ANNUAL REPORT 2006-07

SUN PHARMACEUTICAL INDUSTRIES LTD.

integrate

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

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INDEX

integrate

To put together. To coalesce different parts into a seamless whole. A sum that is greater than its parts. Building a composite that exceeds individual efforts taken separately. Which is the track we are now following at Sun Pharma. In 2005, through aquisitions we added 3 plants across 2 continents and 650 people. The task now is to merge these into the core Sun Pharma, to being in corrections in these acquired businesses, to redirect the product offering to more profitable product lines, bring in production efficiencies and systems that are a hallmark at Sun Pharma. To synthesize and assimilate into greater whole.

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

FINANCIAL HIGHLIGHTS

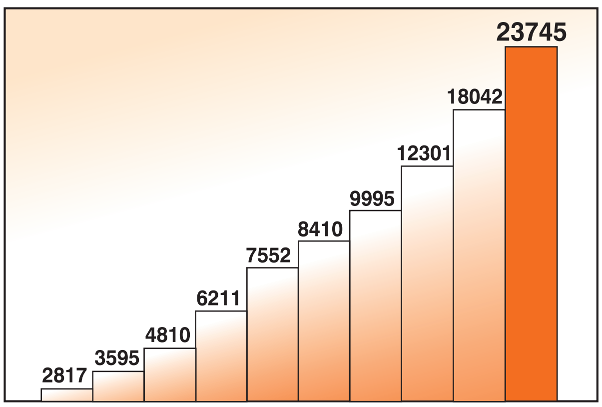
(Rs in Million)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	STANDALONE				CONSOLIDATED					
Total Income	2817	3595	4810	6211	7552	8410	9995	12301	18042	**23745**
Net Profit	561	590	837	1352	1681	2487	3157	3962	5733	**7843**
Gross Block	1371	2020	2442	2766	3491	4837	6642	8299	12756	**14859**
Net Worth	2177	3093	3647	4654	5424	5764	8159	11307	15902	**27728**
R&D Expenses	112	98	201	250	336	966	1268	1427	2015	**2787**
Capital	35	45	102	71	197	363	598	418	481	**347**
Revenue	77	53	99	179	139	603	670	1009	1534	**2440**
% of Sales	4.21	2.75	4.20	4.09	4.52	11.62	12.90	12.04	12.31	**13.07**
Exports	507	894	1137	1181	1364	2604	3864	5027	6958	**9687**
Debt Equity ratio	0.18	0.21	0.13	0.08	0.00	0.23	0.51	1.61	1.18	**0.40**
Current ratio	4.21	4.04	4.00	3.78	3.37	3.44	3.27	7.33	7.55	**9.81**

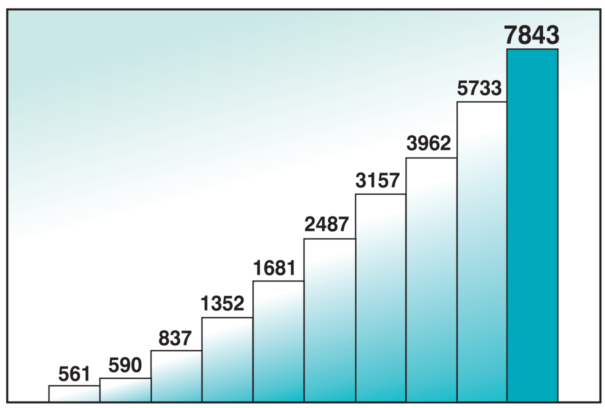
The Company has started preparing Consolidated Financial Statements from Financial Year 2001-02 onwards.

(Rs in Million)

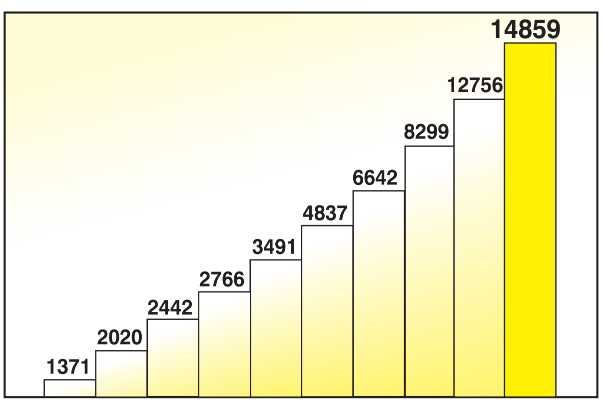
Total Income



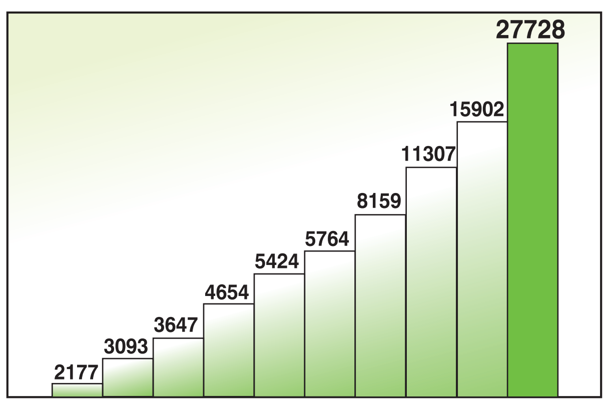
Net Profit



Gross Block



Net Worth



BOARD OF DIRECTORS

Mr. Dilip S. Shanghvi
Chairman & Managing Director

Mr. Sudhir V. Valia
Wholetime Director

Mr. Sailesh T. Desai
Wholetime Director

Mr. S. Mohanchand Dadha
Director

Mr. Hasmukh S. Shah
Director

Mr. Keki M. Mistry
Director

Mr. Ashwin Dani
Director

COMPANY SECRETARY

Mr. Kamlesh H. Shah
Email : secretarial@sunpharma.com

AUDITORS

DELOITTE HASKINS & SELLS
Chartered Accountants
Mumbai.

BANKERS

Bank of Baroda
State Bank of India
Citibank N.A.
Standard Chartered Bank
ICICI Bank Ltd.
Bank of Nova Scotia
Kotak Mahindra Bank Ltd.

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Pvt. Ltd.,
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West),
MUMBAI-400 078.
Tel : 25963838
Fax : 25946969
Email: sunpharma@intimespectrum.com

Additional Collection Centre
201, Daver House, 197 / 199,
Dr. D.N. Road, MUMBAI -400 001.
Tel : 22694127

PLANTS

Plot No.214 & 20 Govt. Industrial Area,
Phase II, Piparia, Silvassa-396 230.

Halol-Baroda Highway,
Near Anand kendra, Halol,
Dist. Panchmahal-388 380 Gujarat.

Plot No.25 & 24 / 2, GIDC, Phase-IV,
Panoli-395 116, Dist. Bharuch, Gujarat.

A-7 & A-8, MIDC Ind. Area,
Ahmednagar-414 111.

Plot No. 4708, GIDC,
Ankaleshwar-393 002.

Sathammai Village, Karunkuzi Post,
Maduranthakam T.K.,
Kanchipuram District,
Tamilnadu-603 303.

Plot No.223, Span Industrial Complex,
Dadra-396 191 (U.T).

Plot No.817/A, Karkhadi, Taluka:Padra,
Distt. Vadodara-391 450.

Sun Pharma Industries*
Survey No. 259/15,
Dadra-396 191 (U.T.Of D.& NH)

Sun Pharma Industries*
6-9, Export Promotion
Industrial Park (EPIP),Kartholi,
Bari Brahmana, Jammu-181 133 (J & K)
Kartholi, Jammu, JK.

Sun Pharmaceutical Industries Inc.
705 E. Mulberry Street
Bryan, Ohio 43506, USA

Sun Pharmaceutical Industries Inc.
270 Prospect Plains Road
Cranbury, New Jersey 08512 , USA

Caraco Pharmaceutical Laboratories Ltd.
1150 Elijah McCoy Drive
Detroit 48202., Michigan ,U.S.A.

Sun Pharmaceutical (Bangladesh) Limited,
Chandana, Joydevpur,
Gazipur, Bangladesh.

Alkaloida Chemical Company
Exclusive Group Limited
H-4440 Tiszavasvari,
Kabay, Janos 4.29, Hungary

** in partnership with the firm Sun Pharma Industries*

OFFICES

Registered

Sun Pharma Advanced Research Centre
(SPARC), Tandalja,
Vadodara - 390 020.

Corporate

Acme Plaza, Andheri Kurla Road,
Andheri (East), Mumbai - 400 059.

RESEARCH CENTRES

Sun Pharma Advanced Research Centre
(SPARC), Akota Padra Road, Akota,
Vadodara-390 020.

F.P. 27, Part Survey No.27,
C.S.No. 1050, T.P.S. No. 24
Village Tandalja,
District Vadodara-390 020.

17-B, Mahal Industrial Estate,
Mahakali Caves Road,
Andheri (East), Mumbai-400 059.

SUN PHARMACEUTICAL INDUSTRIES LTD.

HIGHLIGHTS*

- Net sales for the year ending 31 March, 2007, were up 30%.
- Completed the demerger of the entire innovative business comprising of research projects for new molecules and new delivery systems, scientists, intellectual property, space and equipment into Sun Pharma Advanced Research Company Ltd., which will be shortly listed.
- International markets contributed 43% of sales, in line with our objective of becoming an international generic company.
- Domestic formulations were 53% of sales, growing 23% over 2005-2006.
- Branded formulation exports to markets other than the US grew 50% over the previous year
- Sales at Caraco up 41% for the year ending March 31, 2007. Between Sun Pharma and Caraco 34 ANDAs are now approved compared to 22 at the end of 2006. 77 ANDAs await USFDA approval including 7 tentative approvals.
- Twenty-nine API were developed and scaled up, many of these enabled the introduction of new products in the domestic market.
- R&D spend at 14% of net sales is amongst the highest in sector.
- A total of 380 patents have been filed so far, of which 70 have been granted. The patents for innovation-based products are now transferred to SPARC Ltd.
- Employee strength is over 7300, including subsidiaries and associate companies.

** all numbers pertain to the consolidated entity*

Statements in this "Management Discussion and Analysis" describing the Company's objectives, projections, estimates, expectations ,plans or predictions or industry conditions or events may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results,performance or achievements could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, and competitors' pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts businesses and other factors such as litigation and labour unrest or other difficulties. The Company assumes no responsibility to publicly update, amend, modify or revise any forward looking statements, on the basis of any subsequent development, new information or future events or otherwise except as required by applicable law.

Unless the context otherwise requires, all references in this document to "we","us" or "our" refers to Sun Pharmaceutical Industries Limited and its consolidated subsidiaries.

SUMMARY

SPARC: Research Centre, Baroda

In late May we announced signing an agreement to acquire Taro Pharmaceutical Industries Ltd., (TAROF, Pink Sheets), a multinational generic manufacturer with established subsidiaries, manufacturing and products across the U.S., Israel, and Canada. North America represented more than 90% of Taro's sales in 2005.

We intend to fund this USD 454 million acquisition with internal accruals and proceeds from the USD 350 million FCCB issue we made in 2004. This deal is expected to be completed in the first half of the current financial year.

(Rs. Mill)

Standalone sales breakup by type	Mar 07	Mar 06
Total Sales	**17221**	**13530**
Domestic Formulations	10876	8513
Domestic Bulk	1357	1206
Domestic Others	5	2
Exports Formulations	1782	1070
Exports Bulk	3184	2720
Exports Others	17	18

DIVISIONWISE REPRESENTATIVE STRENGTH

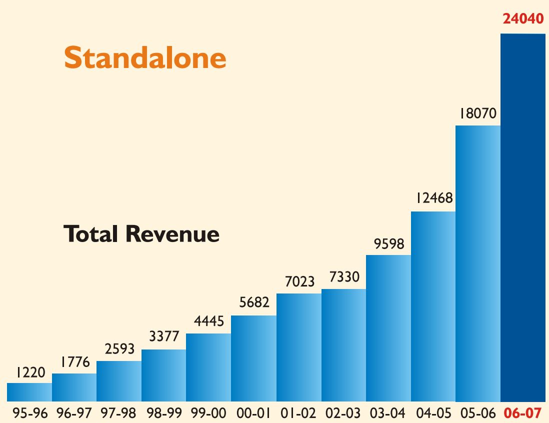
Sun	264	Gastroenterology, Orthopaedics, products for physicians
Solares	239	Gastroenterology, Orthopaedics
Spectra	229	Gynaecology
Arian	189	Cardiology, Diabetology
Azura Life Sciences	187	Cardiology, Diabetology
Avior	168	Cardiology, Diabetology
Synergy	137	Psychiatry, Neurology
Radiant	120	Asthma, COPD, products for respiratory
Sirius	112	Psychiatry, Neurology
Inca Life Sciences	112	Fertility, Gynecology, Urology
Symbiosis	109	Psychiatry, Neurology
Milmet	86	Ophthalmology
Avesta	86	Ophthalmology
Ortus	83	Rheumatology, Dermatology
Sun Oncology 'A'*	25	Oncology
Sun Oncology 'B'*	26	Oncology
Azura Critical Care*	23	Interventional Cardiology

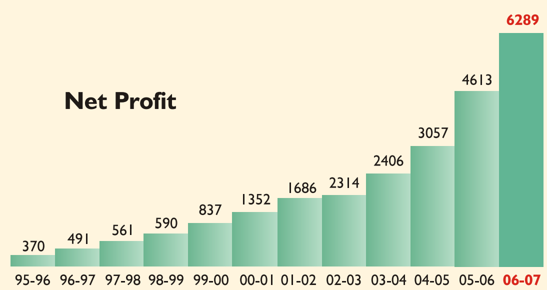
Total: 2195

*(*as of March 31,2007, for Azura critical care and Sun Oncology teams, the number is for first line managers)*

Standalone

(Rs. in millions)





INDIAN MARKETS

MAT IMS-ORG For Mar '07	Value in Rs. billion	MS%	Growth%
Total Indian Pharma Market*	**280**	**100.0**	**14**
Gastroenterology, Diabetes	68	24.6	13
Antiinfectives (oral, injectables)	56	20.2	13
Cardiology	26	9.6	11
Respiratory system	26	9.3	13
Pain, Muscles and joints	22	7.9	24
Psychiatry and Neurology	19	6.9	13
Skin	15	5.6	16
Blood and Blood forming organs	11	4.0	11
Urology, Sex Hormones	10	3.6	17

*(*therapy areas have been renamed for understanding)*

Increasing per capita income in urban areas, better access to medicines and doctors, higher awareness of therapies and ailments are driving growth in speciality pharma.

There was a significant change in the therapy wise growth rates this year, with the possibility of seasonal epidemics such as dengue/ chikungunya accelerating growth of acute therapy areas such as pain management and antiinfectives. This is unlike previous years where chronic therapy areas showed higher growth.

The Indian prescription market is Rs 279 bill, with 14% growth rate at the stockist level, based on market data for companies that have a national presence. (IMS ORG Stockist Audit, MAT, March 07).

Speciality therapy areas continued to show above market / double digit growth rates. As we've said earlier, increasing per capita income in urban areas, better access to medicines and doctors, higher awareness of therapies and ailments are driving growth in speciality pharma.

Like last year, an important development that continued to preoccupy pharma companies this year too, was the proposed pricing policy announced by the government. The previous parameter for price control was essentiality which makes tremendous sense in a country like India, where a tiny slice of the population has access to medicines, healthcare insurance is minimal, and the patient pays for medical care. The suggested policy tentatively added chronic or lifestyle disease as a criteria, increasing complexity in a market where pharmaceutical costs are the least anywhere in the world on account of intense competition. This proposed move would increase the span of products under price control from 74 at present to over 350. This single piece of legislation could dramatically alter the pharma market and is being debated vigorously by industry bodies at the highest levels. At this point in time, it would be difficult to speculate as to when, and in what form, would the pricing policy finally see light of day.

The long-term nature of prescriptions for chronic therapy areas continued to attract competitive interest. Contrary to expectations, multinationals continued to be selective about products introductions, restricting launch to products with a technology barrier. Small, regional companies continued to make their impact felt, some of them have, over the years, graduated to national stature, attracting VC funding. As the Indian market continues to evolve, we expect there would be an opportunity for companies with different growth strategy and size to make their mark.

Patent challenges continued to test the Indian patent system. As we'd shared earlier, in 2005, a new patent act had been implemented in India, bringing in international levels of intellectual property protection, with safeguards to prevent evergreening on flimsy grounds and protect patient interest. During the course of the year, a body to examine data protection, incremental innovation and the grounds of patentability was appointed by the government under the aegis of the Mashelkar committee. However, the recommendations of the committee were found to be controversial and the committee's report was later withdrawn.

The Glivec case, where a group of Indian companies have challenged the effort by a multinational to claim a patent on a known product that is based on older, pre 1995 patents which is in the public domain as per Indian law, continued to be debated in the courts. This landmark judgment will set the boundary of what will be patentable in the country.

There have been moves in some parts of the sector to introduce data protection for new products launched in India that would give them a protected market access over and above the patent life. The argument that is being put forth is, the innovator conducts extensive tests and trials before concluding that the product is safe and effective to use, therefore earns additional time on the market without generic copies. This thinking completely and quite conveniently overlooks the fact that the very rationale for granting a 20 year patent is to offer a period where the product enjoys exclusivity on the market and is able to earn a commercial return and recoup research investments. In our opinion this move that seeks to tweak the definition of a patent beyond what is globally recognized, is not in the country's best interests.

We do appreciate that as an increasing number of products based on post-1995 patent filings reach market, we would need to license these products should we wish to launch them. We expect increasing sales of already marketed products, as well as the introduction of older products, to drive our growth. We expect growth from these opportunities to be complemented with sales of inlicensed molecules, and increasing international sales.

MANAGEMENT DISCUSSION AND ANALYSIS

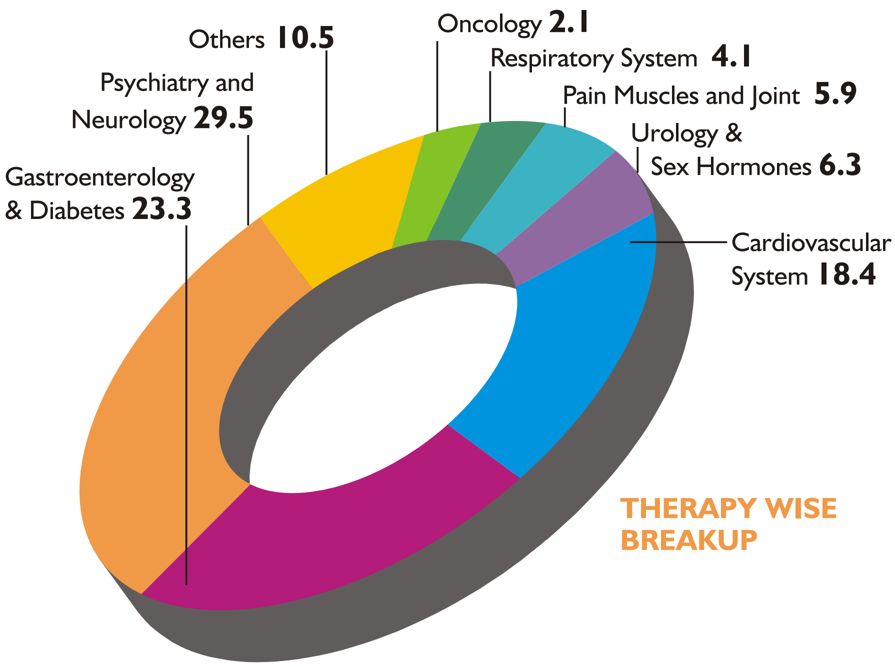
DOMESTIC FORMULATION

In process analysis at the pharmaceutics lab

- Domestic formulations continued to contribute to a large part of our turnover, at 53% with 23% growth rate.

- 36 key products were brought to market, and some of these products were first launches for the country.

- 16 of these new products used a difficult technology or complex drug delivery systems, and these products may have less competition.



CMARC's speciality list:

In keeping with our speciality focus, we continued to gain prescription share. In our core areas of psychiatry, neurology, cardiology, diabetology, ophthalmology, orthopedics, we continued to gain prescription share and hold on to the top rank. We are the number one company with 6 specialities.

We continued to be among the top five companies in 11 of the therapy areas that we are present in. Ranking increase and market share increase were also seen in gynecology, nephrology, and urology, relatively recent but important chronic therapy areas we have an interest in. Strong product introduction, execution of strategy and regular doctor coverage are factors that have contributed to this consistent rank increase.

C-MARC Ranks	NOV 02 to FEB 03	MAR 04 to JUN 04	MAR 05 to JUN 05	NOV 05 to FEB 06	NOV 06 to FEB 07
Psychiatrists	1	1	1	1	1
Neurologists	1	1	1	1	1
Cardiologists	3	1	1	1	1
Ophthalmologists	4	3	1	1	1
Gastroenterologists	3	2	2	2	2
Diabetologists	3	4	2	1	1
Orthopedics	6	4	3	2	1
Oncologists	6	8	3	4	4
Chest Physicians	4	4	5	5	5
Consultant Physicians	5	5	5	5	5
Gynaecologists	11	7	8	5	5
ENT Specialists	5	9	9	10	5

RESEARCH & DEVELOPMENT

Analytical area SPARC

For the year, R&D spend was Rs.2924 mill, or 14% of net sales. This spend includes investments on longer- term NCE and NDDS projects. (for eleven months till 28 Feb, 2007) R&D spend was 11% of net sales for the standalone entity.

Demerger of innovative research business:

Finally, after a year-long process of regulatory approvals and permissions, we were able to complete the demerger of our innovative R&D business related to new molecules and delivery systems. With this clearance, our pipeline of NCE and NDDS projects, the teams working on these, and the required equipment and resources have been placed into a new company as of February 28, 2007.

We expect the listing on the exchanges to be completed in due course. As we had shared earlier, the current shareholders of Sun Pharma would have by now received the same number of shares in the new company, with paid up value Rs. 1/- as against Rs. 5/- in Sun Pharma.

This move will allow innovative research projects and generics, which are two very different businesses, the right direction, resources and attention for growth without sacrificing the potential or overloading any of the businesses. This move will also allow for focused attention for our generic business in order to address opportunities in global markets.

We have earlier spoken about plans to compete in the generic markets of the world. However, we do not currently have any presence with formulations in Europe and Japan, two large markets on the cusp of a transition. These plans will require attention, specific product identification and development, manpower allocation and monitored effort. The detailing required for generics is very different from the creativity, knowledge and discipline that are the hallmark of a scientist working on new molecules or new delivery systems. After this separation into two different companies, our scientists will be better placed to prioritize attention and allocate resources to two different kinds of development needs. We have a $60-75 mill fund requirement for new molecules and delivery systems in the new company over the next two to three years.

As we bring complex delivery system based products like Lipodox and Lupride to an increasing number of generic markets, and specially to the US, we expect the resources that we commit for generic products to be ramped up as well.

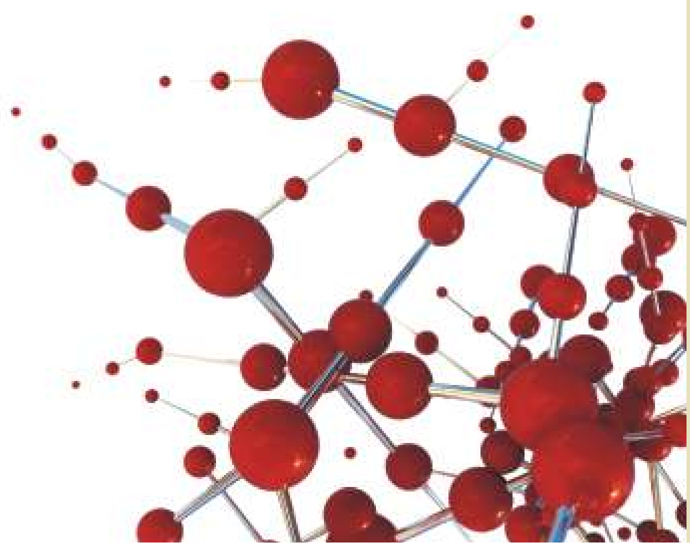
The trend of partnering that we've seen previously, continued this year as well. A trend towards cost arbitrage that began with manufacturing has now grown to encompass research. Outlicensing deals continue: early stage deals that involved the transfer of intellectual property from Indian companies, co-development deals with multinationals, research partnering with academic institutions abroad, Indian companies buying research companies or CROs abroad to access expertise and markets, collaborative research. This trend will likely escalate, given the high capital intensity of research.

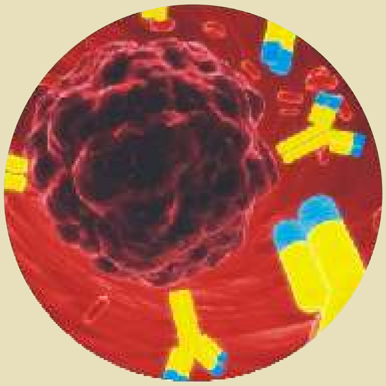
The latest trend seems to be DDDS (drug discovery and development support), with projects in genomic targets and chemistry being outsourced to India.

Prior to the demerger, our research center SPARC had close to 300,000 sq ft of research floor area, with 161 labs. About five-hundred scientists are at work on new molecule (NCE), novel drug delivery (NDDS) projects as also API and product development for generic markets. A new, state-of-the-art bioequivalence center spread over 25,000 sq ft offers facilities for the bioequivalence / bioavailability studies required for Sun Pharma for India and the international filings, in addition to the work that we do with CROs.

Formulation development, SPARC

Analytical development SPARC

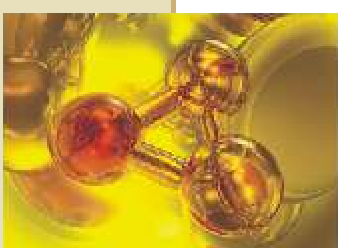




This year, in preparation for the demerger of the innovative R&D business and its listing, we had shared details about our innovative projects with the investor community. Our new molecule leads are in the allergy/ inflammation and bioavailability modification areas. Our antihistamine lead SUN 1334H, now transferred to the innovation based company SPARC Ltd., is currently in phase II trials in the US. This promises to be an exciting opportunity since it offers once a day allergy control, with likelihood of no sedation, otherwise a common problem with routinely-prescribed allergy medication.

SPARC's three NCE projects are in a preclinical stage and are expected to enter clinical trials in 2008. (see box for details). While selecting projects, either therapeutic analogues or prodrugs that can be modified have been chosen. This enables us to build on an existing body of knowledge. A study of shortfalls with currently available therapy helps us identify product opportunities that address a genuine need.

Some of SPARC's novel drug delivery projects build on existing delivery systems while a few are based on new approaches. These delivery systems overcome disadvantages with existing product, use a lower dose or are easier/safer for the patient. We have active projects in the areas of controlled release, gastric retention systems, nanoemulsion systems (for hormones or other similar medication that needs to be delivered over several months), targeted drug delivery for anticancers. (see box).



NEW CHEMICAL ENTITIES :

SUN 1334 H, a selective histamine receptor antagonist, is currently in Phase II clinical trials in the US. This is an antiallergic used for seasonal and allergic rhinitis, urticaria, etc. In preclinical studies, Sun 1334H was found to have high specificity for H1 receptors, and this indicates a low side effect profile. Sun 1334H was found to have a clean profile with fast onset of action, was non sedating and offered efficacy similar to cetirizine. Phase I trials in Europe indicated that the molecule was well tolerated, effective and appropriate for once-a-day dosing. Phase III for this lead is estimated to begin in 2008.

SUN 461, an anti-inflammatory for asthma and COPD, is being developed as an inhalation drug. This soft corticosteroid is a glucocorticoid receptor agonist, with similar activity but significantly lower side effects when compared to other marketed steroids.

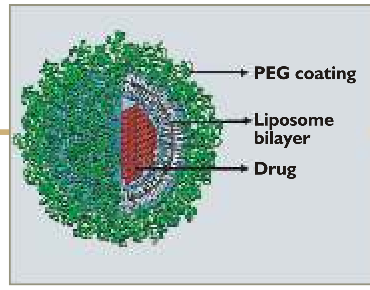
SUN 44, a prodrug of gabapentin for the treatment of neuropathy and seizures, uses molecular modifications in structure for better absorption. In preliminary animal studies, this molecule was found to be far better absorbed and safer than existing products. Its profile indicates higher blood availability, a once-a-day formulation and higher safety.

SUN 09 is a prodrug of a currently marketed drug used as a skeletal muscle relexant for spasm related disorders. This molecule's physicochemical and structural features have been modified for better absorption, and it seems to be easy to formulate as an injectable and once-a-day dosage form. Preclinical and acute toxicity studies on this molecule are ongoing.

SUN 44, 09 and 461 are at preclinical stages. IND filing for some of these projects may begin in 2008.

These projects have since been transferred to the innovative research company SPARC Ltd.

Nanoemulsion coating



DELIVERY SYSTEM BASED PROJECTS :

Four delivery system based platforms and the projects based on these have been shared.

Dry Power Inhaler (DPI): The novel DPI for asthma and COPD delivers a uniform dose over a range of patient effort and can be used both with existing steroid and bronchodilator combinations, as well as NCE steroid molecules. It can also be modified for systemic delivery of drugs to lungs. This easy to operate inhaler just 3 steps of open, inhale and close, will comply with US FDA and European regulatory requirements. Our DPI is designed to deliver uniform dose irrespective of patient inhalation effort, eliminate double dosing or dose wastages and offer ease of use by children, adults, and geriatrics thus addressing shortcomings of other devices. A product based on this novel DPI is likely to be launched in semi-regulated markets by 2009, and an NDA may be filed for regulated markets by 2011.

Controlled-release drug delivery systems

The **Gastro Retentive Innovative Device (GRID)** is designed to retain and release a drug over an eight hour span, ideal for an once - a - day system. The release profile can be tailored to give a combination of instant and sustained release profiles.
Baclofen GRS, a once-a-day formulation as compared to twice or thrice daily administration of the competing product, is being developed to treat muscle spasticity. For India, clinical trials have been completed successfully after which the product was approved. For the US, IND filing may be done in 2007.

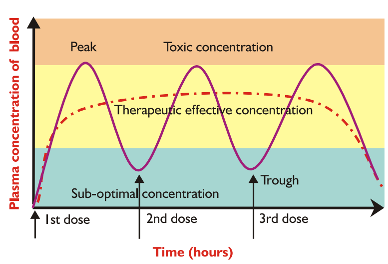
Wrap matrix: This multi-layered matrix based tablet is designed to offer a controlled release of high dose and high solubility products. This design has an advantage over competing technologies, where it is difficult to reproduce bioavailability. Metoprolol XL with a once-a-day advantage, has been launched in India. A few ANDAs using this technology have been filed with the USFDA.

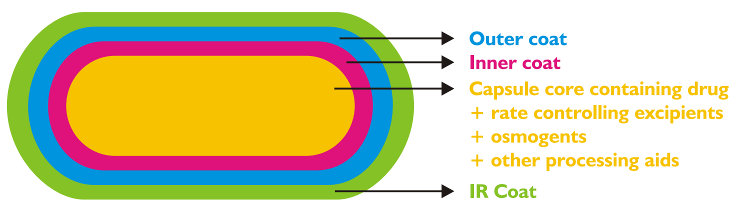
Tobramycin + Dexa ophthalmic solution: Unlike the competing product which is a suspension that can cause a gritty feeling in the eye, our product is being developed as a clear solution for use in the prophylaxis of infections after cataract surgery. A pre-IND meeting with the FDA has been completed, with likely IND filing for 2007.

Depot Technology uses long-acting injectable microparticles for slow/sustained drug release over a month to several months using biocompatible and biodegradable polymers. Our product uses a conventional needle, unlike the competing product where tiny rods are implanted, thus reducing patient trauma and pain. A GnRH analogue is in preclinical trials, and clinical studies may be done in 2008. A somatostatin analogue is in clinical studies in India.

Nanoemulsion based products that offer higher drug localization to the cancer cells and fewer side effects were discussed. Our product uses an unique encapsulation process to achieve more than 98% encapsulation of bioactive substance, unlike competing products. Two cytotoxic products are being developed with this technology.

These projects have since been transferred to the innovative research company SPARC Ltd.





GRID offers constant blood levels

Wrap Matrix for timed drug release

While taking these longer term projects ahead, our team has been delivering projects for India and rest of the world markets as well. This year, our R&D helped to launch thirty six products in India, thirteen of which were based on API technologies developed and scaled up in house. Sixteen of these products are difficult to make or have a complexity in design, development or delivery system, thus have the possibility of relatively limited competition.

New filings were made across international markets in order to offer a comprehensive range of products. The number of pending registrations now stands at 429, with 980 approvals, and these products are already being marketed.

We had earlier written about our complex delivery system based generics, Lipodox (liposomal doxorubicin) and Lupride (lupreolide depot). We continue with the process of dossier development, trials and registrations that meet country specific data requirements, specifically for the US. This is in addition to complex projects in the development pipeline that we have not shared as yet. Our intent with these products and technologies is to differentiate our product offering in these lucrative markets.

Organic synthesis lab, SPARC

Between Sun Pharma and Caraco, seventy-seven ANDAs (29 from Caraco including 1 tentative, 45 from Sun Pharma including 6 tentative, 3 from SPI) now await approval with the USFDA. These filings will eventually drive production at three formulation plants on the US mainland and one plant in India, as versus filings for one plant only, previously.

We continue to derive benefit from integration into API, in terms of cost as well as speed to market. Cumulative, we have 86 filings (75 from Sun Pharma and 11 from Alkaloida) with the authorities in the US and Europe, with 33 filings approved from two API sites in India and 10 from Hungary. Some of these filings are in the high value- low volume anticancer/peptide/steroid areas.

NMR lab, SPARC

US GENERICS *

Our announcement to acquire Taro, with established expertise in dermatology and pediatrics, will ramp up our US business. Taro had recently reported 2005 sales of USD 298 million and profit of USD 5.7 million.

To add to the complexity of the approx $ 28 bill US generic market with intense price competition, new legislation that limits the scope of authorized generics has been introduced in the US senate. In 2007, marketed products with a value over $16 billion will likely lose patent protection, which comes on top of $23 billion of products that lost protection in 2006, giving estimates of 13-14 per cent growth for the sector.

Healthcare has been an important election platform earlier, and with elections slated for 2008, it is likely to emerge as an important point this time too.

The new prescription drug benefit, part of the Medicare reform act of 2003, began in January this year. This benefit which extends coverage for basic medication to the previously uncovered, also expanded the market for commonly prescribed generics. The US government spends $31 billion a year on prescription drugs for seniors, a figure expected to grow significantly. Estimated 4.4 million seniors who hadn't previously signed up for the new Medicare prescription drug benefit and another 38.6 million more who have signed up but might have recently changed plans, were the reason for market expansion. More plans are offering coverage for generic drugs in the "doughnut hole" -- the gap between the initial coverage limit and the threshold for "catastrophic" coverage, when it kicks in again. This Part D prescription drug benefit had expanded the overall US market by nearly one per cent in 2006, with a further uplift of 1-2 per cent expected through 2007.

Citizen's Petitions remain an effective delay tactic for innovators, with most industry experts foreseeing that the FDA would eventually move to a system that allows generic approval before a CP is resolved.

As a large number of companies continued to file patent challenges, and large pharma continued to take steps to protect their brand franchises by entering into agreements for authorized generics or other moves to delay generic entry, three important pieces of legislations were introduced into the US Senate which would likely limit the scope of authorized generics.

The "Preserve Access to Affordable Generics Act," S.316, explicitly prohibits brand manufacturers from paying generic companies to delay launching generic versions of their drugs. Fair Prescription Drug Competition Act of 2007 -S.438, will make it illegal to introduce Authorised Generics during the 180 days exclusivity period enjoyed by the generic company. Both these would help restore the potential that para 4 filings offer and defray some of the risk that a patent challenger usually faces.

We view the recent US Supreme Court judgement on obviousness as a clear pro-generic move. This ruling indicated that the current TSM (teaching, suggestion and motivation) test used by lower courts has been too rigidly and narrowly defined, inconsistent with S 103 of the Patent Act, effectively guiding lower courts to a more commonsensical assessment of obviousness. Lower courts may find it easier to invalidate certain patents on expert testimony by showing that a given advance was merely a solution to market pressures, rather than showing any unexpected positive benefits. The potential for summary judgements from district courts is likely increased, according to expert opinion.

As we had expected, competition was fairly intense for several blockbuster molecules that had gone off patent this year. Also, for products that had been earlier perceived as technically and therefore likely to be less competitive, an unexpectedly large number of approvals were given, often on the same day or in the same week, commoditising these products.

As US companies continued to seek and enter into sourcing arrangements either directly or by buying out production bases, setting up units in India/ China, entering into long term sourcing agreements, setting up R&D bases in the country, we expect that the obvious component of low cost advantage would slowly even out, and competition would shift to complex issues such as product related complexities, or intangibles like service efficacy. The large number of ANDA filings awaiting approval with the USFDA hints at the likelihood of continued pricing pressure, in our opinion.

Caraco sales of
$117 mill
up by 41%

Our US sales, currently entirely through Caraco, constitutes a fast growing part of our business, at 23% turnover. Caraco closed the year ending 31 March, 2007, with sales of $ 117 mill, up a robust 41%, one of the few in the sector with expanding margins in a competitive market, and barring one or two products, the same products to offer, as other companies.

In the years ahead, we expect some of the approvals from our Cranbury and Ohio sites to come through.

Gabapentin, phenytoin, nimodipine are among the ANDA approvals that were received during the course of the year, taking the total ANDA approvals to thirty-four. These products, despite being generics for long, are difficult to formulate and have limited competition. Ultracet, the first ever para 4 approval at Caraco, continued to gain market share in a market with two other players.

Across three USFDA approved formulation sites in the US and one in India, we have the capability to manufacture all kinds of dosage forms: oral solids like tablets and capsules, to injectables, sprays, lotions and ointments. One of the advantages of our US business is the flexibility of manufacturing, as well as production with inhouse-sourced API for better cost structure and speed.

Manufacturing rationalization and upgradation were put into place at the sites that we had acquired last year, the Cranbury site (controlled substance dosage forms), and the Bryan site (liquids and ointments). The process of redevelopment and filing dossiers is underway. We will, over time, source the API or intermediates from our Hungary site which is the world's oldest site for controlled substances such as morphine, codeine and their derivatives. The regulations that govern manufacture and movement of controlled substances are stringent and this, we expect, will ensure controlled substances remains a profitable market.

*(*this section extensively quotes data from publicly available sources such as the internet)*

Manufacturing Packaging Line, Cranbury

INTERNATIONAL MARKETS - NON US

IMS Health had forecast global pharma sales of US$ 665-685 billion for 2007, with market growth of 5-6 per cent for 2007, compared with 6-7 per cent in 2006.

The geographic balance of the pharmaceutical market continues to shift away from the US toward the world's emerging markets. These countries currently represent 17 per cent of the global market, but will contribute 30 per cent of growth next year.

Growth in the emerging markets is offsetting the slower growth coming from the US market. Emerging markets, including China, India, Brazil and Turkey, have grown over 10 per cent in 2006 and may do so again in 2007, largely due to their growing economies and broader access to medications. Growth in China may be 15-16 per cent and the market size may reach $15-16 billion in 2007. Generally, locally manufactured generics dominate these markets.

Markets across Asia Pacific, Africa, China, Russia, Latin America and the Middle East continued to be the fastest growing parts of our business. Increasing availability of healthcare, awareness and access to chronic treatments characterize these markets.

Access to a strong domestic product basket across therapy areas, allows us to be selective about filings across these markets. Competition is intense in countries that have both an active domestic sector and strong multinational presence. Harmonization of quality, increasing stringent standards across markets, country specific data requirements are a common factor.

In these twenty-six markets, we are strengthening our footprint with high quality speciality brands, including some with a technical advantage. As we understand, we are today the No. 1 Indian company in key African markets. Our market share in some neighboring countries exceeds that in India. We believe we are the first Indian company to have stepped into the MNC-dominated and highly complex prescription market in Mexico. In Peru too, we have witnessed a promising start.

Our well trained 316 person strong team, (in addition to over 80 agent representatives) calls upon doctors in these markets. Activities involving doctor group meetings, diabetes detection camps, conference participation, interface with Indian doctors and a series of innovative campaigns have built close customer relationships.

Lupride depot, our once-a-month and once-in-three-months formulation of the prostate cancer / fertility agent lupreolide, is under clinical trials / is being actively marketed in six countries. Lipodox, our formulation of targeted doxorubicin for the treatment of certain kinds of cancer, is under registration in three countries. Such technically complex products help us create an identity as a company with differentiated products. The largest market for these products is in the US and Europe, these markets have stringent data and trial requirements, preparations are being made for likely filing in 2009.

A practical approach to market-specific realities and a resource sensitivity have enabled our team to do more with the resources available.In each market, expenses and earnings are watched carefully, even in those markets where we are in an investment phase.

EUROPE:

In Europe, the top five markets according to IMS Health are France, Germany, the United Kingdom, Italy and Spain with 3-4 % growth .

European markets continue to be in a state of flux, with measures for cost containment being put across markets, increased demand from an aging population, incentives for using generics and increased scrutiny of the cost/benefit of drugs.

This should be progeneric in the long term. Our strategy for Europe is to partner with specific companies or for specific products, across markets. The site that we had acquired in Tiszavasvari, Hungary, a year ago, is with an intention to compete in the controlled substance markets and integrate with our Cranbury plant, as stated earlier.

API MARKETS

API manufacturing, Ahmednagar

The world market for API was about $ 27 bill based on estimates, and patent expiries on large products is expected to drive the market going ahead. The trend the worldover is for cost containment as lower cost generics are used to replace branded products.

India currently accounts for a small proportion of the API outsourcing industry according to industry analysts. The main threat comes from China, with companies aggressive in filing drug master files (DMFs) (60 DMFs filed in 2005 as compared to 40 in 2004). Over the next 2-3 years, Chinese companies are likely to move up the value chain by venturing into high-end intermediates and formulations.

If you look at contribution to turnover from API over the last five years then it has dropped from 33% to 15% of consolidated sales. But this does not fully factor in the advantages that API manufacturing brings to the core business. One advantage is the opportunity to enter into interesting, access-limited formulation markets. It also enables competing as a lean and cost effective integrated generic company in markets such as the US.

MANUFACTURING

Anticancer API, Ahmednagar

Taro has large, world class sites in Canada and Israel to make APIs and dosage forms (including topicals).

We have manufacturing capability across 15 plants to handle both formulations and API to international quality requirements. This year, while we continued with upgradation and streamlining at the plants that we had acquired over the last few years, we added capacity wherever necessary at our existing plants.

API Manufacturing

With 6 API plants in all (with local regulatory and international approval), we are well equipped to partner as a sourcing base for API and benefit from integration. Our API filings will strengthen our ANDA programs going ahead. Opportunities in the high value-low volume anticancer / steroid / hormone space are of particular interest, as is the manufacture of controlled substance API.

Our Hungarian site, Alkaloida, which we had acquired in August 2005, is equipped to make controlled substances like morphine, codeine, etc from the basic extraction stage onwards. Once the requisite approvals from several agencies, at multiple levels are in place, our intention is to integrate the sourcing of API from this plant for our formulations site in Cranbury, USA.

Among the steps taken during the course of the year were modernization of engineering standards, upgrading and streamlining of operations, etc. GMP manufacturing and packaging conditions have been enforced. Total airflow reconstruction of formulations plant was completed. Utilities such as tank park have been modernized, and water system for ground water remediation is being created.

The emphasis is on controlling operational costs by improving capacity utilization. One way this is done is by reduction of working areas using a horizontal material handling system in place of a vertical one, so that instead of four floors as before, two will be used for manufacturing and packaging in formulations plant. The existing Glibonuride Plant was upgraded and modernized to GMP standards and to include Phenobarbital and Hydroxychloroquine manufacturing lines in the same setup.

API processing area, Ahmednagar

Section of Ahmednagar plant

Section of Tiszavasvari, Hungary plant

The reconstruction of Codeine plant is now complete. Our experts in the factory scheduled the construction / upgrading of plants without affecting deliveries.

Anticancer area, Halol

Tableting, Silvassa

Our plant in Panoli, which is our first greenfield plant for API, had in the recent past completed doubling of production area, with capacity of additional 130 KL on completion. Sections of this plant were commissioned this year. A new facility was created for Hormone products meeting USFDA guidelines. Thirteen reactors totalling 7 KL capacity were added.

At our 223 KL and 11000 sq ft. Ahmednagar site, an oncology product manufacturing facility was created as per USFDA guidelines. In all, 18 reactors were installed, adding 8.21 KL capacity.

Panoli and Ahmednagar make the API for 8 of the ANDAs that Caraco markets.

At Karkhadi (the erstwhile Phlox Pharma site), a plant to manufacture formulations, both sterile and non sterile formulations like capsules, dry syrups was commissioned. Scale ups of some third generation cephalosporin API, both sterile and non-sterile, were carried out. The API plant and cephalexin capsule area has recently been approved by USFDA.

At our plant in Madhuranthakam, total bulk drug reaction capacity was increased by 68 KL, and additional utility equipments added.

Our ability to handle a large number of API with differing complexity, and to scale up API quickly across plants has considerably powered our formulation capability.

Formulation Manufacturing

We have a good blend of sites with Indian and USFDA regulatory approval. Our plant in Halol holds USFDA approval. On the US mainland, we have three formulation plants. Caraco holds USFDA approval for tablets. Cranbury makes controlled substance dosage forms, Ohio can handle lotions, liquids and ointments.

Halol continued to be in a state of expansion, with built up area planned to increase to 30,000 sq mt on completion of expansion. This plant now holds USFDA approval for tablets, capsules, injectables and nasal sprays. In addition to the newly commissioned injectable plant, this year, we expanded tableting and capsule capacity substantially by shifting the warehouse to a new area. Additionally, expansions were done in the anticancer area for tablet and capsule manufacture. The hormone section was expanded to handle tablets, capsules and injectable manufacturing.

Upgradations have been completed at the Dadra plant (in partnership with Sun Pharma Industries) and the plant has been submitted for USFDA approval, with the inspection awaited. Dadra has now been approved by the MCC, South Africa for an entry into that lucrative market.

At our Silvassa plant, Panlipase minitablets, a tablet using multidip punches of 1.8mm diameter were made, the first time minitablets of less than 2mm diameter have been compressed on a high speed tabletting machine.

At the Jammu plant (in partnership with Sun Pharma Industries),capacity was added to granulation and packing areas, with extra blister lines installed. The warehouse and QC/QA areas were expanded substantially, to better take care of additional domestic demand.

During the course of the year, considerable upgradation and streamlining has been done at the Hungary plant. (see under API, above)

Caraco

Caraco had added approx 10,000 sq ft of manufacturing space in 2006, taking the total to 82,000 sq ft. During 2007, Caraco acquired an approx 33,369 sq ft packaging facility for $1.7 mill, which is expected to improve overall costs in packaging, bottling and increase production. Six acres of land next to the existing plant were acquired for $0.3 mill, and this is being evaluated for construction of a 125,000 sq ft site here. A 55,000 sq ft facility was leased for finished good storage, inventory and office. An office was leased for adminstration, sales and marketing.

Analytical area, Caraco

Bryan plant: lotions, creams & ointments

Cranbury plant: controlled substance dosage forms

Later in the year, the analytical area was expanded, with a 30% increase in space. This expansion took place without interruption of the lab's daily activities.

Bryan

SPI Inc.'s site in Bryan, which we acquired just over a year back, makes oral liquids, semi-solids and topicals. During the year, we have completed modifications at the site, investing $1.2 mill in plant and machinery, so that it can handle controlled substances, larger volumes and more products. The process of developing and filing products for USFDA approval has begun.

Cranbury

At this state of the art formulation site built to handle large volumes of controlled substances, acquired in 2005 by SPI Inc., work related to product development and filing is the priority. The intent is to make the facility fully operational at the earliest and accelerate both the development capability and the number of products filed. Additional $1.5 mill investment was done for building improvements, as such this is a new site. Recently an approval for nimodipine was received, the first ANDA to be cleared out of this site.

