating 26.75 acres to the Company for Rs. 64,200 on a lease-cum sale basis for a period of 6 years. Further, during the year ended March 31, 2004, the Company was allotted an additional 41.25 acres of land for Rs. 99,417 from KIADB. The same is reflected at the current allotment rate, the final amount to be determined by KIADB on the completion of six years on fulfillment of certain conditions.

The Company is required to comply with conditions as defined, which include a condition to commence commercial operations within 24 months of possession ie December 2002 and the Group is confident of fulfilling all the conditions as per the agreement with KIADB and accordingly, the payment has been reflected as 'Advance paid towards acquisition of Land' and included in property, plant and equipment.

During the year ended March 31, 2004, Biocon has acquired 11.8 acres of freehold land from KMZ, the Managing Director, which was earlier leased to the Company, at an aggregate cost of Rs. 24,926, which approximates the fair value of such land on the date of the acquisition.

Capital work in progress includes capital advances of Rs. 106,299 (2003 – Rs. 12,799).

10. Financial Instruments

10.1 Fair value of financial instruments

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

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

Long-term rental deposits, included under dues from related party for the year ended March 31, 2003 represent interest free deposits given for the factory premises taken on lease from the Managing Director. These deposits were refunded when the Company acquired such land during the year ended March 31, 2004.
(Refer to Note 9 and 19).

Long-term employee receivables are loans given to employees to acquire assets such as property and vehicles. Such loans are repayable over fixed periods ranging from three to eight years and are interest-free in nature. The fair value, determined using market rates of interest, of loans to employees of Rs. 15,731 (2003 -- Rs. 15,121) is Rs. 12,834 (2003 -- Rs. 11,405).

The Group pays interest on long term loans at a rate, which closely approximates the market rate and hence, the fair value of the long-term loan closely approximates its carrying value in the financial statements. During the year ended March 31, 2004, the Company has repaid all its long term loans except for Rs. 24, which was repaid in May 2004.

As more fully discussed in Note 15, deferred sales taxes liability represents deferment of the sales tax liability of the Company for a period of 8 to 12 years. These amounts are interest free in nature and are repayable over a 5 year term after the end of the deferment period. The fair value, determined using market rates of interest, of the amount of deferred sales tax, carried in the financial statements at Rs. 174,657 (2003 -- Rs. 103,545), determined using market rates of interest is Rs. 95,623 (2003 -- Rs. 39,968).

10.2 Concentration of credit risk

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

The Group's cash and cash equivalents and time deposits are invested with banks with high investment grade credit ratings. As of March 31, 2004, 95 per cent of cash and cash equivalents were placed with HSBC. As of March 31, 2004, 58 per cent, 24 per cent and 16 per cent of the restricted time deposits were placed with HSBC, Kotak Bank and HDFC Bank respectively. To reduce credit risk, investments are made in a diversified portfolio of mutual funds, as described in Note 6, which are periodically reviewed.

Trade receivables are typically unsecured and are derived from revenues earned from customers. The Group monitors the credit worthiness of its customers to which it grants credit terms in the normal course of the business. The Company has a customer in China and Canada who individually accounted for 13 and 1 per cent of the trade receivables respectively and 16 and 11 per cent respectively of the total sale of products during the year ended March 31, 2004.

In management's opinion, as of March 31, 2004, there was no significant risk of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

11. Short Term Borrowings

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Cash credit and packing credit from banks	10,881	472,231	276,536
Balance in current account with bank	64	2,799	352
	10,945	475,030	276,888

(i) Biocon has a total rupee and foreign currency denominated fund based working capital facilities with State Bank of India ('SBI') of Rs. 130,000. These facilities are repayable on demand, secured by the hypothecation of inventories and book debts and carried an interest rate of 2.1 per cent per annum for foreign currency denominated loans and 7.5 to 12.25 per cent per annum for rupee loans. The amount outstanding as on March 31, 2004 is Rs. Nil (2003 -- Rs. 39,650) inclusive of foreign currency denominated loans of Rs. Nil [2003 -- Rs. 39,597 (US$ 834)].

