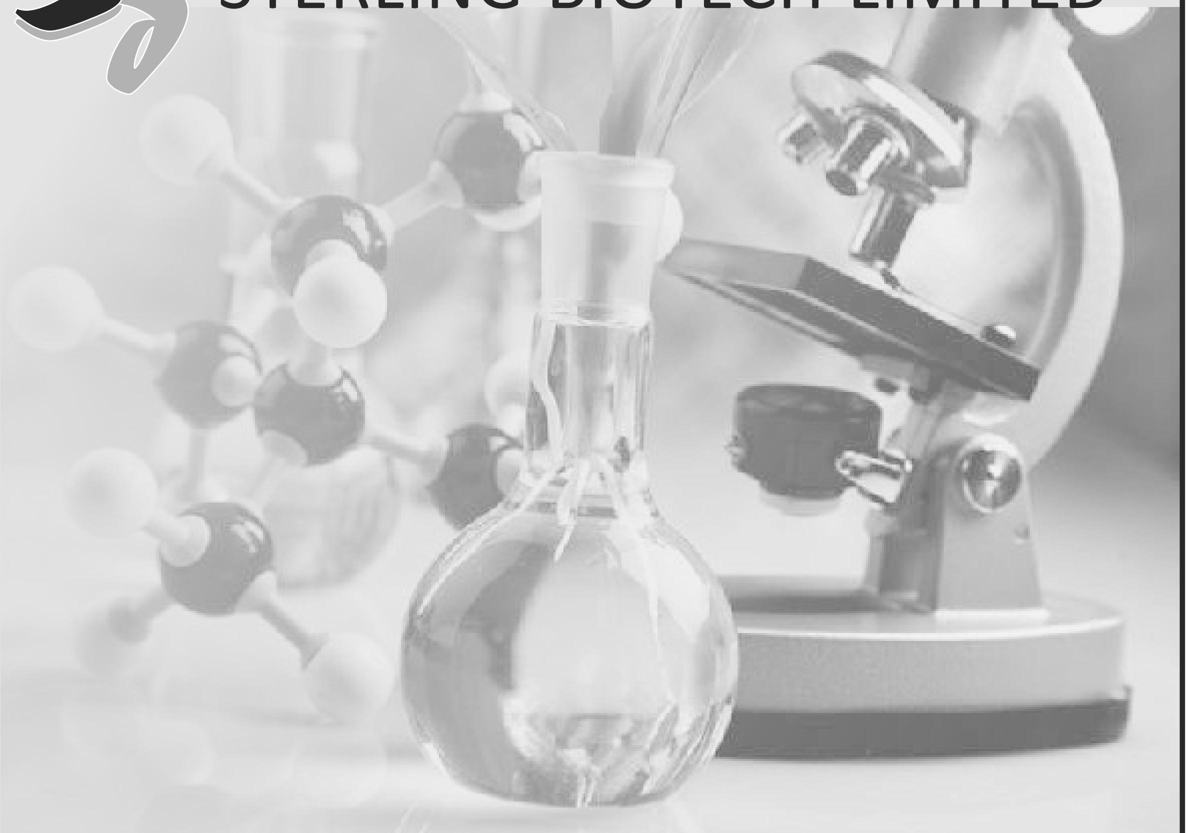
Annual Report 2012

STERLING BIOTECH LIMITED



BOARD OF DIRECTORS

Nitin J. Sandesara	-	Chairman and Managing Director
Chetan J. Sandesara	-	Joint Managing Director
Rajbhushan Dixit	-	Director
Vilas D. Joshi	-	Director
Priyadarshan B. Mehta	-	Director
Narendrabhai B. Patel	-	Director

BANKERS
Andhra Bank, Allahabad Bank
Bank of Baroda, Bank of India
Bank of Maharashtra
Catholic Syrian Bank Ltd.
Federal Bank, IDBI Bank
Indian Overseas Bank
Oriental Bank of Commerce
Punjab National Bank
State Bank of India
Syndicate Bank
Uco Bank, Vijaya Bank

AUDITORS
H. S. Hathi & Co.
Chartered Accountants

REGISTRAR & TRANSFER AGENT
Link Intime India Pvt. Ltd.
Unit: Sterling Biotech Limited
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (W), Mumbai - 400 078.
Ph.: 022-2594 6970 Fax: 022-2594 6969
Email: rnt.helpdesk@linkintime.co.in

REGISTERED OFFICE
43, Atlanta Building,
Nariman Point, Mumbai – 400 021.

Members are requested to bring their copy of the Annual Report
with them to the Annual General Meeting.

CONTENTS

DIRECTORS' REPORT

To
The Members
Sterling Biotech Limited

We have great pleasure in presenting the 27th Annual Report of the Company together with the audited statements of accounts for the year ended 31st December, 2012.

FINANCIAL HIGHLIGHTS

(` In Million)

Particulars	Year Ended 31st December 2012	Year Ended 31st December 2011
Sales	8,347.74	16,619.54
Total Income	8,417.97	16,712.62
EBIDTA from Operation	1,546.24	6,467.15
Interest	4,123.28	2,704.31
Depreciation	2,588.31	2,522.25
PBT and Extraordinary item	(5,165.35)	1,240.59
Extraordinary items	(12.19)	(962.27)
PBT	(5,177.54)	278.32
Provision for Current Tax	0.00	57.00
Provision for Deferred Tax	(1,679.80)	30.00
PAT	(3,497.74)	191.32

DIVIDEND

Having regard to the loss for the year ended 31st December, 2012, your Directors do not recommend any dividend for the year.

OPERATIONS

During the year under review, the company achieved a turnover (including other income) of ` 8,417.97 Million. The net loss from operations was ` 1,054.26 Million. The finance cost was ` 4,123.28 Million. The Loss before tax was ` 5,177.54 Million. After reducing the deferred tax, the loss after tax was ` 3,497.74 Million. The Net worth as at 31st December 2012 stood at ` 18,707.77 Million.

REASONS OF REDUCTION IN PROFITABILITY

The major reasons for reduction in profitability are, Increase in Effluent Treatment cost due to increase in standards, global economic slowdown, increase in cost of fuel, increase in the cost of raw materials, the selling prices have remained more or less stable there by the increase in cost could not be passed on to the buyer.

CORRECTIVE STEPS TAKEN BY MANAGEMENT

1. Company has taken action like thorough study on the effluent discharge issue, tightening of quality norms for effluent discharge from the plant, evaluation of requirement of modification of existing effluent discharge problem and the necessary CAPEX has also been incurred by the company.
2. The Company has put in place the cost control measures like hard negotiation with the material suppliers, improvement in and tightening up of cost control system etc.

Company expects that the combined effect of all these factors would be favorable for overall operations.

SUBSIDIARY COMPANY

The Company have formed Overseas Subsidiary namely, Sterling Fincom Private Limited, Mauritius which also has a subsidiary namely Sterling Commercial FZE, U.A.E and there are no business operations in the said subsidiaries.

QUALITY

Meeting the stringent quality standards required by our international clientele, our facilities have earned certifications including:

- Hazardous Analysis and Critical Control Point Certification (HACCP)
- ISO 9001
- ISO 14001
- European Directorate For Quality of Medicine Certification (EDQM).
- Kosher Certificate
- IFANCA Halal Certificate
- Trading House Certificate

MANAGEMENT DISCUSSION AND ANALYSIS

A separate report on Management Discussion and Analysis pursuant to Clause 49 of the Listing Agreement entered with stock exchanges is enclosed as a part of this Directors' Report.

REPORT ON CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement entered with stock exchanges, a separate section on Corporate Governance is attached to the Annual Report.

DIRECTORS

Shri Vilas Joshi and Shri P. B. Mehta, Directors of the Company, retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment. The Board recommends their re-appointment. The term of office of Shri Nitin Sandesara as Managing Director expired on 28th February, 2013. The Board of Directors at their meeting held on 1st March, 2013 re-appointed him as Managing Director for a further period of five years subject to your approval at the ensuing Annual General Meeting of the Company. The Board recommends his re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

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

i) That in the preparation of the Annual Accounts for the year ended 31st December, 2012 the applicable Accounting Standards had been followed along with proper explanation relating to material departures.

ii) That the Directors had selected such accounting policies and applied them consistently and made judgments 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 loss of the Company for the year under review;

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

iv) That the Directors have prepared the Annual Accounts for the year ended 31st December, 2012 on a going concern basis.

FIXED DEPOSITS

The Company did not accept any deposits from the Public during the year under review.

AUDITORS

M/s. H. S. Hathi & Co., Chartered Accountants, Auditors of the Company shall retire at the conclusion of the ensuing Annual General Meeting and having furnished the required certificate pursuant to Section 224(1B) of the Companies Act, 1956, are eligible for re-appointment. The Board recommends their re-appointment. In respect of observations made by the Auditors in their Report, your Directors wish to state that the respective notes to the accounts are self-explanatory, and do not call for any further comments.

INDUSTRIAL RELATIONS

The industrial relations of the Company continued to remain cordial. The Directors wish to place on record their sincere appreciation for the co-operation extended and the valuable contribution made by the employees at all levels.