QUALITY

For an international generic company, quality is a given. The tally of international agency plant approvals such as those from the USFDA and UK MHRA, now stands at19. A well synchronized quality system, with records and documentation to international requirements as well as an expert team regularly upgrades skills in keeping with international norms.

A fully automated quality documentation system, PLIMS, has been put into place at all locations. This integrated information management system automates all the data related functions for samples, which is an important regulatory requirement. This application helps streamline information at multiple sites, and this assists in the compilation of the exhaustive technical data required under international requirements like the 21 CFR.

A central quality team works closely with partners such as vendors, material and machinery suppliers as well as the production teams at the sites to ensure that quality norms are met. To ensure continual GMP compliance of the quality system, regular CQ Audits are conducted covering all manufacturing locations.

QC lab: Ahmednagar plant

QC lab: Halol plant

At Caraco, the quality staff has increased from 32 to 64 over the past year. Several members of the staff attended supplemental professional training and conferences. The lab has undergone several upgrades to increase working space and improve the efficiency. Additional equipment has been installed so that some specialized tests can be done in-house instead of contract analyses. Significant resources have also been spent to improve lab operations.

NEW PRODUCTS

Arian	
Methimez	hyperthyroidism treatment
Prolomet XL	antihypertensive
Galinerve	anticonvulsant for neuropathic pain
Korandil IV	in heart disease
Avesta	
Cyclomune	chronic dry eye
Winolap	antihistamine, in conjunctivitis
Careprost Plus	glaucoma
Azura Critical Care	
Bivaflo	prevention of blood clots during angioplasty
Azura Life Sciences	
Olmezest	antihypertensive
Triclazone	antidiabetic
Fibator LS	cholesterol reducing
Inca	
Tamdura	BPH
Androblok	antiandrogen, anticancer
Xelflo	alpha blocker, urinary retention
Idrofos	Prevention of skeletal events in patients with metastatic breast cancer
Colotecan	anticancer
Docefrez	anticancer
Caberlin I	hyperprolactinemia
Milmet	
Milflox DM	antiinfective + antiinflamatory
Radiant	
Ciclez	once a day asthma treatment
Winolap	antihistamine
Sirius	
Lamosyn OD	antiepileptic
Solares	
Thioact	muscle relaxant with antiinflamatory, analgesic action
Betavert MD	vertigo
Cozabal	antiinflamatory in IBD
Sompraz IT	antiulcerant, prokinetic
Zolnite	sleep disorders
Sun	
Pantocid IT	antiulcerant, prokinetic
Lactihep	osmotic laxative, in the treatment of hepatic encephalopathy
Nitrest CR	sleep disorders
Pantocid HP	acid peptic disease
Symbiosis	
Oxetol C	antiepileptic
Oxetol XR	antiepileptic
Synergy	
Nexito Plus	antidepressant
Zonisep	antiepileptic
Sulpitac	antipsychotic

API PRODUCT LIST

Acamprosate Calcium
Alendronate Sodium
Amitriptyline
Budesonide
Bupropion Hcl
Carbamazepine
Carboplatin
Carisoprodol
Carvedilol
Cefuroxime Axetil
Cisplatin
Citalopram Hbr.
Clomipramine Hcl
Clonazepam
Clopidogrel Bisulfate
Danazol
Desloratadine
Desmopressin Monoacetate
Divalproex Sodium
Dobutamine Hcl
Donepezil
Dothiepin Hcl
Eptifibatide
Escitalopram HBr
Flurbiprofen
Fluticasone Propionate
Flurbiprofen R (-)
Flurbiprofen S (-)

Fluvoxamine Maleate
Fosphenytoin Sodium
Gabapentin
Gemcitabine Hcl
Glimepiride
Granisetron Hcl
Imatinib Mesylate
Irbesartan
Isradipine
Lamotrigine
Lercanidipine Hcl
Letrozole
Losartan Potassium
Loteprednol Etabonate
Magnesium Valproate
Meloxicam
Mesalazine
Metamizol Magnesium
Metaxalone
Metformin HCl
Methylphenidate HCl
Metoprolol Succinate
Pioglitazone
Piroxicam Betacyclodextrine
Metoprolol Tartrate
Mirtazapine
Modafinil

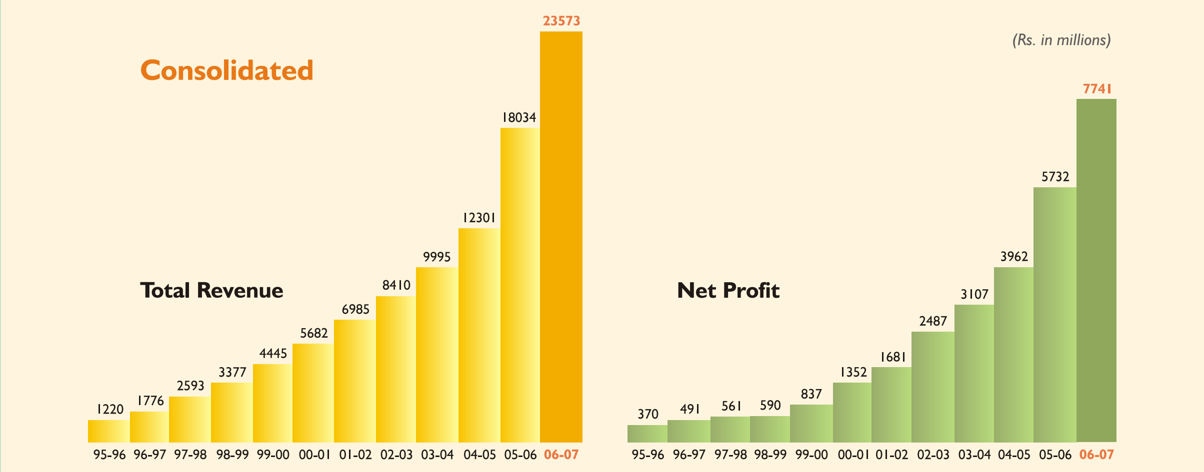
Mometasone Furoate
Naltrexone HCl
Octreotide Acetate
Olanzapine
Ondansetron Base
Ondansetron HCl
Oxaliplatin
Oxcarbazepine
Oxethazaine
Pamidronate Disodium
Pantoprazole
Pentoxifylline
Perindopril
Repaglinide
Rivastigmine Tartrate
Ropinirole
Sodium Valproate
Sumatriptan Succinate
Tiagabine HCl
Tizanidine HCl
Topiramate
Tramadol Hcl
Valproic Acid
Venlafaxine HCl
Ziprasidone HCl
Zolpidem Tartrate
Zonisamide

Intermediates available on request for above Active Pharmaceutical Ingredients. All transactions are carried out in conformity with patent laws applicable in the user country. Responsibility with respect to third party's patent rights in a specific country lies exclusively with the buyer.

API PRODUCT LIST-ALKALOIDA

Acenocoumarol	Concentrate of poppy straw (CPS)	Noscapine base
Aluminium-magnesium-hydroxy-carbonate-hexahydrate	Dihydrocodeine hydrogentartrate	Noscapine HCl
Buprenorphine HCl	Ethylmorphine HCl	Oxycodone
Buspirone base	Glibornuride	Oxymorphone
Buspirone HCl	Hydroxychloroquine sulphate	Phenobarbital acid
Codeine base	Morphine HCl	Phenobarbital sodium
Codeine HCl	Morphine sulphate	Pholcodine
Codeine phosphate hemihydrate	Noroxymorphone	Sennoside A+B
		Thebaine
		Topiramate

Intermediates available on request for above Active Pharmaceutical Ingredients. All transactions are carried out in conformity with patent laws applicable in the user country. Responsibility with respect to third party's patent rights in a specific country lies exclusively with the buyer.



(Rs. Mill)

Consolidated Sales breakup by type	Mar 07	Mar 06
Total Sales	**22372.9**	**17371.5**
Domestic	**12686.3**	**10413.7**
Formulations	**11809.8**	9595.9
Bulk	**861.8**	815.2
Others	**14.7**	2.6
Exports	**9686.6**	**6957.8**
Formulations	**7290.1**	5035.6
Bulk	**2361.5**	1887.8
Others	**34.9**	34.4

All financial numbers are for the consolidated results unless otherwise mentioned specifically.

DIRECTORS' REPORT

Your Directors take pleasure in presenting the Fifteenth Annual Report and Audited Accounts for the year ended 31st March, 2007.

(Rs. Millions except Book value)

FINANCIAL RESULT	Year ended 31st March, 2007	Year ended 31st March, 2006
Total Income	24,040	18,069
Profit after tax	6,289	4,613
Dividend on Preference Shares	1	1
Dividend on Equity Shares – Final	1,300	1,023
Corporate Dividend tax	182	144
Transfer to various Reserves	2,000	2,137
Rate of dividend on equity shares	135	110
Book value per equity share (Rs.5 paid up)	126	79

Dividend

An interim preference share dividend of 6% p.a. (previous year 6% p.a.) on paid up amount of outstanding preference shares and an interim equity share dividend of 135% p.a. (previous year 110% p.a.) for the year ended 31st March, 2007 was paid to the shareholders of the Company whose names stood on the register of the members on 16th March, 2007.Your directors recommend that the interim dividend on preference and equity shares be treated as final.

Management Discussion and Analysis

The management discussion and analysis on the operations of the company is provided in a separate section and forms part of this report

Interim equity share dividend of 135% p.a. (previous year 110% p.a.) for the year ended 31st March, 2007 was paid to the shareholders of the Company

Demerger of Innovative Research & Development Unit of the Company

As we informed last year, your Company had undertaken Demerger of its Unit of Innovative Research & Development activities and New Drug Delivery systems.The said Demerger has been sanctioned by the Honourable High Court of Gujarat pursuant to Sections 391-394 of the Companies Act,1956 on 1st March, 2007 with appointed date as the close of business hours on 28th February, 2007.On completion of the necessary formalities, the Demerger has been effective on 28th March, 2007 and the impact of the Demerger has been incorporated in the Audited Accounts for the year under review.

On the scheme being effective, Sun Pharma Advanced Research Company Ltd., the Resulting Company ceased to be the subsidiary of the Company.

Human Resources

At Sun , we have grown to a committed workforce of about 6000 (around 7300 including subsidiaries), a strong multi-cultural team pursuing a shared vision of excellence in our corporate office, two R&D Centres & 15 plants including associate companies across 3 continents. The consistent growth achieved year after year firmly establishes Sun Pharma's remarkable team, their potential and capabilities to deliver. The company recognizes the importance of these resources and keeps it prepared for new opportunities and challenges. Continuous learning and development opportunity through in-house, external programmes and on-job training are employed to upgrade technical, marketing and management skills. Performance orientation and ethics are viewed as high priority area. The work environment and opportunities help and retain talent. Your Directors recognize the team's valuable contribution and place on record their appreciation for Team Sun Pharma.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is available at the registered office of your Company. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all shareholders of the Company and others entitled thereto excluding the aforesaid information. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary/Compliance Officer at the Corporate office or Registered office address of the Company.

Information on Conservation of Energy, Technology Absorption, Foreign Exchange Earning and Outgo

The additional information relating to energy conservation, technology absorption, foreign exchange earning and outgo, pursuant to Section 217(1)(e) of the Companies Act 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in Annexure and forms part of this Report.

Internal Control Systems and their Adequacy

The Company has adequate internal controls for its business processes across departments to ensure efficiency of operations, compliance with internal policies and applicable laws and regulations, protection of resources and assets and accurate reporting of financial transactions. The Company has also system of internal audit being conducted by the independent firm of Chartered Accountants so as to cover various areas of operations on continuous basis. The summarized Internal Audit Observations/Reports are reviewed by the Audit Committee on a regular basis. The finance and accounts functions of the Company are well staffed with qualified and experienced members.

Corporate Governance

Report on Corporate Governance and Certificate dated 27 June, 2007 of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, are enclosed.

Consolidated Accounts

In accordance with the requirements of Accounting Standard AS-21 prescribed by the Institute of Chartered Accountants of India, the Consolidated Accounts of the Company and its subsidiaries is annexed to this Report.

CRISIL continues to reaffirm their highest rating of "P1+"

Finance

The banks in consortium continue to offer their highest rating to your Company enabling it to source funds from banks at attractive rate of interest. CRISIL continued to reaffirm their highest rating of "P1+", for your Company's Short Term Borrowing Program throughout the year.

The Company does not offer any Fixed Deposit scheme.

Issue of Shares on Part Conversion of FCCB

During the year ended 31st March,2007 , the Company received notices from Foreign Currency Convertible Bond (FCCB) holders for exercising the conversion option in respect of 124,286 FCCBs of US $ 1000 each out of 350,000 (Three Hundred and Fifty Thousand) FCCBs (and out of 346,500 FCCBs at the beginning of the year). Accordingly, the Company allotted during the year ended 31st March,2007, 7,670,483 equity shares of Rs.5 each to these Bondholders at the conversion price of Rs.729.30 per share.

Corporate Social Responsibility (CSR)

Your organization has identified health, education, disaster relief , and periodically, patient awareness, as areas of priority. The emphasis has been assistance on a need basis, and that too, assistance at a local level.

One person's education can make a difference to an entire family. Your organization has stepped in with support for tribal education, at ashram pathshalas, with additional resources, extensive teaching assistance as well as support for vocational courses.

Assistance at the primary and university levels includes support to students of the MS University of Baroda to work towards their doctorates using the facilities at SPARC. A chemistry lab was developed for post graduate and doctoral work at M.S. University. Your company regularly sponsors symposia, laboratory equipments and some production machines for local colleges.

Your company set up a modern, 48 room and 20,000 sq, ft hostel for post graduate medical students of MS University, Baroda, as part of its commitment to the city.

At the school level, important contributions included that to a program that works for the education of the girl child at the grassroots level, Kanya Kelavani Nidhi. In Ahmednagar, support was extended to Gramin Vikas Mandal, which runs a primary school in the MIDC area, for children whose parents are employed in the Industrial area. Support was extended to the Primary School of Municipal Corporation, at Tandalja, with renovation of the school building and infrastructure facilities.

Amongst important medical support activities were the donation of a dialysis machine and a reverse osmosis plant to a general hospital, donations to hospitals near our plants.

Lifeline Foundation, working for highway rescue and accident treatment, has been supported with funds for communication Your company has in the past extended a hand in times such as the earthquake, floods, etc. This generally takes the form of food grain support, utensils and drinking water supplies to the affected areas.

Directors

Shri Ashwin Dani and Shri Sudhir V. Valia retire by rotation and being eligible offer themselves for reappointment.

Shri Dilip Shanghvi's term of appointment as the Managing Director expires on 31st March,2008. Under the leadership of Shri Shanghvi, the Company has attained all round growth in its business. Your Directors recommend the reappointment of Shri Shanghvi for a further period of 5 years.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

(i) that in the preparation of the annual accounts for the financial year ended 31st March, 2007, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

(ii) that the Directors have selected appropriate accounting policies and applied them consistently and made judgements and estimates that were 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 on the profit 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 financial year ended 31st March, 2007 on a 'going concern' basis.

Auditors

Your Company's auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting. Your Company has received a letter from them to the effect that their re-appointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

Acknowledgements

Your Directors wish to thank all stakeholders and business partners-your Company's bankers, financial institutions, medical profession and business associates for their continued support and valuable co-operation. The Directors also wish to express their gratitude to investors for the faith that they continue to repose in the Company.

For and on behalf of the Board of Directors

Mumbai,
June 27, 2007

DILIP S. SHANGHVI
Chairman & Managing Director

ANNEXURE TO DIRECTORS' REPORT

CONSERVATION OF ENERGY

	2006-07	2005-06
A. Power and Fuel Consumption		
1. Electricity		
(a) Purchased		
Unit (in '000 KWH)	**34988**	31380
Total Amount (Rs. in Millions)	**165**	137
Rate (Rs./Unit)	**4.7**	4.4
(b) Own Generation through Diesel Generator		
Units (in '000 KWH)	**626**	683
Units per Litre of Diesel Oil	**2.8**	3.0
Cost (Rs./Unit)	**12.7**	10.7
(c) Own Generation through Gas		
Units (in '000 KWH)	**13061**	10171
Units per M3 of Gas	**3.6**	3.6
Cost (Rs./Unit)	**2.5**	2.5
2. Furnace Oil		
Quantity (in '000 Litres)	**4191**	3542
Total Amount (Rs. in Millions)	**80.1**	60.9
Average Rate (Rs./Unit)	**19.1**	17.2
3. Gas (for Steam)		
Gas Units (in '000 M3)	**3564**	2789
Total Amount (Rs. in Millions)	**35.0**	24.7
Average Rate (Rs./Unit)	**9.8**	8.9

B. Consumption per unit of production

It is not feasible to maintain product category-wise energy consumption data, since we manufacture a large range of formulations and bulk drugs having different energy requirements.

C. Energy conservation measures

1. Improvisation and continuous monitoring of Power Factor and replacement of weak capacitors by conducting periodical checking of capacitors. We have been able to maintain the Power Factor near to unity (above 0.99) and thereby availing the rebate in electricity charges.
2. Alternative energy sources like Gas & Steam have been used in place of electricity for heating of De-mineralized water, fluid bed dryers for producing hot air systems for coating department and for making starch paste and for drying of Bulk Drugs in tray dryers. Steam from solvent recovery plant condensate and diverted to Boiler Feed water.
3. Provision of storage tanks with electric Heaters to utilize the same instead of steam and use of DG set with smaller capacity for limited use at night or on weekly off / Holiday.
4. Providing air handling unit with variable frequency drives, so that the system runs at variable speed, and thereby saving in consumption of electricity.
5. Installation of isolating valve in main airline for preventing air loss.
6. Installation of Gas based electricity generation set at bulk drug plants, resulting in significant savings in electricity cost.
7. The Company has endeavored to optimise the use of energy resources and taken adequate steps to avoid wastage & use latest production technology & equipments.

SUN PHARMACEUTICAL INDUSTRIES LTD.

TECHNOLOGY ABSORPTION

A. Research and Development

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

We continue to be one of the most agressive investors and developers of pharmaceutical research and technology in the country, with research programs pursued at our state of the art R&D centre in Baroda. Our expert scientist team is engaged in complex developmental research projects in process chemistry and dosage forms, as well as innovative research in new drug discovery, novel drug delivery systems at this research centre. The research activity supports the short, medium and long term business needs of the company.

Projects in formulation development and process chemistry help us introduce a large number of new products to the Indian market including prodcuts with complexity or a technology edge. This helps us maintain our leadership position in the Indian market with specialty formulations and derive market and cost advantage from API's developed and scaled up In-house. Further, it helps us to compete in the international regulated markets across US / Europe. Your company has a large pipeline of ANDA filings awaiting approval with the USFDA and an aggressive ANDA filing program every year.

The team also works on projects involving complex drug delivery systems for India and some of these are eventually filed with the USFDA and brought to market after patent expiry. Complex API like steroids, sex hormones and peptides, which require special technology, are developed and scaled up both for API and dosage forms, and this complete integration for some products works to the company's advantage.These projects may offer higher value addition and sustained revenue streams.

NCE and NDDS projects that have a considerably longer timeframe are one area that the team works on. These projects address world markets, however, require larger investments, attention and have uncertain return horizons. On account of the need for focus, resources and the uncertainty with these projects, the company has demerged the innovative business into a new company, SPARC Ltd. This will help us focus on such longer term projects.

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

In 2006-07, 39 formulations were introduced across marketing divisions, (not including line extensions). All of these were based on technology developed In-house. Technology for more than 29 API was commercialised. For some of the important API that we already manufacture, technology was refined so as to have more energy efficient or cost effective or environment friendly processes. A large part of our API sales is to the regulated market of US/ Europe, and this earns valuable foreign exchange and also a reputation for quality and dependability. The company's formulation brands are exported to 26 international markets where a local field force promotes the same.

The Department of Scientific and Industrial Research, Ministry of Science and Technology of Government of India has granted approval to the In-house research and development facility of your Company under the provision of the Income Tax Act, 1961.

3. Future plan of action

At the end of the year, across the two research centers, close to 350 scientists are at work in the facility spread over 185,000 sq. ft. of research floor area. A new world class bioequivalence center spanning on 25,000 sq. ft. and with a 78 bed capacity was built and commissioned in 2005-06, the same is being expanded to >200 bed capacity by end of the current year. One NCE has finished Phase 1 of human trial and phase 2 trials are ongoing in US. 2 NDDS projects will enter trials in the developed/ regulated markets. Your company has also demerged the innovative part of its business into a separate Company whose shares will be listed.

4. Expenditure on R&D	**Year ended 31st March, 2007 Rs in Million**	Year ended 31st March, 2006 Rs in Million
a) Capital	**346.5**	480.5
b) Revenue	**1536.2**	1134.4
c) Total	**1882.7**	1614.9
d) Total R&D expenditure as % of Total Turnover	**11.3%**	12.5%

B. Technology Absorption, Adaptation and Innovation

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

The outlay on R&D- revenue as well as capex, has been increasing year after year, and a large part of the spend is for complex products, ANDA filings for the US, and API technologies that are complex and require dedicated manufacturing sites. Investments have been made in creating research sites, employing scientifically skilled manpower, adding equipment and upgrading continuously the exposure and research understanding of the scientific team in the therapy areas of our interest.

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

(a) Market leader for several complex products, offers complete baskets of products under a broad spectrum of therapeutic classes. Strong pipeline of products for future introduction in India as well as in the US generic market.

(b) Not dependent on imported technology, can make high cost products available at competitive prices by using indigenously developed manufacturing processes and formulation technologies.

(c) Offer products which are convenient and safe for administration to patients, products with a technology advantage.

(d) We are among the few selected companies that have set up completely integrated manufacturing capability for the production of anticancer, hormones, peptide, cephalosporins and steroidal drugs.

(e) The Company has benefited from reduction in cost due to import substitution and increased revenue through higher exports.

3. Your company has not imported technology during the last 8 years reckoned from the beginning of the financial year.

C. Foreign Exchange Earnings and Outgo	**Year ended 31st March, 2007 Rs in Million**	Year ended 31st March, 2006 Rs in Million
1. Earnings	**5231.8**	4048.5
2. Outgo	**3916.9**	2832.7

Auditors' Report to the Members of Sun Pharmaceutical Industries Limited

1. We have audited the attached Balance Sheet of Sun Pharmaceutical Industries Limited (the Company) as at March 31, 2007, and also the Profit and Loss Account and the Cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. As required by the Companies (Auditors' 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 Para 3 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 written representations received from directors as on March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 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 read together with the significant accounting policies and 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:

      (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2007

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

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

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner
(Membership No. 9544)

Mumbai : May 18, 2007

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 4 of our report of even date)
Sun Pharmaceutical Industries Limited

1. In our opinion and according to the information and explanations given to us, the nature of the Company's business / activities during year is such that clauses xiii, xviii, xix and xx of paragraph 4 of the Companies (Auditors' Report) Order, 2003, are not applicable to the Company.

2. In respect of its fixed assets:

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

   (ii) As explained to us, some of the fixed assets of the Company have been physically verified during the year by the management in accordance with a phased programme of verification designed to cover all assets over a period three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of accounts.

   (iii) Although some of the fixed assets have been disposed off during the year, in our opinion and according to the information and explanations given to us, the ability of the company to continue as a going concern is not affected.

3 In respect of its inventories:

   (i) As explained to us, inventories (excluding inventories lying with third parties) were physically verified by the management at reasonable intervals during the year. In respect of inventories lying with third parties, these have substantially been confirmed by them. In our opinion the frequency of verification is reasonable.

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

   (iii) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

4. In respect of loans, secured or unsecured, granted by the Company to Companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956, according to the information and explanations given to us:

   (i) The Company had granted unsecured loan to one party. At the year end there was no outstanding balances of such loan granted and the maximum amounts involved during the year was Rs. 2918.7 Million from one party.

   (ii) The rate of interest, wherever applicable and other terms and conditions of such loans are, in our opinion, prima facie not prejudicial to the interest of the Company.

   (iii) The receipt and payment of principal amounts and interest have during the year been as per stipulation.

   (iv) There is no overdue amount in excess of Rs. 1 lakh in respect of loans granted to Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.

   (v) The Company had not taken any loan, secured or unsecured, from Companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956, hence clauses (e), (f) & (g) are not applicable.

5. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the company and nature of its business with regard to purchase of inventory and fixed assets and for sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal control systems.

6. In respect of contracts or arrangements entered in the register maintained in pursuance of section 301 of the Companies Act, 1956, to the best of our knowledge and belief and according to the information and explanations given to us:

   (i) The particulars of contract or arrangements referred to in Section 301 that needed to be entered into the register, maintained under the said section have been so entered.

   (ii) Where each such transaction (excluding loans reported under paragraph 4 above) is in excess of Rs. 5 lakhs in respect of any party, the transactions have been made at prices which are *prima facie* reasonable having regard to prevailing market prices at the relevant time, except that reasonableness could not be ascertained where comparable quotations are not available having regards to the specialized nature of some of the transactions of the company.

7. In our opinion and according to the information and explanations given to us the Company has not accepted any deposits within the meaning of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public. No Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.

8. In our opinion, the internal audit functions carried out during the year by the firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.

9. We have broadly reviewed the books of accounts and records maintained by the Company relating to manufacture of formulation and bulk drug products pursuant to the Order made by the Central Government for 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. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete. To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records for any other product of the Company.

10. According to the information and explanations given to us in respect of statutory dues:

    (i) The Company has been regular in depositing undisputed statutory dues, including, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess and other material statutory dues with the appropriate authorities during the year. There were no undisputed dues that were outstanding as at March 31, 2007 for a period of more than six months from the date they became payable.

    (ii) According to the information and explanations given to us, the details of disputed Sales Tax, Income Tax, Custom Duty and Excise Duty, which have not been deposited as at March 31, 2007 on account of any dispute, are as under:

Statute & Nature of Dues	Financial Year to which the matter pertains	Forum where dispute is pending	Amount Rs. Millions
The Central Excise Act			
Excise Duty, Interest & Penalty	1998-99, 2002-03, 2003-2004, 2004-05, 2005-06	Commissioner	8.4
	1999-00, 2000-01, 2002-03, 2004-05	Tribunal	9.6
Customs Act, 1962			
Custom Duty, Penalty Interest	2000-01	High Court	10.3
Sales Tax Act			
Sales Tax, Interest & Penalty	1994-95,1998-99, 1999-00, 2000-01, 2001-02, 2002-03, 2003-04, 2004-05, 2005-06	Assistant / Deputy / Joint Commissioner	22.0
	1988-89 to 1991-92, 1999-00, 1997-98, 1998-99, 2000-01, 1999-00, 1997-98	Tribunal	6.9
	1981-82 to 1985-86	High Court	0.7
	1993-94 to 1998-99	Assessing officer	10.7
Income Tax Act			
Income tax & Interest	1988-89 to 7.12.1998, 1995-96, 1997-98, 1998-99, , 1999-00, 2000-01, 2001-02 & 2002-03	Tribunal	57.2
	1999-00, 2000-01, 2002-03 & 2003-04	Commissioner	409.7
ESI Act			
Contribution	Upto 1996	Appellate authority	0.2
DPCO			
DPEA & interest	1981-1987	DPLRC	14.0

(iii) There were no disputed dues in respect of Wealth Tax, Service Tax and Cess during the year.

11. In our opinion and according to information and explanations given to us, the company does not have any accumulated losses as at the end of the year. The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

12. In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of dues to financial institutions and banks. The Company has not obtained any borrowings by way of debentures.

13. In our opinion, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

14. Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in shares and other investments and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name, except to the extent of the exemption granted under Section 49 of the Companies Act, 1956.

15. In our opinion and according to the information and explanation given to us, the terms and conditions of the guarantees given by the Company for loan taken by others from banks and financial institutions, are not prima facie prejudicial to the interests of the Company.

16. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, *prima facie*, applied by the Company during the year for the purposes for which the loans were obtained other than temporary deployment pending application.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the funds raised on short term basis have, *prima facie*, not been used during the year for long term investment.

18. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the year.

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner
(Membership No. 9544)

Mumbai : May 18, 2007

BALANCE SHEET AS AT 31ST MARCH, 2007

	Schedules	As at 31st March, 2007 Rs in Million	As at 31st March, 2007 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	980.7		942.7	
Reserves and Surplus	2	23,514.2	24,494.9	13,706.7	14,649.4
Loan Funds					
Secured Loans	3	203.9		183.9	
Unsecured Loans	4	10,477.6	10,681.5	17,275.9	17,459.8
Deferred Tax Liability (Net)	5		1,093.2		1,044.4
TOTAL			36,269.6		33,153.6
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	8,387.0		7,442.6	
Less: Depreciation / Amortisation		2,494.1		2,080.7	
Net Block		5,892.9		5,361.9	
Capital Work-in-Progress (including advances on capital account)		319.1	6,212.0	308.0	5,669.9
Investments	7		10,574.9		7,796.2
Current Assets, Loans and Advances					
Inventories	8	3,333.8		2,634.1	
Sundry Debtors	9	3,100.0		2,564.7	
Cash and Bank Balances	10	12,026.8		12,309.8	
Other Current Assets	11	327.0		304.6	
Loans and Advances	12	3,086.8		4,761.1	
		21,874.4		22,574.3	
Less: Current Liabilities and Provisions	13				
Current Liabilities		2,314.7		1,661.8	
Provisions		77.0		1,225.0	
		2,391.7		2,886.8	
Net Current Assets			19,482.7		19,687.5
TOTAL			36,269.6		33,153.6
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	21				

Schedules referred to herein form an integral part of the Financial Statements.

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. SARDA
Partner

Mumbai, 18th May, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th May, 2007

SUN PHARMACEUTICAL INDUSTRIES LTD.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

	Schedules	**Year ended 31st March, 2007** Rs in Million	Rs in Million	Year ended 31st March, 2006 Rs in Million	Rs in Million
INCOME					
Income from Operations					
Gross Sales		**17,221.3**		13,530.1	
Less: Excise Duty		**595.7**		613.7	
Net Sales		**16,625.6**		12,916.4	
Other Operating Income	**14**	**5,806.2**		3,887.0	
		22,431.8		16,803.4	
Other Income	**15**	**1,608.4**	**24,040.2**	1,266.1	18,069.5
EXPENDITURE					
Cost of Materials / Goods	**16**	**11,579.8**		8,319.0	
Indirect Taxes	**17**	**516.3**		413.9	
Personnel Cost	**18**	**988.7**		820.1	
Operating and Other Expenses	**19**	**2,551.1**		2,088.1	
Research and Development Expenditure	**20**	**1,536.2**		1,134.4	
Depreciation / Amortisation		**462.7**	**17,634.8**	407.3	13,182.8
PROFIT BEFORE TAXATION			**6,405.4**		4,886.8
Provision for Taxation - Current Tax			**56.3**		73.8
- Deferred Tax			**48.8**		191.4
- Fringe Benefit Tax			**11.0**		8.7
PROFIT AFTER TAX			**6,289.3**		4,612.9
BALANCE OF PROFIT BROUGHT FORWARD			**3,903.2**		2,594.5
Less : Adjustment on cancellation of Investment in shares of Sun Pharma Advanced Research Company Ltd. pursuant to scheme of demerger (refer note 17 (a) of Schedule 21)			**0.5**		—
AMOUNT AVAILABLE FOR APPROPRIATION			**10,192.0**		7,207.4
APPROPRIATIONS					
Proposed Dividend					
Preference Shares		**0.8**		0.8	
Equity Shares-Final (F.Y. 2005-06)		**0.5**		1,023.0	
Equity Shares-Interim - paid		**1,299.6**		—	
Corporate Dividend Tax		**182.5**	**1,483.4**	143.6	1,167.4
Transfer to General Reserve		**2,000.0**		2,000.0	
Transfer to Capital Redemption Reserve on Redemption of Preference Capital		**0.2**		0.1	
Transfer to Debenture Redemption Reserve on Redemption of Debentures		**—**	**2,000.2**	136.7	2,136.8
BALANCE OF PROFIT CARRIED TO BALANCE SHEET			**6,708.4**		3,903.2
EARNING PER SHARE (refer note 12 (ii) of Schedule 21)					
Basic (Rs.)			**33.5**		24.9
Diluted (Rs.)			**31.2**		22.3
Face Value per Equity share - Rs.5					
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	**21**				

Schedules referred to herein form an integral part of the Financial Statements.

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. SARDA
Partner

Mumbai, 18th May, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th May, 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million
A. Cash Flow From Operating Activities:		
Net Profit Before Tax	**6,405.4**	4,886.8
Adjustments for:		
Depreciation	**462.7**	407.3
Interest Expense	**88.0**	112.3
Interest Income	**(1,123.3)**	(943.5)
Dividend Income	**(13.8)**	—
(Profit) / Loss on Fixed Assets Sold (net)	**(110.2)**	0.6
(Profit) / Loss on Sale of Investments	**(52.0)**	(109.3)
Bad Debt Written off / back	**31.3**	21.6
Liability No Longer Required Written Back	**(2.0)**	5.1
Provision for Leave Encashment	**17.3**	7.3
Unrealised Foreign Exchange (Gain) / Loss	**(325.2)**	(91.8)
Lease Terminal Adjustment	—	(0.1)
Operating Profit Before Working Capital Changes	**5,378.2**	4,296.3
Adjustments for Changes In Working Capital :		
(Increase)/Decrease in Sundry Debtors	**(615.1)**	(284.4)
(Increase)/Decrease in Other Receivables	**98.9**	(341.8)
(Increase)/Decrease in Inventories	**(699.7)**	(767.9)
Increase/(Decrease) in Trade and Other Payables	**434.8**	359.4
Cash Generated From Operations	**4,597.1**	3,261.6
Taxes Paid (Net of TDS and Refund)	**(154.6)**	(153.5)
Net Cash Generated From Operating Activities	**4,442.5**	3,108.1
B. Cash Flow From Investing Activities:		
Purchase of Fixed Assets / Capital Work in Progress	**(1,407.8)**	(1,241.5)
Proceeds From Sale of Fixed Assets	**188.5**	17.6
Proceeds From Sale of Investments	**18,431.4**	21,989.5
Purchase of Investments	**(21,158.7)**	(19,709.8)
Loans/Inter Corporate Deposits Received back / (given) (Net)	**1,735.8**	(100.6)
Interest Received	**1,076.3**	652.4
Dividend Received	**13.8**	—
Net Cash (Used in) / Generated from Investing Activities	**(1,120.7)**	1,607.6
C. Cash Flow From Financing Activities:		
Repayment of ECB Loan	**(907.9)**	—
Redemption of Zero Coupon Debenture	—	(136.7)
Repayment of Deferred Sales Tax Loan	—	(2.4)
Redemption of Preference Share Capital	**(0.2)**	(0.1)
Short Term Loan Repaid	—	(306.4)
(Repayment to) / Borrowing from Bank (Net)	**20.0**	44.7
Interest Paid	**(88.0)**	(112.3)
Dividend Paid	**(2,302.6)**	(695.3)
Dividend Tax Paid	**(326.1)**	(97.7)
Net Cash used in Financing Activities	**(3,604.8)**	(1,306.2)
Net Increase/(Decrease) In Cash and Cash Equivalents	**(283.0)**	3,409.5
Cash and Cash Equivalents as at the begining of the year	**12,309.8**	8,900.3
Cash and Cash Equivalents as at the year end	**12,026.8**	12,309.8

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million
Cash and Cash Equivalents Comprise:		
Cash and Cheques on hand and balances with Scheduled / Other banks	**12,084.8**	12,330.0
Unrealised exchange Loss	**(58.0)**	(20.2)
Cash and Cash equivalents at the end of the year	**12,026.8**	12,309.8

Notes:

1 Cash and Cash equivalents includes Rs. 29.0 Million (Previous Year Rs. 7.3 Million), which are not available for use by the Company (Refer Schedule 10 in the Financial Statements).

2 Previous years' figures are regrouped / reclassified wherever necessary in order to confirm to current years' groupings and classifications.

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. SARDA
Partner

Mumbai, 18th May, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th May, 2007

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 1 : SHARE CAPITAL

	As at 31st March, 2007 Rs in Million	As at 31st March, 2006 Rs in Million
Authorised		
254,700,000 (Previous Year 307,900,000) Equity Shares of Rs. 5 each (refer note 17 (a) of Schedule 21)	**1,273.5**	1,539.5
25,000,000 (Previous Year 25,000,000) Preference Shares of Re.1 each	**25.0**	25.0
2,015,000 (Previous Year 2,015,000) Preference Shares of Rs.100 each	**201.5**	201.5
	1,500.0	1,766.0
Issued, Subscribed and Paid Up		
193,402,120 (Previous Year 185,731,637) Equity Shares of Rs. 5 each	**967.0**	928.7
13,740,030 (Previous Year 13,983,534) 6% Cumulative Redeemable Preference Shares of Re.1 each	**13.7**	14.0
	980.7	942.7

Notes:

Of the above :

1) 161,630,010 Equity Shares were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account, Amalgamation Reserve and Capital Redemption Reserve Account.

2) 413,633; 208,000; 477,581; 11,438; 18,519 and 19,771 Equity Shares of Rs.10 and 4274 Equity Shares of Rs. 5 each fully paid, were allotted to the shareholders of erstwhile Tamilnadu Dadha Pharmaceuticals Ltd, Milmet Laboratories Pvt. Ltd, Gujarat Lyka Organics Ltd, Sun Pharmaceutical Exports Ltd, Pradeep Drug Company Ltd, M.J.Pharmaceuticals Ltd and Phlox Pharmaceuticals Limited respectively, pursuant to Schemes of Amalgamations, without payment being received in cash.

3) 6% Cumulative Redeemable Preference Shares of Re.1 each are redeemable at par at any time at the option of the Shareholder. 187,177,232 6% Cumulative Redeemable Preference Shares of Re.1 each were allotted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve. During the year 243,804 (Previous Year 46,896) Preference Shares were redeemed at par.

4) 7,886,490 (Previous Year 216,007) Equity Shares of Rs. 5 each were allotted to the holders of Zero Coupon Foreign Currency Convertible Bond on exercise of conversion option. (refer note 18 of Schedule 21).

SUN PHARMACEUTICAL INDUSTRIES LTD.

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 2 : RESERVES AND SURPLUS				
Capital Reserve				
As per last Balance Sheet	**259.1**		267.2	
Amalgamation Adjustment	—		(8.2)	
Transferred from Share Capital Suspense	—	**259.1**	0.1	259.1
Securities Premium Account				
As per last Balance Sheet	**156.5**		—	
Add : Received during the year	**5,555.8**		156.5	
	5,712.3		156.5	
Less : Adjustment pursuant to scheme of Demerger (refer note 17 (a) of Schedule 21)	**546.4**	**5,165.9**	—	156.5
Capital Redemption Reserve				
As per last Balance Sheet	**140.6**		140.5	
Add : Transferred from Profit and Loss Account	**0.2**	**140.8**	0.1	140.6
Debenture Redemption Reserve				
As per last Balance Sheet	—		—	
Add : Transferred from Profit and Loss Account	—		136.7	
	—		136.7	
Less: Transferred to General Reserve	—	—	136.7	—
General Reserve				
As per last Balance Sheet	**9,247.3**		7,110.6	
Add : Transferred from Profit and Loss Account	**2,000.0**		2,000.0	
Transferred from Debenture Redemption Reserve	—		136.7	
Less : Adjustment on account of transitional provision on Employee Benefits (refer note 12 (iv) of Schedule 21)	**7.3**	**11,240.0**	—	9,247.3
Surplus As Per Profit And Loss Account		**6,708.4**		3,903.2
		23,514.2		13,706.7
SCHEDULE 3 : SECURED LOANS				
Short Term Loan from Banks		**203.9**		183.9
(Secured by hypothecation of stock and book debts)		**203.9**		183.9
SCHEDULE 4 : UNSECURED LOANS				
Long Term				
External Commercial Borrowings in foreign currency from Banks *	**900.2**		1,808.1	
Zero Coupon Foreign Currency Convertible Bonds (Refer note 18 of Schedule 21)	**9,577.4**	**10,477.6**	15,467.8	17,275.9
		10,477.6		17,275.9

* includes repayable within one year Rs. Nil (Previous Year 907.9 Million)

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 5 : DEFERRED TAX LIABILITY (NET)

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
Deferred Tax Assets				
Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act,1961		**29.3**		17.9
Others		**15.1**		8.9
		44.4		26.8
Deferred Tax Liability				
Depreciation on Fixed Assets		**1,137.6**		1,071.2
		1,093.2		1,044.4

SCHEDULE 6 : FIXED ASSETS

Rs in Million

Particulars	Gross Block (At Cost)					Depreciation / Amortisation					Net Block	
	As At 01.4.06	Adjustment on account of Demerger	Additions 06-07	Deletions 06-07	**As at 31.03.07**	As at 01.4.06	Adjustment on account of Demerger	For year 06-07	Written back/ Deleted 06-07	**As at 31.03.07**	**As at 31.03.07**	As at 31.03.06
I. TANGIBLE ASSETS												
Freehold Land	23.9	—	—	—	**23.9**	—	—	—	—	—	**23.9**	23.9
Leasehold Land	27.4	—	—	—	**27.4**	5.0	—	0.3	—	**5.3**	**22.1**	22.4
Buildings	1,877.9	(157.9)	222.4	54.0	**1,888.4**	238.2	(7.4)	46.6	0.9	**276.5**	**1,611.9**	1,639.7
Plant and Machinery	4,813.2	(177.4)	1,104.7	27.8	**5,712.7**	1,543.4	(31.0)	358.6	3.6	**1,867.4**	**3,845.3**	3,269.8
Vehicles	93.1	(4.7)	10.0	5.6	**92.8**	29.9	(1.4)	9.1	4.6	**33.0**	**59.8**	63.2
Furniture and Fixtures	163.2	(0.9)	35.6	—	**197.9**	53.5	(0.4)	14.3	—	**67.4**	**130.5**	109.7
Sub-Total	6,998.7	(340.9)	1,372.7	87.4	**7,943.1**	1,870.0	(40.2)	428.9	9.1	**2,249.6**	**5,693.5**	5,128.7
II. INTANGIBLE ASSETS												
Trademarks,Designs and Other Intangible Assets	443.9	—	—	—	**443.9**	210.7	—	33.8	—	**244.5**	**199.4**	233.2
Sub-Total	443.9	—	—	—	**443.9**	210.7	—	33.8	—	**244.5**	**199.4**	233.2
TOTAL- I + II	7,442.6	(340.9)	1,372.7	87.4	**8,387.0**	2,080.7	(40.2)	462.7	9.1	**2,494.1**	**5,892.9**	5,361.9
Previous Year	6,120.5	—	1,395.9	73.8	**7,442.6**	1,729.0	—	407.3	55.6	**2,080.7**		
Capital Work-in-Progress (including advances on capital account)											**319.1**	308.0
											6,212.0	5,669.9

NOTES :

1. Buildings include Rs. 1020 (Previous Year Rs 1020) towards cost of shares in a Co-operative Housing Society.

SUN PHARMACEUTICAL INDUSTRIES LTD.