(ii) Biocon has a total rupee and foreign currency denominated working capital facilities with HSBC for Rs. 175,000. These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2 per cent per annum for foreign currency denominated loans and 6 to 15 per cent per annum for rupee loans. Biocon has utilised Rs. 95,480 (2003 -- Rs. 115,580) as of March 31, 2004 inclusive of foreign currency denominated loans of Rs. 95,480 (US$ 2,200) [2003 -- Rs. 90,256 (US$ 1,902)].

(iii) Biocon has working capital facilities with Canara Bank ('CB') for Rs. 130,000. These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.1 per cent for foreign currency denominated loans and 8 to 11.75 per cent per annum for rupee loans. Biocon has utilised Rs. 116,443 (2003 -- Rs. 121,306) as of March 31, 2004 inclusive of foreign currency denominated loans of Rs. 116,417 (US$ 2,682) [2003 -- Rs. 117,436 (US$ 2,474)].

(iv) During the year ended March 31, 2004, Biocon entered into a working capital facility with Export Import Bank ('EXIM Bank') for Rs. 309,860 (US$ 7,000). These facilities are repayable on demand, secured by the hypothecation of inventories and book debt and carry an interest rate of 2.2 per cent. Biocon has utilised Rs. 260,308 (US$ 5,998) [2003 -- Rs. Nil) as of March 31, 2004.

The total interest expense incurred for the total short term borrowings for the year ended March 31, 2004 aggregated Rs. 19,206 (2003 – Rs. 26,351) excluding interest received from suppliers amounting to Rs. 9,012 (2003 – Rs. 1,577).

12. Long Term Debt

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Term Loans			
EXIM Bank loan	-	-	64,739
SBI Bank loan	-	-	26,667
HSBC Bank loan	-	-	149,167
Technology Development Board	1	24	65,000
	1	24	305,573
Less Current portion of long term debt	1	(24)	(139,234)
	-	-	166,339

(i) On April 9, 1999, Biocon entered into a term loan facility with EXIM bank for Rs. 126,001 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans were repayable in 9 equal half yearly installments commencing from December 10, 2000, and were secured by a first pari passu mortgage and charge on the fixed assets of Biocon and carried an interest rate of 10.5 per cent per annum. Biocon had a balance of Rs. 42,001 drawn but not due as of March 31, 2003, which was paid off in full as of March 31, 2004.

(ii) On November 5, 1999, Biocon entered into a term loan facility with EXIM bank of India for Rs. 46,731 for funding its fixed assets acquisitions of the Plafractor Plant. These loans were repayable in 10 equal half yearly installments commencing from December 10, 2000, secured by a charge on the fixed assets of Biocon and carried an interest rate of 7 per cent per annum. Biocon had a balance of Rs. 22,738 drawn but not due as of March 31, 2003, which was paid off in full as of March 31, 2004.

(iii) On May 5, 1999, Biocon entered into a term loan facility with SBI for Rs. 50,000 for funding its fixed asset acquisitions of the Submerged Fermentation Plant. These loans were repayable in 60 equal monthly installments commencing from December 2000, are secured by a first pari passu mortgage and charge on the fixed assets of Biocon and carried an interest rate of 2.99 per cent per annum for foreign currency denominated loan and 13 per cent per annum for the rupee loan. Biocon had a balance of Rs. 26,667 drawn but not due as of March 31, 2003, which was paid off in full as of March 31, 2004.

(iv) Biocon had obtained a rupee and foreign currency denominated term loan facility with HSBC for Rs. 170,000 for funding its fixed asset acquisitions during the period and fully utilised this facility during the year ended March 31, 2003. The installments commencing from November 2002, were secured by a pari passu charge over the fixed assets of Biocon and loan was repayable in 44 monthly installments and carried an interest rate of 2.77 per cent per annum for foreign currency denominated loans and 6.6 per cent per annum for rupee loans. Biocon had a balance of Rs. 149,167 drawn but not due as of March 31, 2003, which was paid off in full as of March 31, 2004.