PARTICULARS OF EMPLOYEES

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended regarding employees is given in annexure to the Director's Report. However, as per the provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the Annual Report is being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such information may inspect at or write to the Company's Registered Office address.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars of Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo required to be given by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are given in the Annexure to this Report in the prescribed format under these rules.

ACKNOWLEDGEMENTS

We appreciate the valuable co-operation extended by the Central and State Government Authorities and all other Regulatory Authorities and are extremely grateful to Financial Institutions, ECB Lenders, Facility Agent(s), FCCB Holders and our bankers for their continued assistance and guidance. We are also grateful to our employees, shareholders, GDR Holders, Depositories, customers for their co-operation and look forward to their support in the future.

For and on behalf of the Board of Directors

NITIN J. SANDESARA
Chairman and Managing Director

Place: Mumbai

Date: 1st March, 2013

ANNEXURE TO THE DIRECTORS' REPORT

Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, forming part of the Directors' Report for the year ended 31st December, 2012

A. CONSERVATION OF ENERGY

Energy Conservation Measures taken: The Company has undertaken various measures for conservation and saving of energy in critical areas including

1. Power factor improvement
2. Quicker heat transfer
3. Monitoring of combustion efficiency of boilers
4. Re-use of Steam condensate as boiler feed water
5. Optimum use of utility depending upon process requirement.

As in earlier years, your Company continued to envisage and implement energy conservation measures in various manufacturing operations leading to saving of quantitative consumption of power, fuel and oil etc. The Company is also carrying on continuous education and awareness program for its employees for Energy conservation and optimum use.

B. TECHNOLOGY ABSORPTION

Research & Development (R & D)

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

- Improvement of product quality
- Process improvements
- Cost effectiveness
- Elimination of waste in the systems

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

Improvement in yield and product quality, cost effectiveness and reduction in consumption of raw material and utilities.

3. Future plan of action:

The Company's effort will continue in the areas of product quality, process improvement technology with the aim of offering better products to meet consumer needs.

4. Expenditure on R & D:

a. Capital : ` 88.26 Million

b. Recurring : ` 223.88 Million

c. Total : ` 312.14 Million

d. Total R & D Expenditure as a percentage of total turnover: 3.74%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

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

After full absorption of technology imparted by foreign collaborations, innovations in process control, cost reduction and quality improvements are being made on a continuous basis.

2. Benefits derived as a result of the above efforts:

Improvements in productivity, cost of manufacturing, quality, waste elimination and flexibility in manufacturing.

3. Information regarding technology imported during last 5 years: Nil.

C. FOREIGN EXCHANGE EARNED AND USED

a. Earned : ` 2,229.68 million

b. Used : ` 107.57 million

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

Gelatin is derived from Latin word "Gelatus" which means frozen or stiff. Gelatin contains 80 to 90 % protein. Gelatin is a colorless, brittle, and solid substance derived from animal products and is experiencing steady growth over the last decade owing to its wide application in industries like pharmaceutical, food, cosmetics, and photography. Moreover, the growing economic development, which is having a direct impact on the living standard of consumers, is a major macro factor driving the market for gelatin. Europe leads the overall market for gelatin both in terms of production and consumption. However, the BSE (Bovine spongiform encephalopathy) outbreak in Europe left the gelatin producers with lower profit margins during that period of time. The steady economic development in China and India is expected to drive the market for Asia-Pacific.

The market for gelatin is primarily driven by its growing use in end user industries such as food and beverages, pharmaceutical, and cosmetics. Growing health concerns and the ageing population, especially in western countries, is also acting as one of the major factors driving this market. However, cultural barriers across the world to use gelatin derived from animals is acting as a major factor which is inhibiting the overall market growth. Moreover, growing regulatory issues primarily in the food industry are also acting as one of the challenges for the participants operating in the global market.

OPPORTUNITIES AND THREATS

As stated by Global Industry Analysts's market research report, Europe continues its domination over the worldwide Gelatin market in terms of production and consumption volumes, with Germany and Russia taking the lead as major gelatin markets in Western Europe. On the other hand, China and India tilt the growth balance in favor of Asia Pacific with a projected CAGR of about 3.7% through 2017. In terms of annual consumption volume, the Food & Beverage represents the largest end-use segment. Gelatin is also widely used as an adhesive agent in the Pharmaceuticals industry for tableting medicines in the form of both hard and soft capsules. The pharma segment is set to outpace the overall industry average with a growth rate of 4.4% over the analysis period.

The food industry is largely governed by health-related regulatory issues and growing emphasis on healthy, low fat food, prompting the growth of gelatin substitutes free from animal content. . However, while these alternatives meet some gelatin characteristics, none is yet available that matches all the functions such as gelling, binding, thickening, stabilizing, film forming, and aerating properties.

SEGMENT WISE / PRODUCT WISE PERFORMANCE

Sterling Biotech's manufacturing facilities employ the latest innovations in technology for the production of gelatin. It operates two manufacturing facilities in Vadodara, Gujarat and one in Ooty, TN. The company's facilities at Karakhadi and Ooty are engaged in manufacturing gelatin while Masar plant manufactures pharma products namely Lovastatin, DOXO Rubicin, EPI Rubicin, Daunorubicin, IMATINIB, IDARUBICIN, DACARBAZINE. In a highly capital-intensive industry, Sterling has developed world-class technology for gelatin by establishing state-of-the-art facilities. Sterling is one of the very few manufacturers having high Lovastatin manufacturing capacity. The existing manufacturing facility serves as a multi product manufacturing facility which can manufacture various pharma products.

The fermentation facility of Masar plant is one of the largest fermentation facilities in India.

Brief overview of pharma products manufactured by the Company is as under:

Lovastatin is a cholesterol-lowering agent that belongs to the class of medications called statins

DOXO Rubicin is an anti-cancer chemotherapy drug and is classified as an anthracycline antibiotic

EPI Rubicin is an anthracycline drug used for chemotherapy

Daunorubicin is used to treat acute lymphocytic and myelocytic leukemias.

IMATINIB is a drug used to treat certain cancers

IDARUBICIN is an anti-cancer (antineoplastic or cytotoxic) chemotherapy drug. This medication is classified as an anthracyline antitumor antibiotic

DACARBAZINE –It is used to treat Hodgkin disease and malignant melanoma

Temozolamide – It is an oral alkylating agent used for the treatment of Grade IV astrocytoma

OUTLOOK

The amendments in the safety of Bovine Bone Gelatines being projected by important world organisations, the export demand for Gelatine is expected to improve in the coming years. However, there would remain pressure on raw material prices and its availability. Prices for Gelatine are likely to remain firm given these conditions in the short to medium. There by impacting the margins. The company aims to focus its attention more on its Pharma products for its future growth. Continuous innovation in Research and development will help the company to have a sound future. Expansion of the product portfolio and stricter credit policy would help the company to overcome some of its deficiencies. Cost control through long term contracts with suppliers and tightening of expenses would help the company to improve its margins.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has adequate internal control systems to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and the transactions are authorized, recorded and reported correctly.

The internal control is designed to ensure that the financial and other records are reliable for preparing financial statements.

The Company has in place documented procedures covering all financial and operational functions commensurate with its size and complexity.

DEVELOPMENT IN HUMAN RESOURCES MANAGEMENT

Sterling believes that Human Resources always pay a very key role in the future growth of the company. It recognizes employees as the most valued asset. By providing on job and off job training, continuous development and learning initiatives for improvement in professional competencies, the management aims to achieve high standards of human resource development.

The Company has 1380 Employees.

RESEARCH & DEVELOPMENT

Sterling Biotech undertakes research & development activities at its in-house R&D centres which look after at specific areas of improvement of product quality, process improvements, cost effectiveness and elimination of waste in the systems. The company also carries out R&D work on fermentation products, API and intermediates.

The company has invested significant amount of resources on Research & Development and has set up a state-of-the-art R&D facility in the name of *"Sterling Biotech Research Centre"* at its Masar plant, Vadodara, which is engaged in development of complex and niche generic active substances for leading generic players from Europe and other regulated market. For company, the R&D is an integral part of process and product development.

The Company also has a microbiology laboratory which is equipped with all facility to handle culture maintenance, inoculums preparation and propagation, in-process batch analysis, shake flask trials.

QUALITY CERTIFICATIONS

In accordance with Sterling's policy to achieve and maintain the highest standards of quality the Company has the following quality certifications.

- Kosher Certifications: This certifies that the Jewish population can consume Sterling's gelatin and that the inputs used for gelatin production are in accordance with the religious standards of the Jewish community.
- Ifanka Certification: This is required for Halal certification, which certifies that the gelatin is manufactured using Halal-defined processes and can be used by the Muslim population.

- HACCP (Hazardous Analysis and Critical - Control Point) Certification: This certifies the manufacturing process with the highest and most consistent quality and safety of product. Also ensures the availability of fallback measures in case of unfortunate events.
- ISO 9001 – denotes that the production process is in accordance with standards laid down by the International Standards Organizations.
- ISO 14001 – signifies that the environment management system is in compliance with the Environmental Management System Standard.
- EDQM (European Directorate for Quality of Medicines) – this certification denotes that the product is in compliance with the European Union pharmacopeia.