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 7 : INVESTMENTS				
(I) LONG TERM INVESTMENTS (At Cost)				
A) Government Securities				
National Savings Certificates Rs. 70,000 (Previous Year Rs. 70,000) (Deposited with Government Authorities)		**0.1**		0.1
B) Trade Investments				
Unquoted				
In Equity Shares				
Enviro Infrastructure Co. Ltd. 100,000 (Previous Year 100,000) Shares of Rs.10/- each fully paid up.		**1.0**		1.0
C) Other Investments				
a) In Bonds				
Quoted				
US64 Bonds 399,734 (Previous Year 399,734) units of Rs 100 each Market Value Rs. 39.9 Million(Previous Year Rs 40.6 Million)		**42.2**		42.2
Unquoted				
National Housing Bank Bonds 5,315 (Previous Year 5,315) Units of Rs. 10,000 each fully paid		**53.2**		53.2
Rural Electrification Corporation Ltd Bonds 1,515 (Previous Year 1,015) Units of Rs.10,000 each fully paid		**15.2**		10.1
b) In Subsidiary Companies				
Quoted				
Caraco Pharmaceutical Laboratories Ltd.USA 8,382,666 (Previous Year 8,382,666) fully paid Common Shares of No Par Value Market Value - Rs.4400.7 Million (Previous Year 4864.7 Million)		**303.9**		303.9
Unquoted				
Zao Sun Pharma Industries Ltd. Russia 1,000 (Previous Year 1,000) Shares of Rubles 20 each fully paid	**0.2**		0.2	
Sun Pharma Global Inc. BVI 500,000 (Previous Year 500,000) Shares of US $ 1 each fully paid	**17.6**		17.6	
Sun Pharma Global Inc. BVI 1,000,000 (Previous Year 1,000,000) 0% Optionally Fully Convertible Debentures of US $ 100 each fully paid	**4,481.4**		4,481.4	
Sun Farmaceutica Ltda, Brazil 336,538 (Previous Year 336,538) quota of Capital Stock of Real (R$) 1 each fully paid	**5.2**		5.2	
Sun Pharma De Mexico, S.A. DE C.V. 750 (Previous Year 750) Common Shares of no Face Value	**3.3**		3.3	
Sun Pharmaceutical Industries Inc. 5,000 (Previous Year 5,000) fully Common Stock of $ 1 Par Value	**0.2**		0.2	

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
Sun Pharmaceutical (Bangladesh) Ltd.				
434,469 (Previous Year 434,469) Ordinary				
Shares of 100 Takas each fully paid	**36.5**		36.5	
Share Application Money	**31.6**		31.6	
Sun Pharmaceuticals UK Ltd.	**0.1**		0.1	
100 (Previous Year 100) Ordinary				
Shares of £ 10 each fully paid				
Sun Pharmaceutical Peru S.A.C.	**0.0**		0.0	
(Rs. 21,734 (Previous Year Rs.21,734))				
149 (Previous Year 149) Ordinary				
Shares of Soles 10 each fully paid				
SPIL DE Mexico SA DE CV	**0.2**		0.2	
100 (Previous Year 100)				
Nominative and free Shares of $500				
Mexican Pesos each fully paid		**4,576.3**		4,576.3
c) In Capital of Partnership Firm				
Sun Pharma Exports*	**8.9**		125.0	
Sun Pharmaceutical Industries**	**4,392.0**	**4,400.9**	1,431.8	1,556.8
d) In Equity Shares				
Ramin Developers Pvt. Ltd.		**2.1**		2.1
200 (Previous Year 200) Equity Shares of Rs.100				
each fully paid (pending registration)				
e) In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Unquoted				
ING Vysya Mutual Fund "ING Vysya Fixed				
Maturity Fund Series-II Growth Option		—		100.0
Nil (Previous Year 10,000,000) Units				
SBI Mutual Fund "Magnum Debt Fund Series				
15 Months Fund" -Growth Option		—		100.0
Nil (Previous Year 10,000,000) Units				
ABN Amro Asset Management-ABN Amro				
Fixed Term Plan-Series1-Regular- Growth Plan		**50.0**		50.0
5,000,000 (Previous Year 5,000,000) Units				
Principal Mutual Fund "Principal Pnb Fixed				
Maturity Plan-460 Dys-Series I Growth Plan-Feb-06		**400.0**		400.0
40,000,000 (Previous Year 40,000,000) Units				
Standard Chartered Mutual Fund "G134 GFMP-20th Plan "-Growth		**500.0**		500.0
50,000,000 (Previous Year 50,000,000) Units				
Lotus Mutual Fund- Z411G FMP-16 Month-Series I-Ins-Growth		**50.0**		—
50,000,000 (Previous Year Nil) Units				
Total (I)		**10,394.9**		7,695.7
(II) CURRENT INVESTMENTS (At lower of cost and Net realisable value)				
Unquoted				
a) In Subsidiary Companies				
Sun Pharma Advance Research Company Ltd.		—		0.5
Nil (Previous Year 500,000) Equity Shares of Re 1 each fully paid				
(Extinguished pursuant to Scheme of Demerger)				

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007 Rs in Million	As at 31st March, 2007 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million
b) In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Principal Mutual Fund				
"Principal Cash Management Fund Growth"	—		100.0	
Nil (Previous Year 9,183,495) Units				
Principal Mutual Fund				
"Principal Cash Mannagement Fund -Liquid				
Option Inst.Prem Plan-Growth"	**100.0**		—	
8,561,204 (Previous Year Nil) Units				
Lotus Mutual Fund- Z212G Liquid Fund-Ins Plus Growth	**80.0**		—	
7,780,057 (Previous Year Nil) Units		**180.0**		100.5
Total (II)		**180.0**		100.5
Total (I+II)		**10,574.9**		7,796.2

AGGREGATE VALUE OF INVESTMENT	As at 31st March, 2007 Book Value	As at 31st March, 2007 Market Value	As at 31st March, 2006 Book Value	As at 31st March, 2006 Market Value
Quoted	**346.1**	**4,440.6**	346.1	4,905.3
Unquoted	**10,228.8**		7,450.1	

*Partners	Share	Capital	Capital
Sun Pharmaceutical Industries Limited	80%	**8.9**	125.0
Solapur Organics Private Limited Rs 19 (Previous Year Rs 19)	10%	**0.0**	0.0
Dilip S. Shanghvi Rs 719 (Previous Year Rs. 719)	10%	**0.0**	0.0

**Partners	Share	Capital	Capital
Sun Pharmaceutical Industries Limited.	97.5% (Previous Year 95%)	**4,392.0**	1,431.8
Sun Pharmaceutical Industries Key Employees' Benefit Trust	2.5% (Previous Year 5%)	**408.5**	303.1

SCHEDULE 8 : INVENTORIES

Consumables Stores		**127.4**		71.4
Stock in Trade				
Raw Materials	**1,155.8**		950.5	
Packing Materials	**140.2**		115.9	
Finished Goods	**865.3**		587.5	
Work-in-Progress	**1,045.1**	**3,206.4**	908.8	2,562.7
		3,333.8		2,634.1

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 9 : SUNDRY DEBTORS				
(Unsecured-Considered Good, unless stated otherwise)				
(Refer note 12 (i) of Schedule 21)				
Over Six Months				
Considered Good		**357.2**		392.3
Considered Doubtful	**64.6**		34.9	
Less: Provison for Doubtful Debts	**64.6**	—	34.9	—
Other Debts		**2,742.8**		2,172.4
		3,100.0		2,564.7
SCHEDULE 10 : CASH AND BANK BALANCES				
Cash / Cheques on hand		**3.6**		4.2
Balances with Banks				
Schedule Banks				
Current Accounts	**320.4**		84.8	
Deposit Accounts	**9,725.3**		9,670.8	
Unpaid Dividend Accounts	**29.0**	**10,074.7**	7.3	9,762.9
Other Banks (refer note 14 of Schedule 21)				
Current Accounts	**3.9**		17.9	
Deposit Accounts	**1,944.6**	**1,948.5**	2,524.8	2,542.7
		12,026.8		12,309.8
SCHEDULE 11 : OTHER CURRENT ASSETS				
Interest accrued on - Investment		**6.8**		3.3
- Bank Deposits		**268.6**		172.2
- Loan to Subsidiaries (refer note 15 (b) of Schedule 21)		**51.6**		129.1
		327.0		304.6
SCHEDULE 12 : LOANS AND ADVANCES				
(Unsecured-Considered Good, unless stated otherwise)				
Advances and Loans to subsidiaries (refer note 15 (a) of Schedule 21)		**1,529.8**		2,967.5
Loan to Employees / Others		**80.6**		387.7
Advances Recoverable in Cash or in Kind or for Value to be received				
Considered Good		**207.4**		264.3
Considered Doubtful	**9.5**		9.5	
Less: Provison for Doubtful Advances	**9.5**	**—**	9.5	**—**
Advances to Suppliers		**266.4**		349.9
Balances with Central Excise and Customs		**498.8**		324.6
DEPB and Advance Licence		**141.8**		225.4
Other Deposits		**63.3**		52.6
Advance Payment of Income Tax (Net of Provisions)		**298.7**		189.1
		3,086.8		4,761.1

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 13 : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors				
Due to Small Scale Industrial Undertakings (refer note 11 of Schedule 21)	**—**		—	
Others	**674.5**		769.6	
Advance from Customers	**69.4**		36.4	
Security Deposits	**18.4**		18.3	
Investor Education and Protection Fund shall be credited by Unclaimed Dividend	**29.5**		7.4	
Other Liabilities	**1,502.1**		797.0	
Interest accrued but not due on Loans	**20.8**	**2,314.7**	33.1	1,661.8
Provisions				
Provision for Fringe Benefit Tax (Net of Advance Tax Rs. 9.8 Million)	**0.8**		—	
Proposed Dividend - Equity Shares	**—**		1,023.0	
- Preference Shares	**—**		0.8	
	0.8		1,023.8	
Corporate Dividend Tax	**—**		143.6	
Provision for Earned Leave	**76.2**	**77.0**	57.6	1,225.0
		2,391.7		2,886.8

	Year ended 31st March, 2007		Year ended 31st March, 2006	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 14 : OTHER OPERATING INCOME				
Share of Income from Partnership Firm		**5,806.2**		3,887.0
		5,806.2		3,887.0
SCHEDULE 15 : OTHER INCOME				
Lease Rental and Hire Charges-TDS Rs.Nil (Previous Year Rs.0.5 Million)	**6.0**		12.0	
Add: Lease Equalisation Account	**—**	**6.0**	0.1	12.1
Interest from Banks & Other Advances / Deposits TDS Rs.22.0 Million (Previous Year Rs. 49.0 Million) (Refer note 5 of Schedule 21)		**1,035.0**		830.7
Profit on Sale of Fixed Assets (Net)		**110.4**		0.2
Profit on Sale of Current Investments		**52.0**		109.3
Insurance Claims		**21.5**		4.0
Divinded Income (Previous Year Rs. 3,150)		**13.8**		0.0
Miscellaneous Income-TDS Rs. 0.6 Million (Previous Year Rs. 0.3 Million)		**369.7**		309.9
		1,608.4		1,266.1

SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2006 Rs in Million
SCHEDULE 16 : COST OF MATERIALS / GOODS				
Inventory of Raw & Packing Material at the beginning of the year	**1,066.4**		907.8	
Purchases during the year - Raw & Packing Material	**5,139.1**		4,218.8	
- Finished Goods	**7,084.4**		4,831.1	
Inventory of Raw & Packing Material at the end of the year	**(1,296.0)**	**11,993.9**	(1,066.4)	8,891.3
Inventory of Finished Goods and Work-in-Progress at the beginning of the year	**1,496.3**		924.0	
Inventory of Finished Goods and Work-in-Progress at the end of the year	**(1,910.4)**		(1,496.3)	
(Increase) / Decrease of Finished Goods and Work-in-Progress		**(414.1)**		(572.3)
		11,579.8		8,319.0
SCHEDULE 17 : INDIRECT TAXES				
Sales Tax		**516.3**		406.0
Turnover Tax		**—**		0.5
Purchase Tax		**—**		7.4
		516.3		413.9
SCHEDULE 18 : PERSONNEL COST				
Salaries, Wages, Bonus and Benefits		**831.4**		704.7
Contribution to Provident and Other Funds		**63.3**		46.7
Staff Welfare Expenses		**94.0**		68.7
		988.7		820.1
SCHEDULE 19 : OPERATING AND OTHER EXPENSES				
Stores and Spares Consumed		**150.9**		115.5
Manufacturing Charges		**129.5**		116.1
Power and Fuel		**311.4**		255.5
Rent		**3.9**		5.5
Rates and Taxes		**9.2**		9.6
Insurance		**22.0**		18.2
Selling and Distribution		**711.0**		634.5
Commission and Discount		**203.2**		166.7
Repairs				
Building	**21.0**		21.0	
Plant and Machinery	**121.3**		115.0	
Others	**31.8**	**174.1**	23.5	159.5
Printing and Stationery		**19.6**		18.2
Travelling and Conveyance		**73.9**		44.3
Overseas Travel and Export Promotion		**463.5**		331.3
Communication		**38.2**		31.5
Provision for Doubtful Advance		**—**		5.1
Provison for Doubtful Debts		**29.8**		—
Sundry Balances/Bad Debts written off (Net)	**0.4**		27.8	
Less : Adjusted out of Provision	**—**	**0.4**	6.0	21.8
Professional and Consultancy		**54.8**		18.5
Donations		**0.5**		3.9
Loss on Fire		**—**		1.2
Auditors' Remuneration (net of service tax)				
As Auditor	**4.7**		4.2	
Other Services	**0.1**		0.1	
Out of Pocket Expenses (Previous Year Rs. 34900)	**0.1**	**4.9**	0.0	4.3
Miscellaneous Expenses		**150.3**		126.9
		2,551.1		2,088.1

SUN PHARMACEUTICAL INDUSTRIES LTD.

SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2006 Rs in Million
SCHEDULE 20 : RESEARCH AND DEVELOPMENT EXPENDITURE				
Salaries, Wages, Bonus and Benefits		**213.4**		164.7
Contribution to Provident and Other Funds		**11.9**		9.1
Staff Welfare Expenses		**30.9**		23.5
Raw Material,Stores and Spares Consumed		**420.2**		274.6
Power and Fuel		**12.5**		7.4
Rates and Taxes		**3.3**		2.9
Insurance		**5.5**		4.0
Repairs				
Building	**7.7**		7.2	
Plant and Machinery	**35.0**		34.6	
Others	**7.9**	**50.6**	6.4	48.3
Printing and Stationery		**7.5**		5.3
Travelling and Conveyance		**15.3**		11.9
Communication		**11.3**		7.8
Professional and Consultancy		**570.2**		423.4
Loss on Sale of Fixed Assets		**0.2**		0.7
Miscellaneous Expenses		**184.9**		153.3
		1,537.7		1,136.7
Less				
Interest Income	**0.3**		0.5	
Misc. Income	**0.2**		0.2	
Bad Debt Recovered / Sundry Balances written Back	**0.9**		0.2	
Insurance Claim Received	**—**		1.3	
Rent Income	**0.1**	**1.5**	0.1	2.3
		1,536.2		1,134.4

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

SCHEDULE 21 :SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS

A SIGNIFICANT ACCOUNTING POLICIES

I Basis of Accounting

The financial statements have been prepared under historical cost convention on an accrual basis and comply with the Accounting Standards referred to in Section 211(3C) of The Companies Act, 1956.

II Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known / materialised.

III Fixed Assets and Depreciation / Amortisation

Fixed Assets including intangible assets are stated at historical cost (net of cenvat credit) less accumulated depreciation/amortisation thereon and impairment losses, if any. Depreciation on tangible assets is provided on Straight Line Method at the rates specified in Schedule XIV to The Companies Act, 1956. Intangible assets consisting of trademarks, designs, technical knowhow, non-compete fees and other intangible assets are amortised on Straight Line Method from the date they are available for use, over the useful lives of the assets (10/20 years), as estimated by the Management. Leasehold land is amortised over the period of lease.

IV Leases

Assets acquired on finance lease prior to April 1, 2001 are stated at original cost. In consonance with the matching concept, lease terminal adjustment and lease equalisation accounts have been created for the assets given on lease, wherever required.

V Revenue Recognition

Sales of products are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods. Export sales are recognised on the basis of Bill of lading / Airway bill. Sales includes Sales tax, interest on delayed payments and sales as consignee made on behalf of consignor; and are stated net of returns.

VI Investments

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and fair value. Long Term Investments are stated at cost less provision, if any, for other than temporary diminution in their value.

VII Inventories

Inventories consisting of raw and packing materials, stores and spares, work in progress and finished goods are stated at lower of cost (absorption costing) and net realisable value, on a FIFO basis.

VIII Research and Development

All revenue expenditure related to Research and Development are charged to the respective heads in the Profit and Loss Account.

IX Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of transaction. Monetary items denominated in foreign currency at the year end are translated at year end rates. In respect of monetary items, which are covered by forward exchange contracts, the difference between the year end rate and the rate on the date of the contract is recognised as exchange difference and the premium on such forward contracts is recognised over the life for the forward contract. The exchange differences arising on settlement / translation are recognised in the revenue accounts, except those pertaining to the fixed assets acquired from outside India, which are adjusted to the cost of such fixed assets.

X Taxes on Income

Provision for taxation comprises of Current Tax,Deferred Tax and Fringe Benefit Tax. Current Tax provision has been made on the basis of reliefs and deductions available under the Income Tax Act, 1961. Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been substantially enacted at the Balance Sheet date. The Fringe Benefits tax has been calculated and accounted for in accordance with the provisions of the Income Tax Act,1961.

XI Terminal Benefits

(a) The Company's contribution in respect of provident fund is charged to Profit and Loss Account each year.

(b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy is charged to Profit and Loss Account each year. The contribution for Group Gratuity Policy is based on values as actuarially determined and demanded by LIC at the year end.

(c) Liability for accumulated earned leave of employees is ascertained on actuarial valuation basis and provided for as per company rules.

XII Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

XIII Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation can not be made. Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

XIV Impairment of Assets

The Company assess at each Balance Sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the Profit and Loss Account. If at the Balance Sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

B NOTES TO FINANCIAL STATEMENTS

		As at 31st March, 2007 Rs in Million	As at 31st March, 2006 Rs in Million
1	**CONTINGENT LIABILITIES NOT PROVIDED FOR**		
	Guarantees Given by the bankers on behalf of the Company	**232.4**	91.7
	Letters of Credit for Imports	**232.8**	328.5
	Liabilities Disputed - Appeals filed with respect to :		
	Sales Tax	**41.0**	42.6
	Excise Duty	**18.0**	8.7
	Income Tax	**559.9**	190.6
	ESIC Contribution	**0.2**	0.2
	Drug Price Equalisation Account [DPEA] on account of demand towards unintended benefit, including interest there on, enjoyed by the Company	**14.0**	14.0
	Demand by JDGFT import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme	**10.3**	9.4
	Claims against the Company not acknowledged as debts	**4.5**	1.1
2	**Estimated amount of contracts remaining to be executed on capital account [net of advances].**	**276.1**	131.0

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

		As at 31st March, 2007		As at 31st March, 2006	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
3	**REMUNERATION TO DIRECTORS**				
	Managerial Remuneration U/s 198 of The Companies Act, 1956				
	Salaries and Allowances		**21.2**		18.2
	Contribution to Provident and Superannuation Funds		**2.1**		1.8
	Perquisites and Benefits		**0.6**		0.1
	Commission		**3.1**		2.7
	Total		**27.0**		22.8
	Computation of net profit U/s 198 read with Section 309(5) of The Companies Act, 1956 and calculation of commission payable to directors				
	Profit Before Taxation		**6,405.4**		4,886.8
	Add: Depreciation as per Accounts	**462.7**		407.3	
	Loss on Sale of Fixed Assets	**4.7**		0.7	
	Managerial Remuneration	**27.0**		22.8	
	Directors Sitting Fees	**0.2**		0.3	
	Sundry Balances Written Off / Bad Debts Written off	**7.9**		35.1	
	Provision for Doubtful Debt / Advances	**29.8**	**532.3**	5.1	471.3
	Less: Depreciation as per Section 350 of Companies Act, 1956	**462.7**		407.0	
	Profit on Sale of Fixed Assets	**114.9**		0.2	
	Profit on Sale of Investments	**52.0**		109.3	
	Sundry Balances Written Back	**8.4**		13.6	
			638.0		530.1
	Net Profit		**6,299.7**		4,828.0
	Salaries, Perquisites and Commission @ 1% of the above		**63.0**		48.3
4	**RESEARCH AND DEVELOPMENT EXPENDITURE**				
	Revenue		**1,536.2**		1,134.4
	Capital		**346.5**		480.5
5	**INTEREST INCOME ON LOANS /DEPOSITS RS. 1035.3 MILLION (PREVIOUS YEAR RS. 831.2 MILLION) NET OF INTEREST EXPENSES AS UNDER:**				
	Fixed Loans		**85.4**		98.6
	Others		**2.6**		13.7
			88.0		112.3
6	**INFORMATION RELATING TO CONSUMPTION OF MATERIALS**				
		Quantity	**Value**	Quantity	Value
	Raw Materials and Packing Materials				
	Raw Materials- (in '000 KGs)	**12,763.8**	**4,639.5**	12,413.1	3,854.5
	Raw Materials-(In Kilo Litres)	**26,331.5**		20,544.3	
	Packing/Other Materials	*	**270.0**	*	205.7
	Total		**4,909.5**		4,060.2

*Information can not be furnished as the items involved are numerous.
None of the items individually account for more than 10% of total consumption.

	%	Value	%	Value
Imported and Indigenous				
Raw Materials and Packing Materials				
Imported	**39.27**	**1,927.7**	42.86	1,740.0
Indigenous	**60.73**	**2,981.8**	57.14	2,320.2
Total	**100.00**	**4,909.5**	100.00	4,060.2
Stores and Spares				
Imported	**0.57**	**0.9**	1.17	1.4
Indigenous	**99.43**	**150.0**	98.83	114.1
Total	**100.00**	**150.9**	100.00	115.5

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

	As at 31st March, 2007	As at 31st March, 2006
7 INFORMATION RELATING TO LICENSED CAPACITY AND PRODUCTION		
Tablets/Capsules/Parenterals/Ointments (Nos in Million)		
Licensed Capacity	**Not Applicable**	Not Applicable
Installed Capacity*	**6,217.8**	4,981.0
Actual Production (including loan licence)	**1,082.3**	1,100.3
Bulk Drugs/Chemicals		
Licensed Capacity	**Not Applicable**	Not Applicable
Installed Capacity* (In Kilo Litres)	**994.8**	838.6
Actual Production (including loan licence) (In '000 Kgs)	**1,994.1**	2,167.5
(*as certified by the Management)		

8 INFORMATION RELATING TO TURNOVER, PURCHASE OF GOODS AND STOCKS

Rs in Million

	Turnover*		Purchase of Goods		Opening Stock		Closing Stock	
	Quantity	Value Rs.	Quantity	Value Rs.	Quantity	Value Rs.	Quantity	Value Rs.
Formulations (Qty Million)								
2006-07	**3,804.8**	**12,658.3**	**2,729.0**	**7,055.6**	**131.7**	**232.4**	**138.2**	**260.9**
2005-06	3,153.4	9,582.9	2,006.3	4,818.0	178.6	261.8	131.7	232.4
Bulk Drugs/Chemicals (Qty in '000 Kgs)								
2006-07	**2,006.9**	**4,540.7**	**0.5**	**16.7**	**153.9**	**355.1**	**141.6**	**604.4**
2005-06	2,129.1	3,926.6	0.5	0.2	115.0	172.5	153.9	355.1
Others								
2006-07		**22.3**		**12.1**		—		—
2005-06		20.6		12.9		—		—
Total								
2006-07		**17,221.3**		**7,084.4**		**587.5**		**865.3**
2005-06		13,530.1		4,831.1		434.3		587.5

* Includes consignment sales Rs. 6929.4 Million (Previous Year Rs.4607.9 Million).

9 INCOME/EXPENDITURE IN FOREIGN CURRENCY

	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million
Income		
Exports (FOB basis)	**4,805.6**	3,652.1
Interest	**412.4**	396.2
Lease Rentals	**—**	0.2
Dividend Income	**13.8**	—
Expenditure		
Raw Materials (CIF basis)	**2,025.7**	1,609.3
Packing Materials (CIF basis)	**93.3**	98.7
Capital Goods (CIF basis)	**590.0**	296.1
Spares and Components (CIF basis)	**83.0**	82.4
Professional Charges	**566.7**	346.8
Interest	**84.4**	97.6
Overseas Travel	**55.1**	41.0
Others	**418.7**	260.8

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

10 The net exchange gain of Rs 386.1 Million (Previous Year gain of Rs.217.3 Million) is included in the net profit for the year.

11 There are no dues to Small-Scale Industrial undertakings as at the year end. This has been determined on the basis of information available with the company and relied upon by auditors. The company has not received any intimation from their suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and therefore no such disclosure under the said Act is considered necessary.

12 Disclosure with respect to Accounting Standards issued by the Institute of Chartered Accountants of India

(i) Accounting Standard (AS-18) on Related Party Disclosure - as per Annexure 'A' annexed.

(ii) Accounting Standard (AS-20) on Earnings Per Share

	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million
Profit After Tax	**6,289.3**	4,612.9
Less: Dividend on Preference Shares	**0.8**	0.8
Less: Corporate Dividend Tax on Preference Shares	**0.1**	0.1
Profit used as Numerator for calculating Earnings Per Share	**6,288.4**	4,612.0
Weighted Average number of Shares used in computing basic Earnings Per Share	**187,898,580**	185,514,583
Add: Potential number of equity shares that could arise on exercise of Options on Zero Coupon Convertible Bonds- due 2009 -13714360 (Previous year 21384843)	**13,714,360**	21,384,843
Weighted average number of shares used in computing diluted Earnings Per Share	**201,612,940**	206,899,426
Nominal Value Per Share (in Rs.)	**5**	5
Basic Earnings Per Share (in Rs.)	**33.5**	24.9
Diluted Earnings Per Share (in Rs.)	**31.2**	22.3

(iii) Accounting Standard (AS-17) on Segment Reporting

(a) Primary Segment

The Company has identified "Pharmaceuticals" as the only primary reportable business segment.

(b) Secondary Segment (by Geographical Segment)

India	**12,238.4**	9,721.5
Outside India	**4,982.9**	3,808.6
Total Sales	**17,221.3**	13,530.1

In view of the interwoven/intermix nature of business and manufacturing facility, other segmental information is not ascertainable.

(iv) Accounting Standard (AS-15R) on Employee Benefits

Contributions are made to Recognised Provident Fund/ Government Provident Fund, Family Pension Fund, ESIC and other Statutory Funds which covers all regular employees. While both the employees and the Company make predetermined contributions to the Provident Fund and ESIC, contribution to the Family Pension Fund are made only by the Company. The contributions are normally based on a certain proportion of the employee's salary. Amount recognised as expense in respect of these defined contribution plans, aggregate to Rs. 59.81 million.

Contributions are made to LIC's Recognised Group Gratuity Fund scheme in respect of gratuity and for leave encashment based upon actuarial valuation done at the end of every financial year and the provision is made as per Company rules and it covers all regular employees. Major drivers in actuarial assumptions, typically, are years of service and employee compensation. After the issuance of the Accounting Standard 15 (revised) on 'Employee

Benefits', commitments are actuarially determined using the 'Projected Unit Credit' method. Gains and Losses on changes in actuarial assumptions are accounted for in the Profit and Loss account. The company is taking necessary steps for transfer of fund balance pertaining to the employees transferred to SPARC Ltd. pursuant to the scheme of demerger. The difference between the recomputed liabilities as at 31st March, 2006 based upon the transitional provision of Accounting Standard 15 (revised) and the liabilities existing as on that date in the books of account, aggregating to Rs. 7.3 million (net of tax), has been adjusted against the opening balance of General Reserve.

In respect of gratuity and leave encashment:

	Rupees in Million (Dr/ (Cr))	
	Gratuity (funded)	Leave Encashment (unfunded)
Reconciliation of liability recognised in the Balance sheet		
Present value of commitments (as per Actuarial Valuation)	(75.0)	(42.2)
Fair value of plans	83.5	—
Net liability in the Balance sheet (actual)	—	(76.2)
Movement in net liability recognised in the Balance sheet		
Net liability as at 1st April, 2006	—	(57.6)
Net expense recognised in the Profit and Loss account	21.6	(40.4)
Contribution during the year	(21.6)	21.8
Net liability as at 31st March, 2007	—	(76.2)
Expense recognised in the Profit and Loss account		
Current service cost	11.2	5.3
Interest cost	5.8	3.3
Expected return on plan assets	(4.9)	—
Actuarial (gains)/ losses	(9.9)	8.4
Expense charged to the Profit and Loss account	2.2	17.0
Return on plan assets		
Expected return on plan assets	4.9	—
Actuarial (gains)/ losses	(1.2)	—
Actual return on plan assets	6.1	—
Reconciliation of defined-benefit commitments		
Commitments as at 1st April, 2006	72.6	41.0
Current service cost	11.2	5.3
Interest cost	5.8	3.3
Paid benefits	(6.0)	(21.8)
Actuarial (gains)/ losses	(8.7)	8.4
Commitments as at 31st March, 2007	75.0	42.2
Reconciliation of plan assets		
Plan assets as at 1st April, 2006	61.7	—
Expected return on plan assets	4.9	—
Contributions during the year	21.6	—
Paid benefits	(6.0)	—
Actuarial (gains)/ losses	(1.2)	—
Plan assets as at 31st March, 2007	83.5	—

The actuarial calculations used to estimate commitments and expenses in respect of gratuity and leave encashment are based on the following assumptions which if changed, would affect the commitment's size, funding requirements and expense:

Discount rate	8.00%
Expected return on plan	8.00%
Expected rate of salary	5.25%
Mortality	LIC (1994-96) Ultimate

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

13 Investment Purchased and Sold during the Year

Mutual Fund Units (Units of Face Value of Rs. 10/- Each)	As at 31st March, 2007 Units	As at 31st March, 2007 Purchase Value	As at 31st March, 2007 Sales Value	As at 31st March, 2006 Units	As at 31st March, 2006 Purchase Value	As at 31st March, 2006 Sales Value
In Liquid Scheme	**In Nos**	**Rs in Million**	**Rs in Million**	In Nos	Rs in Million	Rs in Million
Alliance Capital	—	—	—	24,837,129.7	277.0	277.2
Chola Mutual Fund	—	—	—	7,233,011.5	100.0	100.0
Deutsche Mutual fund	**60,781,829.9**	**650.1**	**652.4**	—	—	—
Fidelity Mutual Fund	**25,000,000.0**	**250.0**	**250.5**	—	—	—
Franklin Templeton Investments	**10,870.0**	**20.0**	**20.0**	—	—	—
HDFC Mutual Fund	**3,901,782.7**	**58.0**	**58.0**	—	—	—
ING Vysya Mutual Fund	**9,751,994.0**	**107.2**	**107.3**	—	—	—
JM Mutual Fund	—	—	—	20,161,105.6	220.0	220.2
JP Morgan Asset Management	**12,000,000.0**	**554.8**	**554.8**	—	—	—
Kotak Mahindra Mutual Fund	—	—	—	119,975,290.1	1,607.0	1,609.1
Lotus India Mutual Fund	**40,930,056.0**	**412.5**	**414.4**	—	—	—
Principal Mutual Fund	**376,975,628.5**	**4,312.0**	**4,318.2**	443,572,661.0	4,703.5	4,710.1
Prudential Mutual Fund	**937,946,015.6**	**9,851.2**	**9,873.6**	407,172,690.8	5,840.1	5,847.9
Sahara Mutual Fund	**7,923.7**	**10.0**	**10.0**	4,934,157.0	68.0	68.1
Standard Chartered Mutual Fund	**701,536.0**	**707.5**	**709.4**	163,078,603.4	1,680.0	1,681.3
Tata Mutual fund	**95,093.5**	**100.0**	**100.4**	—	—	—
UTI Mutual Fund	**36,470,629.7**	**930.0**	**931.2**	70,332,785.0	1,422.0	1,423.1

14 Balances with Other Banks held in:

Name of the Bank/Institution	Balance As at 31st March, 2007 (Rs in Million)	Maxi. Balance 2006-07 (Rs in Million)	Balance As at 31st March, 2006 (Rs in Million)	Maxi. Balance 2005-06 (Rs in Million)
JPMorgan Chase Bank N.A-Singapore	—	—	—	881.7
JPMorgan Chase Bank N.A-Florida (Rs. 15296)	—	**0.0**	0.0	1,603.2
UBS AG Wealth Management-London (Rs. 1788)	**0.0**	**38.6**	—	225.3
Credit Agricole (Suisse) S.A.Private Bank	**867.1**	**1,414.9**	1,414.9	1,414.9
Deutsche Bank AG London	**1,077.5**	**1,116.0**	1,116.0	1,116.0
Vietnam Export Import Bank,Hochiminch Branch, Vietnam	**1.3**	**12.4**	1.0	7.4
Standard Chartered, Shanghai Branch, China	**0.5**	**4.8**	1.0	4.3
Moscow Bank,Moscow Branch,Moscow	**1.7**	**11.8**	8.7	15.7
Belvnesheconom Bank, Minsk Branch, Belarus (Rs. 34308)	**0.0**	**3.2**	0.1	2.0
Tsesna Bank,Almaty Branch, Kazakhstan (Rs. 3026)	**0.0**	**6.5**	0.5	3.2
Ukreixm Bank, Kyiv Branch,Ukraine	**0.4**	**2.2**	0.5	1.2
Total	**1,948.5**		2,542.7	

15 a) **Loans / Advances due from Subsidiaries**

Subsidiary company	**Balance As at 31st March, 2007** (Rs in Million)	**Maxi. Balance 2006-07**	Balance As at 31st March, 2006 (Rs in Million)	Maxi. Balance 2005-06
Loans				
Sun Pharma Global Inc. BVI	—	**2,918.7**	2,896.2	4,959.2
Sun Pharmaceutical Industries Inc. USA	—	—	—	1,396.3
Sun Pharmaceutical Peru S.A.C.	—	**1.1**	0.1	1.3
Sun Farmaceutica LTDa-Brazil	—	**18.3**	10.5	10.5
Sun Pharmaceutical UK Limited	**0.1**	**0.7**	0.7	0.7
Alkaloida Chemical Company exclusive Group Limited (Previously ICN Hungary Ltd)	—	—	—	448.0
Advances				
Share Application Money to Sun Pharma Global Inc. BVI	**1,469.7**	**1,469.8**	—	—
Sun Pharma De Mexico S.A. DE C.V.	**60.0**	**60.0**	60.0	60.0
Total	**1,529.8**		2,967.5	

b) **Accrued Interest due from Subsidiaries**

Sun Pharma Global Inc. BVI	**51.6**	**129.1**	129.1	129.1

16 Intangible assets consisting of trademarks, designs, technical knowhow, non compete fees and other intangible assets are stated at cost of acquisition based on their agreements and are available to the company in perpetuity. The depreciable amount of intangible assets is arrived at based on the managements best estimates of useful lives of such assets after due consideration as regards their expected usage, the product life cycles, technical and technological obsolescence, market demand for products, competition and their expected future benefits to the company.

17 a) Pursuant to the scheme of demerger as sanctioned by the Hon'ble High Court of Gujarat, with effect from 28th February, 2007, the appointed date, all the assets and liabilities of the Innovative Research & Development business including Novel Drug Delivery System (NDDS) division of company's Research & Development undertaking stands transferred to and vested in Sun Pharma Advanced Research Company Limited (SPARC Ltd).The scheme has been given effect to in these financial statements and accordingly, net assets of Rs. 546.4 million (comprising assets of Rs. 558.7 million and liabilities of Rs. 12.3 million) have been transferred to SPARC Ltd. by adjusting the corresponding amount to Securities Premium Account. Similarly, the authorised capital has been reduced by Rs. 266.0 million and the investment of Rs. 0.5 million in the share capital of SPARC Ltd stands cancelled and adjusted to Profit & Loss Account.

b) The Company has identified "Pharmaceuticals" as the only Primary Reportable Business Segment. The Research & Development activity of the Company are also a part of the "Pharmaceuticals" Segment. The Company had not earned any Revenue from the demerged Innovative Research & Development Activity which formed part of the overall Research & Development activities of the Company. Since the Company has not identified Research & Development as a reportable segment, separate information in respect of the demerged Research & Development activity is not identifiable. Consequently the impact of the said revenue expenditure incurred on Innovative Research & Development activities on the Pre-Tax Profits and Income Tax expenses, which is not likely to be significant, could not be ascertained. The said Research & Development activity is considered as an operating activity in the cash flow statements till the date of demerger.

18 As per the terms of the issue, the holders of Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of a face value of US $ 1000 aggregating to US $ 350 Million have an option to convert FCCBs into Equity Share at an initial conversion rate of Rs. 729.30 per Equity share at a fixed exchange rate conversion of Rs. 45.01 = US $ 1 , from December 26, 2004 to November 16, 2009. The conversion price will be subject to certain adjustment . Further, under certain conditions the Company has an option for early redemption in whole but not in part, at any time on or after November 26, 2007. Unless previously converted , redeemed or purchased and cancelled , the Company will redeem these bonds at 125.594 per cent of the principal amount on November 26, 2009. In view of likely conversion into Equity Shares, premium on redemption of FCCB has not been provided in this accounts.

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

As at the year end Rs. 5751.6 Million (Previous Year Rs. 157.5 Million) US$ 127.8 Million (Previous Year US$ 3.5 Million) worth of FCCB's were converted into 7,886,490 (Previous Year 216,007) equity shares, upon conversion option execercised by the FCCB holders.

Subsequent to March 31, 2007 Zero Coupon Foreign Currency Convertible Bonds of US $16.5 Million have been converted into 1,016,778 Equity Shares of Rs. 5 each and consequently the paid up Share Capital and the Securities Premium account as on date stands at Rs. 972.1 Million and Rs.5,902.2 Million respectively.

19 As per the best estimate of the management, no provision is required to be made as per Accounting Standard (AS) 29 issued by the Institute of Chartered Accountants of India, in respect of any present obligation as a result of a past event that could lead to a probable outflow of resources, which would be required to settle the obligation.

20 The company enters into Forward Exchange Contracts being derivative instruments, which are not intended for trading or speculative purposes, but for hedge purposes, to establish the amount of reporting currency required or available at the settlement date.

A) The following are the outstanding Forward Exchange Contracts entered into by the company as on 31st March, 2007

Currency	**Buy/Sell**	**Cross Currency**	**Amount in Million As at 31st March, 2007**	Amount in Million As at 31st March, 2006
US Dollar	Sell	Rupees	**$220.0**	$167.5
US Dollar	Buy	Rupees	**—**	$75.0

B) Principal only Swaps to hedge against fluctuations in exchange rate changes :

	Currency	**Year ended 31st March, 2007**	Year ended 31st March, 2006
No. of Contracts		**1**	2
Notional Principal	US Dollar	**$20.0 Million**	$40.3 Million

C) Currency Swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate and interest rate changes

	Currency	**Year ended 31st March, 2007**	Year ended 31st March, 2006
No. of Contracts		**—**	1
Notional Principal	Japanese Yen	**—**	JPY 2,166 Million

D) The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

a) Amounts receivable in foreign currency on account of the following :

	Currency	**As at 31st March, 2007 Amount in Million**		As at 31st March, 2006 Amount in Million	
Exports of Goods & Services	US Dollar	**—**	**—**	$37.5	INR 1,674.0
(CHF 2,220)	Swiss Franc	**CHF 0.0**	**INR 0.1**	—	—
	Euro	**€ 0.6**	**INR 34.7**	€ 0.7	INR 37.7
Loans Receivable	US Dollar	**—**	**—**	$65.1	INR 2,906.7
Advances Given £9,025 (Previous Year £9,025)	British Pound	**£0.0**	**INR 0.8**	£0.0	INR 0.7
Interest Receivable	US Dollar	**$1.2**	**INR 51.6**	$2.9	INR 129.1

b) Amounts payable in foreign currency on account of the following :

Interest Payable	US Dollar	**$0.5**	**INR 20.8**	$0.7	INR 32.5
Loans Payable	US Dollar	**$222.2**	**INR 9,577.4**	$346.5	INR 15,467.8
Import of Goods & Services	US Dollar	**$13.5**	**INR 581.9**	—	—
	Canadian Dollar	**CAD 0.1**	**INR 4.8**	—	—
(CHF 31,050)	Swiss Franc	**CHF 0.0**	**INR 1.1**	—	—
	Euro	**€ 0.8**	**INR 43.5**	—	—
(£43,547)	British Pound	**£0.0**	**INR 3.7**	—	—
	Japanese Yen	**JPY 6.0**	**INR 2.2**	—	—

21 Previous years' figures are restated / regrouped / rearranged wherever necessary in order to confirm to current years' groupings and classifications.

SUN PHARMACEUTICAL INDUSTRIES LTD.

ANNEXURE 'A' TO NOTES ON ACCOUNT

ACCOUNTING STANDARD (AS-18) "RELATED PARTY DISCLOSURE"

Rs in Million

Particulars	Subsidaries		Controlled Entity		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/07	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06
Purchases of Goods / DEPB	**99.6**	21.5	**7,114.0**	4,896.3	—	—	—	—	**0.0**	2.7	**7,213.6**	4,920.5
Caraco Pharmaceutical Laboratories Ltd	45.3	21.5	—	—	—	—	—	—	—	—	45.3	21.5
Sun Pharmaceutical Industries	—	—	7,114.0	4,896.3	—	—	—	—	—	—	7,114.0	4,896.3
ALKALOIDA Chemical Company exclusive group Limited (Formerly ICN Hungary Ltd.)	52.4	—	—	—	—	—	—	—	—	—	52.4	—
Sun Pharmaceutical Industries Inc.	1.9	—	—	—	—	—	—	—	—	—	1.9	—
Sun Speciality Chemicals Pvt Ltd. (Rs.16,224)	—	—	—	—	—	—	—	—	0.0	2.7	0.0	2.7
Sale of Goods / DEPB	**1,770.2**	1,264.3	**727.7**	614.0	—	—	—	—	**0.2**	—	**2,498.1**	1,878.3
Caraco Pharmaceutical Laboratories Ltd.	1,737.6	1,250.0	—	—	—	—	—	—	—	—	1,737.6	1,250.0
Sun Pharmaceutical Industries	—	—	727.7	614.0	—	—	—	—	—	—	727.7	614.0
Sun Pharmaceutical Industries Inc.	6.9	—	—	—	—	—	—	—	—	—	6.9	—
Sun Pharmaceutical (Bangladesh) Ltd.	1.5	—	—	—	—	—	—	—	—	—	1.5	—
Sun Farmaceutica Ltda. - Brazil	24.2	—	—	—	—	—	—	—	—	—	24.2	—
Sun Petrochemical Pvt. Ltd.	—	—	—	—	—	—	—	—	0.2	—	0.2	—
Others	—	14.3	—	—	—	—	—	—	—	—	—	14.3
Sale of Fixed Assets / Lease Assets	**6.4**	0.1	**5.4**	7.5	—	—	—	—	—	—	**11.8**	7.6
Caraco Pharmaceutical Laboratories Ltd.	1.4	0.1	—	—	—	—	—	—	—	—	1.4	0.1
ALKALOIDA Chemical Company exclusive group Limited (Formerly ICN Hungary Ltd.)	4.0	—	—	—	—	—	—	—	—	—	4.0	—
Sun Pharmaceutical (Bangladesh) Ltd.	1.0	—	—	—	—	—	—	—	—	—	1.0	—
Sun Pharmaceutical Industries	—	—	5.4	7.5	—	—	—	—	—	—	5.4	7.5
Receiving of Service												
Reimbursment of Expenses	**126.2**	1.9	—	—	—	—	—	—	—	—	**126.2**	1.9
Caraco Pharmaceutical Laboratories Ltd.	37.9	—	—	—	—	—	—	—	—	—	37.9	—
Sun Pharma De Mexico S.A. DE C.V.	—	1.2	—	—	—	—	—	—	—	—	—	1.2
Sun Pharmaceutical Industries Inc.	1.6	—	—	—	—	—	—	—	—	—	1.6	—
Sun Pharma Global Inc. - BVI	86.0	—	—	—	—	—	—	—	—	—	86.0	—
Sun Pharmaceuticals UK Ltd.	0.7	—	—	—	—	—	—	—	—	—	0.7	—
Sun Farmaceutica Ltda. - Brazil	—	0.7	—	—	—	—	—	—	—	—	—	0.7
Others (Rs.2,272/-)	0.0	—	—	—	—	—	—	—	—	—	0.0	—
Rendering of Service												
Services	**4.8**	—	—	—	—	—	—	—	**0.5**	0.4	**5.3**	0.4
Sun Petrochemical Pvt Ltd.	—	—	—	—	—	—	—	—	0.5	0.4	0.5	0.4
Sun Pharma Global Inc. - BVI	2.4	—	—	—	—	—	—	—	—	—	2.4	—
Sun Pharmaceutical Industries Inc.	2.4	—	—	—	—	—	—	—	—	—	2.4	—
Reimbursment of Expenses	**6.7**	0.3	—	—	—	—	—	—	**0.0**	0.1	**6.7**	0.4
Sun Pharmaceutical (Bangladesh) Ltd.	2.0	0.3	—	—	—	—	—	—	—	—	2.0	0.3
Sun Pharmaceutical Industries Inc.	3.8	—	—	—	—	—	—	—	—	—	3.8	—
Sun Petrochemical Pvt Ltd. (Rs.9,410/-)	—	—	—	—	—	—	—	—	0.0	0.1	0.0	0.1
Sun Pharma Global Inc. - BVI	0.9	—	—	—	—	—	—	—	—	—	0.9	—
Lease Rent received	—	0.2	—	—	—	—	—	—	—	—	—	0.2
Caraco Pharmaceutical Laboratories Ltd.	—	0.2	—	—	—	—	—	—	—	—	—	0.2
Finance (including loans and equity contributions in cash or in kind)												
Capital Contribution / (Withdrawal)	—	0.5	**(4,392.1)**	(4,192.3)	—	—	—	—	—	—	**(4,392.1)**	(4,191.8)
Sun Pharmaceutical Industries	—	—	(4,392.1)	(4,192.3)	—	—	—	—	—	—	(4,392.1)	(4,192.3)
Sun Pahrmaceutical Advanced Research Co. Ltd.	—	0.5	—	—	—	—	—	—	—	—	—	0.5
Investments Purchase	—	2,456.1	—	125.0	—	—	—	—	—	—	—	2,581.1
Sun Pharma Exports	—	—	—	125.0	—	—	—	—	—	—	—	125.0
Sun Pharma Global Inc. - BVI	—	2,456.0	—	—	—	—	—	—	—	—	—	2,456.0
Others	—	0.1	—	—	—	—	—	—	—	—	—	0.1
Loans given / Share Application Money	**3,875.4**	3,452.3	—	—	—	—	—	—	—	—	**3,875.4**	3,452.3
Sun Pharma Global Inc. - BVI	3,867.1	1,705.3	—	—	—	—	—	—	—	—	3,867.1	1,705.3
Sun Pharmaceutical Industries Inc.	—	1,230.9	—	—	—	—	—	—	—	—	—	1,230.9
Sun Pharma De Mexico S.A. DE C.V.	—	57.0	—	—	—	—	—	—	—	—	—	57.0
Sun Farmaceutica Ltda. - Brazil	7.4	10.4	—	—	—	—	—	—	—	—	7.4	10.4
ALKALOIDA Chemical Company exclusive group Limited (Formerly ICN Hungary Ltd.)	—	448.0	—	—	—	—	—	—	—	—	—	448.0
Others	0.9	0.7	—	—	—	—	—	—	—	—	0.9	0.7
Loans Received back	**3,714.8**	—	—	—	—	—	—	—	—	—	**3,714.8**	—
Sun Pharma Global Inc. - BVI	3,696.3	—	—	—	—	—	—	—	—	—	3,696.3	—
Sun Farmaceutica Ltda. - Brazil	17.4	—	—	—	—	—	—	—	—	—	17.4	—
Others	1.1	—	—	—	—	—	—	—	—	—	1.1	—

ANNEXURE 'A' TO NOTES ON ACCOUNT

ACCOUNTING STANDARD (AS-18) "RELATED PARTY DISCLOSURE"

Rs in Million

Particulars	Subsidaries		Controlled Entity		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/07	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06	**31/03/07**	31/03/06
Guarantees Given on behalf of Subsidiary	**197.4**	—	—	—	—	—	—	—	—	—	**197.4**	—
Sun Pharmaceutical Industries Inc.	64.7	—	—	—	—	—	—	—	—	—	64.7	—
Sun Pharmaceutical (Bangladesh) Ltd.	132.7	—	—	—	—	—	—	—	—	—	132.7	—
Interest Income	**130.7**	155.4	**1.1**	28.3	—	—	—	—	—	—	**131.9**	183.7
Sun Pharmaceutical Industries	—	—	1.1	1.1	—	—	—	—	—	—	1.1	1.1
Sun Pharma Exports	—	—	—	27.2	—	—	—	—	—	—	—	27.2
Sun Pharma Global Inc. - BVI	130.7	129.1	—	—	—	—	—	—	—	—	130.7	129.1
Sun Pharmaceutical Industries Inc.	—	20.2	—	—	—	—	—	—	—	—	—	20.2
Others	—	6.1	—	—	—	—	—	—	—	—	—	6.1
Rent Income	—	—	**1.2**	1.2	—	—	—	—	—	0.2	**1.2**	1.4
Sun Pharmaceutical Industries	—	—	1.2	1.2	—	—	—	—	—	—	1.2	1.2
Others	—	—	—	—	—	—	—	—	—	0.2	—	0.2
Others												
Demerger (SPARC LTD.)	244.9	—	—	—	—	—	—	—	—	—	244.9	—
Director's Remuneration	—	—	—	—	**27.0**	20.1	—	—	—	—	**27.0**	20.1
Remuneration (Partner's) Received	—	—	**297.9**	608.2	—	—	—	—	—	—	**297.9**	608.2
Sun Pharmaceutical Industries	—	—	297.9	608.2	—	—	—	—	—	—	297.9	608.2
Rent Paid	—	—	—	—	—	—	0.3	0.3	—	—	0.3	0.3
Share of profit from Partnership Firm	—	—	**5,508.3**	3,278.8	—	—	—	—	—	—	**5,508.3**	3,278.8
Sun Pharmaceutical Industries	—	—	5,508.3	3,278.8	—	—	—	—	—	—	5,508.3	3,278.8
Outstanding Counter Guarantee to Bank	**197.4**	—	—	—	—	—	—	—	—	—	**197.4**	—
Sun Pharmaceutical Industries Inc.	64.7	—	—	—	—	—	—	—	—	—	64.7	—
Sun Pharmaceutical (Bangladesh) Ltd.	132.7	—	—	—	—	—	—	—	—	—	132.7	—
Outstanding Receivables / Payables (Net) as on 31/03/2007	**512.7**	655.4	—	—	—	—	—	—	**244.7**	—	**757.4**	655.4
Caraco Pharmaceutical Laboratories Ltd.	523.4	655.4	—	—	—	—	—	—	—	—	523.4	655.4
Sun Pharmaceutical Advanced Research Company Ltd.	—	—	—	—	—	—	—	—	244.9	—	244.9	—
Sun Pharmaceutical Industries Inc.	7.0	—	—	—	—	—	—	—	—	—	7.0	—
Sun Pharmaceutical (Bangladesh) Ltd.	6.4	—	—	—	—	—	—	—	—	—	6.4	—
Sun Farmaceutica Ltda. - Brazil	9.7	—	—	—	—	—	—	—	—	—	9.7	—
Sun Speciality Chemicals Pvt Ltd. (Rs.16,224)	—	—	—	—	—	—	—	—	0.0	—	0.0	—
ALKALOIDA Chemical Company exclusive group Limited (Formerly ICN Hungary Ltd.)	(33.8)	—	—	—	—	—	—	—	—	—	(33.8)	—
Sun Petrochemical Pvt Ltd.	—	—	—	—	—	—	—	—	(0.2)	—	(0.2)	—

Note :

Names of related parties and description of relationship

1. Subsidaries
   - Sun Pharma Global Inc. BVI.
   - Sun Pharmaceutical (Bangladesh) Ltd.
   - Sun Pharma De Mexico S.A. DE C.V.
   - SPIL De Mexico S.A. DE C.V.
   - Sun Pharmaceutical Peru S.A.C.
   - Sun Farmaceutica Ltda - Brazil
   - Sun Pharmaceutical Industries Inc. - USA.
   - Sun Pharma Advanced Research Company Ltd. (Ceased to be subsidiary w.e.f 28/02/07)
   - Sun Pharmaceuticals UK Ltd.
   - ALKALOIDA Chemical Company exclusive group Limited (Formerly ICN Hungary Ltd.)
   - Zao "Sun Pharma Industries Limited"
   - Caraco Pharmaceutical Laboratories Ltd - U.S.A
2. Controlled Entity
   - Sun Pharma Exports
   - Sun Pharmaceutical Industries
   - Universal Enterprise Pvt. Ltd.
3. Key Management Personnel
   - Mr. Dilip S. Shanghvi
   - Mr. Sudhir V. Valia
   - Mr. Sailesh T. Desai
   - Mr. S. Mohanchand Dadha
   - Mr. Hasmukh S. Shah
4. Relatives of Key Management Personnel
   - Mrs. Vibha Shanghvi — Wife of Chairman
   - Mrs. Kumud Shanghvi — Mother of Chairman
   - Mrs. Meera Desai — Wife of Wholetime Director
5. Enterprise under significant Influence of Key Management Personnel or their relatives
   - Sun Petrochemical Pvt. Ltd.
   - Sun Speciality Chemicals Pvt. Ltd.
   - Navjivan Rasayan (Gujarat) Pvt. Ltd.
   - Sun Pharma Advanced Research Company Ltd. (Since 01/03/07)

SUN PHARMACEUTICAL INDUSTRIES LTD.