(v) On July 3, 2002, Biocon entered into a term loan facility with Technology Development Board ('TDB') for Rs. 100,000 for funding its fixed asset acquisitions of the PlaFractor™ plant. These loans were repayable in 9 equal half yearly installments commencing from February 2004, were secured by a first pari passu mortgage and charge on the fixed assets of Biocon and carry an interest rate of
5 per cent per annum. During March 31, 2004, Biocon had drawn Rs. 97,000 (2003 -- Rs. 65,000) and the Company has made repayment of the loan to the extent of Rs. 96,976 as of March 31, 2004 and the remaining amount was repaid in May 2004.

The total interest expense incurred on the total long term borrowings for the year ended March 31, 2004 aggregated Rs. 12,984 (2003 -- Rs. 26,702).

As at March 31, 2004, the Group has complied with all the loan covenants.

13. Employee Benefit Plans

The Group has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees. The Group's cost related to defined contribution plans and vacation pay is as follows:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Provident fund	333	14,449	10,316
Superannuation	371	16,118	11,987
Vacation pay	133	5,763	7,202
	837	36,330	29,505

The change in benefit obligation and funded status of the gratuity plan for the year ended March 31, 2004 are as follows:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Change in benefit obligation			
Benefit obligation at the beginning of the year	836	36,279	25,449
Service cost	123	5,354	9,867
Interest cost	41	1,798	1,239
Benefits paid	(23)	(1,006)	(276)
Benefit obligation at the end of the year (A)	977	42,425	36,279
Change in plan assets			
Fair value of plan assets at beginning of year	587	25,463	9,545
Return on plan assets	31	1,354	657
Actual contribution	319	13,861	15,537
Benefits paid	(23)	(1,006)	(276)
Fair value of plan assets at end of year (B)	914	39,672	25,463
Unfunded status (A-B)	63	2,753	10,816

Net gratuity cost for the year ended March 31, 2004 and year ended March 31, 2003 includes the following components:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Components of net benefit cost			
Service cost	123	5,354	9,867
Interest cost	41	1,798	1,239
Expected return on planned assets	(31)	(1,354)	(657)
Net gratuity cost	133	5,798	10,449

The assumptions used in accounting for the gratuity plan for the year ended March 31, 2004 and year ended March 31, 2003 are below:

	March 31, 2004	March 31, 2003
Discount rate	5 %	6 %
Expected return on planned assets	5 %	6 %
Rate of compensation increase	6 %	6 %

The Group evaluates these assumptions based on its long-term plans of growth and industry standards and the expected contribution to the fund during the year ending March 31, 2005, is approximately Rs. 10,000. The nature of the asset allocation of the fund are only debt based mutual funds of high credit rating.

The expected benefit payments from the fund as of March 31, 2004 are below:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.
Year ending		
2005	18	802
2006	21	899
2007	77	3,349
2008	30	1,304
2009	43	1,868
Upto 2014	679	29,482
	868	37,704

14. Provision For Income Taxes

	Year ended March 31, 2004 In US$ (Refer Note 2.2)	Year ended March 31, 2004 In Rs.	Year ended March 31, 2003 In Rs.
Current taxes	4,533	196,715	83,846
Deferred taxes	1,560	67,722	39,264
Provision for income tax	6,093	264,437	123,110
The components of the deferred tax asset/(liability) are as follows:			
Deferred tax assets:			
Provision for employee benefits	211	9,146	5,990
Entry tax and technical know how fees	127	5,515	5,510
Provision for doubtful debts	122	5,296	1,654
Others	3	114	-
Total deferred tax assets	463	20,071	13,154
Deferred tax liabilities:			
Depreciation on property, plant and equipment	4,447	193,002	149,849
Undistributed profit of subsidiary	732	31,751	-
Others	-	-	266
Total deferred tax liabilities	5,179	224,753	150,115
Net deferred tax liability	4,716	204,682	136,961
The net deferred tax asset/(liability) is presented in the balance sheet as follows:			
Net current deferred tax asset/(liability):			
Deferred tax asset	335	14,557	7,284
Deferred tax liability	-	-	(495)
	335	14,557	6,789
Net non-current deferred tax asset/(liability):			
Deferred tax asset	128	5,515	6,099
Deferred tax liability	(5,179)	(224,754)	(149,849)
	(5,051)	(219,239)	(143,750)
Net deferred tax liability	(4,716)	(204,682)	(136,961)