OPERATING AND FINANCIAL PERFORMANCE

The highlights of Sterling Biotech's financial performance during 2012 were:

- The company achieved a turnover (including other income) of ` 84,179.73 Lacs.
- EBIDTA from operations was ` 15,462.38 Lacs.
- The finance cost was ` 41,232.82 Lacs. Leading to Loss before tax of ` 51,775.40 Lacs.
- After reducing the deferred tax, the loss after tax was ` 34,977.40 Lacs.
- Net worth as at 31st December 2012 stood at ` 187,077.74 Lacs

Few of the major reasons contributing to the reduction in profitability during 2012 are as under:

- Change in the effluent discharge standards / norms by the State pollution control board. This has necessitated the improvement in our effluent treatment capabilities by improving our Effluent Treatment Plants (ETP) which frequent variations in the effluents. This has led to intermittent shutdown of the plant during the first half of 2012.
- The global economic slowdown led to decrease in demand for high end Gelatin & related products.
- Slowdown in European, USA and Japanese markets which lead to slow off take of gelatin and allied products, increase in receivables and inventory levels.
- Stringent regulation / norms required to be followed by slaughter houses for meat exports to EU countries and other developed countries lead to temporary closure of many slaughter houses for improvement in the facility to meet those norms. It lead to poor availability of Raw materials. Further it also lead to increase in Raw Material prices resulting in impact on gross margin.
- Increase in Cost of Fuel (Furnace oil & HSD) resultant increase in Cost of production.
- Increase in the Finance cost also lead to further reduction in net profits.
- In response to above increase in cost, the selling price had no matching upward effect causing drastic erosion in the profitability.

RISK AND CONCERNS

Statements in the Management's Discussion and Analysis describing the Company's projections, estimates, expectations or predictions may be "forward looking predictions" within the meaning of applicable securities laws and regulations. Actual results may differ from such estimates, projections, etc., whether expressed or implied. Factors which would make a significant difference to the Company's operations include achievement of better quality and good market price in domestic and overseas market, changes in Government regulations and tax laws, economic conditions affecting demand / supplies and other environmental factors over which the Company does not have any control.

REPORT ON CORPORATE GOVERNANCE

I) CORPORATE GOVERNANCE PHILOSOPHY

At Sterling Biotech Limited, we view sound corporate governance as an integral part of our efforts to enhance shareholders value. We endeavor to safeguard the interests of investors, customers, suppliers and lenders and build the confidence of society in general. We adopt a philosophy of Professionalism, transparency and accountability in all areas.

II) BOARD OF DIRECTORS (BOARD):

Presently, the Board comprises of 6 Directors of whom 4 are Non-executive Directors and a majority of them being independent. All Directors are eminent industrialists and/or professionals with experience in overall management, finance and law, who bring a wide range of skills and experience to the Board

a. Composition of the Board

Name	Designation	No. of other Directorships and Committees Memberships / Chairmanships			Relationships with other Directors
		Other Directorships	Committee Memberships	Committee Chairmanships	
Nitin J. Sandesara	Chairman and Managing Director - Executive	32	–	–	Brother of Shri Chetan J. Sandesara
Chetan J. Sandesara	Joint Managing Director - Executive	63	–	–	Brother of Shri Nitin J. Sandesara
R. B. Dixit	Independent & Non-executive Director	4	2	2	None
Vilas D. Joshi	Independent & Non-executive Director	6	–	–	None
Priyadarshan B. Mehta	Independent & Non-executive Director	6	–	–	None
Narendrabhai B. Patel	Independent & Non-executive Director	1	–	–	None

b. Number of Board Meetings

During the year under review the Board of Directors met 10 times on the following dates: 12-02-2012, 14-02-2012, 29-02-2012, 15-04-2012, 20-04-2012, 15-05-2012, 02-07-2012, 14-08-2012, 15-10-2012, 09-11-2012.

c. Attendance of Directors:

Name	Meetings Attended	Attended last AGM on 30th June 2012
Nitin J. Sandesara	7	YES
Chetan J. Sandesara	9	NO
R. B. Dixit	8	YES
Vilas D. Joshi	5	YES
Priyadarshan B. Mehta	5	NO
Narendrabhai B. Patel	5	NO

III) CODE OF CONDUCT

The Board lays down code of conduct for Board members and senior management of the Company and is posted on the website of the Company. The Board members and senior management personnel affirm compliance to the code of conduct.

IV) COMMITTEE OF DIRECTORS

The involvement of Non-executive Directors in providing guidance on policy matters to the operating management is formalized through constitution of committees of the Board. The Committees provide periodical and regular exchange of information and ideas between the Directors and the Operating Management. The Board constituted following committees.

AUDIT COMMITTEE

The Committee reviews the Company's financial reporting process, disclosure norms, internal control systems, accounting policies and practices, reports of the Company's Internal Auditors, quarterly/half yearly financial statements as well as its financial risk policies. It also recommends appointment of statutory auditors, fixes audit fees and reviews internal control systems, scope for observations of the auditors and adequacy of the internal audit function. During the year under review, the committee met five times on 14-02-2012, 29-02-2012 (Adoption of Annual Accounts), 15-05-2012, 14-08-2012 and 09-11-2012 and the meeting was attended by all the Directors of the Audit Committee namely Shri R. B. Dixit, Shri V. D. Joshi and Shri P. B. Mehta.

INVESTORS/SHAREHOLDERS GRIEVANCE COMMITTEE

The Committee comprises of Shri R. B. Dixit, Shri P. B. Mehta and Shri N. B. Patel. The Committee redresses shareholder and investors complaints like a delay in transfer of shares, non-receipt of dividend, non-receipt of balance sheet etc. During the year the committee met two times.

REMUNERATION COMMITTEE OF THE BOARD

The Committee comprises of Shri R. B. Dixit, Shri P. B. Mehta and Shri N. B. Patel to recommend and review the remuneration package of Directors based on performance, industry practice and defined criteria. During the year, the Committee met one time.

DETAILS OF REMUNERATION TO DIRECTORS FOR THE YEAR

The aggregate value of salary and perquisites payable for the year ended 31st December, 2012 to Nitin Sandesara, Chairman and Managing Director is ` 24 lacs and to Chetan Sandesara, Joint Managing Director is ` 24 lacs.

V) GENERAL BODY MEETINGS:

Year	Venue	Date	Time	Any Special Resolution	Kind of Meeting
2012	Bhakti Kala Kshetra, International Society for Krishna Consciousness (ISKCON), Founder Acharya : His Divine Grace A.C. Bhaktivedanta Swami Prabhupada, Hare Krishna Land, Juhu, Mumbai-400 049	30th June, 2012	10.30 a.m.	No	AGM
2011	Shri Bhaidas Maganlal Sabhagriha, Swami Bhaktivedant Marg, J.V.P.D. Scheme, Vile Parle (West), Mumbai – 400 056.	30th June, 2011	10.30 a.m.	No	AGM
2010	Shri Bhaidas Maganlal Sabhagriha, Swami Bhaktivedant Marg, J.V.P.D. Scheme, Vile Parle (West), Mumbai – 400 056.	30th June, 2010	10.30 a.m.	Yes	AGM

Special Resolution if any passed by postal ballot : NIL

VI) DISCLOSURES

1. As required under the Companies Act, the Directors disclose the name of the Companies/ Parties in which they are interested. In terms of Accounting Standard AS-18, details of related party transaction during the year have been set out under Note 26 B annexed to the Balance Sheet and Profit and Loss Account. However, they are not having any potential conflict with the interests of the Company at large.
2. There has been no non-compliance of any legal requirements nor have there been any strictures imposed by any stock exchange or SEBI, on any matters relating to the capital market, over the last three years.

VII) MEANS OF COMMUNICATION

a. Quarterly / Annual financial results are forwarded to the Stock Exchanges where the shares of the Company are listed and published in the Free Press Journal in English and the Nav Shakti paper in Marathi.
b. A Management Discussion & Analysis Report is annexed to the Directors' Report to the Shareholders.

VIII) GENERAL SHAREHOLDER INFORMATION

A. ANNUAL GENERAL MEETING:

Date : 29^{th} day of June, 2013

Time : 10.30 A.M.

Venue : Bhakti Kala Kshetra, International Society for Krishna Consciousness (ISKCON),
Founder Acharya : His Divine Grace A.C.
Bhaktivedanta Swami Prabhupada, Hare Krishna Land, Juhu, Mumbai - 400 049

B. DATE OF BOOK CLOSURE:

Tuesday, the 25^{th} day of June, 2013 to Saturday, the 29^{th} day of June, 2013 (both days inclusive)

C. FINANCIAL CALENDAR 2013:

Board Meeting

Unaudited Results – Qtrly. March 2013	:	May 2013
Unaudited Results – Qtrly. June 2013	:	August 2013
Unaudited Results – Qtrly. September 2013	:	November 2013
Audited Accounts – December 2013	:	February 2014
Annual General Meeting	:	June 2014 (Next Year)

D. STOCK EXCHANGES WHERE SECURITIES ARE LISTED

The Company's equity shares are listed on the BSE and NSE. Global Depository Receipts (GDRs) are listed on the Luxembourg Stock Exchange. Foreign Currency Convertible Bonds 2012 are listed on the Singapore Stock Exchange. 12.00% Secured Redeemable Non-Convertible Debentures are listed on the Bombay Stock Exchange Limited (BSE) in Debt Segment.