Information required as per Part IV of Schedule VI to The Companies Act, 1956
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

Registration No.	Balance Sheet Date	State Code
04/19050	31st March, 2007	04

II Capital Raised during the year (Rs in Million)

Public Issue	Right Issue
NIL	38.3*
Bonus Issue	Private Placement
NIL	NIL

* On Exercise of conversion option by FCCB Holders during the year.

III Position of Mobilisation and Deployment of Funds (Rs in Million)

Total Liabilities	Total Assets
36269.6	36269.6
Sources of Funds	
Paid-up Capital	Reserves and Surplus
980.7	23514.2
Secured Loans	Unsecured Loans
203.9	10477.6
Application of Funds	
Net Fixed Assets	Investments
6212.0	10574.9
Net Current Assets	Miscellaneous Expenditure
19482.7	NIL
	Accumulated Losses
	NIL

IV Performance of the Company (Rs in Million)

Total Income	Total Expenditure
24040.2	17634.8
Profit Before Tax	Profit After Tax
6405.4	6289.3
Earning per share Rs.*	Dividend Rate
33.5	135%

* Basic - after considering pro-rata dividend (including corporate dividend tax) on preference shares.

V Generic Names of Three Principal Products of the Company (as per monetary terms)

Item Code No. (ITC Code)	Product Description
30049038	Pantaprazole Sodium
30049065	Metformin Hydrochloride
30033900	Losartan Potassium

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

KAMLESH H. SHAH
Company Secretary
Mumbai, 18th May, 2007

SAILESH T. DESAI
Wholetime Director
Mumbai, 18th May, 2007

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

	Name of Subsidiary	Zao Sun Pharma Industries Ltd. Russia	Sun Pharma Global Inc. BVI	Sun Pharmaceutical (Bangladesh) Ltd.	Caraco Pharmaceutical Laboratories Ltd.	Sun Farmaceutica Ltda Brazil	Sun Pharma De Mexico, S.A.DE C.V.	Sun Pharmaceutical Industries Inc.	Sun Pharmaceuticals UK Ltd.	Sun Pharmaceutical Peru S.A.C.	SPIL De Mexico. S.A. DE C.V.	ALKALODIA Chemical Company exclusive group Limited (Formely ICN Hungary Ltd) **
1	The financial year of the Subsidiary Company ended on	31/12/2006	31/03/2007	31/03/2007	31/03/2007	31/03/2007	31/12/2006	31/03/2007	31/03/2007	31/12/2006	31/12/2006	31/03/2007
2	Shares in the Subsidiary held by the Holding Company as at the above date A) Number of Shares	1,000 Shares of Rubles 20 each fully paid-up	500,000 Shares of US$ 1 each fully paid-up	435,000 (*) Ordinary Shares of Takas 100 each fully paid-up	18,500,880 (*) fully paid Common Shares of No Par Value	336,538 Quota of Capital Stock of Real (R$) 1 each fully paid	750 Common Shares of No Face Value	5,000 Fully Paid up Common Stock of US$ 1 par Value	100 Ordinary Shares of £ 10 each fully paid up	149 Ordinary Shares of Soles 10/- each fully paid up	100 Nominative and free shares of $500 Mexican Pesos each fully paid up	7,003,310 'A' Share of HUF 3 each 1,966,000 'E' Shares of HUF 3,000 each 36,500 'F' Shares of HUF 3,000 each
	B) Extent of Holding	100.00%	100.00%	72.50%	65.83%	99.57%	75.00%	100.00%	100.00%	99.33%	100.00%	99.99%
3	Net aggregate amount of Profit/(Loss) of the Subsidiary Company so far as they concern the members of the Holding Company and -											
	A) Not dealt with in the Holding Company's accounts for the year ended 31st March, 2007											
	(i) For the Subsidiary's financial year ended as aforesaid	Rubles Nil	US$ 25,064,406	Taka (10,987,171)	US$ 17,681,728	Reals (527,253)	Mexican Pesos 1,454,477	US$ (8,895,657)	£ (160)	Nil	Nil	HUF (41,330,217)
	(ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary	Rubles (93,295)	US$ 86,453,778	Taka (46,571,966)	US$ 13,955,400	Nil	Mexican Pesos (5,540,396)	US$ (1,219,560)	£ (1,440)	Nil	Nil	HUF (85,594,775)
	B) Dealt with in Holding Company's accounts for the year ended 31st March, 2007											
	(i) For the Subsidiary's financial year ended as aforesaid	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	(ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
4	A) Change in the interest of the Holding Company between the end of the last financial year of the Subsidiary and 31st March, 2007	Nil	Nil	Nil	Acquisition of 1,632,000 Common Shares of No Par Value	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	B) Material changes occurred between end of the financial year of the Subsidiary and 31st March, 2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

* Including shares held by other subsidiary.
** Subsidary of a wholly owned subsidiary, Sun Pharma Global Inc. Bvi.

For and on behalf of the board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

KAMLESH H. SHAH
Company Secretary

Mumbai, 27th June, 2007

CORPORATE GOVERNANCE

In compliance with Clause 49 of the Listing Agreement with Stock Exchanges, the Company submits the report on the matters mentioned in the said Clause and lists the practices followed by the Company.

1. **Company's Philosophy on Code of Corporate Governance**

Sun Pharmaceutical Industries Limited's philosophy on corporate governance envisages working towards high levels of transparency, accountability, consistent value systems, delegation across all facets of its operations leading to sharply focused and operationally efficient growth. The Company tries to work by these principles in all its interactions with stakeholders, including shareholders, employees, customers, suppliers and statutory authorities.

Sun Pharmaceutical Industries Limited is committed to learn and adopt the best practices of corporate governance.

2. **Board of Directors**

The present strength of the Board of Directors of your Company is seven Directors.

Composition and category of Directors is as follows:

Category	Name of the Directors
Promoter Executive Director	Mr. Dilip S. Shanghvi (Chairman and Managing Director)
Non-Promoter Executive Directors	Mr. Sudhir V. Valia (Whole - Time Director) Mr. Sailesh T. Desai (Whole - Time Director)
Non Executive Independent Directors	Mr. S. Mohanchand Dadha Mr. Hasmukh S. Shah Mr. Keki M. Mistry Mr. Ashwin S. Dani

Number of Board Meetings held and the dates on which held: 6 Board meetings were held during the year, as against the minimum requirement of 4 meetings. The dates on which the meetings were held are as follows: 6th June 2006, 26th July 2006, 20th September 2006, 19th October 2006, 29th January 2007, and 10th March 2007.

Attendance of each Director at the Board meetings, last Annual General Meeting (AGM), and number of other Directorship and Chairmanship/Membership of Committee of each Director, is as follows:

Name of the Director	Attendance Particulars for the year ended 31st March, 2007		*No. of other directorships and committee memberships / chairmanships as of 31st March, 2007		
	Board Meetings	Last AGM held on 20th September, 2006	Other Directorships	Committee Memberships	Committee Chairmanships
Mr. Dilip S. Shanghvi	6	Yes	1	—	—
Mr. Sudhir V. Valia	6	Yes	1	—	—
Mr. Sailesh T. Desai	5	Yes	3	—	—
Mr. S. Mohanchand Dadha	6	Yes	2	—	—
Mr. Hasmukh S. Shah	4	Yes	8	1	2
Mr. Keki M. Mistry	6	Yes	11	5	2
Mr. Ashwin S. Dani	4	No	6	1	2

* The above list does not include Directorships, Committee Memberships and Committee Chairmanships in Private, Foreign and Section 25 Companies.

**The Committee Memberships and Chairmanships in other Companies include Memberships and Chairmanships of Audit and Shareholders'/ Investors Grievance Committee only.

Brief information on Directors proposed for reappointment:

The brief resume, experience and other details of the Directors, viz. Mr. Sudhir V. Valia and Mr. Ashwin S. Dani who retire by rotation at the ensuing Annual General Meeting, and are proposed to be reappointed is given as under:

(a) Mr. Sudhir V. Valia (50), is a Chartered Accountant with more than two deceades of experience in finance and taxation, representing the Board since 31st January, 1994 and at present he is the wholetime Director of the Company. He is also a Director in the following Companies:

Sun Pharma Advanced Research Company Ltd., Sun Petrochemicals Pvt. Ltd., Karad Chemicals and Allied Products Pvt. Ltd., Lakshadeep Investment & Finance Pvt. Ltd., Minaxi Fiscal Services Pvt. Ltd., Nisha Capital Services Pvt. Ltd., Sejraj Financial Services Pvt. Ltd., Eklavya Securities Pvt. Ltd., Universal Enterprises (P) Ltd., Shantilal Shanghvi Foundation,Caraco Pharmaceutical Laboratories Ltd., Sun Pharma Mexico SA DE CV, SPIL De Mexico SA DE CV Sun Pharma Global Inc. British Virgin Island, Aditya Acquisitions Company Ltd., Alkaloida Chemical Company Exclusive Group Ltd., Sun Development Corporation I.

(b) Mr. Ashwin Dani (64), joined the Board on 28.01.2004. Mr. Dani is a B. Sc. (Hons.) from Institute of Science University of Mumbai and B. Sc. (Tech.) (Pigments, Paints & Varnishes) from U.D.C.T., University of Mumbai. He also holds a Masters Degree in polymer Science from University of Akron, Akron, Ohio, USA and Diploma in colour Science from Rensellaer Polytechnic, Troy, New York.

Presently, he is also a Director in the following Companies:

Asian Paints Ltd., Asian PPG Industries Ltd., Asian Paints Industrial Coatings Ltd., Gujarat Organics Limited, Hitech Plast Ltd., Resins & Plastics Limited, Asian Paints (Queensland) Pvt Ltd., SBI Funds Management Pvt. Ltd., and Geetanjali Trading & Investments Pvt. Ltd.

He is a Trustee of Central Board of Trustees of the Employee Provident Fund (EPF) and a member of the National Productivity Council.

He is the Chairman of the Share Transfer Committees of Gujarat Organics Ltd., and Resins & Plastics Ltd. and is a member of the Share Transfer Committee of Asian Paints Ltd. He is also the member of the Audit Committee of Asian PPG Industries Limited, and a Chairman of the Audit Committee of Asian Paints Industrial Coatings Limited. He is the Chairman of Shareholders'/ Investors' Grievance Committee of Hitech Plast Ltd.

3. Code of Conduct

The Board of Directors have laid down a code of conduct for all Board members and senior management of the Company. All the Directors and senior management personnel have affirmed compliance with the code of conduct as approved and adopted by the Board of Directors and a declaration to this effect has been annexed to the Corporate Governance Report. The code of conduct has been posted on the website of the Company www.sunpharma.com.

4. Audit Committee

The Board of the Company has constituted an Audit committee, which comprises of three independent non-executive Directors viz. Mr. Keki M. Mistry, Mr. S. Mohanchand Dadha and Mr. Hasmukh S. Shah. Mr. Keki M. Mistry is the Chairman of the committee. The constitution of Audit Committee also meets with the requirements under Section 292A of the Companies Act, 1956. Mr. Kamlesh H. Shah the Company Secretary of the Company is the Secretary of the Audit Committee.

The Audit Committee is responsible for overseeing the Company's financial reporting process, reviewing the quarterly/ half yearly/ annual financial statements, reviewing with the management the financial statements and adequacy of internal audit function, recommending the appointment/ re-appointment of statutory auditors and fixation of audit fees, reviewing the significant internal audit findings/ related party transactions, reviewing the Management Discussion and Analysis of financial condition and result of operations and also statutory compliance issues. The Committee acts as a link between the management, external and internal auditors and the Board of Directors of the Company.

The Committee has discussed with the external auditors their audit methodology, audit planning and significant observations/ suggestions made by them.

In addition, the Committee has discharged such other role/ function as envisaged under Clause 49 of the Listing Agreement of the Stock Exchange and the provisions of Section 292A of the Companies Act, 1956.

Four Audit Committee Meetings were held during the year ended 31st March, 2007. The dates on which Meetings were held are as follows: 6th June 2006, 26th July 2006, 19th October 2006 and 29th January 2007. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Audit Committee Meetings attended
Mr. Keki M. Mistry	4
Mr. S. Mohanchand Dadha	4
Mr. Hasmukh S. Shah	3

5. Remuneration Committee

The Company has not formed any Remuneration Committee of Directors. The Whole - Time Directors' remuneration is approved by the Board within the overall limit fixed by the shareholders at their meetings. The payment of remuneration by way of commission to the Participating Non- Executive Directors (NEDs) of the Company is within the total overall maximum limit of half percent of net profits as worked under the provisions of sections 349 & 350 of the Companies Act, 1956. This will be in addition to the sitting fees of Rs.5,000/- per meeting payable to the Non Executive Directors. The actual commission payable to the Non- Executive Directors of our Company severally and collectively is decided by the Board of Directors of the Company within the overall limit fixed as above by the Members of the Company.

Details of remuneration paid to all the Directors for the year:

The details of the remuneration paid/payable to the Directors during the year 2006-2007 are given below:

(Amount in Rs.)

Directors	Salary #	Perquisites*	Commission	Sitting Fees	Total
Mr. Dilip S. Shanghvi	88,92,000	9,04,200	—	—	97,96,200
Mr. Sudhir V. Valia	88,92,000	9,04,200	—	—	97,96,200
Mr. Sailesh T. Desai	34,12,800	8,35,964	—	—	42,48,764
Mr. S. Mohanchand Dadha	—	—	7,65,000	80,000	8,45,000
Mr. Hasmukh S. Shah	—	—	7,65,000	55,000	8,20,000
Mr. Keki M. Mistry	—	—	7,65,000	50,000	8,15,000
Mr. Ashwin S. Dani	—	—	7,65,000	20,000	7,85,000

Salary includes bonus and Special Allowance.

* Perquisites include House Rent Allowance, Leave Travel Assistance, Medical Reimbursement, contribution to Provident Fund and such other perquisites, the monetary value of which are determined in accordance with the Income Tax Rules, 1962.

Besides this, all the Whole - Time Directors are also entitled to encashment of leave and Gratuity at the end of tenure, as per the rules of the Company.

Notes: -

a) The Agreement with each of the Executive Directors is for a period of 5 years. Either party to the agreement is entitled to terminate the Agreement by giving to the other party 30 days notice in writing.

b) Your Company presently does not have a scheme for grant of stock options either to the Executive Directors or employees.

Details of Equity Shares held by Non-Executive Directors

Director	No. of Shares
Mr. S. Mohanchand Dadha	28,428
Mr. Hasmukh S. Shah	Nil
Mr. Keki M. Mistry	Nil
Mr. Ashwin S. Dani	Nil

6. Shareholders'/Investors' Grievance Committee

The Board of the Company had constituted a Shareholders'/Investors' Grievance Committee, comprising of Mr. S. Mohanchand Dadha, Mr.Dilip S. Shanghvi, Mr. Sudhir V. Valia with Mr. Hasmukh S. Shah as the Chairman. The Committee, inter alia, approves issue of duplicate certificates and oversees and reviews all matters connected with the transfer of securities. The Committee looks into shareholders' complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends, etc. The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Board of Directors has delegated the power of approving transfer of securities to M/s. Intime Spectrum Registry Ltd, and/or the Company Secretary of the Company.

The Board has designated severally, Mr. Kamlesh H. Shah, Company Secretary and Mr.Ashok I. Bhuta, D.G.M (Legal & Secretarial) as Compliance Officers.

Six meetings of the Shareholders'/Investors' Grievance Committee were held during the year ended 31st March, 2007. The dates on which Meetings were held are as follows: 6th June 2006, 26th July 2006, 20th September 2006, 19th October 2006, 29th January 2007, and 10th March 2007. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Shareholders'/Investors' Grievance Committee Meetings attended
Mr. Hasmukh Shah	4
Mr. Sudhir V. Valia	6
Mr. Dilip Shanghvi	6
Mr. S. Mohanchand Dadha	6

The total numbers of complaints were received and resolved to the satisfaction of shareholders during the year under review, were 168.

7. Share Allotment Committee

The Zero coupon Foreign Currency Convertible Bonds (FCCB) due 2009 for US$ 350 Millions issued and allotted during Nov./ Dec, 2004 are convertible into equity shares of the Company at the option of the Bondholders at any time on or after 26th December, 2004 and prior to the close of business (at the place the Bond is deposited for conversion) on 16th November, 2009. Therefore in order to enable the Company to issue and allot equity shares on surrender of bonds for conversion as and when required, a Committee of Directors (Allotment) was constituted with effect from April 1, 2005 with powers to issue and allot equity shares arising out of such conversion of FCCBs. The Committee *inter alia* shall have the power to decide all matters relating to issue and allotment of equity shares of Rs.5/- each of the Company to the extent to which bondholder exercise their option for conversion of FCCBs in to equity shares, to fix the record date, if any, required, to credit the equity shares so allotted through NSDL/CDSL/Other Depository to the concerned beneficiary account, to obtain approval of RBI for such issue and allotment under FEMA, as may be applicable, to file Listing application with the listed stock exchanges in India and if required abroad and to perform any of all the acts, deeds, things and matters as may be required in connection with such issue and allotment of equity shares.

The Committee comprises of Mr. Dilip S. Shanghvi, Mr. Sailesh T. Desai and Mr. Sudhir V. Valia as the Chairman. Mr. Kamlesh Shah, Company Secretary & Compliance Officer shall act as the Secretary & Compliance Officer of the Committee and Mr.Ashok I. Bhuta, DGM (Legal & Secretarial) & Compliance Officer shall act as the Compliance Officer of the Committee.

23 meetings of the Share Allotment Committee were held during the year ended on 31st March, 2007. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Share Allotment Committee Meetings Attended
Mr. Sudhir V. Valia	20
Mr. Dilip S. Shanghvi	4
Mr. Sailesh T. Desai	22

8. Subsidiary Companies

The Company does not have a material non-listed Indian subsidiary Company whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding Company and its subsidiaries in the immediately preceding accounting year.

The financial statements including investments made by the unlisted Indian subsidiaries were placed before and reviewed by the Audit Committee of the Company.

Copies of the Minutes of the Board Meetings of the subsidiary Companies were placed at the Board Meetings of the Company held during the year.

9. General Body Meetings

Location and time of the General Meetings held during the last 3 years are as follows:

Year	Meeting	Location	Date	Time
2003-04	AGM	Marigold, Hotel Taj Residency, Akota Gardens, Vadodara - 390 020.	30/12/2004	10.30 A.M
2004-05	EGM	All India Plastic Manufacturers Association Auditorium, AIPMA House, 2nd Floor, A-52, Road No. 1, Opp. Hotel Tunga, MIDC, Andheri (E), Mumbai – 400 093.	06/05/2004	10.30 A.M
2004-05	EGM	Vishal Hall, Hotel Highway Inn, Andheri-Kurla Road, Near Andheri Railway Station, Opp. Andheri Gymkhana, Andheri (E), Mumbai – 400 069.	31/07/2004	10.30 A.M
2004-05	EGM	Conference Hall, 8th Floor, Hotel The Mirador, Next to Samarpan Complex, Opp. Solitaire Corporate Park, New Link Road, Chakala, Andheri (E), Mumbai – 400 099.	08/02/2005	11.00 A.M
2003-04	Twelfth Adjourned AGM	Hotel Taj Residency, Akota Gardens, Vadodara - 390 020.	30/09/2005	11.00 A.M
2004-05	AGM	Hotel Taj Residency, Akota Gardens, Vadodara - 390 020.	30/09/2005	11.15 A.M
2005-06	EGM	Conference Hall, Hotel Taj Residency, Akota Gardens, Akota, Vadodara – 390 020.	06/06/2006	10.00 A.M.
2005-06	AGM	Chandarva Hall, Welcom Hotel, R. C. Dutt Road, Vadodara – 390 007.	20/09/2006	10.30 A.M.

During the year the Company did not pass any resolution by Postal Ballot and does not have any business that requires Postal Ballot.

10. Disclosures

- No transaction of a material nature has been entered into by the Company with Directors or Management and their relatives, etc. that may have a potential conflict with the interests of the Company. The Register of contracts containing transactions, in which directors are interested, is placed before the Board of Directors regularly. The transaction with the related parties are disclosed in the Annexure A attached to the Annual Accounts.
- There were no instances of non-compliance by the Company on any matters related to the capital markets or penalties/ strictures imposed on the Company by the Stock Exchange or SEBI or any statutory authority during the last 3 financial years.
- In the preparation of the financial statements, the Company has followed the Accounting Standards issued by ICAI.
- The Company has laid down procedures to inform Board members about the risk assessment and its minimization, which are periodically reviewed to ensure that risk control is exercised by the management effectively.
- During the year under review, the Company has not raised funds through any public, rights or preferential issue.
- Adoption/ Non Adoption of the Non- mandatory requirements :

  (i) The Company has not fixed a period of nine years as the tenure of Independent Directors on the Board of the Company.

  (ii) The Company has not formed a remuneration committee of its Board of Directors.

  (iii) The Company does not send half-yearly financial results to the household of each shareholder as the same are published in the newspapers and also posted on the website of the Company.

  (iv) The Company's Board comprise of perfect mix of Executive and Non Executive Independent Directors who are Company Executives and Professionals having in depth knowledge of pharmaceutical industry and/ or expertise in their area of specialisation.

  (v) The Company's Board of Directors endeavor to keep themselves updated with changes in global economy and legislation. They attend various workshops and seminars to keep themselves abreast with the changes in business environment.

  (vi) At present the Company does not have a mechanism for evaluating its Non-Executive Directors by peer group.

  (vii) The Company has not adopted whistle blower policy. However the Company has not denied access to any employee to approach the management on any issue. The Company has adopted a Code of Conduct for its Board of Directors and senior management which meets the requirements of the Whistle Blower Policy.

11. Means of Communication

- **Website:** The Company's website www.sunpharma.com contains a separate dedicated section 'Financials' where shareholders information is available. Full Annual Report is also available on the website in a user friendly and downloadable form. Apart from this, official news releases, detailed presentations made to media, analysts etc. are also displayed on the Company's website.
- **Financial Results:** The annual, half-yearly and quarterly results are regularly posted by the Company on its website www.sunpharma.com. These are also submitted to the Stock Exchanges in accordance with the Listing Agreement and published in leading newspapers like 'The Economic Times', 'Business Standard' and Gujarati Edition of 'Financial Express'.
- **Annual Report:** Annual Report containing inter alia Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report, International Accountants' Report and other important information is circulated to Members and others entitled thereto. The Management's Discussion and Analysis (MD&A) Report forms part of the Annual Report.
- **SEBI EDIFAR:** Annual Report, Quarterly Results, Shareholding Pattern etc. of the Company are also posted on the SEBI EDIFAR website www.sebiedifar.nic.in.

12. General Shareholder Information

12.1 Annual General Meeting:

- Date and Time	:	5th September, 2007 at 10.30 am.
- Venue	:	Chandarva Hall, Welcom Hotel, R. C. Dutt Road, Vadodara - 390 007.
12.2 Financial Calendar (tentative)	:	Results for quarter ending 30th June, 2007 – Last week of July 2007
	:	Results for quarter ending 30th September 2007 – Last week of October 2007.
	:	Results for quarter ending 31st December 2007 – Last week of January 2008.
	:	Audited Results for year ended 31st March 2008 – 2nd week of May 2008.
12.3 Details of Book Closure For Equity & Preference Shareholders	:	From 30th August, 2007 to 5th September, 2007 (both days inclusive).
12.4 Dividend Payment Date	:	The Board of Directors at their Meeting held on March 10, 2007, declared an Interim Dividend of 6% on outstanding Preference Shares of Re.1/- each of the Company and 135% (i.e. Rs.6.75 per share) on Equity Shares of Rs.5/- each of the Company for the year ended March 31, 2007 and the same has been paid on April 20, 2007 to the Company's Equity and Preference Shareholders whose name stand on the Register of Members as beneficial owners at the close of business as on the Record Date, i.e., March 16, 2007. The Interim dividend be treated as Final Dividend.
12.5 (i) Listing of Equity Shares on Stock Exchanges	:	At The Bombay Stock Exchange Ltd., (BSE) and The National Stock Exchange of India Ltd. (NSE).
(ii) Listing of Preference Shares on Stock Exchanges	:	At The Bombay Stock Exchange Ltd., (BSE) and The National Stock Exchange of India Ltd. (NSE).
(iii) Listing of Foreign Currency Convertible Bonds	:	At Singapore Exchange Securities Trading Limited, Singapore.
(iv) Payment of Listing Fee	:	Listing Fees for the year ended 2007-08 have been paid to The Bombay Stock Exchange Ltd., and The National Stock Exchange of India Ltd, where the Company's Equity and Preference Shares continue to be listed, and to Singapore Exchange Securities Trading Limited where the Foreign Currency Convertible Bonds of the Company are listed.

12.6 Stock Code:

Equity Shares

(a) Trading Symbol The Bombay Stock Exchange Ltd., (Demat Segment)	:	SUN PHARMA 524715
Trading Symbol National Stock Exchange (Demat Segment)	:	SUNPHARMA
(b) Demat ISIN Numbers in NSDL and CDSL for Equity Shares of Rs.5/- each	:	ISIN No. INE044A01028

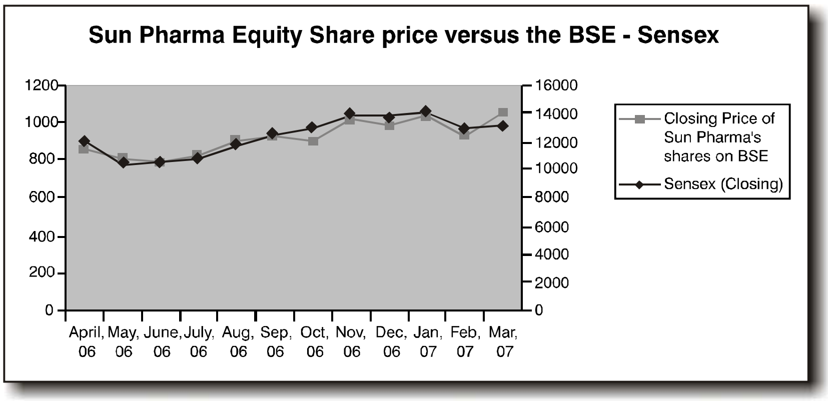
Preference Shares

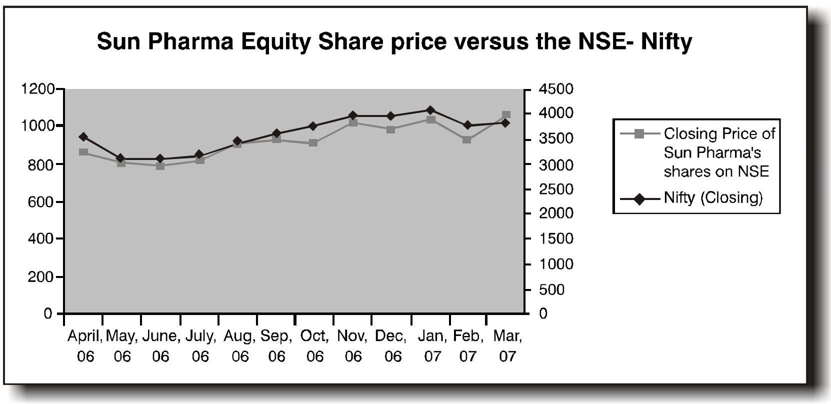
(a) Trading Symbol The Bombay Stock Exchange Ltd., (Demat Segment)	:	SUNPHARMA 700079
Trading Symbol National Stock Exchange (Demat Segment)	:	SUNPHARMA
(b) Demat ISIN Numbers in NSDL and CDSL for Preference Shares	:	ISIN No. INE044A04014

12.7 Stock Market Data

Equity Shares:

	Bombay Stock Exchange Ltd. (BSE) (in Rs.)		National Stock Exchange (NSE) (in Rs.)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2006	935.00	825.00	947.40	780.00
May 2006	930.00	765.00	929.40	761.00
June 2006	820.00	639.95	897.00	636.60
July 2006	841.00	705.10	835.00	720.00
August 2006	916.00	756.00	916.00	775.10
September 2006	954.00	890.00	953.95	890.00
October 2006	1,012.00	895.00	949.00	890.10
November 2006	1,065.00	892.00	1064.00	886.00
December 2006	1,047.90	906.00	1054.95	905.00
January 2007	1,082.00	965.00	1080.80	962.00
February 2007	1,067.00	911.00	1069.80	900.00
March 2007	1,065.00	898.05	1064.50	899.05





Preference Shares:

	Bombay Stock Exchange Ltd. (BSE) (in Rs.)		National Stock Exchange (NSE) (in Rs.)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2006	2.92	1.72	—	—
May 2006	2.59	1.25	—	—
June 2006	2.00	1.45	—	—
July 2006	1.93	1.61	—	—
August 2006	2.28	1.50	—	—
September 2006	2.25	1.36	—	—
October 2006	2.23	1.60	2.30	2.30
November 2006	3.98	1.51	—	—
December 2006	3.91	1.93	—	—
January 2007	6.00	1.86	—	—
February 2007	5.05	2.95	—	—
March 2007	4.86	2.62	—	—

12.8 Share price performance in comparison to broad-based indices – BSE Sensex and NSE Nifty.

Share price performance relative to BSE Sensex based on share price on 31st March, 2007.

PERIOD	% Change in		
	SUN PHARMA SHARE PRICE	BSE SENSEX	SUNPHARMA RELATIVE TO SENSEX
Year-on-Year	21.65%	15.88%	5.76%
2 Years	123.59%	101.33%	22.26%
3 Years	224.36%	133.82%	90.53%
5 Years	529.39%	276.79%	252.61%

Share price performance relative to Nifty based on share price on 31st March, 2007.

PERIOD	% Change in		
	SUN PHARMA SHARE PRICE	NIFTY	SUN PHARMA RELATIVE TO NIFTY
Year-on-Year	22.91%	12.31%	10.59%
2 Years	126.46%	87.73%	38.73%
3 Years	224.31%	115.67%	108.64%
5 Years	532.84%	238.34%	294.52%

12.9 Registrars & Transfer Agent

(Share transfer and communication regarding share certificates, dividends and change of address)

Mr. N. Mahadevan Iyer, Intime Spectrum Registry Ltd.,
C-13, Pannalal Silk Mills Compound, L.B.S. Marg,
Bhandup (West), Mumbai – 400 078.
E-Mail: sunpharma@intimespectrum.com

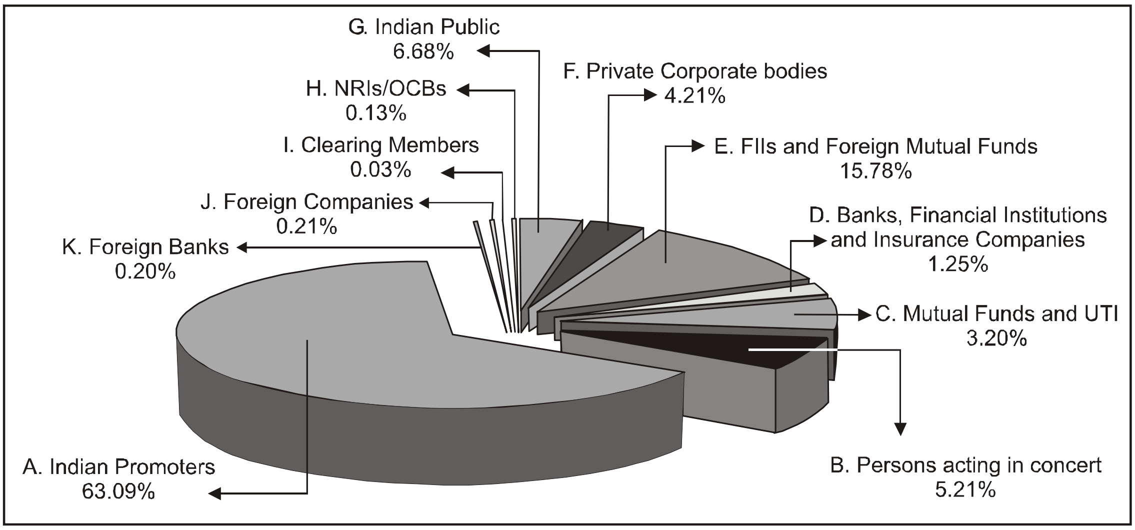
12.10 Share Transfer System

Presently, the share transfers which are received in physical form are processed and transferred by Registrar and Share Transfer Agents and the share certificates are returned within a period of 15 to 16 days from the date of receipt, subject to the documents being valid and complete in all respects and confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) expeditiously.

12.11 Distribution of Shareholding as on March 31, 2007

No. of Equity Shares held	Folios		Shares	
	Numbers	% to total holders	Numbers	% to total shares
Upto 5000	32328	89.79	4240797	2.19
5001 - 10000	2761	7.67	3441329	1.78
10001 - 20000	356	0.99	1001710	0.52
20001 - 30000	121	0.33	619169	0.32
30001 - 40000	50	0.14	357176	0.18
40001 - 50000	49	0.14	456583	0.24
50001 - 100000	87	0.24	1238302	0.64
100001 and above	252	0.70	182047054	94.13
Total	36004	100.00	193402120	100.000

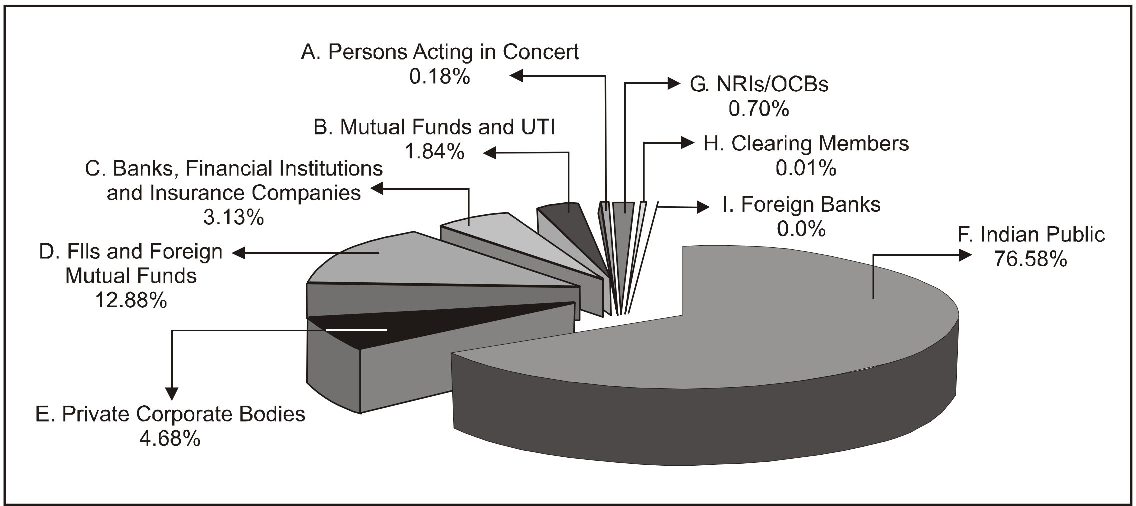
12.12 (a) Shareholding Pattern as on 31st March, 2007 of Equity Shares as per Clause 35 of the Listing Agreement.



A. Indian Promoters	63.09%	122026705
B. Persons Acting in Concert	5.21%	10078872
C. Mutual Funds and UTI	3.20%	6195570
D. Banks Financial Institutions and Insurance Companies	1.25%	2420284
E. FIIs and Foreign Mutual Funds	15.78%	30520552
F. Private Corporate Bodies	4.21%	8140173
G. Indian Public	6.68%	12916588
H. NRIs / OCBs	0.13%	260607
I. Clearing Members	0.03%	59542
J. Foreign Companies	0.21%	396919
K. Foreign Banks	0.20%	386308

Total No. of Equity Shares = 193402120

12.12 (b) Shareholding Pattern as on 31st March, 2007 of Preference Shares.



A. Persons Acting in Concert	0.18%	24688
B. Mutual Funds and UTI	1.84%	252620
C. Banks Financial Institutions and Insurance Companies	3.13%	430024
D. FIIs and Foreign Mutual Funds	12.88%	1769840
E. Private Corporate Bodies	4.68%	643366
F. Indian Public	76.58%	10522010
G. NRIs / OCBs	0.70%	96015
H. Clearing Members	0.01%	1427
I. Foreign Banks	0.00%	40

Total No. of Preference Shares = 13740030

12.13 Dematerialisation of Shares

About 98.82% of the outstanding Equity shares and 76.46% of the outstanding Preference Shares have been de-materialised up to 31st March, 2007. Trading in Shares of the Company is permitted only in de-materialised form w.e.f. 29th November, 1999 as per notification issued by the Securities and Exchange Board of India (SEBI).

The Equity Shares allotted pursuant to conversion of Foreign Currency Convertible Bonds (FCCBs) during the year were issued in de-materialised form.

Liquidity:

Your Company's equity shares are fairly liquid and are actively traded on The Bombay Stock Exchange Ltd.(BSE), and National Stock Exchange (NSE). Relevant data for the average daily turnover for the financial year 2006-2007 is given below:

	BSE	NSE	BSE + NSE
In no. of share (in Thousands)	53.740	175.041	228.781
In value terms (Rs. Millions)	47.506	161.015	208.520

12.14 Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity :

The Company had during Nov./Dec.2004 issued 350,000 (Three Hundred and Fifty Thousands) Foreign Currency Convertible Bonds (FCCB) of US$1,000 each aggregating to US $ 350,000,000 (Three Hundred and Fifty Millions), which are convertible at the option of the bondholder at a conversion price of Rs.729.30 per share of Rs. 5 each at the fixed rate of exchange on conversion of Rs.45.01=US$1. The bonds carry a zero coupon rate and if not converted, are to be redeemed after 5 years on November 26, 2009 or in case of certain defined earlier redemptions at an accelerated premium of 4.61%p.a. with half yearly rests. The Company subject to satisfaction of certain conditions, has an option to redeem the bonds at any time on or after November 26, 2007 and prior to November 16, 2009.

During the year 2006-07, out of balance outstanding 3,46,500 (Three Lakhs Forty Six Thousand Five Hundred) FCCBs, 1,24,286 (One Lakh Twenty Four Thousand Two Hundred Eighty Six) FCCBs have been converted into Equity Shares of Rs. 5/- each of the Company upto 31.03.2007, and as on date total of 171131 FCCBs have been converted into Equity Shares of Rs. 5/- each of the Company.

12.15 Plant locations

1. Plot No.214 and 20, Govt. Industrial Area, Phase-II, Piparia, Silvassa- 396 230.
2. Plot No.223, Span Industrial Complex, Near R.T.O. Check Post, Dadra- 396 191 (U.T)
3. Plot No.25 and No.24/2, GIDC, Phase- IV, Panoli – 395 116.
4. A-7 & A-8, MIDC Industrial Area, Ahmednagar – 414 111.
5. Plot No. 4708, GIDC, Ankleshwar –393 002.
6. Sathammai Village, Karunkuzhi Post, Madurnthakam T.K. Kanchipuram Dist. Tamilnadu – 603 303.
7. Halol-Baroda Highway, Halol, Gujarat – 389350.
8. Plot No. 817/A, Karkhadi – 391 450, Taluka: Padra, Distt. Vadodara.

12.16 Investor Correspondence

	For Shares held in Physical Form
(a) For transfer/dematerialisation of Shares, payment of dividend on Shares, and any other query relating to the shares of the Company	Mr. N. Mahadevan Iyer, Intime Spectrum Registry Ltd., C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West), Mumbai – 400 078. E-Mail: sunpharma@intimespectrum.com Tel: 022-25963838, Fax : 022- 25946969 **For Shares held in Demat Form** To the Depository Participant.
(b) Any query on Annual Report	Mr.Kamlesh H. Shah/ Mr.Ashok I. Bhuta/ Ms. Mira Desai, Acme Plaza, Andheri Kurla Road, Opp. Sangam Cinema, Andheri (East), Mumbai – 400 059. kamlesh.shah@sunpharma.com ashok.bhuta@sunpharma.com mira.desai@sunpharma.com corpcomm@sunpharma.com

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & *Managing Director*

SUDHIR V. VALIA
Whole - Time Director

SAILESH T. DESAI
Whole - Time Director

Mumbai,
Date: 27th June, 2007

SUN PHARMACEUTICAL INDUSTRIES LTD.

ANNEXURE TO CORPORATE GOVERNANCE FOR THE YEAR ENDED 31st MARCH, 2007
DECLARATION OF COMPLIANCE WITH CODE OF CONDUCT

I, Dilip S. Shanghvi, Chairman & Managing Director of Sun Pharmaceutical Industries Limited ("the Company") hereby declare that, to the best of my information, all the Board Members and senior management personnel of the Company have affirmed their compliance and undertaken to continue to comply with the Code of Conduct laid down by the Board of Directors of the Company for Board members and senior management.

For Sun Pharmaceutical Industries Ltd.,

Dilip S. Shanghvi
Chairman & Managing Director

Date: 27th June, 2007

AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To The Members of Sun Pharmaceutical Industries Limited,

We have examined the compliance of conditions of Corporate Governance by Sun Pharmaceutical Industries Limited, for the year ended on March 31, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

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 abovementioned Listing Agreement.

We 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 **DELOITTE HASKINS & SELLS**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, 27th June, 2007

Membership No. 9544

Auditors' Report to the Board of Directors of Sun Pharmaceutical Industries Limited Group

1. We have audited the attached Consolidated Balance Sheet of Sun Pharmaceutical Industries Limited Group as at March 31, 2007, the Consolidated Profit and Loss Account and also the Consolidated Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Sun Pharmaceutical Industries Limited management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. a. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (net) of Rs. 9,686.1 Million as at March 31, 2007, total revenues of Rs. 7,925.7 Million and net cash outflows amounting to Rs. 1,239.4 Million for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management of the Group, and our opinion is based solely on the reports of other auditors.

   b. As stated in Note B1 of Schedule 20, the consolidated financial statements includes the financial statements of subsidiaries, which we did not audit, whose financial statements reflects the Groups share of assets (net) of Rs. 67.5 Million as at March 31, 2007, total revenues of Rs. 185.0 Million and net cash inflows amounting to Rs. 1.0 million. The unaudited financial statements are prepared on the basis of audited financial statements for the year ended December 31, 2006 and the unaudited financial statements for the quarter ended March 31, 2006 and March 31, 2007, provided by the management of those subsidiaries. We have relied upon the unaudited financial statements as provided by the management of those subsidiaries for the purpose of our examination of consolidated financial statements.