The following is a reconciliation of the income tax at the statutory tax rate under the Indian Income-tax Act, 1961 ('IT Act') and the provision for income taxes:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.	March 31, 2003 In Rs.
Net income before taxes	37,239	1,616,184	567,445
Enacted tax rates in India	35.875%	35.875%	36.75%
Computed tax expense	13,359	579,806	208,540
Effect of tax rate change	75	3,261	(541)
	13,434	583,067	207,999
Undistributed profits of subsidiary	732	31,751	-
Permanent differences			
Non taxable export income	(7,380)	(320,273)	(69,040)
Stock compensation costs	165	7,151	12,445
Weighted deduction on research and development expenses	(631)	(27,385)	(29,234)
Share issue expenses	(250)	(10,864)	-
Others	23	990	940
Provision for income taxes	6,093	264,437	123,110

Biocon, Syngene, Clinigene and BBPL file separate tax returns as per the applicable tax laws in India.

On July 1, 2002, Biocon received an approval from the Department of Scientific and Industrial Research to claim a weighted deduction of 150 per cent on the expenditure incurred on scientific research or in-house research and development facility under section 35(2AB) of the IT Act retroactively from financial year ended March 31, 2000.

Biocon effective August 26, 2003 received approval from the Cochin Special Economic Zone for the setting up of a 100 percent Export Oriented Unit for the manufacture and export of all types of statins on which, the Company claims exemption under section 10B of the IT Act.

Under the IT Act, the profits of Syngene and certain units of Biocon are exempt from income taxes being profits attributable to earnings from a 100 per cent export oriented unit. Under this tax holiday, Syngene can utilise the deduction for a period of 10 consecutive years starting from April 1, 1998. Syngene has opted for this exemption for the years ended March 31, 1999 to March 31, 2008. On February 24, 2003, Syngene obtained an approval from the Department of Scientific and Industrial Research for exemption of profits for further five year ie upto financial year 2013. Further, each of the constituent entities in the Group is eligible for a deduction from Indian income taxes for profits attributable to export operations, subject to meeting the related conditions.

During the year ended March 31, 2003, Biocon believed that it could transfer the undistributed profits of Syngene in a tax free manner and accordingly, did not recognise the deferred tax liability on the undistributed profits of Syngene. The accumulated profits of Syngene as of March 31, 2004 is available for distribution to Biocon (the holding company) at the applicable tax rate for dividend distribution. For the year ended March 31, 2004 the Group has recognised the deferred tax liability for the excess of the financial reporting basis over the tax basis of its investment in Syngene.

During the year ended March 31, 2004, Clinigene obtained an approval from the Department of Scientific and Industrial Research for exemption of profits under section 80-IB (8A) of the IT Act.

Temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases arose due to difference in depreciation rates of property, plant and equipment and provision for superannuation, leave encashment, provision for entry tax and technical know how fees which are allowable on a payment basis under the IT Act. Since export turnover of the Group qualifies for a deduction from taxable income, a substantial portion of the temporary differences would not have any tax consequences, as they will reverse within the tax holiday period and, accordingly, no deferred tax assets and liabilities have been recognised relating to such temporary differences.

15. Deferred Sales Taxes Liability

The Company has obtained the benefit of deferring its sales tax liability for its manufacturing facilities in Bommasandra and Hebbagodi, to an extent of Rs. 24,375 and Rs. 648,938, in accordance with the Agro Food Processing Industrial Policy of the Government of Karnataka, for a period of 8 years and 12 years respectively. In accordance with the Government Order, the Group has deferred its sales tax liabilities aggregating Rs. 174,657 (2003 -- Rs. 103,545), which is to be repaid over various dates commencing from September 2009.