Name of Stock Exchange	Code/Symbol
Bombay Stock Exchange Limited (BSE) (Equity)	512299
National Stock Exchange of India Limited (Equity)	STERLINBIO
Luxembourg Stock Exchange (GDRs)	CUSIP No. : 85916G108 Common Code : 017757709 ISIN : US85916G1085
Singapore Stock Exchange FCCB due 2012	Common Code : 029812535 ISIN : XS0298125351
Bombay Stock Exchange Limited (BSE) (Debentures)	945828

E. Stock Price Data

Month	BSE		NSE	
	High `	Low `	High `	Low `
January 2012	20.25	10.65	20.35	10.65
February 2012	14.97	12.01	14.85	11.95
March 2012	13.09	8.91	13.20	8.90
April 2012	12.80	9.00	13.05	9.05
May 2012	9.64	7.11	9.55	7.10
June 2012	7.35	5.45	7.45	5.45
July 2012	10.10	6.36	9.95	6.40
August 2012	7.31	5.20	7.40	5.30
September 2012	7.24	5.91	7.25	5.90
October 2012	6.94	5.28	6.90	5.25
November 2012	6.38	4.94	6.35	4.85
December 2012	6.10	5.00	6.10	4.95

F. SHARE TRANSFER SYSTEM

Our RTA is Link Intime India Pvt. Ltd. Share sent for physical transfers are registered and returned within a stipulated time frame, if the documents filed are clear in all respects. Officers/Directors of the Company have been authorized to approve transfers. Trading in equity shares of the Company is permitted only in dematerialized form w.e.f. 26-02-2001. All requests for dematerialization of shares are processed and the confirmation is given to the respective depositories, i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within a stipulated time frame. Upto 31-12-2012, 95.66% equity shares of the company have been dematerialized.

Total Number of shares transferred in the non-dematerialized form during the year 2012 i.e. from 01.01.2012 to 31.12.2012 were 30,000.

G. Shareholding Pattern – as on 31st December 2012

No.	Category	No. of Shareholder	Percentage	No. of Equity Shares	Percentage
1.	Indian Promoters	33	0.09	90840135	33.91
2.	FIs / MFs / Banks	6	0.02	7003	0.00
3.	Indian Companies	687	1.92	45334801	16.92
4.	Resident Individuals	34421	95.95	51710382	19.31
5.	Clearing Members	179	0.50	5632310	2.10
6.	NRIs/OCBs/FIIs/FCs	544	1.52	29171594	10.89
7.	Trust	1	0.00	5000	0.00
8.	Underlying Shares out of GDR's	1	0.00	45172365	16.86
	TOTAL	35872	100.00	267873590	100.00

Distribution of Shareholding – as on 31st December 2012

No	No. of shares Held	No. of Shareholders	% of Holders	Holding	% of Holding
1	1 – 5000	33922	94.57	27699568	10.34
2	5001 – 10000	1043	2.90	8147966	3.04
3	10001 – 20000	456	1.27	6559477	2.45
4	20001 – 30000	131	0.37	3260480	1.22
5	30001 - 40000	60	0.17	2149227	0.80
6	40001 – 50000	44	0.12	2042095	0.76
7	50001 - 100000	94	0.26	6908156	2.58
8	100001 & Above	122	0.34	211106621	78.81
	TOTAL	35872	100.00	267873590	100.00

H. DEMATERIALISATION OF SHARES

ISIN Number for Equity Shares of the Company in NSDL & CDSL: INE324C01038

Total No. of Shares dematerialized upto 31-12-2012: 259,819,617

With NSDL 173,152,752

With CDSL 86,666,865

I. OUTSTANDING GDRS, FCCBS OR OTHER CONVERTIBLE AND NON-CONVERTIBLE INSTRUMENTS

As of date, the Company has the following outstanding instruments:

1. GDRs:

   7,528,727 GDRs representing in aggregate 45,172,365 equity shares of ` 1/- each.

2. FCCBs:

   (a) Zero Coupon FCCB due 2012 aggregating to USD 134.5 Million. FCCBs are convertible into equity shares at the option of the bond holders at a price of ` 163.13 and fixed rate of exchange is ` 42.00.

   The outstanding but matured FCCBs if converted into equity shares will increase the equity capital by approx 34,628,823 equity shares and post conversion capital of the Company would reach approx 302,502,413 equity shares of ` 1 each.

3. Debentures:

   (a) 12.00% Secured Redeemable Non-Convertible Debentures due 2015 of ` 300 Crores.

J. PLANT LOCATION

1. ECP Road, Village Karakhadi – 391 450, Tal. Padra, Dist. Baroda, Gujarat.
2. Village Masar, Jambusar Road, Tal. Padra, Dist. Vadodara, Gujarat
3. Sandyanalla, Sholur Gram Panchayat, Ottacamund, Dist. The Nilgiries, Tamilnadu

K. ADDRESS FOR CORRESPONDENCE

Shareholders can correspond at the Registered Office of the Company at Mumbai and / or Registrar & Transfer Agent - Link Intime India Pvt. Ltd., Unit: Sterling Biotech Limited, C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (W), Mumbai - 400 078. Ph.: 022-2594 6970 Fax: 022-2594 6969, Email: rnt.helpdesk@linkintime.co.in.
Investor complaints may be addressed to: investorscomplain@stergel.com.

L. Complaints by Shareholders & their redressal

Nature of Complaints	Received	Solved
Non-receipt of Share Certificate	3	3
Non-receipt of Dividend Warrants	12	12
Non-receipt of Demat Credit / Remat Certificate	1	1
Non-receipt of Annual Report	7	7
Non-receipt of Exchange Certificates	4	4
Others	13	13

CERTIFICATE

To
The Members
Sterling Biotech Limited
Mumbai

We have examined the compliance of conditions of Corporate Governance by Sterling Biotech Limited, for the year ended 31st December, 2012, as stipulated in Clause 49 of the Listing Agreement with the 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 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 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 H. S. Hathi & Co.
Chartered Accountants
Firm Reg. No.: 103596W

HEMANT S. HATHI
Partner
Membership No.: 37109

Place: Mumbai
Date : 1st March, 2013

CERTIFICATION BY CHIEF EXECUTIVE OFFICER (CEO) PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

I, Shri Nitin Sandesara, in my capacity as Chief Executive Officer (CEO) of the Company hereby certify that -

a. I have reviewed the financial statements and the cash flow statement for the year ended 31 December, 2012 and that to the best of my knowledge and belief:

   i) These statements do not contain any material untrue statement or omit any material fact or contain statement that might be misleading.

   ii) These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are, to the best of my knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violated the Company's code of conduct.

c. I accept responsibility for establishing and maintaining internal controls for financial reporting and that I have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and I have disclosed to the Auditors and Audit Committee, deficiencies in the design or operations of such internal controls, if any, of which I am aware and the steps I have taken or propose to take to rectify these deficiencies.

d. I have indicated to the Auditors and the Audit Committee:

   i) Significant changes in internal control over financial reporting during the year;

   ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

   iii) Instances of significant fraud of which I have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

For Sterling Biotech Limited

NITIN SANDESARA
Chairman and Managing Director

Place: Mumbai
Date: 1st March, 2013

DECLARATION BY THE MANAGING DIRECTOR UNDER CLAUSE 49 OF THE LISTING AGREEMENT REGARDING COMPLIANCE WITH CODE OF CONDUCT

In Accordance with Clause 49 I (D) of the Listing Agreement with the Stock Exchanges, I hereby confirm that, all the Directors and the Senior Management personnel of the Company have affirmed compliance with the Code of Conduct, as applicable to them, for the Financial Year ended on 31st December, 2012.

For Sterling Biotech Limited

NITIN SANDESARA
Chairman and Managing Director

Place: Mumbai
Date: 1st March, 2013

FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Members of
STERLING BIOTECH LIMITED

1. We have audited the attached Balance Sheet of STERLING BIOTECH LIMITED as at 31st December 2012 and also the Profit & 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 this financial statement based on our audit.

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

3. As required by the Companies (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 in paragraph 3 above, we state that:

   a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our Audit;

   b) In our opinion, Proper books of account, as required by law, have been kept by the company, so far as appears from our examination of those books;

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

   d) In our opinion, the Balance Sheet, Profit & 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.

   e) On the basis of the written representations received from the Directors as on 31st December, 2012, and taken on record by the Board of Directors, we report that none of the Directors of the company are disqualified as on 31st December, 2012 from being appointed as a Director in terms of Clause (g) of the sub-section (1) of section 274 of the Companies Act, 1956.

   f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the other notes thereon give, the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      i) In the case of the Balance Sheet, of the state of affairs of the company as at 31st December, 2012;

      ii) In the case of the Profit & Loss Account, of the loss of the company 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 H. S. HATHI & CO.
Chartered Accountants
Firm Regn No. 103596W

HEMANT S. HATHI
Partner
Membership No 037109
Place : Mumbai
Dated : 1st March, 2013

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE TO THE MEMBERS OF STERLING BIOTECH LIMITED ON THE ACCOUNTS AS AT AND FOR THE PERIOD ENDED 31ST DECEMBER, 2012.