4. We report that the consolidated financial statements have been prepared by the Sun Pharmaceutical Industries Limited management in accordance with the requirement of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

5. Subject to paragraph 3 (b) above, based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   a. in the case of the Consolidated Balance Sheet, of the state of affairs of the Sun Pharmaceutical Industries Limited Group as at March 31, 2007;

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

   c. in the case of the Consolidated Cash Flow statement, of the Cash Flows for the year ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, June 27, 2007 (Membership No.9544)

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
BALANCE SHEET AS AT 31ST MARCH, 2007

	Schedules	As at 31st March, 2007 Rs in Million	As at 31st March, 2007 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	**980.7**		942.7	
Reserves and Surplus	2	**26,747.2**	**27,727.9**	14,958.9	15,901.6
Minority Interest			**437.6**		331.6
Loan Funds					
Secured Loans	3	**395.4**		357.9	
Unsecured Loans	4	**10,748.9**	**11,144.3**	18,389.0	18,746.9
Deferred Tax Liability (Net)	5		**895.1**		1,052.7
Total			**40,204.9**		36,032.8
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	**14,251.8**		12,341.8	
Less: Depreciation/Amortisation		**4,737.5**		3,779.0	
Net Block		**9,514.3**		8,562.8	
Capital Work-in-Progress (including advances on capital account)		**607.6**	**10,121.9**	414.4	8,977.2
Goodwill on Consolidation (Refer Note B.5 of Schedule 20)			**697.1**		506.9
Investments	7		**2,542.9**		3,541.2
Current Assets, Loans and Advances					
Inventories	8	**6,644.7**		5,117.4	
Sundry Debtors	9	**6,788.8**		3,608.9	
Cash and Bank Balances	10	**13,802.1**		15,324.4	
Other Current Assets	11	**388.8**		234.1	
Loans and Advances	12	**2,264.1**		2,237.2	
		29,888.5		26,522.0	
Less: Current Liabilities and Provisions	13				
Current Liabilities		**2,965.5**		2,278.9	
Provisions		**80.0**		1,235.6	
		3,045.5		3,514.5	
Net Current Assets			**26,843.0**		23,007.5
Total			**40,204.9**		36,032.8
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	20				

Schedules referred to herein form an integral part of the Financial Statements

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, 27th June, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 27th June, 2007

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

	Schedules	**Year ended 31st March, 2007** Rs in Million	Rs in Million	Year ended 31st March, 2006 Rs in Million	Rs in Million
INCOME					
Income from Operations					
Gross Sales		**22,372.8**		17,371.5	
Less : Excise Duty		**1,052.3**		1,003.3	
Net Sales		**21,320.5**		16,368.2	
Other Income	**14**	**2,424.5**	**23,745.0**	1,684.1	18,052.3
EXPENDITURE					
Cost of Materials / Goods	**15**	**5,767.2**		4,881.9	
Indirect Taxes	**16**	**528.4**		423.5	
Personnel Cost	**17**	**1,989.1**		1,415.9	
Operating and Other Expenses	**18**	**3,872.6**		3,218.1	
Research and Development Expenditure	**19**	**2,439.7**		1,533.7	
Depreciation / Amortisation		**813.3**	**15,410.3**	610.2	12,083.3
PROFIT BEFORE TAXATION			**8,334.7**		5,969.0
Provision for Taxation - Current Tax			**79.6**		73.8
- Deferred Tax / (Credit) (Net)			**(157.6)**		156.7
- Fringe Benefit Tax			**11.2**		8.8
PROFIT AFTER TAX			**8,401.5**		5,729.7
Minority Interest			**558.8**		(2.8)
PROFIT FOR THE YEAR AFTER TAX AND MINORITY INTEREST			**7,842.7**		5,732.5
BALANCE OF PROFIT BROUGHT FORWARD			**6,892.7**		4,464.4
Less: Adjustment on Cancellation of Investment in shares of Sun Pharma Advance Research Company Ltd Pursuant to Scheme of demerger (Refer Note B.13a of Schedule 20)			**0.5**		—
AMOUNT AVAILABLE FOR APPROPRIATIONS			**14,734.9**		10,196.9
APPROPRIATIONS					
Proposed Dividend					
Preference Shares		**0.8**		0.8	
Equity Shares-Final (F.Y 2005-06)		**0.5**		1,023.0	
Equity Shares-Interim - Paid		**1,299.6**		—	
Corporate Dividend Tax		**182.5**	**1,483.4**	143.6	1,167.4
Transfer to General Reserve		**2,000.0**		2,000.0	
Transfer to Capital Redemption Reserve on Redemption of Preference Capital		**0.2**		0.1	
Transfer to Debenture Redemption Reserve on Redemption of Debentures		—	**2,000.2**	136.7	2,136.8
BALANCE OF PROFIT CARRIED TO BALANCE SHEET			**11,251.3**		6,892.7
EARNING PER SHARE (Refer Note B.8(ii) of Schedule 20)					
Basic (Rs.)			**41.7**		30.9
Diluted (Rs.)			**38.9**		27.7
Face value per Equity share - Rs. 5					
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	**20**				

Schedules referred to herein form an integral part of the Financial Statements

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, 27th June, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 27th June, 2007

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

		Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million
A.	**Cash Flow From Operating Activities:**		
	Net Profit Before Tax	**8,334.7**	5,969.0
	Adjustments for:		
	Depreciation & amortisation	**813.3**	610.2
	Preliminary Expenses	**4.7**	—
	Interest Expense	**126.8**	155.5
	Interest Income	**(1,199.2)**	(1,025.0)
	Income From Investment – Dividend	**(13.8)**	—
	(Profit)/Loss On Fixed Assets Sold (Net)	**(176.8)**	0.1
	(Profit)/Loss on sale of Investments	**(563.6)**	(454.1)
	Bad debts Witten off / Back	**31.3**	21.6
	Liability No Longer Required Written Back	**(1.4)**	5.1
	Provision For Earned Leave	**12.3**	17.1
	Unrealised Foreign Exchange (Gain) / Loss	**(448.9)**	(91.8)
	Other Provisions	—	1.2
	Lease Terminal Adjustment	—	(0.1)
	Minority Interest	**(32.1)**	5.1
	Operating Profit Before Working Capital Changes	**6,887.3**	5,213.9
	(Increase)/Decrease in Sundry Debtors	**(3,260.0)**	(1,167.4)
	(Increase)/Decrease in Other Receivables	**160.9**	(670.6)
	(Increase)/Decrease in Inventories	**(1,527.3)**	(1,944.5)
	Increase/(Decrease) in Trade and Other Payables	**459.5**	605.5
	Cash Generated From Operations	**2,720.4**	2,036.9
	Taxes (Paid) / Received (Net of TDS and Refund)	**(421.1)**	(164.5)
	Net Cash generated From Operating Activities	**2,299.3**	1,872.4
B.	**Cash Flow From Investing Activities:**		
	Capital Contribution by Minority Share holders	**2.2**	2.7
	Purchase of Fixed Assets/ Capital Work in Progress	**(2,365.0)**	(3,406.2)
	Proceeds From Sale of Fixed Assets	**365.2**	19.7
	Proceeds From Sale of Investments	**20,780.9**	22,552.6
	Purchase of Investments	**(19,219.0)**	(19,041.2)
	Loans/Inter Corporate Deposits (Given)/received back (Net)	**298.2**	(250.6)
	Interest Received (Revenue)	**960.2**	881.4
	Dividend Received	**13.8**	—
	Net Cash generated From Investing Activities	**836.5**	758.4
C.	**Cash Flow From Financing Activities:**		
	Repayment of ECB Loan	**(907.9)**	(0.0)
	Redemption of Zero Coupon Debenture	—	(136.7)
	Deferred Sales Tax Loan	—	(2.4)
	Redemption of Preference Share Capital	**(0.2)**	—
	Long Term Loan Taken (Repaid)	**(5.1)**	4.8
	Short Term Loan Taken (Repaid)	**(3.7)**	4.4
	Interest Paid	**(126.8)**	(155.5)
	Repayment / Borrowing from bank	**(795.5)**	932.4
	Dividend Paid	**(2,302.6)**	(695.3)
	Dividend Tax Paid	**(326.1)**	(97.7)
	Net Cash Used In Financing Activities	**(4,467.9)**	(146.0)
	Net Increase/(Decrease) In Cash and Cash Equivalents	**(1,332.1)**	2,484.8
	Cash and Cash Equivalents (Opening)	**15,324.4**	11,808.9
	Cash and Cash Equivalents Acquired on Acquisition	—	57.6
	Consolidation Adjustment	**(190.2)**	973.1
	Cash and Cash Equivalents (Closing)	**13,802.1**	15,324.4
	Cash and Cash Equivalents Comprise:		

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

	Year ended 31st March, 2007 Rs. in Million	Year ended 31st March, 2006 Rs. in Million
Cash and Cheques in hand and balances with		
Scheduled / Other banks	**13,860.1**	15,345.2
Unrealised exchange Loss	**(58.0)**	(20.8)
Cash & Cash equivalents at the end of the year	**13,802.1**	15,324.4

Notes:

1. Cash & Cash equivalents included in cash flow statement comprises of the following

Cash on hand and balances with bank (Refer Schedule 10)	**13,802.1**	15,324.4
Less		
Temporary Overdrawn bank balance as per books (Refer Schedule 13)	**1.2**	—
Cash & Cash equivalents as restated	**13,800.9**	15,324.4

2. Previous year's cash flow statement excludes assets (other than cash and cash equivalents) / acquisition of Alkodia Chemical Group Ltd. (Formerly ICN Hungary INC.) and Universal Enterprises (P) Ltd.

3. Cash and cash equivalents includes Rs. 29.0 Million (Previous Year Rs. 7.3 Million), which are not available for use by the Company (Refer Schedule 10 in the accounts).

4. Previous years' figures are regrouped / reclassified wherever necessary in order to confirm to current years' groupings and classifications.

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, 27th June, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Borad

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 27th June, 2007

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007 Rs in Million	As at 31st March, 2007 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million
SCHEDULE 1 : SHARE CAPITAL				
Authorised				
254,700,000 (Previous Year 307,900,000) Equity Shares ' of Rs. 5 each (Refer Note B.13a of Schedule 20)		**1,273.5**		1,539.5
25,000,000 (Previous Year 25,000,000) Preference Shares of Re. 1 each.		**25.0**		25.0
2,015,000 (Previous Year 2,015,000) Preference Shares of Rs. 100 each.		**201.5**		201.5
		1,500.0		1,766.0
Issued, Subscribed and Paid Up				
193,402,120 (Previous Year 185,731,637) equity Shares of Rs 5 each		**967.0**		928.7
13,740,030 (Previous Year 13,983,534) 6% Cumulative Redeemable Preference Shares of Re.1 each		**13.7**		14.0
		980.7		942.7

Notes:
Of the above :

1) 161,630,010 Equity shares were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account, Amalgamation Reserve and Capital Redemption Reserve Account.

2) 413,633; 208,000; 477,581; 11,438; 18,519 and 19,771 Equity Shares of Rs.10 and 4274 Euqity Shares of Rs. 5 each fully paid, were allotted to the shareholders of erstwhile Tamilnadu Dadha Pharmaceuticals Ltd, Milmet Laboratories Pvt. Ltd, Gujarat Lyka Organics Ltd, Sun Pharmaceutical Exports Ltd, Pradeep Drug Company Ltd, M.J.Pharmaceuticals Ltd and Phlox Pharmaceuticals Limited. respectively, pursuant to Schemes of Amalgamations, without payment being received in cash.

3) 6% Cumulative Redeemable Preference Shares of Re.1 each are redeemable at par at any time at the option of shareholder. 187,177,232 6% Cumulative Redeemable Preference Shares of Re.1 each were allotted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve. Out of this, 243,804 (Previous Year 46,896) Preference shares were redeemed at par

4) 7,886,490 (Previous Year 216,007) Equity Shares of Rs. 5 each were allotted to the holders of Zero Coupon Foreign Currency Convertible Bond on exercise of conversion option. (Refer No B.14 of Schedule 20)

	2007 Rs in Million	2007 Rs in Million	2006 Rs in Million	2006 Rs in Million
SCHEDULE 2 : RESERVES AND SURPLUS				
Capital Reserve				
As per last Balance Sheet	**259.1**		267.2	
Amalgamation Adjustment	—		(8.2)	
Transferred from Share Capital Suspense (Refer Note B.10 of Schedule 20)	—	**259.1**	0.1	259.1
Securities Premium				
As per last Balance Sheet	**156.5**		—	
Received during the year	**5,555.8**		156.5	
	5,712.3		156.5	
Less : Adjustment on account of Demerger (Refer Note B.13 a of Schedule 20)	**546.4**	**5,165.9**	—	156.5
Capital Redemption Reserve				
As per last Balance Sheet	**140.6**		140.5	
Add : Transferred from Profit and Loss Account	**0.2**	**140.8**	0.1	140.6
Debenture Redemption Reserve				
As per last Balance Sheet	—		—	
Add : Transferred from Profit and Loss Account	—		136.7	
	—		136.7	
Less: Transferred to General Reserve	—	—	136.7	

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
General Reserve				
As per last Balance Sheet	7,528.7		5,557.5	
Add : Transferred from Profit and Loss Account	2,000.0		2,000.0	
Transferred from Debenture Redemption Reserve	—		136.7	
	9,528.7		7,694.2	
Less: Adjustment on account of transitional provision on employee benefit (Refer Note B.12)	7.3		—	
Add: Share of Minority in Fresh Capital introduced by Subsidary earlier written off in our reserve now reversed	2.2		2.7	
Add/ (Less): Share of Current Profit/(Loss) of Minority in Foreign Subsidiaries (Refer Note B.7 of Schedule 20)	420.7	9,944.3	(168.2)	7,528.7
Currency Fluctuation Reserve on Consolidation				
As per last Balance Sheet	(18.7)		(63.9)	
Additions during the Year	4.5	(14.2)	45.2	(18.7)
Surplus as per Profit and Loss Account		11,251.3		6,892.7
		26,747.2		14,958.9
SCHEDULE 3 : SECURED LOANS				
Short Term Loan from Banks (Refer Note B.6 of Schedule 20)		395.4		357.9
		395.4		357.9
SCHEDULE 4 : UNSECURED LOANS				
Long Term				
External Commercial Borrowing in foreign currency from Banks *	900.2		1,808.1	
Zero Coupon Foreign Currency Convertible Bonds (Refer note B.14 of Schedule 20)	9,577.4		15,467.8	
Other Loans	2.6	10,480.2	7.7	17,283.6
Short Term				
From Banks	264.4		1,097.4	
Others	4.3	268.7	8.0	1,105.4
		10,748.9		18,389.0

* includes repayable within one year Rs. Nil (Previous Year 907.9 Million)

	As at 31st March, 2007	As at 31st March, 2006
SCHEDULE 5: DEFERRED TAX LIABILITY (NET)		
Deferred Tax Assets		
Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act, 1961.	29.3	17.9
Others	263.7	69.0
	293.0	86.9
Deferred Tax Liability		
Depreciation on Fixed Assets	1,188.1	1,139.6
	895.1	1,052.7

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 6 : FIXED ASSETS **Rs in Million**

Particulars	Gross Block (At Cost)							Depreciation / Amortisation							Net Block	
	As At 01.04.06	Consolidation Adjustment	Additions on Acquistion/ Amalgamation	Adjustment on Account of Demerger	Additions 06-07	Deletions 06-07	**As at 31.03.07**	As at 01.04.06	Consolidation Adjustment	Additions on Acquistion/ Amalgamation	Adjustment on Account of Demerger	For the year 06-07	Deletion / Adjustment 06-07	**As at 31.03.07**	**As at 31.03.07**	As at 31.03.06
I. TANGIBLE ASSETS																
Freehold Land	55.3	3.1	—	—	34.8	—	93.2	—	—	—	—	—	—	—	93.2	55.3
Leasehold Land	35.0	—	—	—	—	—	35.0	5.3	—	—	—	0.4	—	5.7	29.3	29.7
Buildings	3,618.5	170.2	—	157.9	535.7	54.0	4,112.5	651.1	54.6	—	7.4	100.8	0.9	798.2	3,314.3	2,967.4
Plant and Machinery	7,516.8	125.0	—	177.4	1,506.9	158.8	8,812.5	2,712.3	141.6	—	31.0	618.7	25.5	3,416.1	5,396.4	4,804.5
Vehicles	125.3	1.9	—	4.7	13.9	6.7	129.7	45.2	3.0	—	1.4	13.7	4.7	55.8	73.9	80.1
Furniture and Fixtures	277.2	4.6	—	0.9	55.8	—	336.7	99.6	9.4	—	0.4	22.4	—	131.0	205.7	177.6
Sub-Total I	11,628.1	304.8	—	340.9	2,147.1	219.5	13,519.6	3,513.5	208.6	—	40.2	756.0	31.1	4,406.8	9,112.8	8,114.6
I. INTANGIBLE ASSETS																
Trademarks, Designs and other Intangible Assets	713.7	17.8	—	—	0.7	—	732.2	265.5	7.9	—	—	57.3	—	330.7	401.5	448.2
Sub-Total II	713.7	17.8	—	—	0.7	—	732.2	265.5	7.9	—	—	57.3	—	330.7	401.5	448.2
TOTAL I + II	**12,341.8**	**322.6**	—	**340.9**	**2,147.8**	**219.5**	**14,251.8**	**3,779.0**	**216.5**	—	**40.2**	**813.3**	**31.1**	**4,737.5**	**9,514.3**	
Previous Year	7806.3	16.5	1954.9	—	2646.2	82.1	12341.8	2087.0	11.2	1132.9	—	610.2	62.3	3779.0		8,562.8
Capital Work-in-Progress (including advances on capital account)															**607.6**	414.4
															10121.9	8,977.2

NOTES :

1. Buildings include Rs.1020 (Previous Year Rs 1020) towards cost of shares in a Co-operative Housing Society
2. Capital work-in-progress (including advances on Capital Account) includes Rs. 15.3 Million (Previous Year Rs 16.5 Million) on account of preoperative expenses.

SCHEDULE 7 : INVESTMENTS

(I) LONG TERM INVESTMENTS (At Cost)

A) Government Securities		
National Savings Certificates Rs. 70,000 (Previous Year Rs. 70,000) (Deposited with Government Authorities)	**0.1**	0.1
B) Trade Investments		
Unquoted		
In Equity Shares		
Enviro Infrastructure Co. Ltd. 100,000 (Previous Year Rs.100,000) Shares of Rs. 10/- each fully paid up.	**1.0**	1.0
C) Other Investments		
a) In Bonds		
Quoted		
US64 Bonds 399,734 (Previous Year 399,734) units of Rs 100 each Market Value Rs. 39.9 Million(Previous Year Rs 40.6 Million)	**42.2**	42.2
7.75% ABN Amro Bank NV HUF Bonds Face Value Nil (Previous Year 111 Million HUF) (Market Value Previous Year Rs. 22.3 Miilion)	—	25.4
9.75% Dexia Municipal Agency Euro Medium HUF Bonds-Term Notes Face Value Nil (Previous Year 1,128 Million HUF) (Market Value Previous year Rs. 229.0 Million)	—	259.9
9.50% Genelec Electric Capital Corp EMTN HUF Bonds Face Value Nil (Previous Year 1203 Milion HUF) (Market Value Previous Year Rs. 186.4 Million)	—	213.0
9.00% Rabobank Nederland NV Euro Medium- Term Notes Face Value Nil (Previous Year 1625 Million HUF) (Market Value Previous Rs.311.0 Millon)	—	355.0

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

		As at 31st March, 2007		As at 31st March, 2006	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
	Unquoted				
	National Housing Bank Bonds 5,315 (Previous Year 5,315) Units of Rs.10,000 each fully paid		**53.2**		53.2
	Rural Electrification Corporation Ltd. Bonds 1,515 (Previous Year 1,015) Units of Rs.10,000 each fully paid		**15.2**		10.1
b)	**In Equity Shares** **Unquoted**				
	Tivabusz Kft (Business Shares of 9,450,000 HUF)		**0.7**	1.1	
	Reanal Rt. (3,441 Shares (Previous Year 3,441 Shares) of Face Value 10000 HUF)		**189.6**		158.0
	Ramin Developers Pvt. Ltd. - 200 (Previous Year 200) Shares of Rs. 100 each fully paid (pending registration)		**2.1**		2.1
	Quoted				
	Impax Laboratories Inc. 2,868,623 Shares (Previous Year 162,200 Shares) Market Value Rs. 1,263.6 Million(Previous Year Rs 72.3 Million)		**1,058.8**		69.8
	Andrax Corporation Nil- (Previous Year – 1,549,033 Shares)(Market Value Previous Year Rs. 1,641.6 Miilion)		**—**		1,100.3
D)	**In Mutual Fund (Units of Face Value of Rs. 10/- Each)** **Unquoted**				
	ING Vysya Mutual Fund "ING Vysya Fixed Maturity Fund Series - II" Growth Option Nil (Previous Year 10,000,000) Units		**—**		100.0
	SBI Mutual Fund "Magnum Debt Fund Series 15 Month Fund" - Growth Option Nil (Previous Year 10,000,000) Units		**—**		100.0
	ABN Amro Asset Management – ABN Amro Fixed Term Plan – Series 1 - Regular- Growth Plan 5,000,000 (Previous Year 5,000,000) Units		**50.0**		50.0
	Principal Mutual Fund "Principal Pnb Fixed Maturity Plan- 460 Dys-Series I Growth Plan-Feb-06 40,000,000 (Previous Year 40,000,000) Units		**400.0**		400.0
	Standard Chartered Mutual Fund "G134 GFMP-20th Plan "-Growth 50,000,000 (Previous Year 50,000,000) Units		**500.0**		500.0
	Lotus Mutual Fund- Z411G FMP-16 Month-Series I-Ins-Growth 50,000,000 (Previous Year Nil) Units		**50.0**		—
	Total (I)		**2,362.9**		3,441.2
(II)	**CURRENT INVESTMENTS (At lower of cost and Net realisable value)** **Unquoted** **In Mutual Fund (Units of Face Value of Rs. 10/- Each)**				
	Principal Mutual Fund "Principal Cash Management Fund Growth" Nil (Previous Year 9,183,495) Units		**—**		100.0
	Principal Mutual Fund "Principal Cash Mannagement Fund - Liquid Opt Inst.Prem Plan-Growth" 8,561,204 (Previous Year Nil) Units		**100.0**		—
	Lotus Mutual Fund- Z212G Liquid Fund-Ins Plus Growth 7,780,057 (Previous Year Nil) Units		**80.0**		—
	Total (II)		**180.0**		100.0
	Total (I) + (II)		**2,542.9**		3,541.2

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
AGGREGATE VALUE OF INVESTMENT	**BOOK VALUE**	**MARKET VALUE**	BOOK VALUE	MARKET VALUE
Quoted	**1,101.0**	**1,303.5**	2,065.6	2,503.2
Unquoted	**1,441.9**		1,475.6	
SCHEDULE 8 : INVENTORIES				
Consumables Stores		**150.8**		72.1
Stock in Trade				
Raw Materials	**2,401.3**		2,251.2	
Packing Materials	**258.2**		196.6	
Finished Goods	**1,463.2**		1,018.7	
Work-in-Progress	**2,371.2**	**6,493.9**	1,578.8	5,045.3
		6,644.7		5,117.4
SCHEDULE 9 : SUNDRY DEBTORS				
(Unsecured-Considered Good, unless stated otherwise)				
Over Six Months				
Considered Good		**423.1**		392.3
Considered Doubtful	**65.3**		34.9	
Less: Provison for Doubtful Debts	**65.3**	**0.0**	34.9	—
Other Debts		**6,365.7**		3,216.6
		6,788.8		3,608.9
SCHEDULE 10 : CASH AND BANK BALANCES				
Cash / Cheques on hand		**4.4**		4.7
Balances with Banks				
Schedule Banks				
Current Accounts	**1,813.0**		623.4	
Deposit Accounts	**9,726.0**		9,670.8	
Unpaid Dividend Accounts	**29.0**	**11,568.0**	7.3	10,301.5
Other Banks				
Current Accounts	**49.2**		193.6	
Deposit Accounts	**2,180.5**	**2,229.7**	4,824.6	5,018.2
		13,802.1		15,324.4
SCHEDULE 11 : OTHER CURRENT ASSETS				
Interest accrued on - Investment		**120.2**		14.7
- Bank Deposit		**268.6**		219.4
		388.8		234.1
SCHEDULE 12 : LOANS AND ADVANCES				
(Unsecured – Considered Good, unless stated otherwise)				
Loan to Employees / Others		**94.1**		261.1
Advances Recoverable in Cash or in Kind or for Value to be received				
Considered Good		**255.8**		563.5
Considered Doubtful	**9.5**		9.5	
Less : Provision for Doubtful Advances	**9.5**	—	9.5	—
Advances to Suppliers		**569.1**		394.1
Balances with Central Excise and Customs		**530.0**		412.4
DEPB and Advance Licence		**141.8**		225.5
Other Deposits		**93.2**		176.1
Advance Payment of Income Tax (Net of Provision)		**580.1**		204.5
		2,264.1		2,237.2

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2007		As at 31st March, 2006	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 13 : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors				
Due to Small Scale Industrial Undertakings	—		—	
Others	967.6		1,110.1	
Advances from Customers	91.4		36.4	
Security Deposits	44.3		18.3	
Investor Education and Protection Fund shall be credited by				
Unclaimed Dividend	29.5		7.4	
Temporary overdrawn bank balance as per books	1.2		—	
Other Liabilities	1,810.7		1,073.6	
Interest accrued but not due on Loans	20.8	2,965.5	33.1	2,278.9
Provisions				
Provision for Fringe Benefit Tax (Net of Advance Tax Rs. 9.8 Million)	0.8		—	
Proposed Dividend - Equity Shares	—		1,023.0	
- Preference Shares	—		0.8	
	0.8		1,023.8	
Corporate Dividend Tax	—		143.6	
Provision for Earned Leave	79.2	80.0	68.2	1,235.6
		3,045.5		3,514.5

	Year ended 31st March, 2007		Year ended 31st March, 2006	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 14 : OTHER INCOME				
Lease Rental and Hire Charges	6.0		12.0	
Add: Lease Equalisation Adjustment	—	6.0	0.1	12.1
Interest from Banks & Other Advances / Deposits (Refer Note B.4 of Schedule 20)		1,072.1		868.9
Profit on Sale of Fixed Assets (Net)		177.9		0.7
Profit on Sale of Current Investments		563.6		454.1
Insurance Claims		21.5		4.0
Dividend Income		13.8		—
Miscellaneous Income		569.6		344.3
		2,424.5		1,684.1
SCHEDULE 15 : COST OF MATERIALS / GOODS				
Inventories - Raw & Packing Material at the beginning of the year		2,447.8		1,347.3
Purchases during the year - Raw and Packing Material	6,531.6		6,273.7	
Finished Goods	579.3		515.7	
Inventories - Raw & Packing at the end of the year	(2,649.9)	6,908.8	(2,447.8)	5,688.9
Inventories of Finished Goods and WIP at the beginning of the year	2,597.5		1,790.5	
Inventories of Finished Goods and WIP at the end of the year	(3,739.1)		(2,597.5)	
(Increase) / Decrease of Finished Goods and Work -in- progress		(1,141.6)		(807.0)
		5,767.2		4,881.9
SCHEDULE 16 : INDIRECT TAXES				
Sales Tax		528.4		415.6
Turnover Tax		—		0.5
Purchase Tax		—		7.4
		528.4		423.5
SCHEDULE 17 : PERSONNEL COST				
Salaries, Wages, Bonus and Benefits		1,612.0		1,167.6
Contribution to Provident and Other Funds		242.4		92.3
Staff Welfare Expenses		134.7		156.0
		1,989.1		1,415.9

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2007		Year ended 31st March, 2006	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 18 : OPERATING AND OTHER EXPENSES				
Stores and Spares Consumed		267.6		155.4
Manufacturing Charges		294.8		321.6
Power and Fuel		505.2		454.1
Rent		81.4		40.4
Rates and Taxes		35.9		27.7
Insurance		157.3		106.4
Selling and Distribution		866.8		750.1
Commission and Discount		231.7		182.3
Repairs				
Building	41.2		33.2	
Plant and Machinery	188.8		170.3	
Others	84.1	314.1	69.5	273.0
Printing and Stationery		41.7		38.2
Travelling and Conveyance		99.9		62.5
Overseas Travel and Export Promotion		479.0		332.7
Communication		51.7		42.2
Provision for doubtful Debts / Advances		29.8		5.1
Sundry Balances/Bad Debts Written Off (Net)	1.0		27.8	
Less :- Adjusted out of Provision for earlier years.	—	1.0	6.0	21.8
Professional and Consultancy		92.7		80.0
Donations		2.8		3.9
Loss on Sale of Fixed Assets		0.9		0.1
Loss on Fire		—		1.2
Auditors' Remuneration				
Audit Fees	15.5		17.6	
Other Services	0.1		0.1	
Out of Pocket Expenses (PreviousYear Rs.34,900)	0.1	15.7	—	17.7
Goodwill on Amalgamation written off		0.0		—
Miscellaneous expenses		302.6		301.7
		3,872.6		3,218.1
SCHEDULE 19 : RESEARCH AND DEVELOPMENT EXPENDITURE				
Salaries, Wages, Bonus and Benefits		496.6		272.4
Contribution to Provident and Other Funds		38.0		9.1
Staff Welfare Expenses		33.9		24.5
Raw Material, Stores and Spares Consumed		671.1		343.2
Power and Fuel		51.7		13.9
Rates and Taxes		17.0		2.9
Insurance		36.5		4.0
Repairs				
Building		14.2		9.2
Plant and Machinery		46.0		43.0
Others		41.3		11.7
Printing and Stationery		11.9		5.4
Travelling and Conveyance		21.7		12.2
Communication		15.5		8.1
Professional and Consultancy		681.2		423.4
Loss on Sale of Fixed Assets		0.2		0.7
Miscellaneous expenses		264.4		352.3
		2,441.2		1,536.0
Less				
Interest Income	0.3		0.5	
Misc. Income	0.2		0.2	
Bad Debts Recovered / Sundry balances written Back	0.9		0.2	
Insurance Claim Received	—		1.3	
Rent income	0.1	1.5	0.1	2.3
		2,439.7		1,533.7

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

SCHEDULE 20: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

A Significant Accounting Policies:

1. Basis of Consolidation:

(i) Basis of preparation:

The consolidated financial statements are prepared in accordance with Accounting Standard 21 on Consolidated financial statements issued by the Institute of Chartered Accountants of India. Reference in these notes to Company, Holding Company, Companies or Group shall mean to include Sun Pharmaceutical Industries Limited or any of its subsidiaries, unless otherwise stated.

(ii) Principles of consolidation:

The consolidated financial statements comprise of the financial statements of Sun Pharmaceutical Industries Limited and its subsidiaries .The financial statements of the group companies are prepared according to uniform accounting policies, in accordance with accounting principles generally accepted in India. The effects of inter company transactions are eliminated on consolidation.

(iii) Goodwill / Capital Reserve

Goodwill represents the difference between the company's share in the net worth of subsidiaries, and the cost of acquisition at each point of time of making the investment in the subsidiaries. For this purpose, the company's share of net worth is determined on the basis of the latest financial statements prior to the acquisition after making necessary adjustments for material events between the date of such financial statements and the date of respective acquisition. Capital Reserve on consolidation is adjusted against Goodwill. The Goodwill recorded in these consolidated financial statements has not been amortised, but instead evaluated for impairment whenever events or changes in circumstances indicate that its carrying amount may be impaired.

2. Basis of Accounting

The financial statements have been prepared under historical cost convention on an accrual basis.

3. Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the year. Difference between the actual result and estimates are recognised in the year in which the results are known / materialised.

4. Fixed Assets and Depreciation / Amortization

Fixed Assets including Intangible assets are stated at historical cost (Net of cenvat credit) less accumulated depreciation / amortization thereon and impairment losses, if any. Depreciation on tangible assets is provided on Straight Line Method at the rates specified in Schedule XIV to the Companies Act,1956 except for: a) at CARACO, depreciation is computed using the Straight Line Method over the estimated useful life of the related assets, which ranges from 3 to 40 years b) at Alkodia Chemical Company Exclusive Group Limited (Formely know as ICN Hungary Inc.), depreciation is computed using Straight Line Method over the estimated useful life of the related assets, which ranges from 50 to 100 years in respect of real assets and 3 to 10 years in respect of other assets c) at Sun Farmaceutica Ltda Brazil, depreciation is computed using Straight Line Method over useful life of the related assets,which ranges from 5 to 10 years. Intangible assets consisting of trademarks, designs, technical know-how, non compete fees and other intangible assets are amortized on Straight Line Method from the date they are available for use, over the useful life of the assets (5/10/20 years), as estimated by the Management. leasehold land is amortized over the period of lease.

5. Leases

Assets acquired on finance lease prior to April 1, 2001, are stated at original cost. In consonance with the matching concept, lease terminal adjustment and lease equilisation accounts have been created for the assets given on lease, where ever required.

In case of assets taken on operating lease , the lease rentals are charged to the Profit And Loss Account in accordance with Accounting Standard 19 on leases issued by the Institute of Chartered Accountants of India.

6. Revenue Recognition

Sales of products are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on dispatch of goods. Export sales are recognised on the basis of Bill of Lading / Airway Bill. Sales includes sales tax, interest on delayed payments and are stated net of returns and chargebacks at CARACO. (Chargebacks are price adjustments given to wholesale customers selling products further to those parties with whom the Company has established contractual pricing).

7. Investments

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and fair value. Long Term Investments are stated at cost less provision, if any, for other than temporary diminution in their value

8. Inventories

Inventories consisting of raw and packing materials, stores and spares, work in progress and finished goods are stated at lower of cost (absorption costing) and net realisable value, on a FIFO / specific identification method.

9. Research and Development

All revenue expenditure related to Research and Development are charged to the respective heads in the Profit and Loss Account.

10. Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of transaction. Monetary items denominated in foreign currency at the year end are translated at year end rates. In respect of monetary items which are covered by forward exchange contracts, the difference between the year end rate and the rate on the date of the contract is recognised as exchange difference and the premium on such forward contracts is recognised over the life of the forward contract. The exchange differences arising on settlement / translation are recognised in the revenue accounts, except those pertaining to the fixed assets acquired from outside India, which are adjusted to the cost of such fixed assets. Exchange differences relating to monetary items that are in substance forming part of the Company's net investment in non integral foreign operation are accumulated in Currency Fluctuation Reserve on Consolidation Account.

For the purpose of Consolidation, the amounts appearing in foreign currencies in the Financial Statements of the foreign subsidiaries are translated at the following rates of exchange:

a. Average rates for income and expenditure.

b. Year end rates for assets and liabilities.

11. Taxes on Income

Provision for taxation comprises of Current Tax, Deferred Tax and Fringe Benefit Tax. Current tax is determined as the tax payable in respect of taxable income for the year and is computed in accordance with relevant tax regulations. Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been substantively enacted at the Balance Sheet date. The Fringe Benefit Tax has been calculated and accounted for in accordance with the provisions of the Income tax Act, 1961 and the guidance note on Accounting for Fringe Benefits Tax issued by the Institute of Chartered Accountants of India.

12. Terminal Benefits

(a) The Company's contribution in respect of provident fund / social security funds is charged to Profit and Loss Account each year.

(b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy is charged to Profit and Loss Account each year. The contribution for group gratuity policy is based on values as actuarially determined and demanded by the LIC at the year end.

(c) Liability for accumulated earned leave of employees is ascertained on actuarial valuation basis and provided for as per Company Rules.

13. Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

14. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation can not be made . Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

15. Impairment of Assets

The Company assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the Profit and Loss Account. If at the Balance Sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

16. Common/Convertible Preferred Stock Issued

Common/Convertible Preferred Stock is issued by CARACO from time to time in lieu of cash for directors fees and in exchange for fees towards formula for products developed by Parents & its affiliates and is recorded as compensatory expenses/research and development costs respectively.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

B Notes to Finanical Statements:

1. The Consolidated Financial Statements present the consolidated accounts of Sun Pharmaceutical Industries Ltd with its following subsidiaries/affiliates.

Name of Affiliates	Country of Incorporation	Proportion of ownership interest	Year ending of subsidiary/affiliates	Audited By
Indian Affiliate				
Universal Enterprises (P) Ltd.	India	97.50%	3/31/2007	N. Marda & Associates
Indian Subsidiary				
Sun Pharma Advanced Research Company Limited*	India	100.00%	3/31/2007	Deloitte Haskins & Sells
Foreign Subsidiaries				
Sun Pharma Global Inc.	British Virgin Islands	100.00%	3/31/2007	Muscat Auditing Bureau
ZAO Sun Pharma Industries Limited	Russia	100.00%	12/31/2006	Best Audit
Sun Pharmaceutical (Bangladesh) Limited	Bangladesh	72.50%	3/31/2007	Rahman Rahman Huq
Caraco Pharmaceutical Laboratories Ltd (CARACO)	United States of America	65.83%	3/31/2007	Rehmann Robson
Sun Farmaceutica Ltda Brazil	Brazil	99.57%	3/31/2007	Peppe Associados Consultores & auditores independentes
Sun Pharma De Mexico S.A. DE C.V.	Mexico	75.00%	12/31/2006	Barrutia Franco Y Asociados S. C.
Sun Pharmaceutical Industries INC.	United States of America	100.00%	3/31/2007	Martin, Arrington, Desai & Meyers, P.C.
SPIL De Mexico S.A. DE C.V.	Mexico	100.00%	12/31/2006	Barrutia Franco Y Asociados S. C.
Alkodia Chemical Company Exclusive Group Ltd (Formerly ICN Hungary INC.)	Hungary	100.00%	3/31/2007	PV Auditor Ltd.
Sun Pharmaceutical Peru S.A.C.	Peru	99.33%	12/31/2006	C.P.C. Margarita Vera Pelaez
Sun Pharmaceutical UK Limited	United Kingdom	100.00%	3/31/2007	Anderson Shaw CCA
Name of Partnership Firm				
Sun Pharmaceutical Industries	India	97.50%	3/31/2007	Deloitte Haskins & Sells
Sun Pharma Exports	India	80.00%	3/31/2007	H.C. Timbadia & Co.

Sun Pharma De Mexico S.A. DA C.V., SPIL De Mexico S.A. DE C.V ,ZAO Sun Pharma Industries Limited and Sun Pharmaceutical Peru S.A.C. follow calendar year as their accounting year. Accordingly, the audited financial statements of these Companies for the year ended December 31, 2006 are available. For the purpose of this consolidation, the accounts for the financial year April 1, 2006 to March 31, 2007 (except for Zao Sun Pharma Industries Limited whose accounts for the year ended March 31,2007 for which audited financial statements are available as at March 31,2007) are considered and are compiled based on the audited financial statements for the year ended December 31, 2006 and the adjustment thereto in respect of the unaudited financial statements for the quarter ended March 31, 2006 and March 31, 2007 which are certified by its Management.

*upto 28/02/2007

The erstwhile Subsidary " Sun Pharma Advanced Research Company Limited " has been demerged with effect from 28th February, 2007 pursuant to the scheme of demerger sanctioned by the Hon'ble High Court of Gujarat, Accordingly, the profit/loss for the period April' 06 to February' 07 has been included in consolidated profit & loss account and the investment of Rs 0.5 Million in the share capital of SPARC Ltd. stand cancelled and adjusted to profit & loss accounts.

The holding in CARACO as on March 31, 2007 has increased to 65.83% and accordingly the minority interest was considered at 34.17% for the purpose of these financial statements.

The Company is in the process for Liquidation of ZAO Sun Pharma Industries Limited and has appointed Official Liquidator as per the terms of Resolution passed at the General Meeting of the Subsidiary held on October 29, 2002.

Significant Accounting Policies and Notes to these Consolidated Financial Statements are intended to serve as a means of informative disclosure and a guide for better understanding of the consolidated position of the Companies. Recognising this purpose, the Company has disclosed only such policies and notes from the individual financial statements which fairly represent the needed disclosures. Lack of homogeneity and other similar considerations made it desirable to exclude some of them, which in the opinion of the management, could be better viewed when referred from the individual financial statements.

2. **CONTINGENT LIABILITIES NOT PROVIDED FOR:**

	As at 31st March, 2007 (Rs. In Million)	As at 31st March, 2006 (Rs. In Million)
Guarantees given by the Bankers on behalf of the Company.	**329.3**	114.7
Letters of Credit for Imports	**232.8**	328.5
Liabilities Disputed - Appeals filed with respect to :		
Sales Tax	**41.0**	42.6
Excise Duty	**18.0**	8.7
Income Tax	**1038.0**	190.6
ESIC Contribution	**0.2**	0.2
Drug Price equilisation Account [DPEA] on account of demand towards unintended benefit, including interest there on, enjoyed by the Company	**14.0**	14.0
Demand by JDGFT import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme	**10.3**	9.4
Claims against the Company not acknowledged as debts	**4.5**	1.1
Estimated amount of contracts remaining to be executed on Capital Account (Net)	**287.2**	139.5

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

		As at 31st March, 2007 (Rs. In Million)	As at 31st March, 2006 (Rs. In Million)
3.	RESEARCH AND DEVELOPMENT EXPENDITURE INCLUDE:		
	On Revenue account	**2439.7**	1533.7
	On Capital account	**346.5**	480.5
4.	INTEREST INCOME ON LOANS / DEPOSITS Rs. 1072.4 (PREVIOUS YEAR 869.4) MILLIONS IS NET OF INTEREST EXPENSES AS UNDER :		
	Fixed Loans	**85.4**	98.6
	Others	**41.4**	57.0
		126.8	155.6
5.	Goodwill on consolidation (Net) comprises of:		
	Goodwill in respect of		
	Caraco Pharmaceutical Laboratories Ltd (CARACO)	**1,727.8**	1,537.6
	Universal Enterprises (P) Ltd.	**7.5**	7.5
	Total (A)	**1,735.3**	1,545.1
	Less:		
	Capital Reserve in respect of :		
	Alkodia Chermicals Company Exclusive Group Ltd. (Formerly ICN Hungary INC)	**1,038.2**	1,038.2
	Total (B)	**1,038.2**	1,038.2
	Total (A-B)	**697.1**	506.9

6. Short term loan from Banks taken by the company are secured by hypothecation of stocks and book debts and with respect to Sun Pharmaceuticals Industries INC, U.S.A and Sun Pharmaceutical (Bangladesh) Ltd. is secured against Corporate Guarantee by Sun Pharmaceutical Industries Ltd.

7 a. As regards consolidation of Accounts of CARACO:

(i) The current year's minority profit of Rs.416.8 Million (i.e. for the year April 1, 2006 to March 31, 2007), have been recouped from General Reserve and fresh capital received from Minority Shareholders of CARACO aggregating to Rs. 2.2 Million is credited to General Reserve as in the previous year, losses of Minority were absorbed by holding company.

(ii) With respect to routine litigation incidental to the business, Management believes that the ultimate disposition of these matters willl not have any material adverse effect on the financial statements.

7 b. The current years minority profit of Sun Pharma De Mexico amounting to Rs.3.9 Million (i.e. for the year April 1, 2006 to March 31,2007), have been recouped from General Reserve.as in the previous year losses of Minority were absorbed by holding company

8. Disclosure with respect to Accounting Standards issued by the Institute of Chartered Accountants of India

(i) Accounting Standard (AS-18) on Related Party Disclosure - as per Annexure 'A' annexed.

(ii) Accounting Standard (AS-20) on Earnings Per Share	Year ended 31st March, 2007 Rs in Million	Year ended 31st March, 2006 Rs in Million
Profit After Tax	**8401.5**	5729.7
Less : Dividend on Preference Shares	**0.8**	0.8
Less : Corporate Dividend Tax on Preference Shares	**0.1**	0.1
Less : Minority Interest	**558.8**	(2.8)
Profit used as Numerator for calculating Earnings per share	**7841.8**	5731.6
Weighted Average number of Shares used in computing basic earnings per share	**187,898,580**	185,514,583
Add: Potential number of equity shares that could arise on exercise of Options on Zero Coupon convertible Bonds- due 2009 -13714360 (Previous year 21384843)	**13,714,360**	21,384,843
Weighted Average number of Shares used in computing diluted earnings per share	**201,612,940**	206,899,426
Nominal value per share (In Rs.)	**5**	5
Basic Earnings Per Share (in Rs.)	**41.7**	30.9
Diluted Earnings Per Share (in Rs.)	**38.9**	27.7

9. Accounting Standard (AS-17) on Segment Reporting

a) Primary Segment
The Company has identified "Pharmaceuticals" as the only primary reportable business segment.

b) Secondary Segment (By Geographical Segment)

India	**12,686.3**	10,413.6
Outside India	**9,686.5**	6,957.9
Total Sales	**22,372.8**	17,371.5

In view of the interwoven / intermix nature of business and manufacturing facility, other segmental information is not ascertainable.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2007

10. Adjustment to Capital Reserve represents Rs. 8.2 Million paid by the Company in April-2005 for acquisition of Equity Shares of erstwhile Phlox Pharmaceuticals Limited which has amalgamated with the Company in earlier year and Rs. 0.1 Million being transferred from Share Capital Suspense Account as the relevant shares were not required to be issued by the company as they were cancelled off against the investment held by the Company in erstwhile Phlox Pharmaceuticals Limited pursuant to amalgamation with the Company.

11. Intangible assets consisting of trademarks, designs, technical knowhow, non compete fees and other intangible assets are stated at cost of acquisition based on their agreements and are available to the company in perpetuity. The depreciable amount of intangible assets is arrived at based on the managements best estimates of useful life of such assets after due consideration as regards their expected usage, the product life cycles, technical and technological obsolescence, market demand for products, competition and their expected future benefits to the company.

12. Pursuant to Accounting Standard (AS) 15 (Revised) - Employee Benefits, issued by the Institute of Chartered Accountants of India issued durng the year, provision for employee remuneration and benefits has been made in accordance with revised AS 15. Accordingly the difference between the recomputed liabilities as at 31st March, 2006 based upon the transitional provision of Accounting Standard 15 (revised) and the liabilities existing as on that date in the books of account, aggregating to Rs. 7.3 million (net of tax), has been adjusted against the opening balance of General Reserve.

13 a. Pursuant to the scheme of demerger as sanctioned by the Hon'ble High Court of Gujarat, with effect from 28th February, 2007, the appointed date, all the assets and liabilities of the Innovative Research & Development business including Novel Drug Delivery System (NDDS) division of company's Research & Development undertaking stands transferred to and vested in Sun Pharma Advanced Research Company Limited (SPARC Ltd).The scheme has been given effect to in these financial statements and accordingly, net assets of Rs. 546.4 million (comprising assets of Rs. 558.7 million and liabilities of Rs. 12.3 million) have been transferred to SPARC Ltd by adjusting the corresponding amount to Securities Premium Account.Similarly, the authorised capital has been reduced by Rs. 266.0 million and the investment of Rs. 0.5 million in the share capital of SPARC Ltd stands cancelled and adjusted to Profit & Loss Account.

13 b. The Company has identified "Pharmaceuticals" as the only Primary Reportable business Segment. The Research & Development activity of the Company are also a part of the "Pharmaceuticals" Segment. The Company had not earned any Revenue from the demerged Innovative Research & Development Activity which formed part of the overall Research & Development activities of the Company. Since the company has not identified Research & Development as a reportable segment, separate information in respect of the demerged Research & Development activity is not identifiable. Consequently the impact of the said revenue expenditure incurred on Innovative Research & Development activities on the Pre-Tax Profits and Income Tax expenses, which is not likely to be significant, could not be ascertained. The said Research & Development activity is considered as an operating activity in the cash flow statements till the date of demerger.

14. As per the terms of the issue, the holders of Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of a face value of US $ 1000 aggregating to US $ 350 Million have an option to convert FCCBs into Equity Share at an initial conversion rate of Rs. 729.30 per Equity share at a fixed exchange rate conversion of Rs. 45.01 = US $ 1 , from December 26, 2004 to November 16,2009. The conversion price will be subject to certain adjustment . Further, under certain conditions the company has an option for early redemption in whole but not in part, at any time on or after November 26,2007. Unless previously converted , redeemed or purchased and cancelled, the company will redeem these bonds at 125.6 per cent of the principal amount on November 26,2009. In view of likely conversion into Equity Shares, premium on redemption of FCCB has not been provided in this accounts.

As at the year end Rs. 5751.6 Million (Previous Year Rs. 157.5 Million) US$ 127.8 Million (Previous Year US$ 3.5 Million) worth of FCCB's were converted into 7,886,490 (Previous Year 216,007) equity share, upon conversion option execercised by the FCCB holders.

Subsequent to March 31, 2007 Zero Coupon Foreign Currency Convertible Bonds of USD 43.3 Million have been converted into 2,675,096 Equity Shares of Rs. 5 each and consequently the paid up Share Capital and the Securities Premium account as on date stands at Rs. 994.1 Million and Rs.7103.4 Million respectively.

15. Subsequent to the Balance Sheet date, on May 21, 2007, the Company announced signing an agreement to acquire "Taro Pharmacetical Industries Ltd.," (TARO), a multinational generic manufacturer with established subsidaries, manufacturing and marketing products across the Israel, Canada and U.S. for a consideration of US$ 454 Million. The acquistion is subject to TARO's shareholders approval and requisite regulatory clearances. The Company intends to fund this acquisition with proceeds from its US$ 350 Million FCCBs issued in 2004 and internal accruals.

16. As per the best estimate of the management , no provision is required to be made as per Accounting Standard (AS) 29 issued by the Institute of Chartered Accountants of India , in respect of any present obligation as a result of a part event that could lead to a probable outflow of resources , which would be required to settle the obligation.

17. Previous year's figures are restated / regrouped / rearranged wherever necessary in order to confirm to current year's groupings and classifications.

As per our Report of even date attached.

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, 27th June, 2007

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 27th June, 2007

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)

ANNEXURE 'A' TO NOTES TO FINANCIAL STATEMENTS

ACCOUNTING STANDARD (AS-18) "RELATED PARTY DISCLOSURE"

(Rs in Million)

Particulars	Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/Mar/07	31/Mar/06	**31/Mar/07**	31/Mar/06	**31/Mar/07**	31/Mar/06	**31/Mar/07**	31/Mar/06
Purchases of goods / DEPB	—	—	—	—	—	2.7	—	2.7
Sun Petrochemical Pvt. Ltd.	—	—	—	—	—	2.7	—	2.7
Sun Speciality Chemicals Pvt. Ltd.(Rs 16224)	—	—	—	—	—	—	—	—
Sale of goods / DEPB	—	—	—	—	**0.20**	—	**0.2**	—
Sun Petrochemical Pvt. Ltd.	—	—	—	—	0.2	—	**0.2**	—
Rendering of Service								
Services	—	—	—	—	**0.5**	0.4	**0.5**	0.4
Sun Petrochemical Pvt. Ltd.	—	—	—	—	0.5	0.4	**0.5**	0.4
Reimbursment of Expenses	—	—	—	—	—	0.1	—	0.1
Sun Petrochemical Pvt. Ltd.	—	—	—	—	—	0.1	—	0.1
Rent Income	—	—	—	—	—	0.2	—	0.2
Others	—	—	—	—	—	0.2	—	0.2
Director's Remuneration	**27.0**	20.1	—	—	—	—	**27.0**	20.1
Rent Paid	—	—	0.3	0.3	—	—	**0.3**	0.3
Outstanding receivables / Payables (Net)								
as on 31/03/2007	—	—	—	—	**245.2**	—	**245.2**	—
Sun Petrochemical Pvt. Ltd.	—	—	—	—	0.2	—	0.2	—
Sun Pharmaceutical Advanced Research Co. Ltd.	—	—	—	—	244.9	—	244.9	—
Sun Speciality Chemicals Pvt. Ltd. (Rs.16224)	—	—	—	0.0	—	—	—	—

Note :

Names of related parties and description of relationship

1.	Key Management Personnel	Mr. Dilip S. Shanghvi	
		Mr. Sudhir V. Valia	
		Mr. Sailesh T. Desai	
2.	Relatives of Key Management Personnel	Mrs. Vibha Shanghvi	Wife of Chairman
		Mrs. Kumud Shanghvi	Mother of Chairman
		Mrs. Meera Desai	Wife of Wholetime Director
		Mrs. Nirmala Desai	Mother of Wholetime Director
3.	Enterprise under significant Influence of Key Management Personnel or their relatives	Sun Petrochemical Pvt. Ltd.	
		Sun Pharmaceutical Advanced Research Company Ltd.	
		Sun Speciality Chemicals Pvt. Ltd.	
		Navjivan Rasayan (Gujarat) Pvt. Ltd.	