16. Stockholders' Equity

The Company has only one class of common stock referred to herein as equity shares and each holder of equity shares is entitled to one vote per share. Final dividends proposed by the Board of Directors are payable when formally approved by the shareholders, who have the right to decrease but not increase the amount of the dividend recommended by the Board of Directors. In the event of liquidation of the Company, the holders of equity shares shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the shareholders. The Indian Companies Act, 1956, provides certain guidelines and restrictions on the amount of dividend, which a Company can declare to the stockholders. Should the Company declare and pay dividends, such dividends will be paid in Indian rupees to each holder of equity shares in proportion to the number of shares held by him to the total equity shares outstanding as on that date. Indian statutes on foreign exchange govern the remittance of dividend outside India.

The stockholders in the Extraordinary General Meeting ('EGM') of the Company held on November 11, 2003, approved the sub-division of equity shares of face value of Rs. 10 each into 2 equity shares of Rs. 5 each. Further, the stockholders in the EGM of the Company held on November 11, 2003, approved the allotment of 86,324,700 equity shares of Rs. 5 each as bonus shares in the ratio of 1:23.48779580. The bonus shares have been issued by the capitalisation of the balance in retained earnings of Rs. 431,623. Accordingly, the number of equity shares authorised and outstanding prior to the bonus issue have been restated to reflect the retroactive effect of the bonus issue from the beginning of the earliest period reported. Also, the earnings per share have been retroactively adjusted taking cognizance of the enhanced equity base due to the bonus issue.

Further, in March 2004, the Company made an IPO of 10,000,000 fresh equity shares of Rs. 5 each at a price of Rs. 315 per equity share.

17. Employee Stock Option Plan ('Esop')

On September 27, 2001, the Board of Director's approved the Biocon ESOP 2000 ('ESOP 2000') for the grant of stock options to the employees of Biocon and its subsidiaries. A compensation committee has been constituted to administer the plan through the Biocon India Ltd. Employee Welfare Trust ('the Trust').

The Trust purchases equity shares of Biocon using the proceeds from the loan obtained from Biocon and will subscribe to such number of shares as is necessary for transferring to the employees. The total number of equity shares transferred to the Trust shall not exceed 12,243,898 equity shares and shares transferred to each employee will not exceed 489,756 equity shares. The Compensation Committee shall determine the exercise price, which will not be less than the face value of the shares. The options will vest with the employees equally over a four-year period. In accordance with the plan during the year ended March 31, 2003, the Company had granted 3,502,260 options to the eligible employees of the Company and its subsidiaries. 25 per cent of the total options granted under the plan will vest to the eligible employees on the completion of 12, 24, 36 and 48 months and is subject to the continued employment of the employee with the Company or its subsidiaries.

Further, during January 2004, the Compensation Committee has granted 142,100 options under the ESOP 2000 effective January 1, 2004 to be exercised at a price of Rs. 5. The options will vest with the employees equally over a four year period from the grant date. On January 18, 2004, the Board of Directors announced the Biocon Employees Stock Option Plan ('ESOP 2004') for the grant of stock options to the employees of the Group, pursuant to which, the Compensation Committee on March 19, 2004 granted 422,000 options under the ESOP Plan 2004 to be exercised at a price of Rs. 315 being the issue price determined for the IPO through the book building process. The options will vest with the employees equally over a four year period from the grant date.

In case the employee resigns from employment, the rights relating to shares, which are eligible for exercise, may be purchased by payment of the exercise price whereas, the balance shares shall be forfeited in favour of the ESOP Trust.

The Group applied APB Opinion 25 and related Interpretations in accounting for these plans. In accordance with APB Opinion 25, the compensation cost has been recognised for the differential between the exercise price and the fair value of value of the shares on the date of the grant. The compensation cost is recognized in the financial statements over the vesting period. The percentage to be recognized in each year is based on the aggregate percentage accrued to the employee at the end of each year.