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

(b) Fixed assets have been physically verified by the management based on a phased program of verification of all the assets during the year, which in our opinion is reasonable having regard to the size of the company and the nature of its business. No material discrepancies were noticed on such verification.

(c) As per the information and explanations given to us, during the year, the company has not disposed off any substantial part of fixed assets that would affect the going concern.

(ii) (a) As explained to us inventories have been physically verified by the management at reasonable intervals during the year.

(b) In our opinion and according to information and explanations given to us, the procedure of physical verification of inventories followed by the management is reasonable and adequate in relation to the size of the company and the nature of its business.

(c) On the basis of our examinations of records of inventories, we are of the opinion that the company is maintaining proper records of the inventory. As explained to us, no material discrepancies have been noticed on physical verification of inventories as compared to Books records.

(iii) (a) The Company has granted unsecured loan to companies covered in the register maintained under section 301 of the companies Act, 1956. The Maximum amount involved during the year was ` 221.46 crore and the year end balance of loans granted to such parties was ` 83.68 crore.

(b) In our opinion, terms and conditions on which loans granted to companies listed in the register maintained under section 301 of the Companies Act, 1956 are not, *prima facie*, prejudicial to the interest of the company.

(c) There are no overdue amounts of Loans granted to companies listed in the register maintained under section 301 of the Companies Act, 1956.

(d) According to the information and explanations given to us, the company has not taken any unsecured loan from companies, firms and other parties covered in the Register maintained under section 301 of the Companies Act, 1956.

(iv) According to information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business for the purchase of inventory and fixed assets and sales of Goods and service. We have not observed any continuing failure to correct major weakness in internal controls.

(v) (a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements that need to be entered in to the register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, there are no transactions of purchase of Goods and materials and sales of Goods, material & services made in pursuance of contracts or arrangements required to be entered in the register maintained under section 301 of the Companies Act, 1956, aggregating during the year to ` 5,00,000/- or more in respect of each party.

(vi) The Company has not accepted any deposits from the public and hence directives issued by the Reserve Bank of India and provisions of section 58A and 58AA or any other relevant provisions of the companies Act, 1956 and rules framed there under are not applicable for the year under audit.

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

(viii) We have broadly reviewed the books of accounts maintained by the company pursuant to the rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the companies Act, 1956 and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.

(ix) (a) According to the records of the company, the company has been regular in depositing with appropriate authorities, Undisputed statutory dues including Provident Fund, Income tax, Sales Tax / VAT, Wealth tax, Service Tax, Custom duty, Cess and other statutory dues.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of such statutory dues were outstanding as at the 31st December 2012 for a period of more than six months from the date they became payable .

(c) According to the information and explanations given to us, there are no such statutory dues which have not been deposited on account of any dispute.

(x) The Company has incurred cash losses during the year but not in the immediately preceding financial year. The company does not have any accumulated losses.

(xi) According to the information and explanations given to us by the management, and on the basis of records examined by us, the company has defaulted in the repayment of the dues to financial institutions or banks or debenture holders. The amount outstanding and overdue for less than 60 days is ` 238.32 crores and for more than 60 days is ` 2,172.07 crores.

(xii) 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.

(xiii) In our opinion, the Company is not a chit fund, a nidhi or a 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.

(xiv) In our opinion, the company is maintaining proper record and making timely entries in respect of shares, securities, debentures and other investments. Further all the investments made by the company are held in its own name.

(xv) In our opinion, the terms and conditions on which the company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the company.

(xvi) According to the information and explanations given to us by the management, the term loans were applied for the purpose for which the loans were obtained.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that no funds raised on short term basis have been used for long term investments. No long term funds have been used to finance short term assets except permanent working capital.

(xviii) According to the information and explanations given to us, during the year the Company has not made any preferential allotment of shares to the parties or companies covered in the register maintained under section 301 of the companies Act, 1956.

(xix) During the period covered by our report, the company has not issued any debentures and hence clause 4(XIX) of the companies (Auditor's Report) Order, 2003 is not applicable to the company.

(xx) During the period covered by our report, the company has not raised any money by way of public issue.

(xxi) According to the information and explanations given to us no frauds on or by the company has been noticed or reported during the year.

For H. S. HATHI & CO.
Chartered Accountants
Firm Regn No. 103596W

HEMANT S. HATHI
Partner
Membership No 037109
Place : Mumbai
Dated : 1st March, 2013

BALANCE SHEET AS AT 31st DECEMBER, 2012

(Amount in `)

PARTICULARS	NOTE	As at 31st December, 2012	As at 31st December, 2011
Equity and Liabilities			
Shareholders' Funds			
Share capital	3	267,873,590	267,873,590
Reserves and surplus	4	18,439,900,028	24,641,013,672
		18,707,773,618	24,908,887,262
Non-current Liabilities			
Long-term borrowings	5	11,373,494,284	15,064,734,616
Deferred tax liability (Net)	6	1,468,401,369	3,148,201,369
		12,841,895,653	18,212,935,986
Current Liabilities			
Short-term borrowings	7	14,717,896,791	12,260,269,875
Trade payables	8	264,989,370	438,788,890
Other current liabilities	9	24,225,908,922	15,444,040,112
Short-term provisions	10	78,318,430	79,764,758
		39,287,113,513	28,222,863,634
TOTAL		70,836,782,784	71,344,686,881
ASSETS			
Non-current Assets			
Fixed Assets			
Tangible Assets	11	36,331,308,939	29,420,986,569
Capital work-in-progress		15,518,122,866	16,455,063,138
Investments	12	3,765,106,519	3,650,032,593
		55,614,538,324	49,526,082,300
Current Assets			
Inventories	13	8,699,373,868	10,087,911,756
Trade receivables	14	3,470,959,962	7,230,116,749
Cash and Bank balances	15	178,330,754	219,872,188
Short-term loans and advances	16	2,873,579,876	4,268,516,620
Other Current Assets		-	12,187,269
		15,222,244,460	21,818,604,581
TOTAL		70,836,782,784	71,344,686,881
Significant Accounting Policies	2		
The notes are an integral part of this financial statements			

As per our report of even date attached
For H.S.HATHI & CO.
Chartered Accountants
Firm Regn. No. 103596W

HEMANT S. HATHI
Partner
MEMBERSHIP NO. 37109
Place : Mumbai.
Dated : 1st March 2013

For and on behalf of the Board of Directors

Nitin J. Sandesara
Chairman and Managing Director

Chetan J. Sandesara
Joint Managing Director

Rajbhushan O. Dixit
Director

STATEMENT OF PROFIT & LOSS FOR THE YEAR ENDED 31st DECEMBER, 2012 (Amount in `)

PARTICULARS	NOTE	For the Year ended 31st December 2012	For the Year ended 31st December 2011
Income			
Revenue from operations (net)	18	8,347,741,871	16,619,539,356
Other income		70,231,210	93,078,221
Total Revenue (I)		8,417,973,081	16,712,617,577
Expenses			
Cost of Material Consumed	19	6,144,501,549	10,279,959,845
Change in inventories of finished goods and work-in-progress	20	(335,081,753)	(1,483,668,774)
Employee benefits expense	21	536,802,751	505,656,257
Other expenses	22	525,512,257	943,524,012
Total (II)		6,871,734,804	10,245,471,340
Earnings before interest, tax, depreciation, amortisation and before exceptional item (I - II)		1,546,238,277	6,467,146,237
Depreciation		2,588,308,614	2,522,246,281
Finance costs		4,123,282,071	2,704,308,412
Profit/(Loss) before exceptional item and tax		(5,165,352,409)	1,240,591,544
Less : Extraordinary Item		(12,187,269)	(962,270,850)
Profit/(Loss) before tax		(5,177,539,678)	278,320,694
Tax expense			
- Current tax		–	57,002,200
- Deferred tax		(1,679,800,000)	30,001,369
Total Tax expense		(1,679,800,000)	87,003,569
Profit/(Loss) after tax		(3,497,739,678)	191,317,125
Prior Year Adjustment		–	8,168,520
Profit/(Loss) for the year		(3,497,739,678)	199,485,645
Earning per equity share [Face value of ` 1/- each]	23		
- Basic		(13.06)	0.71
- Diluted		(11.56)	0.63
Significant Accounting Policies	2		
The notes are an integral part of this financial statements			

As per our report of even date attached
For H.S.HATHI & CO.
Chartered Accountants
Firm Regn. No. 103596W

HEMANT S. HATHI
Partner
MEMBERSHIP NO. 37109
Place : Mumbai.
Dated : 1st March 2013