Financial Statments of the Subsidiaries*

ZAO SUN PHARMA INDUSTRIES LIMITED RUSSIA

MOSCOW , 117420, UL. PROFSOYUZNAYA, DOM 57 , OFFICE 722, TEL 334-28-77 ; FAX : 332-61-13

LETTER

Enclosed to the Balancesheet for Business Activity
Of ZAO " Sun Pharma Industries Limited " for the period of 2006.

During 2006, ZAO "Sun Pharma Industries Limited" did not perform any business activity.

On the current date, when the enclosed document for the period of 2006 is being composed , ZAO "Sun Pharma Industries Limited" is in the process of liquidation (See the Decision of Shareholders Meeting issued on 29.10.2002 in Mumbai ,India).

The Initial aspects , which have made an influence on the financial status of Company , are as follows:

During 2006 Company did not have Incomes and Expenditures

Subsequently, in accordance with the results of 2006, Balance Profit is equal to Zero.

At the end of 2006 Company has a debit liability equal to 12167 roubles from the side of Migration Service (a loan for a foreign Employee – 12024 roubles) and an overpaid tax equal to 143 roubles; besides , there is a credit liability equal to 85705 roubles , which is debt in respect of the State Budget.

Losses shown in the 3rd section of the Balance Sheet (93295 roubles) is the sum of losses for the previous years.

P. A. Sinarevsky
Liquidator

February 2, 2007

AUDITING COMPANY "BEST AUDIT"

Member of the Russian Union of Industrialists and Businessmen Member of the Moscow auditor Chamber

117420, Moscow, Profsoyuznaya str., 57 of. 725 E-mail: best-audit @best-audit.ru TIN 7727036330	License BT Russian Federation E 004394 (the general audit) phone/fax 332-03-82 ph. 334-42-49,334-43-19

No. 17-az dt.01, March 2007

To the Management ZAO
«Sun Pharma Industries Limited»

Auditing Conclusion on the book keeping balance
ZAO «Sun Pharma Industries Limited»
For the Year 2006

Information of the Auditor.

ZAO "Auditing Company "Best-Audit" (hereinafter referred to as the "Auditor") was registered with the Moscow Registration Chamber on 17.02.94. State Registration N325095. General Director - Egorov Mikhail Evgenievich (Qualified Attested Auditor № 008955). Address: Moscow, Ul.Profsoyuznaya, Dom 57, Office 725, Tel 334-43-19, Fax 332-03-51, INN 7727036330, EGRN №. 1027700591027.

Auditor has received the general licence of Ministry of RF № E 004394 dt.27.06.2003 (valid for 5 years).

The auditor is the member of non commercial professional affiliation « Moscow Auditors Chamber» (The testimony on accreditation №. 2 is issued by Ministry of Finance of RF)

The civil liability of implementation of professional activity is insured in OAO «Reso-Garantiya» , insurance policy No. 906/173324455 dt. 21st September 2006.

Audited Subject.

ZAO «Sun Pharma Industries Limited» (hereinafter referred to as the "Company") registered with the Moscow Registration Chamber dt. 15.04.1994 (Registration Number 031055). Charter capital of 20000 (Twenty thousand) roubles.

In the Unified state list of the legal persons state fixed number assigned to Company is 1037700003604, Company is registered with the Ministry of Taxes and Fees of RF No. 21, Moscow and identification number of tax payer is 7721003699

Legal Address: RF, 109444, Moscow, ul. Sormovskaya, Dom 8, Korpus 2.

Volume of Audit.

We have performed the audit of ZAO « Sun Pharma Industries Limited » accounting documentation for the period since January 01, 2006 till December 31,2006.

The bookkeeping balance consists of:

The Balance Sheet (Form 1);

The Profit and Loss Accounts(Form 2);

The appendices to the balance sheet and both reports on profits and average general costs.

Explanatory notes

It is the responsibility of ZAO «Sun Pharma Industries Limited)) Executive Management to prepare and to submit the above mentioned accounting documentation. Our obligation is to make up the official opinion about the authenticity of the mentioned documentation and to check that the documentation is composed in accordance with the Russian Federation law by means of our audit.

We carried out the audit in accordance with:

- the Federal Law of RF "Auditing Activity" № 119-FZ dt.07.08.2001

Federal Rules (Standards) worked out to execute the audit adopted by the RF Government Statement № 696 dt.23.09.2002 and № 405 dt.04.07.2003

Auditing Rules (Standards) issued by the Moscow Auditors Chamber

Auditing Rules (Standards) issued by Auditing Company «Best-Audit»

The audit was planned and carried out in order to get the confirmation that there had not been admitted any grave infringements in the internal accounting documentation. The audit was conducted on the elective basis and included analysis on the basis of testing of the evidences verifying value and deployment in the financial (accounting) reporting of the information about finance and economic activities, estimation of methods and principles of book keeping, rules of opening-up of the financial (accounting) reporting, definition of mail evaluation values obtained by a management (manual) face, and also estimation of a common view about the financial (accounting) reporting.

The appended annual accounts are prepared by the audited company ZAO «Sun Pharma Industries Limited» in accordance with the rules of book keeping established under PBU 4/99 «The Accounts of Organizations» approved Order of the Ministry of Finance of the Russian Federation of July 6, 1999 № 43n, «About the forms of the accounts of organizations» approved Order of the Ministry of Finance of the Russian Federation of July 22, 2003 № 67n, the book keeping implemented in conformity of the Law of Russian Federation № 129-FZ «About book keeping», Position on management of book keeping and reporting in Russian Federation under approved order of Ministry of Finance of the Russian Federation № 34n dt. 29.07.1998.

On the moment of compiling of the accounts for 2006 the company is in the stage of Liquidation.

We guess that the executed audit gives us the reason to confirm that the book keeping balance is true and has been maintained in accordance with the Russian Federation Legislation.

Audit was completed on 01 March 2007.

Auditors Conclusion

Our opinion is that the documentation is properly composed to define the exact financial situation of the audited company on the 31ST of December, 2006 and the results of business activity for the period January 01 till December 31,2006.

General Director
ZAO «AC «Best-Audit»: Egorov M.E.
(Life Licence № K 008955)

* Amounts mentioned in Indian Rupees (for the current year) in the respective Balance Sheets and Profit & Loss Accounts/Income Statements are not part of the audited financial statements but are inserted to comply with the statutory requirements.

ZAO SUN PHARMA INDUSTRIES LTD. RUSSIA

Balance Sheet as at 31st December, 2006

		Amount (Rru) As at 31/12/2006	Amount (Rs) As at 31/12/2006	Amount (Rru) As at 31/12/2005
ASSETS				
I	FIXED ASSETS			
	Office Eqipment	—	—	—
II	CURRENT ASSETS			
	Inventories	—	—	—
	Finished Gooda	—	—	—
	Receivables (less than 12 Months)			
	Debtors for goods & services	**12,024**	**20,156**	12,024
	Other Debtors	**143**	**240**	143
	Cash & Bank Balances			
	Bank Balances	**243**	**407**	243
	Other Current Assets	—	—	—
III	PROFIT & LOSS ACCOUNT			
	Profit & Loss Account	**93,295**	**156,390**	93,295
		105,705	**177,193**	105,705
LIABILITIES				
IV	CAPITAL AND RESERVES			
	Authorised Capital	**20,000**	**33,526**	20,000
	Paid up Share Capital	**20,000**	**33,526**	20,000
V	CURRENT LIABILITIES		—	
	Sundry Creditors		—	
	For Goods & Services		—	
	Advances from Customers		—	
	Other Liabilities	**85,705**	**143,667**	85,705
		105,705	**177,193**	105,705

P. A. Sinarevsky
Liquidator

Date : 08/02/2007
ZAO «Sun Pharma Industries Limited»

Profit & Loss Account for the Year Ended 31st December, 2006

	Amount (Rru) As at 31/12/2006	Amount (Rs) As at 31/12/2006	Amount (Rru) As at 31/12/2005
Net Sales	—	—	—
Interest	—	—	—
Other income	—	—	—
	—	—	—
Cost of Sales of Goods & Services	—	—	—
Commercial Expenses	—	—	—
Interest	—	—	—
Other Operating Expenses	—	—	—
Road Tax & Property Tax	—	—	—
	—	—	—
Profit for the Period	—	—	—
Loss for the Period	—	—	—
Add : Preliminary Expenses	—	—	—
Balance Brought Forward	**93295**	**156390**	93295
Balance Carried Over to Balance Sheet	**93295**	**156390**	93295

P. A. Sinarevsky
Liquidator

Date : 08/02/2007
ZAO «Sun Pharma Industries Limited»

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31st March, 2007.

Operations:

The operations of the Company carried out during the year were satisfactory.

Results and Dividend:

The Net Profit for the year is US$ 25,064,406. No dividend was paid during the year and the Directors have not proposed any dividend for the financial year under review.

Capital:

The authorised, issued and paid-up capital of the Company is 500,000 Shares of US$ 1 each.

Directors:

The Directors who served during the year were as follows:

Mr. Rajendra P. Ashar – Managing Director
Mr. Dilip S. Shanghvi
Mr. Sudhir V. Valia
Mr. Sunil K. Gandhi – Director & Secretary
Mr. Surendra M. Joshi

Auditors:

M/s Muscat Auditing Bureau, Public Accountants, Dubai the auditors have expressed their unwillingness to be re-appointed as auditors. The company has received the proposal from the shareholder to appoint M/s H.C. Shah & Co., Chartered Accountants, Muscat, Sultanate of Oman as the auditors from the conclusion of ensuing Annual General Meeting till the conclusion of the next Annual General Meeting. The Company also received letter from M/s H.C. Shah & Co., Chartered Accountants, Muscat, Sultanate of Oman expressing their willingness for their appointment as Auditors. A resolution to this effect and to fix their remuneration will be placed at the ensuing Annual General Meeting.

On behalf of the Board
For Sun Pharma Global Inc

SUNIL K. GANDHI
Director & Secretary

RAJENDRA P. ASHAR
Managing Director

May 15, 2007

AUDITORS' REPORT TO

The Directors

M/S. SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND
International Trust Building, P. O. Box 659, Road Town Tortola, British Virgin Island

We have audited the accompanying Financial Statements of **M/S. SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND** as of 31st March 2007 which has been prepared under the historical and replacement cost convention and in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND AUDITORS
The company's management is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, on those statements and to report our opinion to you.

BASIS OF OPINION
We conducted our Audit in accordance with international auditing standards. An audit includes examination on test basis, evidence relevant to the amount disclosures in the financial statements. It also includes assessment of the significant estimates and judgments made by management, in the preparation of financial statements and whether the accounting policies are appropriate to the Company's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION
In our opinion, the accompanying Balance Sheet and Income Statement read with notes (1) to (14) give a true and fair view of the Company's financial position as at 31st March 2007 and have been properly prepared in accordance with the international Financial Reporting standards and accounting policies.

MUSCAT AUDITING BUREAU
Public Accountants - Auditors

Muscat, Oman
15 May, 2007

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

BALANCE SHEET AS AT 31ST MARCH, 2007

	NOTES	31.03.2007 USD	31.03.2007 RS.	31.03.2006 USD
INVESTMENTS	4	**164,131,545**	**7,074,069,607**	173,132,225
CURRENT ASSETS				
Fixed Deposits		5,000,000	215,500,000	51,046,927
Security Deposits		10,000	431,000	10,000
Bank Balances		332,093	14,313,208	2,169,619
Inventories		171,800	7,404,580	256,800
Sundry debtors		1,994,760	85,974,135	—
Loans and Advances	5	74,152,137	3,195,957,105	49,842,442
Other Income Accrued		2,583,383	111,343,807	1,483,622
TOTAL CURRENT ASSETS (A)		**84,244,173**	**3,630,923,835**	104,809,410
CURRENT LIABILITIES				
Accounts Payables and Accruals	6	35,658,854	1,536,896,607	3,440,662
TOTAL CURRENT LIABILITIES (B)		**35,658,854**	**1,536,896,607**	3,440,662
NET CURRENT ASSETS (A-B)		**48,585,319**	**2,094,027,227**	101,368,748
TOTAL ASSETS		**212,716,864**	**9,168,096,834**	274,500,973
REPRESENTED BY				
Share Capital	7	500,000	21,550,000	500,000
Retained Earnings		111,518,184	4,806,433,726	86,453,778
Unsecured Loans	8	100,698,680	4,340,113,108	187,547,195
TOTAL		**212,716,864**	**9,168,096,834**	274,500,973

Notes 1 to 14 form an integral part of the financial statements.

This is the financial statements referred to in our report of even date and the same have been approved by the Members and signed on their behalf.

For, Muscat Auditing Bureau
Public Accountants

For and on behalf of the Board

MAHMOUD SULEIMAN
Proprietor

SUNIL GANDHI
Director

SURENDRA M. JOSHI
Director

INCOME STATEMENT 1ST APRIL, 2006 TO 31ST MARCH, 2007

	NOTES	2006/2007 USD	2006/2007 RS.	2005/2006 USD
INCOME				
Turnover		11,761,280	532,197,920	35,055,360
Cost of Turnover	9	85,000	4,215,620	750,000
GROSS INCOME		**11,676,280**	**527,982,300**	34,305,360
Other Income	10	13,787,102	623,866,366	10,188,545
TOTAL INCOME (A)		**25,463,382**	**1,151,848,666**	44,493,905
EXPENDITURE				
Salaries and benefits		5,000	226,250	243,531
General & Administrative expenses	11	393,976	17,827,431	827,194
Sundry balacne written off		—	—	—
TOTAL EXPENDITURE (B)		**398,976**	**18,053,681**	1,070,725
NET PROFIT FOR THE YEAR (A-B)		**25,064,406**	**1,133,794,985**	43,423,180
Balance Brought Forward		86,453,778	3,726,157,832	43,030,598
Exchange rate Fluctuations			(53,519,091)	
Balance Carried Forward to Balance Sheet		**111,518,184**	**4,806,433,726**	86,453,778

Notes 1 to 14 form an integral part of the financial statements.

This is the financial statements referred to in our report of even date and the same have been approved by the Members and signed on their behalf.

For, Muscat Auditing Bureau
Public Accountants

For and on behalf of the Board

MAHMOUD SULEIMAN
Proprietor

SUNIL GANDHI
Director

SURENDRA M. JOSHI
Director

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

CASH FLOW FOR THE YEAR ENDED 31ST MARCH, 2007

		2006/2007 USD
Net profit for the year		**25,064,406**
ADD: ADJUSTMENT FOR ITEMS NOT		
INVOLVING MOVEMENT OF FUNDS:		
Sundry balacne written off		—
Operating Profit/(Loss) Before changes in working capital	**(A)**	**25,064,406**
CHANGES IN (INCREASE)/DECREASE IN WORKING CAPITAL		
Fixed Deposits		46,046,927
Security Deposits		—
Inventories		85,000
Sundry debtors		(1,994,760)
Loans and Advances		(24,309,695)
Other Income Accrued		(1,099,761)
Accounts Payables and Accruals		32,218,192
TOTAL (INCREASE)/DECREASE IN WORKING CAPITAL	**(B)**	**50,945,904**
NET CASH FROM OPERATING ACTIVITIES	**(A+B)**	**76,010,309**
Cash flow from (used in) investing activities		
Investments (Net)		9,000,680
Cash flow from (used in) financing activities		
Unsecured Loans		(86,848,515)
Share Money Deposit		—
Net Cash from (used in) Operating, Investing and Financing activities		**(1,837,526)**
Cash on hand and Banks - Beginning of the year		**2,169,619**
Cash on hand and Banks - End of the year		**332,093**

Notes forming part of the financial statements

1. **LEGAL STATUS**
SUN PHARMA GLOBAL INC. is an International Business Company incorporated on 1st February 1996 under the International Business Companies Act, Cap. 291 of British Virgin Island.

The Shareholders and their shareholdings in the company are as under :

Name of the Shareholder	**No. of Shares**	**Share Vaue U.S. $**
Sun Pharmaceuticals Industries Ltd.	500,000	500,000
TOTAL	**500,000**	**500,000**

The Officers of the company are as under :

Name of the Officer	**Nationality**	**Position**
Mr. Dilip S. Shanghvi	Indian	Director
Mr. Sudhir V. Valia	Indian	Director
Mr. Sunil Gandhi	Indian	Director
Mr. Sunil Gandhi	Indian	Secretary
Mr. Surendra M. Joshi	Indian	Director
Mr. Rajendra Parshotam Ashar	Indian	Director

2. **ACTIVITY**

SUN PHARMA GLOBAL INC. is engaged in Sale and Distribution of Pharmaceutical Products and Investment activities.

3. **PRINCIPAL ACCOUNTING POLICIES**

(i) ***Statement of Compliance***

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Financial Reporting Standards Committee ("IFRSC"), interpretations issued by the Standing Interpretations Committee of IFRSC.

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

Notes forming part of the financial statements

(ii) ***Basis of preparation***

These financial statements have been prepared on the historical and replacement cost accounting rules.

The accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(iii) ***Investments***

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and net realisable value. Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

(iv) ***Inventories***

Inventories are stated at cost or net realisable value whichever is lower on FIFO basis.

(v) ***Advances & Accruals***

Trade and other receivable are stated at their cost less impairment losses.

(vi) ***Cash and Cash equivalents***

Cash and cash equivalents comprise cash balances and bank deposits.

(vii) ***Dividend***

Dividends are recognised as a liability in the period in which they are declared.

(viii) ***Impairment***

The carrying amounts of the Company's assets, other than inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. As impairment loss is recognised in the profit and loss account whenever the carrying amounts of an asset exceeds its recoverable amount.

(ix) ***Provisions***

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(x) ***Payable and accruals***

Payable and accruals are stated at cost.

(xi) ***Revenue***

Revenue from the sale is recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyers.

(xii) ***Foreign Currencies***

Transactions denomiated in foreign currencies are translated to United State Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilites denominated in foreign currencies at the balance sheet date are translated to United State Dollar at exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

(xiii) ***Hedging***

There is no hedging transactions undertaken by the company.

(xiv) Previous year's figures have been regrouped wherever necessary to make it more comparable with the current year's figures.

(xv) Figures are rounded off to the nearest United State Dollar.

			31.03.2007 USD	31.03.2007 Rs.	31.03.2006 USD
4.	**INVESTMENTS**				
(a)	**Trade Investments**				
	Quoted		90,544,925	3,902,486,285	81,259,536
	Unquoted		73,586,620	3,171,583,322	72,756,870
	Total Trade Investments	**(a)**	**164,131,545**	**7,074,069,607**	154,016,406
(b)	**Long Term Investments - Quoted**	**(b)**	—	—	19,115,819
	TOTAL INVESTMENTS	**(a+b)**	**164,131,545**	**7,074,069,607**	173,132,225

5. LOANS AND ADVANCES

Loans and Advances includes US $ 73,910,592 (Previous Year US $ 32,088,000) receivable from Associate Concerns.

6. ACCOUNTS PAYABLES AND ACCRUALS	31.03.2007 USD	31.03.2007 Rs.	31.03.2006 USD
Accounts Payables	359,970	15,514,707	477,844
Other Payables	1,198,884	51,671,900	2,962,818
Share Application money	34,100,000	1,469,710,000	—
TOTAL	**35,658,854**	**1,536,896,607**	3,440,662

7. SHARE CAPITAL

Authorised			
500,000 Shares of US $ 1/- Each	500,000	21,550,000	500,000
Issued and Subscribed			
500,000 Shares of US $ 1/- Each Fully Paid Up	500,000	21,550,000	500,000
(Entire Share Capital is held by Holding Company, Sun Pharmaceutical Industries Ltd., India)			

8. UNSECURED LOANS

Unsecured Loans includes US $ Nil (Previous Year 64,878,530) payable to Holding Company.

9. COST OF SALES

Opening stock	256,800	11,620,200	746,800
Purchases	—		260,000
Less: Closing stock	(171,800)	(7,404,580)	(256,800)
TOTAL	**85,000**	**4,215,620**	750,000

10. OTHER INCOME

Interest Income (Net)	2,227,390	100,789,398	1,939,745
Commission Income	—	—	—
Exchange Rate Gain	253,593	11,475,083	464,640
Profit on Sale of Investments	11,306,119	511,601,885	7,784,160
TOTAL	**13,787,102**	**623,866,366**	10,188,545

11. GENERAL & ADMINISTRATIVE EXPENSES

Vehicle expenses	53,496	2,420,694	17,694
Professional charges	—	—	543,180
Rent	—	—	—
Travelling & Conveyance	8,448	382,268	36,918
Miscelleneous expenses	96,188	4,352,522	185,881
Repairs & Maintenance	—	—	—
Selling & Distribution Expenses	—	—	—
Office Expenses	—	—	1,000
Communication Expenses	—	—	—
Printing & Stationery	5,844	264,455	8,500
Entertainment	2,040	92,298	680
Business Promotion Expenses	117,019	5,295,089	33,341
Business Development Expenses	110,942	5,020,104	—
TOTAL	**393,976**	**17,827,431**	827,194

12. FINANCIAL INSTRUMENTS

(1) Credit and Exchange Rate risk exposures.

(a) CREDIT RISK

Trade debtors are stated net of provision for doubtful debts. There are no significant concentrations of credit risk with any single debtor or group of companies or to debtors outside the industry and the country in which the company operates.

(b) EXCHANGE RATE RISK

There are no significant exchange rate risks as substantially most of the financial assets and financial liabilities are denominated in United State Dollars.

(2) FAIR VALUE INFORMATION

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. In respect of company's all financial assets and liabilities, in the opinion of the management, the book value approximates to their carrying value.

13. FINANCIAL INSTRUMENTS : RECOGNITION & MEASUREMENT

The account receivable, Deposits and advances are for business and carry same value as stated in the financial statements.

14. EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

No significant events have occurred from the date of Balance Sheet till the date of Auditor's report.

Sun Pharmaceutical (Bangladesh) Limited

DIRECTORS' REPORT

To,

The Members of **Sun Pharmaceutical (Bangladesh) Limited**

Your Directors take pleasure in presenting the Sixth Annual Report and Audited Accounts for the Year ended on 31st March, 2007.

Financial Results (Taka)

	Year Ended 31st March, 2007	Year Ended 31st March, 2006
Total Income	**128,889,853**	79,217,682
Profit/(Loss) After Tax	**(15,154,719)**	(44,056,600)

Dividend

In view of loss incurred during the year, your Directors do not recommend any dividend for the year.

Operation Review

The Company has successfully introduced 12 products including dosage form in the market during the year making the total products to 48 products in the Domestic Market. The new products have been well received by the medical profession in the country.

During the year the Company made a further investment of Tk 6,335,065 raising the total investment to Tk 218,643,497.

Capacity Utilisation

Installed Capacity - 203,200 Thousands Tablets/Capsules

Utilised Capacity - 44,780 Thousands Tablets/Capsules

Auditors

Your Company's Auditors, M/s Ahmed Mashuque & Co., Chartered Accountants, Dhaka, retire at the conclusion of the forthcoming Annual General Meeting and being eligible have offered themselves for re- appointment as auditors of the Company for the year 2007-08.

Acknowledgements

Your Directors wish to thank all Shareholders, Board of Investment and Bankers for their continued support and valuable co-operation.

For and on behalf of Board of Directors

Dhaka, 03 May, 2007

Managing Director
(Sukumar Ranjan Ghosh)

Director
(Shailesh Desai)

Auditors' Report to the Shareholders of Sun Pharmaceutical (Bangladesh) Limited

We have audited the accompanying balance sheet of Sun Pharmaceutical (Bangladesh) Limited as at 31 March 2007 and the related profit and loss account , statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Bangladesh Standards on Auditing. 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.

Subject to consequential financial effect of the notes 1.2, 7.1 and 7.2 to the financial statements regarding Company's continuity as a going concern, useful lives of the property, plant and equipment and the useful life of the factory building respectively; in our opinion, the financial statements, prepared in accordance with Bangladesh Accounting Standards, give a true and fair view of the state of the Company's affairs as on 31 March 2007 and of the results of its operations and its cash flows for the year then ended and comply with the Companies Act 1994 and other applicable laws and regulations.

We also report that:

a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;

b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appeared from our examination of those books; and

c) The Company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account.

Ahmed Mashuque & Co.
Chartered Accountants

Dhaka, 03 May 2007

Sun Pharmaceutical (Bangladesh) Limited

Balance Sheet as at 31 March, 2007

Sources of Fund:	Notes	31 March 2007 Taka	31 March 2007 Indian Rs	31 March 2006 Taka
Shareholders' equity:				
Share Capital	4	60,000,000	39,000,000	60,000,000
Share Money deposit	5	57,167,913	37,159,143	52,429,462
Accumulated loss		(79,391,913)	(52,989,929)	(64,237,194)
Exchange Rate Fluctuation			1,385,186	
		37,776,000	24,554,400	48,192,268
Loan funds:				
Unsecured loan	6	135,000	87,750	5,135,000
		37,911,000	**24,642,150**	**53,327,268**
Applications of fund:				
Property, plant and equipment:	7			
At Cost		218,643,497	142,118,273	213,209,765
Less: Depreciation		20,652,075	13,423,849	11,906,237
		197,991,422	128,694,424	201,303,528
Current Assets:				
Inventories	8	39,194,455	25,476,396	47,181,558
Trade receivables	9	7,323,464	4,760,252	4,064,916
Advance income tax	10	770,292	500,690	759,756
Advances, deposits and prepayments	11	8,563,943	5,566,563	10,062,710
Cash & bank balances	12	1,052,441	684,087	1,851,471
		56,904,596	36,987,987	63,920,411
Current Liabilities:				
Short term loan & bank overdraft	13	195,095,132	126,811,836	195,636,892
Liabilities for goods	14	9,000,629	5,850,409	7,580,437
Liabilities for services	15	389,384	253,099	894,188
Other liabilities	16	12,545,723	8,154,720	7,837,554
		217,030,868	141,070,064	211,949,071
Net Current assets/(liabilities)		(160,126,272)	(104,082,077)	(148,028,660)
Preliminary expenses		45,850	29,803	52,400
		37,911,000	**24,642,150**	**53,327,268**

The annexed notes 1 to 29 form an integral part of these financial statements.

Managing Director

Director

As per our annexed report of same date.

Ahmed Mashuque &Co.
Chartered Accountants

Dhaka, 3rd May 2007

Profit & Loss Account For the Year Ended 31 March, 2007

Particulars:	Notes	31 March 2007 Taka	31 March 2007 Indian Rs	31 March 2006 Taka
Turn over	17	128,889,853	87,645,100	79,217,682
Cost of sales	18	(71,692,625)	(49,681,529)	(62,467,454)
Gross profit		**57,197,228**	**37,963,571**	**16,750,228**
General & administration expenses	19	(32,629,894)	(22,188,328)	(31,578,315)
Selling & distribution expenses	20	(18,262,222)	(12,418,311)	(13,374,300)
Operating income/(loss)		**6,305,112**	**3,356,932**	**(28,202,387)**
Finance costs		(21,101,909)	(14,349,298)	(15,349,175)
Other gains/(losses)		362,779	246,690	(643,045)
Net loss from ordinary activities		**(14,434,018)**	**(10,745,676)**	**(44,194,607)**
Other income/(losses)		(720,701)	(490,077)	138,007
Net loss before tax		**(15,154,719)**	**(11,235,753)**	**(44,056,600)**
Provision for tax		—	—	—
Net loss after tax		**(15,154,719)**	**(11,235,753)**	**(44,056,600)**
Balance brought forward from previous year		(64,237,194)	(41,754,176)	(20,180,594)
Balance transferred to the Balance sheet		**(79,391,913)**	**(52,989,929)**	**(64,237,194)**

The annexed notes 1 to 29 form an integral part of these financial statements.

Managing Director

Director

As per our annexed report of same date.

Ahmed Mashuque &Co.
Chartered Accountants

Dhaka, 3rd May 2007

Sun Pharmaceutical (Bangladesh) Limited

Cash Flow Statement for the Year Ended as at 31 March, 2007

Particulars		31 March 2007 Taka	31 March 2006 Taka
A)	**Cash flows from Operating Activities**		
	Cash received from customers	125,631,304	75,381,323
	Cash paid to suppliers and employees	(98,542,294)	(136,744,168)
	Finance costs	(21,101,909)	(15,349,175)
	Income tax paid on import stage	(10,536)	(246,090)
	Other income	362,779	138,007
	Net cash flows from operating activities	6,339,344	(76,820,103)
B)	**Cash flows from Investing Activities**		
	Net Purchase of property, plant & equipment	(6,335,065)	(12,732,486)
	Net cash out flows from investing activities	(6,335,065)	(12,732,486)
C)	**Cash flows from Financing Activities**		
	Increase/(decrease) in share money deposit	4,738,451	(7,113,809)
	Increase/(decrease) in short term loan and bank overdraft	(541,760)	96,876,698
	Increase/(decrease) in unsecured loan	(5,000,000)	1,000,000
	Net cash used in financing activities	(803,309)	90,762,889
D)	**Net increase in cash & cash equivalents (A+B+C)**	(799,031)	1,210,300
E)	**Opening cash & cash equivalents**	1,851,471	641,171
F)	**Closing cash & cash equivalents (Note 12)**	**1,052,440**	**1,851,471**

The annexed notes 1 to 29 form an integral part of these financial statements.

Managing Director

Director

As per our annexed report of same date.

Ahmed Mashuque &Co.
Chartered Accountants

Dhaka, 3rd May 2007

Statement of changes in equity for the year ended 31 March, 2007

	Share Capital	Share money Deposit	Accumulated profit/(loss)	Total
	Taka	Taka	Taka	Taka
Balance as at 31 March 2005	60,000,000	59,543,272	(20,180,594)	99,362,678
Refund of share money deposit	—	(7,113,809)	—	(7,113,809)
Net loss for the year	—	—	(44,056,600)	(44,056,600)
Balance as at 31 March 2006	**60,000,000**	**52,429,463**	**(64,237,194)**	**48,192,269**
Increase in share money deposit	—	4,738,450	—	4,738,450
Net loss for the year	—	—	(15,154,719)	(15,154,719)
Balance as at 31 March 2007	**60,000,000**	**57,167,913**	**(79,391,913)**	**37,776,000**

Notes to the Financial Statements for the Year Ended 31 March, 2007
Forming an Integral Part of the Financial Statement

1. Company Profile

1.1 Legal staus of the Company

Sun pharmaceutical (Bangladesh) Limited is a private limited company incorporated in 2001 in Bangladesh under the Companies Act 1994 with an authorised capital of Tk. 60 million divided into 600,000 ordinary shares of Tk 100 each. During the year 2005-06,Company has increased its authorised capital from Tk 60 millions to Tk 500 Millions.

The Company was formed jointly with Sun Pharmaceutical Industries Limited (SPIL), a company incorporated in India, City Overseas Limited (COL), a company incorporated in Bangladesh and Sun Pharma Global Inc (SPGI), a company incorporated under the laws of British Virgin Island.

1.2 The financial statement of the Company reflect a net current liability of Tk.160,126,272 and an accumulated loss of Tk 79,391,913 as at 31 March 2007. As against the aforesaid position the parent company, Sun Pharmaceutical Industries Limited, India, has expressed its intention to maintain its stake in Sun pharmaceutical (Bangladesh) Limited and continue the operation of the company as a going concern.

1.3 Components of Financial Statement:

The Financial Statement comprises:

(i) Balance Sheet as at 31 March 2007;

(ii) Profit & Loss Account Statement for the year ended 31 March 2007;

(iii) Statement of Changes in Shareholders Equity for the year ended 31 March 2007;

(iii) Cash Flow Statement for the year ended 31 March 2007;and

(iv) Notes to the Financial Statement for the year ended 31 March 2007.

2 Nature of business

The Company owns and operate a pharmaceutical factory and produces various Pharmaceutical products, which are sold in the local market.

3 Significant accounting policies

3.1 Basis of accounting

The financial statement has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) under historical cost convention and in compliance with the Bangladesh Accounting Standards (BAS) and the requirements of the Companies Act, 1994 and other relevant local Laws and Regulations as applicable.

3.2 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less depreciation.Depreciation on addition to property, plant and equipment is charged on the basis of usage of the actual number of days and depreciation is calculated and charged on all property, plant and equipment on the straight line method at the following rates, considering the estimated useful lives of the assets as assessed by the management:

Catagorey of Assets	Rate of Depreciation
Factory building	1.63%
Plant and machinery	4.75%
Computer equipment	16.21%
Motor vehicles	9.50%
Office equipment	4.75%
Electrical installation	4.75%
Furniture and fixtures	6.33%

3.3 Inventories

Stocks are valued at the lower of cost and net realisable value.Costs of raw materials and packing materials are valued by using FIFO costing method.Costs of finished stocks and work in progress are arrived by using FIFO costing method including allocation of manufacturing overheads related to bringing the inventories to their present condition.

3.4 Trade receivables

Trade receivables are stated net of provisions, if any.

3.5 Cash & cash equivalents

Cash & cash equivalents consist the cash & bank balances.

3.6 Cash flow statement

Cash flow statement is prepared in accordance with BAS-7 "Cash Flow Statement" under direct method.

3.7 Payables & accruals

Liabilities are recognised for amounts to be paid in future for goods and services received whether or not billed to the Company.

3.8 Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3.9 Revenue recognition

Sales are recognized at the time of delivery of goods from the Company's depots, when risk and reward of ownership of goods are transferred to the buyer. Sales are stated net of returns and excluding VAT.

3.10 Foreign exchange

Transactions denominated in foreign currencies are translated into Bangladesh taka at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Bangladesh taka at the exchange rates ruling at the balance sheet date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Bangladseh taka at the exchange rate ruling at the date of the transactrion. Froeign exchange differences arising on translation are recognized in the income statement.

Sun Pharmaceutical (Bangladesh) Limited

Notes to the Financial Statements for the Year Ended 31 March, 2007
Forming an Integral Part of the Financial Statement

3.11 Provision for tax

No provision for income tax is made since the Company has been enjoying tax holiday benefit for the period of five years commencing from 01 October 2004 to 30 September 2009 by the National Board of Revenue, Bangladesh.

3.12 Tax holiday reserve

No tax holiday reserve is made in absence of any taxable income.

4 Share Capital	**31 March, 2007 Taka**	**31 March, 2007 Indian Rupees**	**31 March, 2006 Taka**
Authorised Capital			
5,000,000 ordinary shares of Tk 100 each	**500,000,000**	**325,000,000**	**500,000,000**
Issued, subscribed and paid-up			
600,000 Ordinary shares of Tk 100 each fully paid	**60,000,000**	**39,000,000**	**60,000,000**

Shareholding position of the Company is as follows:

	2007		**2006**	
	Nominal value (Tk)	**% of present holding**	**Nominal value (Tk)**	**% of present holding**
Sun Pharmaceutical Industries Limited, India	43,446,900	72.4115	43,446,900	72.4115
City Overseas Limited	16,500,000	27.5000	16,500,000	27.5000
Sun Pharma Global Inc. British Virgin Island	53,100	0.0885	53,100	0.0885
	60,000,000	**100.00**	**60,000,000**	**100.00**

	31 March 2007 Taka	**31 March 2007 Indian Rupees**	**31 March 2006 Taka**
5 Share money deposit			
Sun Pharmaceutical Industries Limited,India	38,213,466	24,838,753	38,213,466
City Overseas Limited (note : 5.1)	18,941,395	12,311,907	14,202,944
Sun Pharma Global Inc. British Virgin Island	13,052	8,483	13,052
	57,167,913	**37,159,143**	**52,429,462**
5.1 City Overseas Limited			
Opening balance	14,202,945	9,231,914	21,316,754
Received during the year	4,738,450	3,079,993	3,886,191
	18,941,395	12,311,907	25,202,945
Refunded during the year	—	—	(11,000,000)
Closing balance	**18,941,395**	**12,311,907**	**14,202,945**
6 Unsecured Loan			
From directors	135,000	87,750	135,000
From others	—	—	5,000,000
	135,000	**87,750**	**5,135,000**

7 Property, plant and equipment

	Cost				**Depreciation**				**Written down value**		
Name of assets	Balance as at 1 April 2006	Addition during the year	Disposal during the year	Balance as at 31 March, 2007	Balance as at 1 April 2006	Addition during the year	Written Back on Disposal	Balance as at 31 March 2007	As at 31 March 2007	As at 31 March 2007	As at 31 March 2006
	In Taka				In Taka				In Taka	In Rs	In Taka
Lease Hold Land	33,000	—	—	33,000	4,469	827	—	5,296	27,704	18,008	28,531
Factory Building	77,602,855	—	—	77,602,855	1,730,344	1,264,927	—	2,995,271	74,607,584	48,494,930	75,872,511
Plant & machinery	105,009,249	5,879,451	(52,471)	110,836,229	6,611,681	5,073,630	—	11,685,311	99,150,918	64,448,097	98,397,568
Computer equipment	7,589,279	181,500	—	7,770,779	1,597,150	1,244,406	—	2,841,556	4,929,223	3,203,995	5,992,129
Motor vehicls	5,412,792	532,851	(1,301,333)	4,644,310	702,412	436,981	(180,632)	958,761	3,685,549	2,395,607	4,710,380
Office equipment	1,804,585	159,079	—	1,963,664	110,862	88,288	—	199,150	1,764,514	1,146,934	1,693,723
Elctrical installation	11,446,722	—	—	11,446,722	768,097	543,719	—	1,311,816	10,134,906	6,587,689	10,678,625
Furniture & fixtures	4,311,283	34,655	—	4,345,938	381,222	273,692	—	654,914	3,691,024	2,399,166	3,930,061
31 March 2007	**213,209,765**	**6,787,536**	**(1,353,804)**	**218,643,497**	**11,906,237**	**8,926,470**	**(180,632)**	**20,652,075**	**197,991,422**	**128,694,424**	**201,303,528**
31 March 2006	200,477,279	12,732,486	—	213,209,765	3,300,603	8,605,634	—	11,906,237	201,303,528	—	197,176,676

7.1 Assessment of useful life of the property, plant & equipment

The useful lives of property, plant & equipment have been technically assessed by the management to determine the rate of depreciation.

Sun Pharmaceutical (Bangladesh) Limited

Notes to the Financial Statements for the Year Ended 31 March, 2007
Forming an Integral Part of the Financial Statement

7.2 Useful life of the factory building

The life of the factory building has been estimated at 61 years for the purpose of depreciating in anticipation that the land lease will be renewed further to cover the life of the building.

7.3 Taka 52,471/- has been reduced from cost of Plant and Machinery due to exchange rate fluctuation on the assets purchased in preceding year, and considered as adjustment to the cost of that particular asset according to Companies Act, 1994.

		31 March 2007 Taka	31 March 2007 Indian Rupees	31 March 2006 Taka
8	**Inventories**			
	Raw materials	15,972,286	10,381,986	23,317,842
	Packing materials	3,481,149	2,262,747	2,112,559
	Work in progress	2,615,857	1,700,307	4,084,176
	Finished products - Factory	13,437,365	8,734,287	10,874,560
	- Depot	3,687,798	2,397,069	6,792,421
		39,194,455	**25,476,396**	**47,181,558**
9	**Trade receivables**			
	Due over twelve months	42,532	27,646	—
	Due over six months	96,490	62,719	—
	Due below six months	7,184,442	4,669,887	4,064,916
		7,323,464	**4,760,252**	**4,064,916**
10	**Advance income tax**			
	Opening balance	759,756	493,841	513,666
	Add: Tax deducted at source on import stage during the year	10,536	6,848	246,090
		770,292	**500,690**	**759,756**
11.	**Advance, deposits & prepayments**			
	Advances:			
	Advance to Employees	551,437	358,434	520,239
	Advance against rent	295,000	191,750	3,569,500
	Registration for Trade mark	—	—	131,400
	VAT Current account	3,499,665	2,274,782	1,048,222
	Advance VAT on depot stock	1,292,302	839,996	1,908,490
	Margin money with bank	1,040,175	676,114	970,492
	Insurance Claim receivable	—	—	800,377
	Advance to Supppliers	956,974	622,033	90,481
		7,635,553	4,963,109	9,039,201
	Deposits:			
	Imprest money with employees	267,000	173,550	210,000
	Security deposits	623,800	405,470	603,250
		890,800	579,020	813,250
	Prepayments:			
	Sundry prepaid expenses	37,590	24,434	210,259
		8,563,943	**5,566,563**	**10,062,710**
12	**Cash & bank balance**			
	Cash in hand	174,584	113,480	90,927
	Cash at bank:			
	Standard Chartered Bank	256,635	166,813	898,230
	Eastern Bank Ltd.	213,707	138,909	429,773
	Premier Bank Ltd.	249,007	161,855	303,382
	Janata Bank Ltd.	155,713	101,213	125,934
	First Security Bank Ltd.	2,380	1,547	2,580
	State Bank of India	415	270	645
		1,052,441	**684,087**	**1,851,471**

Notes to the Financial Statements for the Year Ended 31 March, 2007
Forming an Integral Part of the Financial Statement

		31 March 2007 Taka	31 March 2007 Indian Rupees	31 March 2006 Taka
13.	**Short term loan & bank overdraft**			
	Citibank N.A :			
	Short term loan	190,000,000	123,500,000	190,000,000
	Overdraft	5,095,132	3,311,836	5,636,892
		195,095,132	**126,811,836**	**195,636,892**

Total short term loan and overdraft facility limit sanctioned by Citibank, N.A is Tk 210 million secured by corporate guarantee given by Sun Pharmaceutical Industries Limited, India. Interest is payable at the rate of 11% per annum on over draft facility and at the rate of 10.5% per annum on short term loan.

		31 March 2007 Taka	31 March 2007 Indian Rupees	31 March 2006 Taka
14.	**Liabilities for goods**			
	For goods:			
	Ice S.R.L - for raw materials	1,101,816	716,180	2,043,291
	United Technologies Limited	6,769,763	4,400,346	1,224,595
	Khan Printing & Packaging	14,828	9,638	351,639
	Saleheen Printers & packaging	—	—	346,085
	Taher Brothers Limited	412,610	268,197	412,610
	Global capsules	85,376	55,494	—
	Other suppliers	130,190	84,623	532,206
		8,514,583	5,534,479	4,910,426
	For capital machinery:			
	Sun pharmaceutical Industries limited	486,046	315,930	2,670,011
		9,000,629	**5,850,409**	**7,580,437**
15.	**Liabilities for services**			
	Ave Engineering & Consultants	—	—	719,500
	Bangladesh Society of Neurosurgeons	218,750	142,188	—
	Other suppliers	170,634	110,912	174,688
		389,384	**253,099**	**894,188**
16.	**Other liabilities**			
	Outstanding expenses (note 16.1)	12,429,326	8,079,062	7,834,064
	Payable to employees	110,781	72,008	—
	Tax deducted at source - Supplier	5,616	3,650	3,490
		12,545,723	**8,154,720**	**7,837,554**
16.1	**Outstanding expenses**			
	Sun pharmaceutical Industries Ltd. - For expenses	9,266,887	6,023,477	5,989,109
	Field staff expenses/Incentive	467,000	303,550	322,000
	Interest on short short term loan	1,385,417	900,521	656,000
	Audit fee	67,925	44,151	54,250
	Other Outstanding expenses	1,242,097	807,363	812,705
		12,429,326	**8,079,062**	**7,834,064**
17	**Turnover**			
	Sales	150,156,678	102,106,541	92,288,599
	Less: VAT	(21,266,826)	(14,461,441)	(13,070,917)
		128,889,853	**87,645,100**	**79,217,682**
18	**Cost of sales**			
	Opening stock of finished goods	17,666,982	12,013,548	7,097,208
	Add: Cost of production (note 18.1)	71,150,806	48,799,337	73,037,227
	Cost of goods available for sales	88,817,788	60,812,885	80,134,435
	Less: Closing stock of finished goods	(17,125,163)	(11,131,356)	(17,666,981)
		71,692,625	**49,681,529**	**62,467,454**

Sun Pharmaceutical (Bangladesh) Limited

Notes to the Financial Statements for the Year Ended 31 March, 2007
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18.1 Cost of production

	31 March 2007 Taka	31 March 2007 Indian Rupees	31 March 2006 Taka
Opening stock of work in progress	4,084,176	2,777,240	1,405,790
Add: Raw material consumed (note 18.2)	38,700,479	26,795,494	39,717,934
Packing material consumed (note 18.3)	4,695,171	3,051,861	3,343,949
Conversion cost (note 18.4)	26,286,837	17,875,049	32,653,730
	73,766,663	50,499,644	77,121,403
Less: Closing stock of work in progress	(2,615,857)	(1,700,307)	(4,084,176)
	71,150,806	**48,799,337**	**73,037,227**

18.2 Raw materials consumption and closing stock (All imported)

Particulars	Opening Balance		Purchase		Closing Balance		Consumption	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value
	Kg	Taka	Kg	Taka	Kg	Taka	Kg	Taka
Nal Trexone Hydrochloride	3	2,542,173	2	1,232,136	1	1,156,841	4	2,617,468
Ursodeoxycholic Acid BP	110	2,617,839	50	1,285,871	2	50,466	158	3,853,244
Granules of Carbidopa BP and Levodopa BP	629	4,533,865	859	4,218,731	18	130,126	1,470	8,622,470
5-Amino Salicylic Acid USP	39	215,669	455	1,902,322	193	753,340	301	1,364,651
Clomipramine Hydrochloride BP	2	172,916	40	1,946,057	5	230,986	37	1,887,987
Carbamazepine BP	3	9,725	875	2,540,125	78	204,122	800	2,345,728
Clozapine BP	15	197,082	200	2,386,856	44	509,478	171	2,074,460
Sodium Valproate BP	—	428	1325	3,848,364	215	576,078	1,110	3,272,714
Esomeprazole Magnesium	26	608,425	35	937,830	20	547,171	41	999,084
Quetiapine Fumarate IH	—	—	55	939,900	1	25,889	54	914,011
Lithium Carbonate BP	115	83,604	1725	1,057,605	536	292,733	1,304	848,476
Olanzapine INN	19	954,269	0	—	2	89,513	17	864,756
Oxacarbazepine IH	—	—	70	902,075	3	40,200	67	861,875
Gabapentine	—	—	60	687,659	3	35,655	57	652,004
Rivastigmine Tartrate	—	—	1	895,198	—	325,641	1	569,557
Mirtazapine IH	—	—	8	619,143	1	95,452	7	523,691
Risperidone BP	3	161,085	3	193,274	—	20,561	6	333,798
Others(Note-18.02.01)	6,091	11,220,762	10761	5,761,777	4,529	10,888,034	12,323	6,094,505
Total	7,055	23,317,842	16,524	31,354,923	5,651	15,972,286	17,928	38,700,479

18.2.1 Others

Above represent items which in value do not individually account for 10% or more of the total value of the raw materials consumed.