The Trust had 6,181,186 equity shares of Rs. 5 each as of March 31, 2004 of which 3,082,240 shares have not been granted and a summary of the activity of the Trust is as follows:

Particulars	March 31, 2004 No of options	Weighted average price (In Rs.)	March 31, 2003 No of options
Outstanding at the beginning of the year	3,502,260	0.2	-
Granted during the year	564,100	236.91	3,502,260
Exercised during the year	(841,914)	0.2	-
Forfeited during the year	(125,500)	0.2	-
Outstanding at the end of the year	3,098,946		3,502,260

For the grants during the year ended March 31, 2004, the exercise price ranges between Rs. 5 to Rs. 315.

The total stock compensation cost recognised in the consolidated statements of income for the year ended March 31, 2004 and year ended March 31, 2003 is as follows:

	Year ended March 31, 2004 In US$ (Refer Note 2.2)	Year ended March 31, 2004 In Rs.	Year ended March 31, 2003 In Rs.
Cost of products sold	139	6,038	12,598
Cost of contract research services	106	4,616	7,416
Research and development expenses	47	2,038	3,386
Selling, general and administrative expenses	167	7,242	10,464
	459	19,934	33,864

Shares allocated to the employees have been considered as outstanding for basic EPS to the extent they are vested. Shares held by the Trust, which have been allocated but not vested have been included for diluted EPS. The loan granted to the Trust has been presented as a separate component of stockholders' equity and repayments of the loan, by way of exercise of the shares by the employees has been applied towards this loan. The reconciliation of basic and diluted shares used in computing EPS is as follows:

	Year ended March 31, 2004	Year ended March 31, 2003
Weighted average number of common shares used for computing basic EPS	84,691,111	83,974,925
Dilutive component of shares that are not eligible for exercise	2,253,971	2,626,674
Weighted average number of shares used for diluted EPS	86,945,082	86,601,599

During March 2004, 8,500 equity shares were transferred to the members of the Scientific Advisory Board and certain consultants (collectively referred to as 'the consultants') from the Biocon India Limited Employees Welfare Trust ('Welfare Trust'). The Welfare Trust, which is managed by the promoters KMZ and JMM and key management personnel and is separate from the trust, which administers the ESOP. The shares held by the Welfare Trust is to be distributed to the beneficiaries of the Group who have been defined to include employees, directors and consultants of Biocon its subsidiaries and other persons. These shares were issued by the Welfare Trust at face value of Rs. 5 to the consultants. The Group has recorded a compensation cost equal to the market value of Rs. 315 less the face value, of these shares transferred amounting to Rs. 2,635, which has been included as a part of 'Selling, general and administrative expenses'.

18. Leases

The Company had entered into an operating lease agreement for certain land for the factory (Refer to Note 19). Gross rental expenses for the year ended March 31, 2004 aggregated to Rs. 720 (2003 -- Rs. 960). However, the Company has on December 23, 2003 purchased the land and hence, there are no further committed lease rentals in future towards the lease of such land.

The Group has entered into a lease agreement for certain of its office premises, which expires in December 2008. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs. 120 (2003 -- Rs. Nil). The committed lease rental in the future is:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.
Year ending March 31,		
2005	13	570
2006	14	600
2007	14	600
2008	14	600
2009	10	450
	65	2,820

The Group has taken vehicles for certain employees under operating leases, which expire in 2008. Gross rental expenses for the year ended March 31, 2004 aggregated to Rs. 1,814 (2003 -- Rs. 220). The committed future minimum lease rental payments are:

	March 31, 2004 In US$ (Refer Note 2.2)	March 31, 2004 In Rs.
Year ending March 31,		
2005	42	1,833
2006	41	1,776
2007	41	1,776
2008	14	618
	138	6,003

19. Related Party Transactions

The Group had entered into transactions with the principal stockholder KMZ, for the lease of a portion of the factory land. The rental expense paid to KMZ for the lease of land amounts to Rs. 720 (2003 -- Rs. 960). However, the Company has on December 23, 2003 purchased the land for a total consideration of Rs. 24,926. In addition, the Company had given KMZ, a refundable deposit for such land, which has been fully refunded during December 2003.