For and on behalf of the Board of Directors

Nitin J. Sandesara
Chairman and Managing Director

Chetan J. Sandesara
Joint Managing Director

Rajbhushan O. Dixit
Director

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

Note	
1.	**Nature of Operations** Sterling Biotech Limited ("The Company") is engaged in the manufacturing of Pharma Grade Gelatine & Di-Calcium Phosphate and other Pharma products.
2.	**Summary of Significant Accounting Policies**
2.1.	**Basis of preparation** These financial statements have been prepared in accordance with the generally accepted accounting principles in India under the historical cost convention on accrual basis. These financial statements have been prepared to comply in all material aspects with the accounting standards notified under Section 211(3C) [Companies (Accounting Standards) Rules, 2006, as amended] and the other relevant provisions of the Companies Act, 1956. All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule VI to the Companies Act, 1956. Based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current - non current classification of assets and liabilities.
2.2.	**Use of estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the amount of revenues and expenses during the reporting period end. Difference between the actual results and estimates are recognised in the period in which results are known / materialised.
2.3.	**Tangible Assets** Tangible Assets are stated at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Subsequent expenditures related to an item of fixed asset are added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance. Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the Statement of Profit and Loss. Loss arising from the retirement of, and gains or losses arising from disposal of fixed assets which are carried at cost are recognised in the Statement of Profit and Loss.
2.4.	**Depreciation / Amortisation** Depreciation is provided on pro-rata basis on the Straight Line Method (SLM) at the rates and in the manner prescribed under schedule XIV of the Companies Act, 1956 on all assets. Depreciation pertaining to revalued amounts is withdrawn from Revaluation Reserve Account and credited to the statement of Profit and Loss.
2.5.	**Borrowing costs** General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in Statement of Profit and Loss in the period in which they are incurred.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

Note	
2.6.	Impairment Assessment is done at each Balance Sheet date as to whether there is any indication that an asset (tangible and intangible) may be impaired. For the purpose of assessing impairment, the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets, is considered as a cash generating unit. If any such indication exits, an estimate of the recoverable amount of the asset/cash generating unit is made. Assets whose carrying value exceeds their recoverable amount are written down to the recoverable amount. Recoverable amount is higher of an asset's or cash generating unit's net-selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Assessment is also done at each Balance Sheet date as to whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased.
2.7.	Inventories Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost (WAC) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.
2.8.	Revenue Recognition Sale of goods: Sales are recognised when the substantial risks and rewards of ownership in the goods are transferred to the buyer as per the terms of the contract and are recognised net of trade discounts, rebates, sales taxes and excise duties.
2.9.	Other Income Interest: Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. Export Benefits: The Company accounts for export benefit entitlements under the Duty Entitlement Pass Book Scheme of Government of India, on accrual basis.
2.10.	Foreign Currency Translations Foreign currency transactions during the year are recorded at the exchange rate prevailing on the date of the transactions. Exchange difference on settlement of transactions of fixed assets is capitalized with acquisition cost of fixed assets. The balance exchange fluctuation is charged to revenue. Current Assets and Liabilities are translated at year-end exchange rates.
2.11.	Retirement Benefits Retirement benefits payable to employees is charged to revenue on accrual basis. Employer's contribution to Provident Fund is accounted for on accrual basis.
2.12.	Employee Benefits
a.	Short Term Employee benefits All Short term employee benefit plans such as salaries, wages, bonus, special awards and medical benefits which fall due within 12 months of the period in which the employee renders the related services which entitles him to avail such benefits are recognised on an undisclosed basis and charged to the Statement of Profit & Loss.
b.	Defined Contribution Plan The company has a statutory scheme of Provident Fund with the Regional Provident Fund Commissioner and contribution of the company is charged to the Statement of Profit & Loss on accrual basis.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

Note	
c.	Defined Benefit Plan The Company's liability towards gratuity to its employees is covered by a group gratuity policy with LIC of India. The contribution paid / payable to LIC of India is debited to the statement of Profit & Loss on accrual basis. Liability towards gratuity is provided on the basis of an actuarial valuation using the Projected Unit Credit method and debited to the Statement of Profit & Loss on accrual basis. Thus charge to the Statement of Profit & Loss includes premium paid to LIC, current service cost, interest cost, expected return on plan assets and gain/loss in actuarial valuation during the year, net of fund value of plan asset as on the balance sheet date. Liability towards leave salary is provided on actuarial basis.
2.13.	Current and deferred tax Tax expense for the period, comprising current tax and deferred tax, are included in the determination of the net profit or loss for the period. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the taxation laws prevailing in the respective jurisdictions. Deferred tax for timing differences between the book profits and tax profits is accounted for using the tax rates and laws that have been enacted or substantively enacted as of the Balance Sheet date. Deferred tax assets arising from the timing differences are recognised to the extent 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 for tax loss and depreciation carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is virtually certain and is supported by convincing evidence that sufficient future taxable profits can be realised. Current tax assets and current tax liabilities are offset when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis. Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off assets against liabilities representing current tax and where the deferred tax assets and deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.
2.14.	Research and Development expenditure Revenue expenditure is charged to the statement of Profit and Loss in the period in which it is incurred. Capital expenditure is debited to Fixed Assets and depreciated at applicable rates.
2.15.	Provisions and Contingent Liabilities Provisions: Provisions are recognised when there is a present obligation as a result if a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and there is a reliable estimate of the amount of the obligation. Provisions are measured at the best estimate of the expenditure require to settle present obligation at the Balance Sheet date and are not discounted to its present value. Contingent Liabilities: Contingent Liabilities are disclosed when there is possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle or a reliable estimate of the amount cannot be made.
2.16.	Cash and Cash Equivalents In the cash flow statement cash and cash equivalent include cash in hand, demand deposits with banks and other short term highly liquid investments.
2.17.	Earning Per Share The basic earnings per share is computed by dividing the net profit attributable to equity shareholders for the period by the weighted average number of equity shares outstanding during the period. The number of shares used in computing diluted earnings per share comprises the weighted average shares considered for deriving basic earnings per share and also the weighted average number of equity shares which would have been issued on the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the period unless they have been issued at a later date.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note	
2.18.	Measurement of EBITDA The Company has elected to present earnings before interest, tax, depreciation and amortisation (EBITDA) as a separate line item on the face of the statement of profit and loss. The Company measures EBITDA on the basis of profit/(loss) from continuing operations before depreciation and amortisation expense, finance cost and tax expense.
3.	Share Capital

	As at 31st December 2012		As at 31st December 2011	
	No. of Shares	Amount	No. of Shares	Amount
Authorised				
Equity Shares of ` 1/- each	500,000,000	500,000,000	500,000,000	500,000,000
Issued and Subscribed				
Equity shares of ` 1/- each	271,597,590	271,597,590	271,597,590	271,597,590
Paid up				
Equity shares of ` 1/- each fully paid	267,873,590	267,873,590	267,873,590	267,873,590
Total		267,873,590		267,873,590

a. Reconciliation of number of shares

	As at 31st December 2012		As at 31st December 2011	
	No. of Shares	Amount	No. of Shares	Amount
Balance as at the beginning of the year	267,873,590	267,873,590	267,873,590	267,873,590
Add : Shares issued during the year	-	-	-	-
Balance as at the end of the year	267,873,590	267,873,590	267,873,590	267,873,590

b. Rights, preferences and restrictions attached to equity shares

The Company has only one class of equity shares having a par value of ` 1/- per share. Each shareholder of equity share is entitled for one vote per share held. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.

c. Details of shares held by shareholders holding more than 5% of the aggregate shares in the Company

Name of Shareholder	As at 31st December 2012		As at 31st December 2011	
	Numbers	% holding	Numbers	% holding
Equity shares of ` 1/- each fully paid				
Albula Investment Fund Limited	15,963,234	5.96%	15,963,234	5.96%

As per the records of the Company, including its register of shareholders/members and other declarations received from shareholders regarding beneficial interest, the above shareholding represents both legal and beneficial ownerships of shares.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note		As at 31st December 2012	As at 31st December 2011
4.	Reserves and Surplus		
	General Reserve		
	Balance as at the beginning of the year	11,786,771,161	11,656,928,373
	Add/(Less) : Transferred from/(to) Profit & Loss Account	(3,497,739,678)	92,342,788
	Add/(Less) : Transferred from/(to) Debenture Redemption Reserve	(107,142,857)	37,500,000
	Balance as at the end of the year	8,181,888,626	11,786,771,161
	Debenture Redemption Reserve		
	Balance as at the beginning of the year	391,071,428	321,428,571
	Add/(Less) : Transferred from/(to) Profit & Loss Account	-	107,142,857
	Add/(Less) : Transferred from/(to) General Reserve	107,142,857	(37,500,000)
	Balance as at the end of the year	498,214,285	391,071,428
	Share Premium Account		
	Balance as at the beginning of the year	12,463,171,083	12,463,171,083
	Less : Provision for Premium on redemption of FCCB	(2,703,373,966)	-
	Balance as at the end of the year	9,759,797,117	12,463,171,083
	Total	18,439,900,028	24,641,013,672
5.	Long-term borrowings (Secured by way of first charge on Fixed Assets of the company, on pari passu basis)		
	Term Loans from Banks	305,000,000	1,696,666,366
	Redeemable Non-Convertible Debentures	1,050,000,000	1,650,000,000
	External Commercial Borrowings		
	a) ECB 2009 aggregating USD 70,875,000 (31 December 2011: USD 84,375,000)	3,882,341,138	4,494,656,250
	b) ECB 2010 aggregating USD 112,020,000 (31 December 2011: USD 135,600,000)	6,136,153,146	7,223,412,000
	Total	11,373,494,284	15,064,734,616

1. Interest rates on Rupee term loans from banks vary in the range of 11.5% p.a. to 16.35% p.a. (linked with BPLR). The said loans are repayable in quarterly installments with a maximum tenure of 6 years. Part of the said loans are also secured by way of second charge on the current assets of the Company, both present and future, on pari passu basis and/or the personal guarantees of the Promoter Directors of the Company.
2. Interest rate on Redeemable Non-Convertible Debentures is 12%. The said debentures are redeemable in 20 quarterly installments starting from November 05, 2010 and last installment due on August 05, 2015.
3. Interest rates on External Commercial Borrowings vary in the range of 4.50% p.a. to 6.50% p.a. (linked with LIBOR). The said ECBs are repayable in half yearly installments starting from May 20, 2012 with a maximum tenure of 6 years.
4. The company has defaulted in repayment of certain debt obligations towards installments and interest. Certain Banks and Financial Institutions have initiated legal action against the Company and/or its directors for recovery of these debt. However, the Company is in continuous dialogue with the lenders for bilateral restructuring of its debt. Certain banks have already restructured its debt.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note		As at 31st December 2012	As at 31st December 2011
6.	Deferred tax liability (Net)		
	Deferred tax liability	1,468,401,369	3,148,201,369
	Total	1,468,401,369	3,148,201,369
7.	Short-term borrowings		
	Working Capital Borrowings from Banks (Secured by way of first charge on Current Assets of the company, on pari passu basis)	10,235,481,185	9,290,604,056
	Interest accrued and due on working capital borrowings	859,665,423	397,422,180
	Short Term Loans from Banks	3,622,750,183	2,572,243,639
	Total	14,717,896,791	12,260,269,875
	1. Interest rates on Working capital Borrowings from Banks vary in the range of 13.25% p.a. to 16.50% p.a. (linked with BPLR). The said loans are repayable on demand and also secured by way of a second charge on the fixed assets of the Company, on pari passu basis. Part of the said loans are additionally secured by way of a personal guarantees of the two Directors of the Company.		
	2. Interest rate on the Short Term Loans from Banks repayable during 2011 and 2012 vary in the range of 13.25% to 15%.		
8.	Trade payables		
	Trade payables	264,989,370	438,788,890
	Total	264,989,370	438,788,890

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note		As at 31st December 2012	As at 31st December 2011
9.	Other current liabilities		
	Current maturities of long term borrowings (note 5) [Including interest accrued and due]		
	Term Loans from Banks	7,758,231,716	5,666,422,273
	Redeemable Non-Convertible Debentures	2,518,071,685	1,463,525,521
	External Commercial Borrowings		
	a) ECB 2009 aggregating USD 23,336,260 (31 December 2011: USD 5,625,000)	1,278,297,315	299,643,750
	b) ECB 2010 aggregating USD 39,805,539 (31 December 2011: USD 11,800,000)	2,180,439,951	628,586,000
	Foreign Currency Convertible Bonds		
	Zero Coupon Convertible Bonds due 2012	10,070,920,816	7,164,815,000
	(Aggregating to USD 183,852,085 (31 December 2011: USD 134,500,000)		
	[Including provision for premium on redemption aggregating to USD 49,352,085 (31 December 2011: Nil)]		
		23,805,961,482	15,222,992,544
	Other current liabilities	419,947,440	221,047,568
	Total	24,225,908,922	15,444,040,112

The Company had issued Zero Percentage Foreign Currency Convertible Bonds due 2012 aggregating to US$250 million. The Bonds carry a 0% coupon with a yield to maturity of 6.35% per annum and were redeemable in May 2012 i.e. after 5 years and 1 day from closing date. The Bonds were convertible into equity shares/GDRs of the Company at any time after 18 June 2007 at a conversion price of ` 163.13 per share.

During the years 2008 and 2009, the FCCBs of US$ 11.6 million and US$ 20.90 million respectively were converted into equity share of the company. The company has also bought back FCCBs of US$ 83.00 million in 2009 pursuant to the RBI Guidelines. As at 31st December 2012, the Company's outstanding FCCBs has a nominal value of US$ 134.50 Million and maturity value of USD 183.85 Million including redemption premium. The remaining Bonds as on the date of maturity i.e. May 2012 have neither been redeemed nor converted into the shares/GDR's of the Company. Pursuant to the default in redemption on maturity, certain Bond holders through their Trustee have also initiated legal action against the Company. However, the Company has appointed an International Consultant who in turn is in the process of restructuring the remaining bonds subject to statutory and regulatory approvals.

Note			
10.	Short term provisions		
	Other Provision	78,318,430	79,764,758
	Total	78,318,430	79,764,758

11. TANGIBLE ASSETS

(Amount in `)

Particulars	GROSS BLOCK			DEPRECIATION			NET BLOCK	
	01.01.2012	Additions	31.12.2012	01.01.2012	For the year	31.12.2012	31.12.2012	31.12.2011
Land & Development	341,490,057	–	341,490,057	–	–	–	341,490,057	341,490,057
Leasehold Land	648,448,287	–	648,448,287	–	560,941	560,941	647,887,346	648,448,287
Building	2,320,170,075	2,021,671,376	4,341,841,451	506,092,019	83,256,107	589,348,126	3,752,493,325	1,814,078,056
Plant & Machinery	35,413,462,488	7,366,803,031	42,780,265,519	9,127,650,293	2,466,019,331	11,593,669,624	31,186,595,895	26,285,812,195
Office Equipments & Furniture	345,242,712	187,814	345,430,526	107,960,349	21,143,498	129,103,847	216,326,679	237,282,363
Vehicles	151,853,332	109,968,763	261,822,095	57,977,721	17,328,737	75,306,458	186,515,637	93,875,611
TOTAL	39,220,666,951	9,498,630,984	48,719,297,935	9,799,680,382	2,588,308,614	12,387,988,996	36,331,308,939	29,420,986,569
Previous Year	35,726,277,669	3,494,389,282	39,220,666,951	7,277,434,101	2,522,246,281	9,799,680,382	29,420,986,569	28,448,843,568

Note : Additions to Plant & Machinery includes Borrowing cost and exchange variation on foreign currency loans for expansion projects.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note		As at 31st December 2012	As at 31st December 2011
12.	Investments (At cost/carrying amount unless otherwise stated)		
	In Units of Mutual Funds [Market Value ` 4,986,329 (31 December 2011: ` 6,327,717)]	14,976,458	14,902,532
	In Shares (Quoted) [Market Value ` 5,932,294 (31 December 2011: ` 5,892,735)]	30,435,921	30,435,921
	In Shares (Un-quoted at cost)	3,719,694,140	3,604,694,140
	Total	3,765,106,519	3,650,032,593
13.	Inventories		
	Raw Materials	1,590,794,421	3,306,942,669
	Stock in Process	6,370,616,253	5,475,129,387
	Stores & Spares parts	154,945,720	162,417,112
	Finished Goods	583,017,474	1,143,422,588
	Total	8,699,373,868	10,087,911,756
14.	Trade Receivables (Unsecured, Considered Good)		
	Outstanding for a period exceeding six months from the date they are due for payment	555,235,641	29,164,873
	Other receivables	2,915,724,321	7,200,951,876
	Total	3,470,959,962	7,230,116,749
15.	Cash and Bank Balances		
	Cash and cash equivalents		
	Cash on hand	2,108,406	2,163,427
	Balances with banks		
	In Current Account	49,947,660	53,713,306
	In Fixed Deposits	126,274,688	163,995,455
	Total	178,330,754	219,872,188
16.	Short-term loans and advances (Unsecured, Considered Good)		
	Deposits	45,611,888	42,952,372
	Balance with Excise & Other Government Authorities	100,392,884	122,308,665
	Advance recoverable in cash or kind or for value to be received	2,727,575,104	4,103,255,584
	Total	2,873,579,876	4,268,516,620
17.	Contingent Liabilities (Not provided for)		(` in Lacs)
	Estimated amount of contracts remaining to be executed on capital account	885.81	2,786.52
	Letters of credit issued by the Banks	Nil	4,986.00

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note		For the year ended 31st December 2012	For the year ended 31st December 2011
18.	Revenue		
	Sale of Finished goods	8,347,741,871	16,619,539,356
	Revenue from operations (net)	8,347,741,871	16,619,539,356
19.	Cost of material consumed		
	Opening Stock	3,469,359,781	1,720,221,049
	Add: Purchases	4,420,881,909	12,029,098,577
		7,890,241,690	13,749,319,626
	Less: Closing Stock	1,745,740,141	3,469,359,781
	Total	6,144,501,549	10,279,959,845
20.	Changes in inventory of finished goods and work-in-progress		
	Inventory at the end of the year		
	Finished goods	583,017,474	1,143,422,588
	Work-in-progress	6,370,616,253	5,475,129,387
		6,953,633,727	6,618,551,975
	Inventory at the beginning of the year		
	Finished goods	1,143,422,588	1,888,349,076
	Work-in-progress	5,475,129,387	3,246,534,125
		6,618,551,975	5,134,883,201
	(Increase)/decrease in inventory	(335,081,753)	(1,483,668,774)
21.	Employee benefits expense		
	Salaries, Wages & Bonus	498,669,051	462,314,416
	Contribution to Provident Fund & Other funds	17,524,532	15,580,587
	Staff Wellfare expenses	20,609,168	27,761,254
	Total	536,802,751	505,656,257
	Managerial Remuneration (included above)		
	Salary (including Bonus)	4,800,000	11,991,000
	Total	4,800,000	11,991,000