The remuneration paid to KMZ and JMM in accordance with the agreement entered into by them with the Company for the year ended March 31, 2004 was Rs. 20,591 (2003 -- Rs. 19,404).

During the year the Company has funded the operations of the joint venture, BBPL to the extent of Rs. 19,263 and the amount receivable as of March 31, 2004 was Rs. 15,114, of which Rs. 237 relates to interest payable to the Company on such funding.

20. Commitments And Contingencies

a) Capital commitments

The Group had committed to spend approximately Rs. 1,320,425 as of March 31, 2004 (2003 -- Rs. 259,014), under agreements to purchase property, plant and equipment. This amount is net of advances paid in respect of these purchases (Refer Note 9).

The Company is committed to arrange capital investment and finance expenditure required by the joint venture, BBPL and as per the agreement has committed to finance upto Rs. 221.34 million through equity infusion. Further, BBPL proposes to obtain a loan to the extent of Rs. 900 million from Biocon.

b) Guarantees

Guarantees provided by banks on behalf of the Group amounted to Rs. 245,000 (2003 -- Rs. 95,000), which mature over periods upto September 2006. The guarantees are primarily in the nature of performance guarantees and were provided to Indian Government agencies. The Group has concluded that the risk of the guarantees being called is remote and accordingly no provision has been made.

c) Claims against the Group

The Group accounts for loss contingencies when the likelihood of the underlying adverse event occurring is probable and the loss can be reasonably estimated.

(i) Taxation matters under appeal

Biocon has received demand notices from the Income tax authorities in respect of assessments made in the years 1993 to 1998 aggregating Rs. 7,631 till March 31, 2004 (2003 -- Rs. 7,631). Biocon has appealed these assessments and management does not anticipate incurring a liability in respect of these amounts.

(ii) Other claims against the Group not acknowledged as debts amount to Rs. 2,170 as of March 31, 2004 (2003 -- Rs. 2,374).

d) Other commitments

The Group's operations are carried out from two units registered as a 100 per cent export oriented unit under the Special Economic Zone ('SEZ') scheme. Under this scheme the registered units have export obligations, which are based on the formula provided by the notifications/circulars issued by the SEZ authorities from time to time.

The consequence of not meeting the above commitments would be a retroactive levy of import duty on items previously imported duty free for these units. Additionally, the respective authorities have rights to levy penalties for any defaults on a case-by-case basis. Management believes that it would meet the required export obligations.

21. Segmental information

Business segments

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

April 1, 2003 to March 31, 2004

Particulars	Enzyme	Pharma	Contract Research	Unallocated	Eliminations	Total
Revenues						
External sales	665,164	4,353,660	387,585	-	-	5,406,409
Inter-segment transfers	35,832	-		-	(35,832)	-
Total revenues	700,996	4,353,660	387,585	-	(35,832)	5,406,409
Costs						
Segment costs	(419,477)	(2,544,440)	(229,151)	-	-	(3,193,068)
Inter-segment transfers	-	(35,832)	-	-	35,832	-
Result						
Segment result	281,519	1,773,388	158,434	-	-	2,213,341
Corporate expenses	-	-	-	(506,021)	-	(506,021)
Other income/ expenses, net	-	-	-	85,555	-	85,555
Interest income	-	-	-	1,275	-	1,275
Operating profit						1,794,150
Depreciation	(18,602)	(62,570)	(23,452)	(54,024)	-	(158,648)
Interest expense	-	(7,843)	(412)	(7,836)	-	(16,091)
Share of losses in BBPL	-	-	-	(3,227)	-	(3,227)
Income taxes - Current and deferred	-	-	-	(264,437)	-	(264,437)
Net income						1,351,747
Other information						
Segment assets	508,741	3,110,415	468,651	-	-	4,087,807
Unallocated corporate assets	-	-	-	3,752,523	-	3,752,523
Total assets						7,840,330
Segment liabilities	77,843	848,304	132,922	-	-	1,059,069
Unallocated corporate liabilities	-	-	-	1,086,112	-	1,086,112
Total liabilities						2,145,181
Capital expenditure	19,858	22,457	21,697	351,212	-	415,224