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

Note		For the year ended 31st December 2012	For the year ended 31st December 2011
22.	Other expenses		
	Repair & Maintenance: Buildings	10,110,643	22,192,752
	Repair & Maintenance: Plant & Machinery	45,502,700	88,519,879
	Traveling & Conveyance	46,908,946	90,506,074
	Telephone & Telex	16,116,390	31,557,297
	Printing & Stationery	8,583,094	16,846,752
	Postage, Telegram & Courier	10,976,136	22,256,477
	Office Expenses	113,204,237	145,797,070
	Selling & Distribution Expenses	274,110,111	525,847,711
	Total	525,512,257	943,524,012
	Auditors Remuneration (Included in Office expenses)		
	Audit Fees	400,000	400,000
	Tax Audit Fees	150,000	150,000
	Taxation and other matters	200,000	200,000
	Service Tax	92,700	77,000
	Total	842,700	827,000
23.	Earnings per share (EPS)		
	a. Net Profit/(loss) for the year as per Statement of Profit and loss	(3,497,739,678)	191,317,125
	b. Nominal value of each Equity share (`)	1.00	1.00
	c. Weighted average No. of Equity Shares for Basic EPS	267,873,590	267,873,590
	d. Basic Earnings per Share (`) (a/c)	(13.06)	0.71
	e. Weighted average No. of Equity Shares for Diluted EPS	302,503,000	302,503,000
	f. Diluted Earnings per Share (`) (a/e)	(11.56)	0.63
24.	Foreign Currency Earnings and Expenditure		(` in Lacs)
	a. FOB value of Exports	22,296.78	51,407.73
	b. CIF Value of Imports	43.53	820.84
	c. Other Expenditure	1,032.17	948.87

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

25. SEGMENTAL REPORTING

The company's operations fall under single segment; hence Segment Reporting as defined under AS-17 is not applicable to the Company.

26. Related Party Disclosures

A) Names of related Parties and their relationship

i) Details of Key Management Personnel

Mr. Nitin J. Sandesara - Chairman and Managing Director
Mr. Chetan J. Sandesara - Joint Managing Director

ii) Enterprises in which significant influence is exercised by Key Management Personnel

Sterling SEZ and Infrastructure Limited
Sterling Oil Resources Limited
Sterling Port Limited
Atlantic Bluewater Services Pvt. Ltd.
British Oil & Gas Exploration Ltd.
Sterling Fincom Private Limited, Mauritius (Subsidiary)
Sterling Commercial FZE, U.A.E. (subsidiary of Sterling Fincom Private Limited, Mauritius)

B. The aggregate amount of transaction with the related parties is as below (` In Lacs)

Particulars	Nature of Transaction	For the Year ended 31st December 2012	For the Year ended 31st December 2011
1. Mr. Nitin J. Sandesara	Remuneration	24.00	69.50
2. Mr. Chetan J. Sandesara	Remuneration	24.00	50.41
3. Sterling SEZ and Infrastructure Limited	Loans & Advances	3,112.00	7,612.00
	Maximum amount outstanding	7,612.00	12,813.00
4. Sterling Oil Resources Limited	Loans & Advances	Nil	9,278.00
	Maximum amount outstanding	9,278.00	18,153.00
5. Sterling Port Limited	Loans & Advances	5,256.00	5,256.00
	Maximum amount outstanding	5,256.00	8,665.00
6. Sterling SEZ and Infrastructure Limited	Investment	18,500.00	18,500.00
7. Sterling Oil Resources Limited	Investment	500.00	500.00
8. Sterling Port Limited	Investment	17,036.00	17,036.00
9. Atlantic Bluewater Services Pvt. Ltd.	Investment	4.97	4.97
10. British Oil & Gas Exploration Ltd.	Investment	5.46	5.46

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

27. Dues to micro and small enterprises

Based on the information received by the Company from vendors regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 (The Act) there are no amounts due to such vendors during the year and as at the year end. Therefore, disclosure required under the Act have not been given.

28. Previous year figures

The financial statements for the year ended 31st December 2011 had been prepared as per the then applicable, pre-revised Schedule VI to the Companies Act, 1956. Consequent to the notification of Revised Schedule VI under the Companies Act, 1956, the financial statements for the year ended 31st December 2012 are prepared as per the Revised Schedule VI. Accordingly, the previous year figures have also been reclassified to conform to this year's classification. The adoption of Revised Schedule VI for previous year figures does not impact recognition and measurement principles followed for preparation of financial statements.

As per our report of even date attached
For H.S.HATHI & CO.
Chartered Accountants
Firm Regn. No. 103596W

HEMANT S. HATHI
Partner
MEMBERSHIP NO. 37109
Place : Mumbai.
Dated : 1st March 2013

For and on behalf of the Board of Directors

Nitin J. Sandesara
Chairman and Managing Director

Chetan J. Sandesara
Joint Managing Director

Rajbhushan O. Dixit
Director

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2012

(Amount in `)

	PARTICULARS	For the year ended 31st December 2012	For the year ended 31st December 2011
A)	Cash flow from operating activities:		
	Net Profit before taxation and exceptional items	(5,165,352,409)	1,240,591,544
	Adjustments for		
	- Depreciation/amortisation	2,600,495,883	2,570,995,353
	- Interest expenses	4,123,282,071	2,704,308,412
	Operating profit before working capital changes	1,558,425,546	6,515,895,309
	Movement in working capital :		
	Trade Receivables	3,759,156,787	(466,014,589)
	Other Receivables	1,394,936,744	2,226,847,938
	Inventories	1,388,537,887	(3,232,807,506)
	Trade Payable (Current Liabilities)	25,100,352	9,414,698
	Direct Tax	(1,446,328)	(393,831,480)
	Cash flow Before Extra Ordinary Items	8,124,710,988	4,659,504,370
	Extra-Ordinary Expenses	(12,187,269)	(962,270,850)
	Net cash flow (used in)/from operating activities (A)	8,112,523,719	3,697,233,520
B)	Cash flows from investing activities		
	Purchase of fixed assets	(8,001,125,842)	(7,321,694,272)
	Purchase of investments	(115,073,926)	(10,741,185)
	Net cash flow used in investing activities (B)	(8,116,199,768)	(7,332,435,457)
C)	Cash flows from financing activities		
	Proceeds/(Repayment) of long term borrowings	2,678,296,314	3,270,312,964
	Proceeds/(Repayment) of short term borrowings	1,407,120,372	1,839,285,023
	Interest paid	(4,123,282,071)	(2,704,308,412)
	Dividend & Dividend Tax	–	(133,936,795)
	Net cash (used in)/from financing activities (C)	(37,865,385)	2,271,352,780
	Net increase/(decrease) in cash & cash equivalents (A+B+C)	(41,541,434)	(1,363,849,157)
	Cash and cash equivalents at the beginning of the year	219,872,188	1,583,721,345
	Cash and cash equivalents at the end of the year	178,330,754	219,872,188
		(41,541,434)	(1,363,849,157)

Notes:

1. The Cash flow has been prepared under the Indirect Method as set out in Accounting Standard-3 on Cash Flow statement.
2. Figures in bracket represent Cash Outflow.

As per our report of even date attached
For H.S.HATHI & CO.
Chartered Accountants
Firm Regn. No. 103596W

HEMANT S. HATHI
Partner
MEMBERSHIP NO. 37109
Place : Mumbai.
Dated : 1st March 2013

For and on behalf of the Board of Directors

Nitin J. Sandesara
Chairman and Managing Director

Chetan J. Sandesara
Joint Managing Director

Rajbhushan O. Dixit
Director

FORM B

Covering Letter of the Annual Audit Report of Sterling Biotech Limited for the year ended 31st December, 2012 to be filed with the stock exchanges:

1.	Name of the Company:	**STERLING BIOTECH LIMITED**
2.	Annual financial statements for the year ended	31st December, 2012
3.	Type of Audit qualification	Qualified for default in repayment of the dues to Banks or financial institutions etc.
4.	Frequency of qualification	The said Qualification appeared in Audit Report for the financial year ended 31.12.2011 and 31.12.2012.
5.	Draw attention to relevant notes in the annual financial statements and management response to the qualification in the directors' report:	A. The qualification is at Clause No. (xi) of Annexure to Auditors' Report dated 1st March, 2013 at page no. 20 of the Annual Report. B. Management's Response is given in Note No.5 of the Notes Forming Part of Financial Statement at Page No. 27 of the Annual Report, which is reproduced as under, "The Company is in continuation dialogue with the lender for bilateral restructuring of its debt. Certain banks have already restructured its debt".
6.	Additional comments from the board/audit committee chair:	A Chairman level meeting of Bank Consortium was held and the Company is in the process of submitting a detailed report on recasting of the loans and also submitting a detailed course of action for repayment / regularization of the loans.
7.	To be signed by-	
	• CEO/Managing Director – Nitin Sandesara	[signature]
	• CFO – Nitin Sandesara	[signature]
	• Auditor of the company- H.S. Hathi & Co. Hemant S. Hathi, Partner	[signature]
	• Audit Committee Chairman – R. B. Dixit	[signature]

Sterling Biotech Ltd. Mumbai