April 1, 2002 to March 31, 2003

Particulars	Enzyme	Pharma	Contract Research	Unallocated	Eliminations	Total
Revenues						
External sales	531,634	2,006,559	278,223	-	-	2,816,416
Inter-segment transfers	55,497	-	-	-	(55,497)	-
Total revenues	587,131	2,006,559	278,223	-	(55,497)	2,816,416
Costs						
Segment costs	(356,131)	(1,132,919)	(178,500)	-	-	(1,667,550)
Inter-segment transfers	-	(55,497)	-	-	55,497	-
Result						
Segment result	231,000	818,143	99,723	-	-	1,148,866
Corporate expenses	-	-	-	(412,884)	-	(412,884)
Other income/ expenses, net	-	-	-	13,359	-	13,359
Interest income	-	-	-	2,751	-	2,751
Operating profit						752,092
Depreciation	(17,971)	(59,949)	(17,260)	(38,778)	-	(133,958)
Interest expense	-	(15,097)	-	(35,592)	-	(50,689)
Income taxes Current and deferred	-	-	-	(123,110)	-	(123,110)
Net income						444,335
Other information						
Segment assets	479,692	1,827,845	173,560	-	-	2,481,097
Unallocated corporate assets	-	-		400,023	-	400,023
Total assets						2,881,120
Segment liabilities	6,438	326,722	64,724	-	-	397,884
Unallocated corporate liabilities	-	-		1,161,147	-	1,161,147
Total liabilities						1,559,031
Capital expenditure	63,720	111,552	74,049	123,612	-	372,933

Geographical segments

Secondary segmental reporting is performed on the basis of the geographical location of customers. The operations of the Group comprise export sales and contract research fees contributing to approximately 63 per cent (2003 -- 48 per cent). The management views the Indian market and export markets as distinct geographical segments. The following is the distribution of the Group's sale by geographical markets

Revenues, net	2004	2003
India	2,011,094	1,461,557
Exports - (on FOB basis)	3,395,315	1,354,859
Total	5,406,409	2,816,416

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

	Carrying amount of segment assets 2004	Carrying amount of segment assets 2003
India	7,179,084	2,620,257
Outside India	661,246	260,863
	7,840,330	2,881,120

Carrying amount of segment assets outside India represents receivables from export sales.

Segment revenue and result

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

Inter-segment transfers

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

Segment assets and liabilities

Segment assets include all operating assets used by the business segment and consist principally of fixed assets, investments and current assets Segment liabilities comprise of loan funds which can be identified directly against the respective segments and includes segment current liabilities and provisions. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporate assets and liabilities respectively.

Glossary

ANDA	Abbreviated New Drug Application
Mab	Monoclonal Antibodies
API	Active Pharmaceutical Ingredient
BSE	Mumbai Stock Exchange
CAP	College of American Pathologists
cGMP	Current Good Manufacturing Practices
COS	Certificate of Suitability
CRO	Contract Research Organisation
DMF	Drug Master File
DPCO	Drug Price Control Order
EDQM	European Directorate for Quality of Medicines
EPS	Earnings Per Share
ESOP	Employees Stock Options Plan
ETP	Effluent Treatment Plant
FTE	Full Time Equivalent
GCP	Good Clinical Practice
ICAI	Institute of Chartered Accountants of India
Indian GAAP	Indian Generally Accepted Accounting Principles
IPR	Intellectual Property Rights
MMF	Mycophenolate Mofetil
MRP	Mutual Recognition Procedure
NCEs	New Chemical Entities
OHSAS	Occupational Health Safety Assessment Series
OTC	Over the Counter
PCT	Patent Co-operation Treaty
R&D	Research and Development
ROW	Rest of the world
SEBI	Securities Exchange Board of India
TGA	Therapeutic Goods Administration
US GAAP	United States Generally Accepted Accounting Principles
USFDA	United States Food and Drug Administration
WTO	World Trade Organisation

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