18.3 Packing materials consumption & closing stock

	31 March 2007 Taka	31 March 2007 Rupees	31 March 2006 Taka
Opening stock	2,112,559	1,373,163	943,485
Add: Purchase	6,063,761	3,941,445	4,513,023
	8,176,320	5,314,608	5,456,508
Less: Closing stock	(3,481,149)	(2,262,747)	2,112,559
Consumption	**4,695,171**	**3,051,861**	**3,343,949**

Sun Pharmaceutical (Bangladesh) Limited

Notes to the Financial Statements for the Year Ended 31 March, 2007
Forming an Integral Part of the Financial Statement

		31 March 2007 Taka	31 March 2007 Rupees	31 March 2006 Taka
18.4	**Conversion cost**			
	Factory salary, wages & bonus	7,135,386	4,852,062	5,997,811
	Employer's contribution to PF	173,876	118,236	199,014
	Consumable stores	1,076,728	732,175	2,197,547
	Drug testing fees/license fees	43,160	29,349	95,240
	Quality control chemicals	356,353	242,320	3,431,443
	Bank charges	329,460	224,033	376,877
	Depreciation	7,782,782	5,292,292	7,419,641
	Power & fuel	2,782,545	1,892,130	3,035,660
	Land rent	3,120,000	2,121,600	6,660,000
	Insurance	989,644	672,958	1,099,675
	Repairs & maintenance:			
	Buildings	258,614	175,857	203,302
	Plant & machinery	85,629	58,228	116,617
	Others	470,856	320,182	256,241
	Printing & stationery	318,075	216,291	226,743
	Traveling & conveyance	304,136	206,812	252,769
	Communication	147,830	100,525	150,305
	Miscellaneous	911,764	619,999	934,845
		26,286,837	**17,875,049**	**32,653,730**
19.	**General & administration expenses**			
	Salaries, wages, bonus & benefits	23,516,138	15,990,974	20,358,951
	Employer's contribution to PF	441,563	300,263	876,474
	Drug testing fees/license fees	120,580	81,994	193,165
	Electricity, gas & other utilities	343,535	233,604	277,130
	Bank charges	54,201	36,857	56,156
	Rent	1,356,000	922,080	1,346,500
	Preliminary expenses written off	6,550	4,454	6,550
	Insurance	267,681	182,023	222,421
	Repair and others	501,630	341,108	334,454
	Depreciation	1,143,688	777,708	1,185,994
	Printing & stationery	1,081,665	735,532	1,010,361
	Traveling & conveyance	1,278,473	869,361	1,777,761
	Communication	1,157,169	786,875	1,218,941
	Auditors' remuneration	70,925	48,229	60,000
	Miscellaneous	1,290,096	877,265	2,653,457
		32,629,894	**22,188,328**	**31,578,315**
20	**Selling & distribution expenses**			
	Sales promotion expenses	11,943,788	8,121,776	8,468,508
	Sales depot expenses	1,472,548	1,001,333	1,028,010
	Field staff expenses	4,845,886	3,295,202	3,877,782
		18,262,222	**12,418,311**	**13,374,300**
21	**Contingent Liability**		**None**	**None**
22	**Capacity utilisation**			
	Installed capacity (tablets/capsules)		203,200,000	132,500,000
	Utilised capacity (tablets/capsules)		44,779,582	33,960,000
	Percentage of utilisation(%)		22.04	25.63
23	**Directors' remuneration & benefit**			
	Remuneration	5,316,511	3,615,227	4,510,000
	Benefits	123,300	83,844	260,000

24 Information relating to consumption of materials

	2007		2006	
	Quantity Kg	Value Taka	Quantity Kg	Value Taka
Raw materials	17,928	38,700,479	15,918	39,717,934
Packing materials		4,695,171		3,343,949

Notes to the Financial Statements for the Year Ended 31 March, 2007
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25 Value of import calculated on C&F basis

During the year the Company imported the following items in foreign currency:

Particulars	Currency	2007 Foreign currency	2007 Equivalent Taka	2006 Foreign currency	2006 Equivalent Taka
Raw materials	USD	387,029	26,908,025	658,879	44,530,000
	EUR	11,800	1,101,816	70,800	6,180,000
Packing materials	USD	9,425	654,363	11,186	780,000
Lab chemicals	USD	—	—	41,215	2,810,000
Capital machinery and spare parts	USD	45,818	3,194,250	3,895,637	7,250,000
	YEN	3,876,100	2,361,320	3,790,480	2,270,000
Promotional inputs	USD	9,425	666,478	22,993	1,570,000
			34,886,252		65,390,000

26 Employee benefit

The company maintains a recognised contributory provident fund for it's permanent employees.

27 Reporting currency and level of precision

The figures in the financial statements represent Bangladesh Taka, which have been rounded off to the nearest taka.

28 Related party transactions

Name	Relationship	Nature of transaction during the year	Amount (Tk)
Sun Pharmaceutical Industries Ltd.	Parent Company	Purchase of spare parts & machinery	3,194,250
		Promotional inputs	666,478
		Reimbursement of expenses	3,287,034
Mr. Sukumar Ranjan Ghosh	Managing Director	Land rent	3,120,000

29 General

Previous year's figures have been rearranged, wherever necessary, to make them comparable with current year's presentation.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(A Subsidiary of Sun Pharmaceutical Industries Limited)

Dear Shareholders & Friends

It's an honor for me to invite you to join us at Caraco's annual meeting, which is scheduled to be held at 11:00 a.m. on September 10, 2007, Detroit time, at the Ritz-Carlton Hotel, 300 Town Center Drive, Dearborn, Michigan 48126.

It gives me particular pleasure to announce that we continue to build on the success we experienced in Fiscal 2006 by posting record sales and profit in Fiscal 2007. This record performance reflects our disciplined focus on the execution of our business strategy. Contributing to the record results was improved production and increased sales of key products including products marketed under our marketing agreement with Sun Pharmaceuticals Industries, Ltd. and lower non-cash R&D expenses. We have continued to meet the demands of a competitive U.S. generic pharmaceutical market, and going forward we will look to sustain this growth by continuing to effectively market our products and leverage opportunities from our new and existing product pipeline. Indisputably, it was the individual and collective efforts of all of our employees that enabled our Company to meet our goals and position us well for Fiscal 2008.

We Posted Solid Operating Results

During Fiscal year 2007, net sales rose to a record $117.0 million, from $82.8 million for the corresponding period of Fiscal year 2006. This was our sixth consecutive year of exceptionally strong annual sales growth. Gross profit for Fiscal 2007 improved to $57.8 million, as compared to $40.9 million for the corresponding period of Fiscal year 2006, reflecting an increase of 41%. The increase in gross profit is primarily due to higher sales and an improved balance in the mix of customers or the class of trade and product selection being sold, partially offset by price erosion and weight of distribution margins as compared to manufactured margins.

SG&A expenses for Fiscal year 2007 were $9.9 million, compared to $8.2 million for the corresponding period of Fiscal year 2006, representing an increase of 21%. The SG&A expenses, as a percentage of net sales, have declined to 8% for the Fiscal year 2007, as compared to 10% for the corresponding period of Fiscal year 2006. The increase in SG&A for Fiscal year 2007 over Fiscal year 2006 was primarily due to an increase in costs for additions to staff and management particularly quality assurance and quality control and higher SG&A expenses associated with higher sales volumes.

Total R&D expenses for Fiscal year 2007 were $22.4 million, as compared to $43.5 million during the corresponding period of Fiscal year 2006. Actual cash R&D expenses were $10.6 million during Fiscal year 2007, compared to $8.4 million during the corresponding period of Fiscal year 2006. We incurred non-cash R&D expenses of $11.8 million for three product transfers during Fiscal year 2007, as compared to $35.1 million for nine product transfers during the corresponding period of Fiscal year 2006. The cash R&D expenses during the Fiscal year 2007 were higher compared to those during the Fiscal year 2006 due to increased internal R&D activity and initial milestone payments paid to three parties for initiating technology transfer of four products. We filed 19 ANDAs or 11 products with the FDA during Fiscal year 2007 (three products filed had multiple ANDAs). We also submitted three other filings to the FDA for new strengths on existing ANDAs and new sources on the Active Pharmaceutical Ingredients (API).

We generated cash from operations of $27.9 million during Fiscal year 2007, as compared to $8.9 million during the corresponding period of Fiscal year 2006.

Our working capital continues to improve. At March 31, 2007 we had working capital of $76.2 million as compared to working capital of $41.4 million at the end of March 31, 2006. The working capital was significantly higher due to higher cash balances, higher receivables and inventories, along with a reduction in current liabilities at the end of March 2007, compared to that at the end of March 2006. At March 31, 2007, we had stockholders' equity of $95.2 million as compared to $56.4 million at March 31, 2006. Additionally, we have a $10.0 million line of credit through JP Morgan Chase Bank, N.A., which allows us flexibility in our expansion efforts to increase our capacity over the next few years.

Our overall margin will most likely be determined by the weighted mix of our distribution margin verses our manufactured margin. We will report these margins collectively and separately as we have as part of our quarterly and annual filings with the Securities and Exchange Commission. As we noted previously, although gross profit margins may come down over time due to continued price erosion, we are confident that the combination of sales growth, expanding our product portfolio and the successful execution of our business plan will offset any long-term impact. However, should the pricing pressures become more severe than anticipated; the result may be lower growth rates and gross margins. Management will continue to work diligently to counter the downward pricing pressures by increasing sales volume, expansion of our customer base, improved productivity,better cost absorption of operational overheads and introduction of new product categories.

We Continue to Fortify Our Facilities

During Fiscal 2007, we acquired a packaging facility for $1.7 million. This 33,369 sq. ft. facility was previously owned and operated by a third party packager of our portfolio of products. We envision this acquisition will improve overall costs in packaging, bottling and increase our production while adding efficiencies. During Fiscal 2007 the Company acquired six acres of land directly adjacent to its existing manufacturing facility for $0.3 million. We are contemplating the construction of a new facility that is approximately 125,000 sq. ft. on this site. We have been working with the State of Michigan as well as the State development representatives of North Carolina and South Carolina in order to obtain incentives for our long term expansion plans.

We invested approximately $6.0 million during Fiscal 2007 as compared to $3.6 million during Fiscal 2006 and $3.3 million during twelve months ending March 31, 2005 to upgrade our facilities and production.

We believe the existing facilities are suitable and adequate for our current level of operations and anticipated growth in the near term. We have assessed our future requirements and are taking the proper steps in order to efficiently support our long term business strategies.We will continue to own our facilities where significant infrastructure is required and lease where there is only a minimum investment on infrastructure to operate our company.

Growing the Business Appropriately

We remain pro-active in regard to the strategic growth of our business along with maintaining a tactical balance in our day-to-day operation. We continue to expand and upgrade our facilities and hire talented employees. These initiatives have allowed us to better cope with a significantly increased workload through improved timeliness, higher quality, and increased FDA cGMP compliance. We believe we are substantially compliant with cGMP. We continue to invest in improved systems, training and personnel in quality assurance, quality control and manufacturing to improve our overall performance in quality.

Both our internal efforts and Sun's development of new products have picked up momentum. These efforts should facilitate growth at the level of our guidance. Based on current trends and future realizations, we believe we will achieve a 30% growth in sales for Fiscal year 2008, compared to Fiscal year 2007.

Solid Product Progress

Our product-development strategy that primarily had been supported by the Sun Global product development agreement continues to evolve. We market and distribute products for Sun and we increased our efforts for internal development of products. In addition we have initiated work with other outside developers to augment our overall development scheme.

Product development is the fuel that propels our Company forward. Product development will remain a primary focus for our Company.

In Fiscal 2007, we entered into a three-year marketing agreement with Sun Pharma, which was reviewed and approved by the Independent Committee. Under the agreement, the Company purchases selected finished products offered by Sun Pharma that have gained FDA approval. Caraco markets and distributes the same as part of our current product offerings in the US, its territories and possessions, including Puerto Rico.

During Fiscal year 2007, the Company entered into three definitive agreements with separate development partners and one subsequent agreement to develop a total of five additional Caraco ANDAs. These relationships should also provide additional opportunities for the future development of products. We anticipate additional development agreements will be entered into in order to eliminate any future gaps in our calendar of FDA approvals. We expect these agreements to run parallel to our own internal product development.

We Accelerated Research and Grew Our Formulary

Our product strategy going forward is to develop and co-develop opportunities for products that have solid market potential, that are difficult to develop, that require difficult-to-source raw materials, have an additional barrier or to manufacture and/ or products representing smaller therapeutic niche markets. During Fiscal 2007 we also continued to develop products that have potential patent litigation, and/or first-to-file opportunities. We will also look for opportunities to acquire ANDAs from other pharmaceutical companies.

Sun Pharma Partnership

Sun Pharma, a vertically integrated pharmaceutical manufacturer serving international markets and is currently India's largest drug maker given its market cap of nearly US $5 billion. In addition to the marketing agreement and technology transfers for shares, Sun Pharma and its affiliates have directly loaned capital and acted as a guarantor on loans to Caraco. They supply us with raw materials for certain of our products, help us obtain machinery and equipment to enhance our production capacities at competitive prices, and transferred certain generic product formulations to us. Sun Pharma's investment in and support of Caraco has directly resulted in Caraco achieving the sales necessary to support its operations and was a contributor to its high growth potential. As of March 31, 2007, Sun Pharma beneficially owns approximately 66% (75% including its Series B convertible preferred stock) of the outstanding shares of Caraco.

The Caraco Team

We continue to strengthen our staff, building on our succession models throughout the organization. We spend quality time thinking about how to best recruit and retain talented employees. In hiring new employees, we continually stress the importance of finding the right person for the right position that can be one of the building blocks to our future.. As we build our team we model productivity per-headcount in each functional area. This enables us to closely monitor performance and performance improvements as we modify the level of support in each area. Based on stringent benchmarks, we saw measurable improvement in productivity through out the year.

Looking ahead, we are encouraged about the future of our Company and the industry as a whole. We believe the competitive environment we find ourselves in is conducive to our success. Due to our size and management structure, we believe that we are able to move swiftly and effectively. We are disciplined and have the aptitude to execute our plan. We believe in execution of our plan.

Management's plans for Fiscal 2008 include:

- Continued focus and improvement on FDA compliance.
- Increased pace of research and development activities, with a view to increase the number of ANDA filings.
- Continue to invest in equipment and facilities to expand capacity to meet requirements of projected short and long-term growth while improving quality.
- Increased market share for certain existing products and recently introduced products.
- Enhanced customer reach and satisfaction.
- Prompt introduction of new approved products to the market.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction per unit.
- Increase the number of products, as well as anticipated volume increases for existing products, which, in turn, will improve manufacturing capacity utilization.
- Consider alternative ways of increasing cash, such as marketing ANDAs owned by Sun Pharma.
- Expand our relationships with financial institutions to fortify our credit position and borrowings as necessary.
- Research alternate product development sources and product licenses such as in licensing authorized generics from brand innovator companies and acquisitions of ANDAs from competitor manufacturers both domestically and abroad.
- Research possible development of brands for existing stream of products where such potential exists.
- Increase focus on succession planning.
- Increase training in cGMP.
- Increase management training and development.
- Maintain balance in trade class.

In closing, I want to thank The Board for their guidance and our shareholders for their continued support. I would also like to acknowledge the contribution made by the very talented team of individuals who make up the Caraco family. Our Company's accomplishments and progress would not have been possible without their individual and collective efforts. I appreciate the fact that so many employees feel a responsibility for the overall success of the company. It continues to be cohesive team of people that makes up the company. The future is bright and I believe the efforts of our team at all levels of the organization will continue to achieve outstanding returns for the Company and its shareholders.

(Dan Movens Signature)

Forward Looking Statements. This letter may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Without limitation, the words "believes," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Those statements include statements regarding our intent, belief, and current expectation. These statements are not guarantees of future performance and are subject to risks and uncertainties that cannot be predicted or quantified. Consequently, actual results could differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to those referenced in Part I, Item 1A of our most recent annual report on Form 10-K. These forward-looking statements represent our judgment as of the date of this letter. We disclaim, however, any intent or obligation to update our forward-looking statements.

Daniel H. Movens
Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Caraco Pharmaceutical Laboratories, Ltd.
Detroit, Michigan

We have audited the accompanying balance sheets of *Caraco Pharmaceutical Laboratories, Ltd.* (a Michigan corporation) (a subsidiary of Sun Pharmaceutical Industries Limited) (the "Corporation") as of March 31, 2007 and 2006 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years ended March 31, 2007 and 2006, the three months ended March 31, 2005 and for the year ended December 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caraco Pharmaceutical Laboratories, Ltd. as of March 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended March 31, 2007 and 2006, the three months ended March 31, 2005, and for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*, the effectiveness of the Corporation's internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 14, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Rehmann Roboson

Troy, Michigan

May 14, 2007

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(A Subsidiary of Sun Pharmaceutical Industries Limited)

BALANCE SHEETS

	March 31		
	USD	**RS**	USD
ASSETS	**2007**	**2007**	2006
Current assets			
Cash and cash equivalents	$ 33,897,622	1,460,987,508	$ 11,924,245
Accounts receivable, net	26,125,146	1,125,993,793	20,859,099
Inventories	31,943,297	1,376,756,101	26,965,690
Prepaid expenses and deposits	3,473,340	149,700,954	2,532,561
Total current assets	**95,439,405**	**4,113,438,356**	62,281,595
Property, plant and equipment			
Land	975,311	42,035,904	197,305
Buildings and improvements	12,448,221	536,518,325	10,790,703
Equipment	15,292,499	659,106,707	12,040,688
Furniture and fixtures	992,013	42,755,760	681,705
Total	29,708,044	1,280,416,696	23,710,401
Less accumulated depreciation	10,678,157	460,228,567	8,749,997
Net property, plant and equipment	**19,029,887**	**820,188,130**	14,960,404
Total assets	**$ 114,469,292**	**4,933,626,485**	$ 77,241,999

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

BALANCE SHEETS

	March 31		
	USD	**RS**	USD
LIABILITIES AND STOCKHOLDERS' EQUITY	**2007**	**2007**	2006
Current liabilities			
Accounts payable, trade	$ 3,350,024	144,386,034	$ 3,696,265
Accounts payable, Sun Pharma	12,143,157	523,370,067	14,678,085
Accrued expenses	3,782,702	163,034,456	2,489,398
Total liabilities (all current)	**19,275,883**	**830,790,557**	20,863,748
Commitments and contingencies (Notes 9, 11 and 12)			
Stockholders' equity (Note 7)			
Series B convertible preferred stock, no par value; issued and outstanding 10,880,000 shares at March 31, 2007 and 2006.	73,585,520	3,171,535,912	72,755,770
Common stock, no par value; authorized 50,000,000 shares, issued and outstanding 28,102,394 shares (March 31,2007) and 26,421,994 shares (March 31,2006)	55,970,097	2,412,311,181	44,988,597
Additional paid-in capital	2,864,522	123,460,898	2,718,735
Accumulated deficit	(37,226,730)	(1,604,472,063)	(64,084,851)
Total stockholders' equity	**95,193,409**	**4,102,835,928**	56,378,251
Total liabilities and stockholders' equity	**$ 114,469,292**	**4,933,626,485**	$ 77,241,999

CARACO PHARMACEUTICAL LABORATORIES, LTD.
(A Subsidiary of Sun Pharmaceutical Industries Limited)

STATEMENTS OF OPERATIONS

	USD Year Ended March 31, 2007	**RS. Year Ended March 31, 2007**	USD Year Ended March 31, 2006	USD Three Months Ended March 31, 2005	USD Year Ended December 31, 2004
Net sales	$ 117,027,016	5,295,472,474	$ 82,788,918	$ 17,336,500	$ 60,340,309
Cost of goods sold (Notes 1 and 4)	59,242,858	2,675,739,325	41,872,834	7,879,425	24,441,569
Gross profit	**57,784,158**	**2,619,733,150**	40,916,084	9,457,075	35,898,740
Selling, general and administrative expenses	9,880,674	447,100,499	8,182,718	1,879,480	5,276,755
Research and development costs - affiliate (Note 7)	11,761,280	532,197,920	35,055,360	10,200,000	24,397,040
Research and development costs - other	10,590,643	479,226,596	8,437,338	1,719,865	6,053,334
Operating income (loss)	**25,551,561**	**1,161,208,135**	(10,759,332)	(4,342,270)	171,611
Other income (expense)					
Interest income	1,081,208	48,924,662	233,385	16,385	40,316
Interest expense	(28,194)	(1,275,779)	(3,740)	—	(407,330)
Loss on sale of equipment	(5,106)	(231,047)	—	—	(10,636)
Other income	258,652	11,704,003	106,375	4,172	6,671
Other income (expense) - net	**1,306,560**	**59,121,840**	336,020	20,557	(370,979)
Net income (loss)	**$ 26,858,121**	**1,220,329,975**	$ (10,423,312)	$ (4,321,713)	$ (199,368)
Net income (loss) per share					
Basic	$ 1.02	Rs 43.42	$ (0.39)	$ (0.16)	$ (0.01)
Diluted	$ 0.72	Rs 32.75	$ (0.39)	$ (0.16)	$ (0.01)

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

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accmulated Deficit	Total
	Shares	**Amount**	Shares	Amount			
Balances at January 1, 2004	—	$ —	24,577,828	$ 41,442,311	$ 2,718,735	$ (49,140,458)	$ (4,979,412)
Issuance of preferred stock to affiliate in exchange for product technology transfers	4,352,000	27,500,410	—	—	—	—	27,500,410
Common stock options exercised	—	—	1,756,866	3,453,946	—	—	3,453,946
Net loss	—	—	—	—	—	(199,368)	(199,368)
Balances at December 31, 2004	4,352,000	27,500,410	26,334,694	44,896,257	2,718,735	(49,339,826)	25,775,576
Issuance of preferred stock to affiliate in exchange for product technology transfers	1,632,000	10,200,000	—	—	—	—	10,200,000
Common stock options exercised	—	—	25,600	31,730	—	—	31,730
Net loss	—	—	—	—	—	(4,321,713)	(4,321,713)
Balances at March 31, 2005	**5,984,000**	**37,700,410**	26,360,294	44,927,987	2,718,735	(53,661,539)	31,685,593
Issuance of preferred stock to affiliate in exchange for product technology transfers	4,896,000	35,055,360	—	—	—	—	35,055,360
Common stock options exercised	—	—	61,700	60,610	—	—	60,610
Net loss	—	—	—	—	—	(10,423,312)	(10,423,312)
Balances at March 31, 2006	**10,880,000**	**$ 72,755,770**	26,421,994	$ 44,988,597	$ 2,718,735	$ (64,084,851)	$ 56,378,251
Issuance of preferred stock to affiliate in exchange for product technology transfers	1,632,000	11,761,280	—	—	—	—	11,761,280
Conversion of preferred stock into common stock	(1,632,000)	(10,931,530)	1,632,000	10,931,530	—	—	—
Common stock options exercised	—	—	48,400	49,970	—	—	49,970
Stock option expense	—	—	—	—	145,787	—	145,787
Net Income	—	—	—	—	—	26,858,121	26,858,121
Balances at March 31, 2007	**10,880,000**	**$ 73,585,520**	28,102,394	$ 55,970,097	$ 2,864,522	$ (37,226,730)	$ 95,193,409

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

CARACO PHARMACEUTICAL LABORATORIES, LTD.
(A Subsidiary of Sun Pharmaceutical Industries Limited)

STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2007	Year Ended March 31, 2006	Three Months Ended March 31, 2005	Year Ended December 31, 2004
Cash flows from operating activities				
Net Income (loss)	$ 26,858,121	$ (10,423,312)	$ (4,321,713)	$ (199,368)
Adjustments to reconcile net income (loss) to net cash provided by operating activities Depreciation	1,931,423	1,552,578	306,626	932,419
Capital stock issued or to be issued to affiliate in exchange for product formula	11,761,280	35,055,360	10,200,000	24,397,040
Loss on sale of property, plant and equipment	5,106	—	—	10,636
Stock option expense	145,787	—	—	—
Changes in operating assets and liabilities which (used) provided cash				
Accounts receivable	(5,266,047)	(14,122,321)	(2,133,911)	(64,393)
Inventories	(4,977,607)	(8,497,997)	(1,333,882)	(7,523,001)
Prepaid expenses and deposits	(940,778)	(1,426,943)	(441,807)	(140,430)
Accounts payable	(2,881,171)	6,156,792	2,300,793	4,690,789
Accrued expenses	1,293,307	557,954	220,793	(64,548)
Net cash provided by operating activities	**27,929,421**	**8,852,111**	4,796,899	22,039,144
Cash flows for investing activities				
Purchases of property, plant and equipment	(6,006,014)	(3,615,901)	(657,673)	(3,982,413)
Net cash used in investing activities	**(6,006,014)**	**(3,615,901)**	(657,673)	(3,982,413)
Cash flows from financing activities				
Proceeds from loans payable to financial institutions	5,000,000	1,500,000	—	10,000,000
Repayments of loans payable to financial institutions	(5,000,000)	(1,500,000)	—	(26,875,000)
Repayments of EDC loan	—	—	—	(6,385,490)
Proceeds from issuance of common stock	49,970	60,610	31,730	3,453,946
Net cash provided by (used in) financing activities	**49,970**	**60,610**	31,730	(19,806,544)
Net increase (decrease) in cash and cash equivalents	**21,973,377**	**5,296,820**	4,170,956	(1,749,813)
Cash and cash equivalents, beginning of year / period	11,924,245	6,627,425	2,456,469	4,206,282
Cash and cash equivalents, end of year / period	**$ 33,897,622**	**$ 11,924,245**	$ 6,627,425	$ 2,456,469

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

Notes to financial statements

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Nature of Business

Caraco Pharmaceutical Laboratories, Ltd. ("Caraco" or the "Corporation"), based in Detroit, Michigan, develops, manufactures and markets generic, prescription and over-the-counter pharmaceuticals in the United States. The process of developing a line of proprietary drugs requires approvals by the Food and Drug Administration (FDA) of Abbreviated New Drug Applications (ANDA). The Corporation's present product portfolio consists of 33 products in various strengths and package sizes. The Corporation's drugs relate to a variety of therapeutic segments including the central nervous system, cardiology, pain management and diabetes.

The Corporation's manufacturing facility and executive offices were constructed in 1991, pursuant to a $9.1 million loan from the Economic Development Corporation of the City of Detroit (the "EDC"). Since August 1997, capital infusions and loans have primarily come from Sun Pharmaceutical Industries Limited, a specialty pharmaceutical corporation organized under the laws of India ("Sun Pharma"). Among other things, Sun Pharma has acted as a guarantor on loans to Caraco, has supplied the Corporation with raw materials for certain products, assisted in obtaining machinery and equipment to enhance production capacities at competitive prices, and has transferred certain generic products. As of March 31, 2007, Sun Pharma beneficially owns approximately 66% (75% including its convertible Series B Preferred stock) of the outstanding common shares of Caraco.

Sun Pharmaceutical Industries Limited

Pursuant to a stock purchase agreement, a Mumbai, India based specialty pharmaceutical manufacturing company, Sun Pharmaceutical Industries Limited ("Sun Pharma"), made an initial investment of $7.5 million for the purchase of 5.3 million common shares of Caraco in 1997.

Sun Pharma and its affiliates have loaned the Corporation approximately $10 million since August 1997. As of December 31, 2003, all such loans had been repaid. Sun Pharma has also assisted the Corporation, by acting as guarantor, in obtaining line of credit loans from ICICI Bank Limited, The Bank of Nova Scotia and Citibank FSB in the amounts of $5.0 million, $12.5 million and $10.0 million, respectively, all of which have been repaid and terminated as of December 31, 2004.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(A Subsidiary of Sun Pharmaceutical Industries Limited)

Notes to financial statements

In August 1997, Caraco entered into an agreement, whereby Sun Pharma was required to transfer the technology formula for 25 generic pharmaceutical products over a five-year period in exchange for 544,000 shares of Caraco common stock for each technology transfer of an ANDA product (when bio-equivalency studies were successfully completed) and 181,333 shares for each technology transfer of a DESI (Drug Efficacy Study Implementation) product. The products provided to the Corporation from Sun Pharma were selected by mutual agreement. Under such agreement, Caraco conducted, at its own expense, all tests including bio-equivalency studies. Pursuant to such agreement through 2002, Sun Pharma delivered the technology formula for 13 products. This agreement expired on November 21, 2002, and the Corporation entered into a new technology transfer agreement with Sun Global, Inc. ("Sun Global"), an affiliate of Sun Pharma.

Under the agreement, which was approved by the Corporation's independent directors, Sun Global agreed to provide the formulations for 25 new generic drugs over a five-year period. Caraco's rights to the products are limited to the United States and its territories or possessions, including Puerto Rico. Sun Global retains rights to the products in all other territories. The products are selected by mutual agreement. Under this agreement, Caraco conducts at its own expense all tests, including bio-equivalency studies. The Corporation also markets the products consistent with its customary practices. In return for the technology transfer, Sun Global receives 544,000 shares of Series B Preferred Stock for each generic drug transferred when such drug has passed its bio-equivalency studies.

The products agreement was amended by the Independent Committee, comprised of the three independent directors, in the first quarter of 2004 to eliminate the provision requiring that the Independent Committee concur in the selection of each product, and provides instead that each product satisfy certain objective criteria developed by management and approved by the Independent Committee. Pursuant to such objective criteria, all 25 of the products under this agreement have been selected, 23 of which passed bio-equivalency studies through March 31, 2007.

Sun Pharma has established research and development centers in Mumbai and Vadodara in India, where the development work for products is performed.

Sun Pharma and its subsidiaries supply the Corporation with certain raw materials (Note 4) and formulations, assist in acquiring machinery and equipment to enhance production capacities, and provide qualified technical professionals who work as Caraco employees. Also, four of the nine directors of Caraco are, or were, affiliated with Sun Pharma. Further, Sun Pharma and its affiliates may use Caraco as a contract manufacturer and/or distributor of their products. In December 2004 and January 2005, Caraco entered into agreements for two such products, of which one is currently being marketed.

In Fiscal 2007, the Corporation entered into a three-year marketing agreement with Sun Pharma, which was reviewed and approved by the Board's Independent Committee. Under the agreement, the Corporation purchases selected products offered by Sun Pharma and markets and distributes the same as part of the current product offerings in the U.S., its territories and possessions, including Puerto Rico. During Fiscal 2007 the Corporation made net sales of $4.6 million of the marketed products.

During the three month period ended March 31, 2005 SPARC Bioresearch Private Limited ("SPARC"), an affiliate of Sun Pharma, performed certain analytical studies required as part of the bio-equivalency process for two products. The Corporation incurred approximately $172,000 of costs during this period for the studies performed by SPARC. No similar studies were performed by SPARC during the years ended March 31, 2007 and 2006 and December 31, 2004.

While management has a basis to reasonably believe that Sun Pharma's substantial investment in Caraco provides Sun Pharma with sufficient economic incentive to continue to assist Caraco in developing its business, and Sun Pharma has expressed its intent to continue to support Caraco's operations in the near term, as it has done in the past, there can be no assurance that such support will, in fact, continue.

During the first quarter of 2004, Sun Pharma acquired 3,452,291 additional shares of common stock and 1,679,066 stock options from two former directors and a significant shareholder. Sun Pharma exercised these stock options during the fourth quarter of 2004.

In addition to its substantial relationship with and dependence on Sun Pharma as described above, the Corporation is subject to certain risks associated with companies in the generic pharmaceutical industry. Profitable operations are dependent on the Corporation's ability to market its products at reasonable profit margins. In addition to maintaining profitable operations, the ongoing success of the Corporation will depend, in part, on its continuing ability to attract and retain key employees, obtain timely approvals of its ANDAs, and develop new products (see "Operations", below).

Operations

The Corporation recorded net sales of $117.0 million for the year ended March 31, 2007 ("Fiscal 2007") and generated cash from operations of $27.9 million during Fiscal 2007. This cash was generated after funding working capital requirements of $12.8 million. The Corporation earned a net income of $26.9 million during Fiscal 2007. The income was primarily due to increased sales and lower non-cash research and development expense (R&D) of $11.8 million recorded during Fiscal 2007, compared to $35.1 million during Fiscal 2006. This non-cash R&D expense relates to three products passing their bio-equivalency studies and the related value of the preferred stock issued to Sun Global during this period. At March 31, 2007, the Corporation had stockholders' equity of $95.2 million.

Management's plans for Fiscal 2008 include:

- Continued focus and improvement on FDA compliance.
- Increased pace of research and development activities, with a view to increase the number of ANDA filings.
- Continue to invest in equipment and facilities to expand capacity to meet requirements of projected short and long-term growth while improving quality.
- Increased market share for certain existing products and recently introduced products.
- Enhanced customer reach and satisfaction.
- Prompt introduction of new approved products to the market.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction per unit.
- Increase the number of products, as well as anticipated volume increases for existing products, which, in turn, will improve manufacturing capacity utilization.
- Consider alternative ways of increasing cash, such as marketing ANDAs owned by Sun Pharma.
- Expand our relationships with financial institutions to fortify our credit position and borrowings as necessary.
- Research alternate product development sources and product licenses such as in licensing authorized generics from brand innovator companies and acquisitions of ANDAs from competitor manufacturers both domestically and abroad.
- Research possible development of brands for existing stream of products where such potential exists.
- Increase focus on succession planning.
- Increase training in cGMP.
- Increase management training and development.
- Maintain balance in trade class.

Notes to financial statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, provisions for estimated customer returns, discounts, rebates and other price adjustments, including customer chargebacks (see "Revenue Recognition", below), valuation allowances for deferred tax assets, and valuation of overhead components in inventory.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Corporation invests its excess cash primarily in deposits with major banks and in other high quality short-term liquid money market investments. During the normal course of business, the Corporation may maintain cash on deposit in excess of federally insured limits with financial institutions. The Corporation maintains a policy of making investments only with institutions with at least an investment grade credit rating.

Revenue Recognition

Revenue from product sales, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, shipment of the goods has occurred, the selling price is fixed or determinable, and collectibility is reasonably probable. The Corporation's customers consist primarily of large pharmaceutical wholesalers who sell directly into the retail channel, chain drug stores, distributors, and managed care customers. Provisions for sales discounts, and estimates for chargebacks, rebates, and product returns are established as a reduction of product sales revenue at the time revenues are recognized, based on historical experience and current market trends adjusted to reflect known changes in the factors that impact these reserves. These revenue reductions are reflected as a direct reduction to accounts receivable through an allowance.

Allowances for Sales Adjustments

Chargebacks

Chargebacks represent the Corporation's most significant provision against gross accounts receivable and related reduction to gross revenue. Chargebacks are retroactive credits given to wholesale customers that represent the difference between the lower price they sell (contractual price) to retail, chain stores, and managed care organizations and what the Corporation charges the wholesaler. The Corporation estimates chargebacks at the time of sale for their wholesale customers. The Corporation is currently unable to specifically determine whether the amounts allowed in specific prior periods for chargeback reserves have been over or understated. Wholesaler customers who submit chargebacks to the Corporation do not reference a specific invoice that the chargeback is related to when the chargeback is submitted to the Corporation. Thus, the Corporation cannot determine the specific period to which the wholesaler's chargeback relates.

The Corporation considers the following factors in the determination of the estimates of chargebacks.

1. The historical data of chargebacks as a percentage of sales, as well as actual chargeback reports from primary wholesaler customers.
2. Volume of all products sold to wholesaler customers and the average chargeback rates for the current quarter as compared to the previous quarter and compared to the last six month period.
3. The sales trends and future estimated prices of products, wholesale acquisition cost (WAC), the contract prices with the retailers, chain stores, managed care organizations (end-users), and wholesaler customer's contract prices.
4. The Corporation utilizes data on remaining inventories on hand at primary wholesaler customers at the end of the period in the calculation of estimates.

Such estimated amounts, in addition to certain other deductions, are deducted from the Corporation's gross sales to determine net revenues. The amount of actual chargebacks claimed could be either higher or lower than the amounts accrued. Changes in estimates, if any, would be recorded in the income statement in the period of the change. If the Corporation materially over or under estimates the amount that will ultimately be charged back to it by its wholesale customers, there could be a material impact on the Corporation's financial statements. Approximately 90% and 88% of the total allowance for trade receivables at March 31, 2007 and 2006, respectively, has been established to provide for estimated chargebacks and rebates (see Note 3).

Shelf Stock Adjustments

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling prices of products. These credits are customary in the industry and are intended to reduce the customers' inventory cost to better reflect current market prices. The decision to grant a shelf stock adjustment to a customer following a price decrease is at the Corporation's discretion.

Factors considered when recording a reserve for shelf stock adjustments include estimated launch dates of competing products based on market intelligence, estimated decline in market price of products based on historical experience and input from customers, and levels of inventory held by customers at the date of the pricing adjustments.

Product Returns and Other Allowances

In the pharmaceutical industry, customers are normally granted the right to return product for credit if the product has not been used prior to its expiration date. The Corporation's return policy typically allows product returns for products within a 12-month window from six months prior to the expiration date and up to six months after the expiration date. The Corporation estimates the level of sales, which will ultimately be returned pursuant to its return policy, and records a related reserve at the time of sale. These amounts are deducted from its gross sales to determine net revenues. These estimates take into consideration historical returns of the products and the Corporation's future expectations. The Corporation periodically reviews the reserves established for returns and adjusts them based on actual experience, as necessary. The primary factors considered in estimating its potential product returns include shelf life of expiration date of each product and historical levels of expired product returns. If the Corporation becomes aware of any returns due to product related issues, this information is used to estimate an additional reserve. The amount of actual product return could be either higher or lower than the amounts reserved. Changes in these estimates, if any, would be recorded in the income statement in the period of the change. If the Corporation over or under estimates the quantity of product that will ultimately be returned, there may be a material impact to its financial statements.

Discounts (trade and prompt payment discounts) are reserved for at the end of every reporting period based on the gross sales made to the customers during the period and based on their terms of trade. The Corporation reviews its contracts with its customers in addition to historical data and percentages to estimate the reserve for estimated discounts.

Customer rebates are estimated at the end of every reporting period, based on direct or indirect purchases. If the purchases are direct, the rebates are recognized when products are purchased and a periodic credit is given. For indirect purchases, the rebates are recognized based on the terms with such customer. Medicaid Rebates are estimated based on the historical data the Corporation receives from the public sector benefit providers, which is based on the final dispensing of the products by a pharmacy to a benefit plan participant.

Notes to financial statements

Doubtful Accounts

Doubtful accounts are estimated based on the data available from external sources, including information obtained related to the financial condition of customers. Delinquent accounts are reviewed by management on a quarterly basis, to identify and record allowances, as considered necessary, for accounts receivable not expected to be recoverable.

Accounts Receivable

The Corporation sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Corporation provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Corporation has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Inventories

Inventories, which consist of raw materials, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the specific identification method, or market. The Corporation analyzes its inventory levels quarterly and writes down any inventory that has become obsolete and inventory that has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are written off. Materials acquired for research and development on products yet to be launched are written off in the year of acquisition. The determination of whether or not inventory costs will be realizable requires estimates by management. A critical estimate in this determination is the estimate of the future expected inventory requirements, whereby the Corporation compares its internal sales forecasts to inventory on hand. Actual results may differ from those estimates and inventory write-offs may be required. The Corporation must also make estimates about the amount of manufacturing overhead to allocate to its finished goods and work in process inventories. Although the manufacturing process is generally similar for its products, the Corporation must make judgments as to the portion of costs to allocate to purchased product, work in process and finished goods, and such allocations can vary based upon the composition of these components and the fact that each product produced does not necessarily require the same amount of time or effort for the same production step. Accordingly, the assumptions made can impact the value of reported inventories and cost of sales.

Net Income (Loss) Per Share

Net income (loss) per share is computed using the weighted average number of common shares outstanding during each period and considers a dual presentation and reconciliation of "basic" and "diluted" per share amounts. Diluted reflects the potential dilution of all common stock equivalents.

At March 31, 2006 and 2005 and at December 31, 2004 options to purchase 341,400, 357,000 and 381,600 common shares respectively, 10,880,000, 5,984,000 and 4,352,000 shares of convertible preferred stock, respectively and 45,000 shares of common stock granted to the Corporation's Chief Executive Officer during 2006 (Note 7) were excluded from the computation of earnings per share because they would have an antidilutive effect on net loss per share.

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	Year Ended March 31 2007	**Year Ended March 31 2006**	Three Months Ended March 31 2005	Year Ended December 31 2004
Numerator:				
Net income (loss) available for common stockholders	$ 26,858,121	$ (10,423,312)	$ (4,321,713)	$ (199,368)
Denominator:				
Weighted average shares outstanding, basic	26,447,312	26,392,054	26,348,347	24,734,282
Incremental shares from assumed conversion of - preffered stock	10,464,175	—	—	—
- common stock options	343,293	—	—	—
Weighted average shares outstanding, diluted	37,254,780	26,392,054	26,348,347	24,734,282
Net income (loss) per common share				
Basic	$ 1.02	$ (0.39)	$ (0.16)	$ (0.01)
Diluted	$ 0.72	$ (0.39)	$ (0.16)	$ (0.01)

Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment and believes the carrying value of these assets will be recovered through cash flows from operations.

Federal Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and federal income tax basis of assets and liabilities as measured by the estimated tax rates that will be in effect when these differences reverse. Deferred income taxes result principally from the Corporation's net operating loss carryforwards.

Research and Development Costs

Series B convertible preferred stock (Note 7) is issued on an ongoing basis to Sun Pharma and its affiliates under the Products Agreement between the Corporation and Sun Global in exchange for the formulations of technology products delivered by Sun Global to the Corporation. The resulting amount of research and development expense is charged to operations and is determined based on the fair value of the preferred shares on the date the respective product formula passes its bio-equivalency studies. The fair value of such shares is based upon an independent valuation.

Research and development costs settled in cash are charged to expense as incurred.

Notes to financial statements

Fair Values of Financial Instruments

The carrying values of cash equivalents, accounts receivable, and accounts payable approximate their fair values due to the short-term maturities of these financial instruments.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155 "*Accounting for Certain Hybrid Financial Instruments-An amendment of FASB Statements No. 133 and 140*". This statement requires evaluation of all interests in securitized financial assets to determine whether they represent either freestanding derivatives or contain embedded derivatives. These interests were previously exempted from such evaluation. SFAS No. 155 permits any hybrid instrument, such as an interest in securitized financial assets containing an embedded derivative, to be accounted at fair value as opposed to bifurcating and accounting for the embedded derivative separate from the host instrument. This Statement also eliminates restrictions on a qualifying special purpose entity's ability to hold passive derivative financial instruments pertaining to beneficial interests that are, or contain, a derivative financial instrument. The Corporation will adopt this statement in the first quarter of Fiscal 2008, and does not expect the adoption to have a material impact on the Corporation's financial position or results of operations. This statement is effective for fiscal years beginning after September 15, 2006.

In June 2006, the FASB issued Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes – An interpretation of FASB Statement no. 109*" ("FIN 48"). This interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Corporation will adopt this Interpretation in the first quarter of fiscal 2008. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings. The Corporation is currently assessing the impact of this Interpretation on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157 "*Fair Value Measurements*". This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value, and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that are already required or permitted by other accounting standards and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning subsequent to November 15, 2007. The Corporation will be required to adopt SFAS No. 157 for the first quarter of Fiscal 2009.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Management currently does not expect adoption of SFAS 159 will have a material effect on the Corporation's financial position or results of operations. The Corporation plans to adopt SFAS for the first quarter of Fiscal 2009.

2. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Financing Activities

As described in Notes 1 and 7, pursuant to the technology transfer agreement with an affiliate of the Corporation's parent, Caraco, on an ongoing basis, finances the acquisition of research and development costs in exchange for the issuance of preferred stock to its parent. Preferred stock earned or issued to affiliates had fair values of $11,761,280 and $35,055,360 for the years ended March 31, 2007 and 2006, respectively, $10,200,000 for the three month period ended March 31, 2005, and $24,397,040 for the year ended December 31, 2004. In March 2007, the Corporation issued 1,632,000 shares of its common stock to Sun Pharma Global Inc. in exchange for 1,632,000 preferred shares at a value of $10,931,530.

Other Cash Flows Information

Cash paid for interest was approximately $28,000, $4,000 and $407,000 for the years ended March 31, 2007 and 2006, and December 31, 2004, respectively. No cash was paid for interest for the three month period ended March 31, 2005.

3. ACCOUNTS RECEIVABLE, NET OF ALLOWANCES FOR SALES ADJUSTMENTS AND DOUBTFUL ACCOUNTS (NOTE 1)

Accounts receivable and related allowances are summarized as follows:

	March 31	
	2007	2006
Accounts receivable - gross	$ 62,615,146	$ 33,926,099
Allowances:		
Chargebacks & Rebates	32,638,000	11,467,000
Sales returns and allowances	3,752,000	1,500,000
Doubtful accounts	100,000	100,000
Total allowances	36,490,000	13,067,000
Accounts receivable, net of allowances	$ 26,125,146	$ 20,859,099

A summary of the activity in accounts receivable allowances is as follows:

	Total Allowances
Balance at December 31, 2003	**$ 16,043,000**
Additions charged to net sales	67,670,000
Deductions allowed to customers	(65,578,000)
Balance at December 31, 2004	**18,135,000**
Additions charged to net sales	21,712,000
Deductions allowed to customers	(18,817,000)
Balance at March 31, 2005	**21,130,000**
Additions charged to net sales	118,996,000
Deductions allowed to customers	(126,959,000)
Balance at March 31, 2006	**13,067,000**
Additions charged to net sales	199,586,000
Deductions allowed to customers	(176,163,000)
Balance at March 31, 2007	**$ 36,490,000**

Notes to financial statements

4. INVENTORIES

Inventories consist of the following amounts:

	March 31 2007	March 31 2006
Raw materials	$ 10,443,715	$ 9,735,502
Goods in transit	4,972,668	5,974,600
Work in process	3,717,911	3,283,911
Finished goods	12,809,003	7,971,677
Total inventories	$ 31,943,297	$ 26,965,690

The principal components used in the Corporation's business are active and inactive pharmaceutical ingredients and certain packaging materials. Some of these components are purchased from single sources; however, the majority of the components have an alternate source of supply. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers.

During the years ended March 31, 2007 and 2006, the three months ended March 31, 2005, and during the year ended December 31, 2004, the Corporation purchased inventory components of approximately $38.8 million, $28.1 million, $5.3 million, and $16.7 million, respectively, from Sun Pharma.

5. DEBT

Loans Payable to Financial Institutions

During 2004, the Corporation obtained a $10,000,000 line-of-credit with Citibank, N.A. that incurred interest at the London Interbank Offered Rate (LIBOR) plus 125 basis points. Borrowings on the line-of-credit were available to Caraco only when secured by an irrevocable standby letter-of-credit from Sun Pharma. Such a letter was provided by Sun Pharma during 2004. The letter had expired as of December 31, 2004, and the line was terminated on March 15, 2005.

On November 17, 2005, the Corporation entered into a one-year, $10 million Credit Agreement with JP Morgan Chase Bank, N.A. Under the Credit Agreement, the lender may make loans and issue letters of credit to the Corporation for the Corporation's working capital needs and general corporate purposes. Letters of credit, if issued, expire one year from their date of issuance, but no later than November 17, 2007. On November 16, 2006, this agreement was renewed through November 30, 2007. Borrowings are secured by the Corporation's receivables and inventory. Interest is payable based on a LIBOR Rate or an alternate base rate (determined by reference to the prime rate or the federal funds effective rate), as selected by the Corporation. The rate of interest is LIBOR plus 75 basis points or the bank's prime rate minus 100 basis points (effective rates of 6.1% and 7.25%, respectively at March 31, 2007.) The Credit Agreement requires that certain financial covenants be met on a quarterly basis. There are no borrowings under this Credit Agreement at March 31, 2007.

6. INCOME TAXES

The Corporation's deferred income taxes result principally from its net operating loss carry forwards (NOLs) and payment of alternative minimum tax. At March 31, 2007 a net deferred income tax asset of approximately $7.5 million (computed using a 34% tax rate) relating to these temporary differences exists. Based on the Corporation's prior operating results and operating characteristics, full utilization of this deferred tax asset to offset future taxable income is not reasonably assured. Accordingly, Caraco has recorded a valuation allowance of $7.0 million at March 31, 2007 ($20.1 million March 31, 2006), to offset the net deferred tax asset, resulting in a net deferred tax asset of $0.5 million recognized at March 31, 2007. No net deferred tax asset or liability was recognized at March 31, 2006. The valuation allowance has decreased by approximately $13.1 million for the year ended March 31, 2007 and increased by approximately $3.7 million for the year ended March 31, 2006, $2.0 million for the three month period ended March 31, 2005, $0.4 million in 2004.

During the year ended March 31, 2007, NOL carryforwards of approximately $26.8 million were used to offset taxable income. In addition, the Corporation determined that approximately $13.1 million of previous NOLs have been lost under the provisions of Internal Revenue Code Section 382. Accordingly, at March 31, 2007, NOL carryforwards of approximately $18.7 million, which expire between 2007 and 2026, are available to offset future federal taxable income, if any.

7. STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

During 2003, the Corporation's shareholders approved the authorization of an additional 20,000,000 shares of common stock. The Corporation filed an amendment to its articles of incorporation to effect this change in Fiscal 2007.

The Corporation granted 45,000 shares of common stock on May 2, 2005 to its Chief Executive Officer, which vest at a rate of 15,000 shares on each anniversary date until they are fully vested on May 2, 2008. The Corporation has recorded compensation expense of approximately $119,000 and $109,000 related to the portion of the stock grant that vested during Fiscal 2007 and 2006, respectively.

Preferred Stock

In November 2002, in connection with the new technology transfer agreement established with Sun Global (Note 1), the Corporation designated the Series B Convertible Preferred Stock. The Series B preferred shares are non-redeemable and have no par value. In addition, the Series B Convertible Preferred Stock has no voting or dividend rights or liquidation preference other than priority liquidation based on their values on the dates they were earned, and can be converted after three years from the issuance date (or immediately upon a change in control) into one share of common stock, subject to a conversion adjustment (Note 1). While such preferred shares are outstanding, Caraco cannot, without the consent of the holders of a majority of the outstanding shares of the preferred stock, amend or repeal its articles of incorporation or bylaws if such action would adversely affect the rights of the preferred stock. In addition, without such consent, capital stock having any preference or priority superior to the preferred stock may not be issued. As of March 31, 2007, the Corporation has issued 12,512,000 shares of the Series B Convertible Preferred stock to Sun Pharma in exchange for twenty-three product transfers. Such shares have been cumulatively valued at $ 84,517,050 as of March 31, 2007. On March 31, 2007, 1,632,000 shares of the preferred stock were converted into an equal number of shares of Corporation's common stock at a value of $10,931,530.

8. COMMON STOCK OPTIONS

Common Stock Option Plans

As of March 31, 2007, the Corporation maintains one stock option plan, the 1999 Equity Participation Plan (the "1999 Plan") (all options under the 1993 plan were exercised during 2003), under which the Corporation may grant options to employees and non-employee-directors for the purchase of up to 3,000,000 shares of

Notes to financial statements

common stock. The exercise price of options granted may not be less than the fair value of the common stock on the date of grant. Options granted under this plan generally vest in annual installments, from the date of grant, over a three and five-year period, and expire within six years from the date of the grant. Activity with respect to these options is summarized as follows:

	Year Ended March 31, 2007		Year Ended March 31, 2006		Three Months Ended March 31, 2005		Year Ended December 31, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year / period	141,400	3.93	160,500	1.68	181,600	$ 1.41	277,000	$ 1.00
Granted	74,000	9.78	46,000	8.39	4,500	9.60	9,000	9.60
Exercised	(48,400)	1.03	(61,700)	0.98	(25,600)	1.24	(80,400)	1.08
Terminated	(1,100)	8.83	(3,400)	9.30	—	—	(24,000)	0.80
Outstanding, end of year / period	165,900	$ 7.36	141,400	$ 3.93	160,500	$ 1.67	181,600	$ 1.41
Options exercisable, end of year	61,233	$ 3.95	71,720	$ 1.32	79,418	$ 1.50	49,800	$ 1.02

Options at March 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Remaining Contractual Life *	Exercise Price *	Shares	Exercise Price *
$0.68 to $1.00	36,900	0.2	$ 0.76	36,900	$ 0.76
$7.01 to $8.00	1,500	4.0	7.90	1,000	7.90
$8.01 to $9.00	50,500	4.2	8.41	16,333	8.42
$9.01 to $10.00	61,000	5.0	9.31	6,000	9.53
$10.01 to $13.00	16,000	5.5	11.71	1,000	11.01
Total	165,900	3.7	$ 7.36	61,233	$ 3.95

*Weighted average

The estimated fair value as of the date options were granted during the year ended March 31, 2007, is estimated on the date of the grant using the Black Scholes option-pricing model and is based upon the following assumptions:

	Year ended March 31, 2007
Weighted average estimated fair value per share of options granted during the period	$ 9.78
Assumptions	
Common stock price volatility	36.50%
Risk free rate of return	4.74%
Expected option term (in years)	3

Other Common Stock Option Agreements

The Corporation has issued other stock options outside of the 1999 Plan. These stock options have been issued with various vesting schedules and expired at various dates through October 2006. Activity with respect to these options is summarized as follows:

	Year Ended March 31, 2007		Year Ended March 31, 2006		Three Months Ended March 31, 2005		Year Ended December 31, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50	1,876,666	$ 2.01
Exercised	—	—	—	—	—	—	(1,676,666)	2.01
Outstanding, end of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50
Options exercisable, end of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50

Notes to financial statements

Options at March 31, 2007:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Shares	Remaining Contractual Life	Exercise Price
$3.01 to $4.00	200,000	—	$ 3.50

On April 1, 2006, the Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "*Share-Based Payment*" (Statement No. 123 (R)"), which requires employee share-based compensation to be accounted for under the fair value method and requires the use of an option pricing model for estimating the fair value of stock options at the date of grant. Previously, the Corporation accounted for stock options under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "*Accounting for Stock-Based Compensation*,"(Statement No. 123), as amended. Since the exercise price of options equaled the market price of the stock on the date of grant, the stock options had no intrinsic value and, therefore, no expense was recognized for stock options by the Corporation prior to the beginning of fiscal 2007.

The Corporation elected to adopt Statement No. 123 (R) using the modified prospective method, which requires compensation expense to be recorded for all unvested share-based awards beginning in the first quarter of adoption.

For the year ended March 31, 2007, the Corporation has recognized expense amounting to $145,787 related to share-based compensation. As of March 31, 2007 total unrecognized compensation cost related to stock options granted was $250,732. The unrecognized stock option compensation cost is expected to be recognized over a period of approximately 3 to 5 years.

The Corporation estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires the Corporation to estimate the expected term of the stock option grants and expected future stock price volatility over the term. The term represents the expected period of time the Corporation believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on historical volatility of the Corporation's common stock. The Corporation calculates the historical volatility as the standard deviation of the differences in the natural logarithms of the weekly stock closing price, adjusted for dividends and stock splits.

Options to purchase 74,000, 46,000, 4,500 and 9,000 shares of common stock were granted for the years ended March 31, 2007 and 2006, the three month period ended March 31, 2005 and the year ended December 31, 2004, respectively, to the independent directors, officers and employees of the Corporation. No options were granted during 2003.

The Corporation granted options to purchase 40,000 shares of common stock each on June 11, 2006 and May 2, 2005 respectively, to its Chief Executive Officer, which vest at a rate of 1/3rd on each anniversary date until they are fully vested on June 11, 2009 and May 2, 2008, respectively.

Strategic Alliance Stock Options Agreement

Pursuant to an agreement between the Corporation and an unaffiliated large generic pharmaceutical corporation, dated October 1, 1993, the Corporation was to receive the formulations, technology, manufacturing processes and know-how, and other relevant information, and to pay for the bio-equivalency studies required for the preparation of ANDAs for two products. Pursuant to the agreement, the Corporation was required to pay (i) a Sign-Up Option to purchase 100,000 shares of Common Stock at $3.50 per share; and (ii) a Product Option to purchase shares at an exercise price of $3.50 per share. These options may be exercised and payment for shares may be made only out of royalties and any interest earned on the royalties while held by the Corporation. No options have yet been exercised (Note 12).

9. LEASES (INCLUDING RELATED PARTY)

The Corporation entered into two non-cancelable operating leases during 2000 with Sun Pharma to lease production machinery. The leases each required quarterly rental payments of $4,245 and expired during 2005.

The Corporation entered into a non-cancelable operating lease with an unrelated party during 2002 to lease additional warehouse space. This lease was subsequently modified during 2003 in lieu of a new non-cancelable operating lease for additional space at this warehouse. The lease was again modified during 2006 to change the term from 42 months to 66 months. The new lease requires monthly payments that increase from $15,458 to $18,623 over the term of the lease that expires in 2009 with an option to renew for an additional year.

The Corporation entered into a non-cancelable operating lease with an unrelated party on March 13, 2006 to obtain additional space for its executives and administrative staffs. The lease was subsequently modified during 2006 in lieu of a new non-cancelable operating lease for additional office space. The lease commences in May 2006 and requires monthly payments that increase from $13,458 to $14,387 over the term of the lease that expires in 2008.

Net rental expense on these operating leases was $314,917 and $224,569 for the years ended March 31, 2007 and 2006, respectively, $64,896 for the three months ended March 31, 2005 and $181,129 for the year ended December 31, 2004.

The following is a schedule of annual future minimum lease payments required under the operating leases with remaining non-cancelable lease terms in excess of one year as of March 31, 2007:

Year	Amount
2008	$ 379,442
2009	323,720

The Corporation also paid approximately $0.8 million and $0.2 million for the years ended March 31, 2007 and 2006, respectively, $0.1 million for the three month period ended March 31, 2005, and $0.6 million during the year ended December 31, 2004 to Sun Pharma and its associates for the purchase of various parts and machinery needed for operations.

10. RETIREMENT PLAN

The Corporation maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees are permitted to contribute up to the maximum allowable amount determined by the Internal Revenue Code. The Corporation may make discretionary matching and profit sharing contributions under the provisions of the plan. The Corporation made contributions in the amount of $72,876 for the year ended March 31, 2007. The Corporation made no discretionary contributions during the year ended March 31, 2006, the three months ended March 31, 2005, or for the year ended December 31, 2004.

Notes to financial statements

11. CONCENTRATIONS AND COMMITMENTS

Major Customers

Shipments to three wholesalers accounted for approximately 58% of net revenue for the year ended March 31, 2007. Shipments to three wholesalers accounted for approximately 74% of gross revenue for the year ended March 31, 2006, 60% of gross revenue for the three months ended March 31, 2005 and 79% of gross revenue for the year ended December 31, 2004 respectively. Balances due from these customers represented approximately 82% and 72% of gross accounts receivable at March 31, 2007 and 2006, respectively.

The loss of any of these customers could have a materially adverse effect on short-term operating results.

Major Products

Shipments of four products and three products accounted for approximately 69% of net revenue for the year ended March 31, 2007 and 70% of net revenue for the year ended March 31, 2006, Respectively. Shipments of three products accounted for approximately 74% of gross revenue for the three months ended March 31, 2005 and 80% of gross revenue for the year ended December 31, 2004.

Approximately 79% and 84% of raw material purchases for the years ended March 31, 2007 and 2006 respectively, 84% for the three months ended March 31, 2005 and 75% for the year ended December 31, 2004 were made from Sun Pharma. The Corporation, however, believes that other sources of raw materials are available.

Product Sales Commitment

Certain of the Corporation's customers purchase their products through designated wholesalers, who act as an intermediary distribution channel for the Corporation's products. One such customer, the Veterans Administration, an agency of the United States Government, entered into a sales contract with the Corporation effective August 5, 2002 to purchase approximately $13,000,000 of product per year over a one year base contract period that ended June 30, 2003. The contract has four one-year option periods, the last of which was exercised in August 2006. The agreement may be terminated by the purchaser without cause and in such case, Caraco would only be entitled to a percentage of the contract price, plus reasonable charges that have resulted from the termination. The agreement further provides for certain penalty provisions if the Corporation is unable to meet its sales commitment.

Labor Contract

The majority of the Corporation's hourly work force is covered by a collective bargaining agreement that expires in September 2008.

12. OTHER MATTERS

Employment Contracts

The Corporation has employment agreements with three of its executive officers that provide for fixed annual salaries and at least a six-month continuance including insurance benefits and immediate vesting of stock options upon termination without cause.

Litigation

On September 29, 2006, Schering Corporation ("Schering") filed a complaint in the United States District Court for the District of New Jersey. A nearly identical complaint was filed on October 5, 2006, in the Eastern District of Michigan. Both complaints allege, inter alia, that Sun Pharmaceutical Industries, Ltd.'s ("Sun") filing of ANDA 78-359 - seeking approval to market its generic version of Schering's Clarinex® drug product - infringed Schering's U.S. Patent No. 6,100,274 ("the '274 patent"), which expires July 7, 2019. Schering further alleges that Caraco Pharmaceutical Laboratories, Ltd. ("Company") either directly infringed the '274 patent by aiding in the filing of Sun's ANDA, or will induce others to infringe by marketing and/or selling Sun's generic version of Clarinex® upon receiving FDA approval. Schering's complaint seeks an order from the Court which, among other things, directs the FDA not to approve Sun's ANDA any earlier than the claimed expiration date. The ANDA filed by Sun contains a Paragraph IV Certification challenging the '274 patent. Sun believes that the '274 patent is invalid, unenforceable and/or will not be infringed by Sun's or Company's manufacture, use or sale of the product and both Sun and the Company intend to vigorously defend this action in order to capitalize on the potential 180 days of marketing exclusivity available for this product.

On June 9, 2005, Novo Nordisk A/S and Novo Nordisk, Inc. ("Novo Nordisk") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Company's filing of an ANDA seeking approval to market its generic version of Novo Nordisk's Prandin® drug product infringed Novo Nordisk's U.S. Patent No. 6,677,358. Novo Nordisk seeks an order from the Court which, among other things, directs the FDA not to approve the Company's ANDA any earlier than the claimed expiration date. The ANDA filed by the Company contains a Paragraph IV Certification challenging the Novo Nordisk patent. The Company believes that this Novo Nordisk patent is invalid and/or will not be infringed by the Company's manufacture, use or sale of the product. The Company believes that it is the first to file an ANDA with a paragraph IV Certification for this drug product and it intends to defend this action vigorously to capitalize on the potential for obtaining 180 days exclusivity available for this product.

On July 10, 2006, Forest Laboratories, Inc., Forest Laboratories Holdings, Ltd., and H. Lundbeck A/S (collectively, "Forest") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Company's filing of an ANDA seeking approval to market its generic version of Forest's Lexapro® (escitalopram oxalate) drug product infringed Forest's Patent No. Re. 34,712, which is set to expire on September 13, 2011 (extended to March 14, 2012 based upon a six month pediatric exclusivity). Forest seeks an order from the court which, among other things, directs the FDA not to approve the Company's ANDA any earlier than the claimed expiration date. The ANDA filed by the Company contained a Paragraph IV Certification challenging the Forest patent. The Company believes that the Forest patent is invalid and/or will not be infringed by the Company's manufacture, use or sale of the product and the Company intends to vigorously defend this action.

Prior to this action, Forest had filed two lawsuits against other manufacturers who sought to market a generic version of Lexapro®, one against Alphapharm Pty. Ltd. ("Alphapharm") and the other against IVAX Pharmaceuticals, Inc. ("IVAX") and CIPLA Ltd. ("CIPLA"). Forest settled the lawsuit with Alphapharm in October 2005, granting Alphapharm the exclusive right to distribute generic versions of Lexapro® for five years. Alphapharm's launch date is dependent on a number of factors but is set to be no later than two weeks before the claimed expiration of the Forest patent.

Forest proceeded in its action against IVAX and CIPLA. On July 13, 2006, Forest obtained an order from the United States District Court for the District of Delaware, holding that IVAX and CIPLA's proposed generic version of Lexapro® infringed the Forest patent and that the asserted claims of the Forest patent were valid and enforceable. On November 6, 2006, IVAX and CIPLA filed a notice to appeal the decision to the United States Court of Appeals for the Federal Circuit. The appeal is currently pending.

On August 23, 2006, Forest filed a motion to transfer its action against the Company to the United States District Court for the District of Delaware, where a similar action by Forest was pending. On November 15, 2006 the Court denied the motion and, accordingly, the litigation will proceed in the Eastern District of Michigan. In February of 2007, the Eastern District of Michigan court granted plaintiff's motion to stay the proceeding until June 20, 2007.

Notes to financial statements

On September 22, 2004, Ortho-McNeil Pharmaceutical, Inc. ("Ortho-McNeil") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Company's filing of an ANDA seeking approval to market its generic version of Ortho-McNeil's Ultracet® brand tramadol/acetaminophen drug product infringed Ortho-McNeil's patent, which expires on September 6, 2011. Ortho-McNeil sought an order from the district court which, among other things, directed the FDA not to approve the Company's ANDA any earlier than the claimed expiration date. The ANDA filed by the Company contained a Paragraph IV Certification challenging the Ortho-McNeil patent. The Company asserted that the Ortho-McNeil patent is invalid and/or will not be infringed by the Company's manufacture, use or sale of the product. Since filing this action, Ortho-McNeil has entered into a license agreement with another manufacturer, which has launched its product generically while another manufacturer has launched its approved generic at risk. On October 19, 2005 the Company's motion for summary judgment was granted. On December 19, 2005, the FDA approved the manufacture, use and sale of the Company's generic product. Ortho-McNeil filed an appeal of the finding of non-infringement by the district court with the United States Court of Appeals for the Federal Circuit. On January 19, 2007, the United States Court of Appeals for the Federal Circuit affirmed the United States District Court for the Eastern District of Michigan decision granting the Company's motion for summary judgment. Additionally the United States Patent and Trademark Office has approved Ortho-McNeil's request for a reissue patent. Although the district court had determined that the Company does not infringe Ortho-McNeil's original patent, on July 31, 2006, Ortho-McNeil filed a lawsuit against the Company in the United States District Court for the District of New Jersey, alleging that the Company's generic version of Ultracet® brand tramadol/acetaminophen drug product infringes its reissue patent. On September 26, 2006, the Company filed an answer denying, among other things, that its generic product infringes any valid claims of Ortho-McNeil's reissue patent. The Company believes that, like its original patent, Ortho-McNeil's reissue patent is invalid and/or is not infringed by the Company's manufacture, use or sale of the product and the Company intends to vigorously defend this action. There is no assurance, however, that the Company will prevail in this action.

The Company is also involved in certain legal proceedings from time to time incidental to normal business activities. While the outcome of any such proceedings cannot be accurately predicted, the Company does not believe the ultimate resolution of any existing matters would have a material adverse effect on its financial position or results of operations.

Product Liability and Insurance

The Corporation currently maintains general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Corporation's insurance policies provide coverage on a claim made basis and are subject to annual renewal. Such insurance may not be available in the future on acceptable terms or at all. There can be no assurance that the coverage limits of such policies will be adequate to cover the Corporation's liabilities, should they occur.

Royalty Accrual

Pursuant to the Strategic Alliance Stock Options Agreement (Note 8), Caraco received the formulation for one product, Metoprolol Tartrate, in March 1995. However, Caraco has determined that the formula provided to it with respect to Metoprolol Tartrate is different than the formula submitted in an ANDA to the FDA in 1995, approved by the FDA in 1996 and manufactured and introduced by Caraco since 1997. The Corporation has accrued royalties of approximately $1 million, which is included with accrued expenses in the accompanying balance sheets at March 31, 2007 and 2006, and since April 2003, has discontinued to accrue royalties related to this agreement.

Product Development

The Corporation during the year ended March 31, 2007, entered into three definitive agreements with different companies to develop four products. These agreements contain, for three products both milestone payments to be paid in cash and profit sharing based upon future sales for a defined period, and for one product only milestone payments in cash without any obligation to share profits in the future

13. SEGMENT INFORMATION

The Corporation does not manufacture, produce or sell branded products or controlled-release products. The Corporation is primarily in the business of manufacturing, developing, selling and distributing various therapeutic classes of solid oral dosage of generic pharmaceuticals. There are no separate management teams or individuals assigned to a product or products or therapeutic classes of products, no separate allocation of funds or resources to distinct product or products or therapeutic classes or products, and the performance of any individual product or products or therapeutic classes of products is not separately assessed. The Corporation's revenues are solely based on the receipt of customers' orders.

SFAS No. 131, "*Disclosures About Segments of an Enterprise and Related Information*" establishes standards for reporting of financial information about operating segments in annual financial statements. The Corporation considers its business to be a single segment entity, as its revenues are solely attributable to its generic drug product line.

For informational purposes, the Corporation's sales, grouped by therapeutic categories, for the years ended March 31, 2007 and March 31, 2006 the three months ended March 31, 2005 and the year ended December 31, 2004 are as follows:

Therapeutic Category	Year Ended Mar-31 2007 USD	Year Ended Mar-31 2007 RS	Year Ended Mar-31 2006 USD	Three Months Ended Mar-31 2005 USD	Year Ended Dec-31 2004 USD
Antianxiety Drug	$4,035,902	182,624,566	$2,890,213	$631,670	$2,119,276
Antibiotic	506,592	22,923,288	652,055	132,624	549,261
Anticonvulsant	4,293,332	194,273,273	232,669	45,578	204,003
Antidepressant	14,053,823	635,935,491	8,010,744	507,480	957,557
Antidiabetic	30,056,770	1,360,068,843	32,110,625	7,362,962	30,842,081
Antihypertensive Drug/Beta Blocker	19,751,939	893,775,240	16,788,820	4,178,650	14,257,386
Antipsychotic	3,530,898	159,773,135	2,167,911	484,780	1,293,620
Cardiac	2,446,608	110,709,012	1,239,431	514,139	1,344,603
Decongestants	62,814	2,842,334	116,257	316,524	358,059
Hormonal Replacement Therapy	—	—	—	295,172	—
Nonsteroidal Antiinflammatory Agent	2,886,593	130,618,333	2,101,804	544,983	1,719,487
Opiate Agonist/Analgesic	31,257,560	1,414,404,590	14,082,000	1,887,640	5,121,809
Platelet Aggregation Inhibitor	206,185	9,329,871	147,856	24,571	80,730
Skeletal Muscle Relaxant	2,902,770	131,350,343	1,150,073	201,673	1,492,437
Vascular and Migraine Headache Suppressant	1,035,230	46,844,158	1,098,460	208,054	—
Net Sales	**$117,027,016**	**5,295,472,474**	**$82,788,918**	**$17,336,500**	**$60,340,309**

SUN Farmacêutica Ltda.

INDEPENDENT AUDITORS' OPINION

To
The Management and Partners of
SUN FARMACÊUTICA LTDA.
São Paulo – SP - Brazil

1. We have examined the balance sheet of SUN Farmacêutica Ltda., as of March 31, 2007, and respective statements of income, changes in the stockholders' equity and in financial position, corresponding to the period then ended, prepared in accordance with the Brazilian Corporate Law and under the responsibility of the company's management. Our responsibility is to express an opinion on such financial statements based on our audit. The balance sheet ended as of March 31, 2006, presented for comparison purposes, and also the previous ones, and the see was emitted with emphasis paragraph about fittings of accounting mistakes of the closed period on March 31st, 2005.

2. Our work was conducted in accordance with audit standards and comprised: a) planning the work, taking into consideration the materiality of the balances, volume of transactions, as well as accounting and internal control system of the Company; b) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and c) assessing the accounting principles used and the more significant accounting estimates made by the management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1, present fairly in all material aspects, the equity and financial position of SUN Farmacêutica Ltda. as of March 31, 2007, changes in stockholders' equity and changes in financial position for the fiscal period then ended, in accordance with the accounting principles accepted in Brazil.

4. The financial statements were prepared in the presupposition of the normal continuity of the operations of the entity. Such fact infers of the expansion need of yours customers', now in formation. The administration of the company understands that will increase the projection of their products in the market and, in that sense, the financial statements don't include any adjustments to the bills of Assets or Passive, that could be requested in the case of eventual discontinuity of the operations.

São Paulo / Brazil, April 13, 2007.

Paulo Cesar R. Peppe
Accountant CRC-SP nº 1SP095009/O-5

Balance Sheets
For the Periods Ended as of March 31, 2007 and 2006
(In Brazilian Reais)

ASSETS	31.03.07 Brazillian Reais	31.03.07 Indian Rupees	31.03.06 Brazillian Reais
CURRENT ASSETS			
Cash and Cash equivalent			
Cash	331.00	6,997	78.71
Bank Checking accounts	181,437.67	3,835,592	32,088.63
	181,768.67	3,842,590	32,167.34
Realizable Credits			
Customers	282,969.84	5,981,982	—
Inventories			
- Goods Resale	523,508.65	11,066,973	—
- Imports in Transit	87,142.00	1,842,182	347,601.38
- Payments on account	—	—	51,000.00
	610,650.65	12,909,155	398,601.38
Other Credits - Advances	262,104.10	5,540,881	—
Total Current Assets	**1,337,493.26**	**28,274,608**	**430,768.72**
ASSETS DUE AFTER 1 YEAR			
Fisacal credits			
- ICMS-CIAP of the Permanent Assets	30,648.10	647,901	27,638.67
	30,648.10	**647,901**	**27,638.67**
PERMANENT ASSETS			
Property, Plant and Equipment	249,538.39	5,275,242	210,175.76
Deferred Items	659,944.71	13,951,231	814,973.30
Total Permanent Assets	909,483.10	19,226,473	1,025,149.06
TOTAL ASSETS	**2,277,624.46**	**48,148,981**	**1,483,556.45**

LIABILITIES	31.03.07 Brazillian Reais	31.03.07 Indian Rupees	31.03.06 Brazillian Reais
CURRENT LIABILITIES			
Obligations payable			
Notes payable			
- Trade Payables to affiliated enterprises	450,587.50	9,525,420	347,601.38
- Trade accounts payable	11,816.90	249,809	66,780.17
Fiscal obligations	2,276.05	48,116	417.84
Labour obligations	9,289.94	196,389	3,270.09
Other obligations	2,772.69	58,615	2,650.08
Accrual for Labour Obligations	28,331.27	598,923	13,272.31
Total Current Liabilities	**505,074.35**	**10,677,272**	**433,991.87**
LONG TERM LIABILITIES			
Loans and Financing Arrangement	1,964,080.09	41,520,653	711,564.58
Total Long Term Liabilities	**1,964,080.09**	**41,520,653**	**711,564.58**
NEGATIVE EQUITY / QUOTA HOLDER'S :			
Capital Stock	338,000.00	7,145,320	338,000.00
Loss for the financial year 2006	(529,529.98)	(11,194,264)	
Total Negative Equity / Quota Holder's Equity	(191,529.98)	(4,048,944)	338,000.00
TOTAL LIABILITIES	**2,277,624.46**	**48,148,981**	**1,483,556.45**

The explanatory notes are an integral part of the financial statements.

SUN Farmacêutica Ltda.

Profit and Loss Statements
For The Periods Ended as of March 31 2007 and 2006

	31.03.07	
	Brazillian Reais	**Indian Rupees**
Gross Operations Revenue		
Sale of Goods	1,334,525.63	28,091,765
(-) Deductions from Gross Revenues		
Sales Taxes	(196,196.21)	-4,129,930
Net Operating Revenue	**1,138,329.42**	**23,961,834**
(-) Cost of Goods Sold	**(1,120,014.73)**	**-23,576,310**
Gross Profit	**18,314.69**	**385,524**
Operating Expenses		
General Administrative Expenses	(685,949.09)	-14,486,886
	(685,949.09)	**-14,486,886**
Net Operating Loss before Financial Result	**(667,634.40)**	**-14,101,362**
Net Financial Result	138,191.67	2,908,935
Operating Income	**(529,442.73)**	**-11,192,427**
No Operating Income	(87.25)	-1,837
Loss for the Financial Year	**(529,529.98)**	**-11,194,264**

The explanatory notes are an integral part of the financial statements.

Statement of Changes in Quota Holders' Equity
For The Periods Ended as of March 31 2007 and 2006
(In Brazilian Reais)

	Realized Capital Stock	**Accumulated Results**	**Total**
Balances as of March 31, 2005	**338,000.00**	—	**338,000.00**
Balances as of March 31, 2006	**338,000.00**	—	**338,000.00**
Result for the Financial Year	—	**(529,529.98)**	**(529,529.98)**
Balances as of March 31, 2007	**338,000.00**	**(529,529.98)**	**(191,529.98)**

The explanatory notes are an integral part of the financial statements.

SUN Farmacêutica Ltda.

Statement Of Changes In Financial Position
For The Periods Ended as of March 31 2007 and 2006
(In Brazilian Reais)

	31.03.07	31.03.06
SOURCE OF FUNDS		
From operations		
Adjustments from the Previous Period:		
Exchange Rate Variance of Loans	—	(53,548.90)
Depreciation of Fixed Assets (Added to Deferred Assets)	—	790.89
Funds from the operations	—	**(52,758.01)**
From quota holders		
Received as Loans	**2,388,295.30**	517,874.23
Value of the interest rate of the loans	—	12,613.65
Deferred Assets (Net)	**6,877.62**	—
Received as Refund of Expenses	—	36,930.00
Funds from quota holders	**2,395,172.92**	**567,417.88**
Total source of funds	**2,395,172.92**	**514,659.87**
USE OF FUNDS		
From operations		
Loss for the financial year	**529,529.98**	—
Adjustments from the Previous Period:		
Exchange Rate Variance of Loans	**114,627.41**	—
Depreciation of Fixed Assets (Added to Deferred Assets)	**(22,430.37)**	—
Deferred	**(148,150.97)**	—
Funds used in operations	**473,576.05**	—
In permanent assets:		
Property, Plant and Equipment	**61,793.00**	205,452.43
Deferred Assets (Net)	—	374,101.93
Funds used in permanent assets	**61,793.00**	**579,554.36**
In assets due after 1 year:	**3,009.43**	27,638.67
	3,009.43	**27,638.67**
With quota holders:		
Payment of Loans	**1,009,255.27**	—
Discounts Obtained about Loans Responsibilities	**11,897.11**	—
Funds used with third parties and quota holders	**1,021,152.38**	—
Total use of funds	**1,559,530.86**	**607,193.03**
Increase (reduction) in net working capital	**835,642.06**	**(92,533.16)**
STATEMENT OF CHANGES IN NET WORKING CAPITAL		
Current assets:		
At the beginning of the period	**430,768.72**	108,969.15
At the end of the period	**1,337,493.26**	430,768.72
	906,724.54	**321,799.57**
Current liabilities:		
At the beginning of the period	**433,991.87**	19,659.14
At the end of the period	**505,074.35**	433,991.87
	71,082.48	**414,332.73**
Changes in net working capital	**835,642.06**	**(92,533.16)**

The explanatory notes are an integral part of the financial statements.

SUN Farmacêutica Ltda.

Notes to the Financial Statements for the Period Ended as of March 31, 2007

(In Brazilian Reais)

A) GENERAL ASPECTS OF THE COMPANY'S INCORPORATION AND RECORDS:

1 - Capital Stock:

a) In the period of 1st of April 2006 to March 31st, 2007, the capital stock was not changed.

b) The Capital Stock in the value of R$ 338,000.00 (three hundred and thirty eight thousand Reais), represented by 338,000 (three hundred and thirty eight thousand) quotas with face value of R$ 1.00 (one Real) each are thus distributed to the shareholders:

Stockholding composition:

Quota Holders	Quantity of Quotas	Value of Capital – R$	Interests held (%)
SUN Pharmaceutical Industries Limited.	**336,538**	**336,538.00**	**99.5675 %**
Marco Antonio Belchior	**1,462**	**1,462.00**	**0.4325 %**
Total	338,000	338,000.00	100.00 %

2 - Company's Management

It was elected to mange the company, as administrator for an undetermined period, Mr. JOÃO CARLOS FONTES ESCOBAR, Brazilian, pharmacologist, to represent the company before all public entities at municipal, state and federal levels, as well as before financial institutions, clients, suppliers, and any and all third parties to the extent of his delegation and powers, practicing all acts and signing all documents necessary to the compliance with legal provisions.

Except for specific cases of contracting or settling exchange contracts and import of products from the majority stockholder, in addition to participation in public biddings, for amounts exceeding R$ 20,000.00 (twenty thousand Reais), it is necessary the signature of the majority stockholder along with the one of the administrator when any other acts are practiced and the signature of documents enforce the company to and/or exonerate third parties of responsibilities.

The administrator can practice, lawfully and severally on behalf of the company he is managing, all necessary acts to the administration and management of the company, as well as enter into debts and obligations at any amounts on its behalf. It is forbidden to him to practice any acts strange to the activities of the company, besides the use of its name in affairs different from its business purpose.

3 - Amounts Sent to Brazil:

SUN PHARMACEUTICAL INDUSTRIES LIMITED made the following remittals to Brazil, in favor of SUN Farmacêutica Ltda.

a) As Capital Stock:

Value in US$	Value in R$	Registration of Foreign Capital with Central Bank of Brazil
115,975.00	336,538.00	Foreign capital in the amount of US$ 115,975.00 corresponding to R$ 336,538.00 is duly registered with CENTRAL BANK OF BRAZIL, as seen in certificate no. RDE-IED IA035199 Cademp – nº 537520.

b) As Loans:

In period April 2006 for March 2007:

SUN PHARMA GLOBAL INC.		
Value in US$	Value in R$	
970,000.00	2,030,750.00	Exchange rate contracts original values
Several loans received in the period, as certificates of records in BACEN The loans do not happen interest rate and the payments are foreseen for beginning 2008. The loans detail meet in the chapter LONG-TERM LIABILITIES – e 2- page 13		

4 - General Taxation System in Brazil

In Brazil, the companies have basically the following kinds and tax and contribution burden to be applied:

a) TAXES ON INCOME

Through both the ASSUMED INCOME method, as well as through the TAXABLE INCOME method, for the calculation of IRPJ – Corporate Income Tax and CSLL – Social Contribution on Net Income, the fiscal year coincides with the calendar year (January 1 to December 31 of each year) where, after the end of the period, the company has to file an adjustment statement, regardless of the fact the accounting year of the company is different from the corresponding calendar year.

- **Assumed Income:**

  The ASSUMED INCOME method is very advantageous when the company has a profit margin, before taxation, over 40%. However, when the company adopts this option, it has to keep it for all the period, even if it has losses, which cannot be offset. In the Assumed Income method, IRPJ and CSLL are based on the Gross Revenue, not considered in this case, all other costs and expenses and this option can only be adopted for companies which annual gross revenue is not over R$ 48,000,000.00 (forty eight million Reais).

The calculation base for Assumed Income is 8% of the Gross Revenue for goods sale activities, plus other revenue from Capital Gains and/or Financial Earnings.

In this case, the IRPJ is calculated at the rate of 15% on the calculation base, plus an additional of 10% on the amount that exceeds the annual calculation base of R$ 240,000.00 (two hundred and forty thousand Reais) or R$ 20,000.00 (twenty thousand per month).

CSLL is payable on the same revenue. However, it has as basis the amount corresponding to 12%, and, in this case, CSLL is determined at the rate of 9% of the calculation base and the CSLL does not have the additional that is applied in the assessment of IRPJ.

- <u>Taxable Income:</u>

In the Taxable Income method, we have the same tax rates, though applied on the actual PROFIT for the period, assessed by the Income Statement and adjusted by the addition of expenses that are considered as non-deductible, as determines the Brazilian Corporate Income Tax Regulations.

In this system, the advantage arises when the company has a lower profitability and in the event of losses, these are integrally compensated with future profits, until the offsetting limit of 30% of profit for the period and the remaining staying for the subsequent periods.

b) <u>TAXES ON GROSS REVENUE</u>

Besides taxes on profit, there is also the taxation on gross revenue, called PIS - Employees' Profit Participation Program and COFINS - Contribution for Social Security Financing. The rates of such taxes are different in case the company opts for one or the other taxation method as follows:

- <u>Option for Assumed Income Method – Cumulative PIS and COFINS System</u>

If the company opts for this system, the calculation bases for PIS and COFINS on gross revenue from sales are respectively 0.65% and 3%, the so-called cumulative system.

- <u>Option for Taxable Income Method – Non-Cumulative PIS and COFINS System</u>

If the company opts for this system, the calculation bases for PIS and COFINS on gross revenue from sales are respectively 1.65% and 7.6%, the so-called non-cumulative system. The difference is that in this non-cumulative system, the company can credit PIS and COFINS related to its purchases, including what was paid in imports, and the final payment will be made by the difference between the debits from sales, less the credits from entrances.

c) <u>STATE TAXES – ICMS:</u>

At the State level, there is also ICMS - Tax on the Circulation of Goods and Transportation and Communication Services (Brazilian VAT). This tax also works in the non-cumulative system and its payment during purchase and/or import operations are credited and the final payment is made through the difference between sales and the credits from entrances. ICMS taxation is variable according to the destination of sales. As a rule, for sales within the State of São Paulo and in the South and Southeast region of Brazil, the ICMS rate is 18% and for the sales made in the Northeast and North region they are respectively 12% and 7%.

d) <u>FEDERAL SOCIAL CONTRIBUTIONS – INSS and FGTS on Salaries:</u>

On payrolls, there are social charges as follows: INSS – Contribution to the Brazilian Social Security Institute – with an average taxation of 26.7% on the total amount of payroll and FGTS – Severance Indemnity Fund – with taxation of 8.5% also no the payroll.

e) <u>OTHER FEDERAL TAXES</u>

CPMF - Provisional Contribution on Financial Transactions:

Payable on all funds leaving bank accounts at the rate of 0.38%, except when such exits refer to transference to other account of the same individual or legal entity.

f) <u>TAXES ON IMPORTS:</u>

In the case of import of goods, at the moment of the customs clearance, the company has to pay Import Tax, IPI - Tax on Industrialized Products (Brazilian Excise Tax), ICMS , PIS and COFINS and about the last three, the company can hold the credits, to offset them with sales debits.

B) GENERAL COMMENTS ABOUT THE FINANCIAL STATEMENTS:

1 - Basis of Presentation

In the recording of operations and preparation of the financial statements for the periods ended as of March 31, 2007 and 2006 the Brazilian Generally Accepted Accounting Principles were used, as well as the practices arising from the Brazilian Corporate Law.

As the financial statements for the financial year ended on March 31, 2007, the company presented losses of R$ 529,529.98 and, in consequence, the Equity of the company was NEGATIVE. Like this, in service to the determines the Resolution nº 1.049/05 of Federal Council of Accounting (CFC) NBC-T-3, item 3.2.2.1., the Equity was demonstrated with the denomination Negative Equity.

2 - Summary of Main Accounting Practices

a. Assessment of revenue from sales, services and expenses in general

The company initiated their import operations in March, 2006, however the medications first retailer only occurred in May, 2006, after obtaining the regularization of their products close to ANVISA – Brazilian Sanitary Surveillance Agency. In view of that, the company didn't generate results in the previous period and, therefore, Profit and Loss Statements was not presented for comparison.

Within this context, all expenses arising from the installation process and structuring of the company before the beginning of its operating and commercial activities, are debited to the Permanent/Deferred Assets as Pre-Operating Expenses and they are deduced of the possible revenue credits from exchange rate variance and/or entries of funds as refund of expenses.

Pre-Operating expenses should be amortized as from the beginning of the commercial operating activities and the amortization can be made within a period of 5 (five) years.

SUN Farmacêutica Ltda.

Notes to the Financial Statements for the Period Ended as of March 31, 2007

(In Brazilian Reais)

b. Property, plant and equipment

Fixed assets are stated at acquisition cost. Depreciation is calculated by the straight-line method on acquisition cost and the following annual rates are applied: 10% for Furniture, Fixtures and Facilities and 20% for Computers and Peripherals. The amount of depreciation is added to Deferred Assets to have its amortization in accordance with what is described in item "a" above.

3) Comments about the Composition of Equity Accounts:

CURRENT ASSETS

a) Cash and cash equivalents	**Mar/31/2007**	**R$**	**181,768.67**
	Previous balance	**R$**	**32,167.34**

1. Cash: R$ 331.00

This balance, as per the control position of March 31, 2007, is composed by funds available for coverage of little day-by-day payments. The controls kept by the management allow the reasonability of this account, in view of its non-materiality. During the period from April 2006 to March 2007, it was injected, as cash supply, the amount of R$ 24,380.96, that correspond to monthly average expenses or around R$ 2,031.75.

For a more reliable and adequate control, we recommend the management to implant a petty cash system of around R$ 1,000.00 (one thousand Reais) - Fixed cash fund

2. Bank checking accounts: R$ 181,437.67

This amount corresponds to cash available in the bank checking account. The balance was reconciled with the respective bank statements and the amount of R$ 181,437.67 refers to an accounts with Banco Itaú and CitiBank.

b) Realizable credits	**Mar/31/2007**	**R$**	**1,155,724.59**
	Previous balance	**R$**	**398,601.38**

1. Customers - R$ 282,969.84

Refers to resale of products to customers:

– PH Distribuidora Hospitalar	74,483.35
– Droguistas Potiguares	19,972.50
– Rhamis Distribuidora Farmacêutica	5,084.00
– DHosp Distribuidora	167,557.14
– Cirúrgica Jaw com Matl Hospitalar	_ 15,872.85
Total	**282,969.84**

2. Inventories - R$ 610,650.65

2.1) Goods for Resale - R$ 523,508.65

Composed by the departures made by: SUN PHARMACEUTICAL INDUSTRIES LTD., with the commercial invoices below:

Number of the Invoice	Invoice Date	Remaining Balance of Inventories
006E71130	November 13, 2006	4,006.36
006E71090	November 13, 2006	132,601.51
006E71235	January 29, 2007	88,068.63
006E71832	March 13, 2007	260,715.84
006E71760	March 16, 2007	38,116.31
		523,508.65

The inventories are constituted by the cost FOB of the materials (invoices), added of the other costs for ease customs officer.

2.2) Imports in Transit - R$ 87,142.00

Composed by the departures made by: SUN PHARMACEUTICAL INDUSTRIES LTD. on March 30, 2007.

3. Other credits – advances – R$ 262,104.10

3.1) Payments on account - R$ 4,073.84

Regarding made payment the company Ticket Serviços S/A. and Submarino S/A. on March 28 and 29, 2007 due to advancement to of import and notebook purchase.

(In Brazilian Reais)

3.2) Fiscal Credits - R$ 125,862.20

Refers to credits of taxes susceptible to compensation of the import of products (ICMS) and regarding anticipations of taxes (IRPJ and CSLL).

– ICMS to be returned	122,451.59
– INSS to compensate	59.22
– IRPJ to be returned	2,094.62
– CSLL to be returned	1,256.77
Total	**125,862.20**

3.3) Expenses to incur - R$ 132,168.06

Refers to the expenses with registrations of products and licenses, as well of inspections promoted by ANVISA (National Agency of Sanitary Surveillance), necessary to the company operations maintenance.

– Registration of products (60 meses)	2,668.00
– Plant inspections (12 meses)	37,000.04
– Certificates	92,500.02
Total	**132,168.06**

The amortization of these expenses is appropriate in agreement with the period of validity of the registrations and certified above, being 12 months for Plant inspections and 60 months for Registration of Products and Certificates.

ASSETS DUE AFTER 1 YEAR

c) Fiscal credits	**Mar/31/2007**	**R$ 30,648.10**
	Previous balance	R$ 27,638.67

ICMS – CIAP of the Permanent Assets:

Paid state taxes when of the property acquisitions of the permanent assets (Machines and Equipments and Technical Facilities)

The taxes will be seized in 48 bits the abated or compensated as credits for ICMS who is select for occasion of the product sales.

PERMANENT ASSETS

d) Fixed Assets And Deferred Items (net)	**Mar/31/2007**	**R$ 909,483.10**
	Previous balance	**R$ 1,025,149.06**

Development of Permanent Assets Accounts	**Balances on Mar/31/2006 R$**	**Entries in the Period R$**	**Low / Credits in the Period R$**	**Balances on Mar/31/2007 R$**
Property Plant and Equipment:				
Equipment to Laboratory	189,502.43	52,739.73	—	242,242.16
Furniture and Fixtures	1,720.00	1,910.00	—	3,630.00
Facilities	17,691.28	—	—	17,691.28
Software	—	1,054.78	—	1,054.78
Computers and Peripherals	790.00	6,088.49	—	6,878.49
Trademarks and Patents – Registers in Progress	2,430.00	—	—	2,430.00
Sub-total	212,133.71	61,793.00	—	273,926.71
(-) Accumulated Depreciation	-1,957.95	-22,498,31	67,94	-24,388.32
Total residual balance	**210,175.76**	**39,294.69**	**67,94**	**249,538.39**
Deferred:				
Pre-Operating Expenses	**814,973.30**	**65,889.31**	**-220,917.90**	**659,944,71**
Total Permanent Assets	**1.025,149.06**	**105,184.00**	**-220,849.96**	**909,483.10**

Comments about acquisitions:

Property Plant and Equipment:

- 3 microcomputers AMD Atlon – 64300	5,100.96
- 1 Miniflow	6,384.03
- 1 Steritest Equinoix Device	35,524.86
- 1 Auto Clave, 1 Washer and other devices	3,919.01
- 1 Stove for culture	3,575.01
- Other smaller acquisitions	7,289.13
Total Permanent Assets	**61,793.00**

(In Brazilian Reais)

Deferred:

Pre-Operating Expenses should be amortized, as from the beginning of commercial operations and the amortization can be made within a period of 5 (five) years.

- **Values movement evolution:**

See details in the ATTACHMENT I

	Entries in the period:
10,012.37	Expenses with Personnel:
15,524.26	Other Administrative Expenses
2,018.43	Taxes, Fees and Contributions
1,565.87	Financial Expenses
29,120.93	
	Credits in the period (*)
(35,998.55)	Financial Earnings = Active Exchange Rate Variance
(148,150.97)	(-) Amortization – Net effect
(184,149.52)	
(155,028.59)	**– Net effect**

The credits for period, are not represented by amortizations, but they yes are deriving of "revenues" of passive cambial variations (cambial earnings) and also of reimbursement of part of the expenses.

In Brazil, in the phase concept PRE-OPERATIONAL, both expenses and eventual revenues, they are registered in the group of the differed.

CURRENT LIABILITIES

e) Obligations Payable	**Mar/31/2007**	**R$**	**505,074.35**
	Previous balance	**R$**	**433,991.87**

1. Notes Payable - R$ 282,969.84

1.1) Trade payables to affiliated enterprises : R$ 450,587.50

Composed by the departures made by: SUN PHARMACEUTICAL INDUSTRIES LTD. with the commercial invoices below:

Number of the Invoice	Invoice Date	USD Value	Exchange Rate	Total
006E71235	January 29, 2007	39,194.03	R$ 2, 0504 for	
006E71832	March 13, 2007	120,976.88	USD 1,00	
006E71760	March 16, 2007	17,085.00		
	Imports in transit	42,500.00		
		219,755.91		**450,587.50**

1.2) Trade accounts payables: R$ 11,816.90

Thus composed:

– Cambrex Bio Ciência Brasil	2,182.00
– Nova Ética Prod. E Equipamentos	6,040.00
– Other suppliers	3,594,90
Total	**11,816.90**

The obligations by the supplies of permanent active (fixed assets) and services, whose payments were done

2. Tax Obligations: R$ 2,275.05

Amount corresponding to IRRF – Withholding Income Tax of third on several professional services of third party and on the payment of rent of the facilities at Rua Luís Góes.

This amount was paid in the month of April/2007.

3. Labor Obligations: R$ 9,289.94

The amount corresponding to social charges on payroll, which payments were made in April/2007, have the following composition:

– Salaries to Pay	27.00
– INSS Payable	7,099.60
– FGTS Payable	1,720.00
– Union Contribution to Pay	443.34
Total	**9,289.94**

(In Brazilian Reais)

4. Other Obligations: R$ 2,772.69

The amount corresponding to obligations related to rent of the office at Rua Luís Góes, in the month of Mach /2007.

5. Accruals for Labor Obligations: R$ 28,331.27

The amount corresponding to accruals for labor obligation referring to vacations and annual bonuses (13th salaries) incurred until March 31, 2007, plus social charges and has the following composition:

– Accrual for Vacations Payable	16,000.00
– Accrual for Annual Bonus (13th Salary Payable 3/12)	4,862.50
– Social Charges referring INSS on Vacations and 13th Salary	5,799.78
– Social Charges referring FGTS on Vacations and 13th Salary	1,668.99
Total	**28,331.27**

LONG-TERM LIABILITIES

f) International Loans	**Mar/31/2007**	**R$ 1,964,080,09**
	Previous balance	**R$ 711,564.58**

1. SUN PHARMA GLOBAL INC

Exchange rate contract

Number	**Date**	**Value in USD**
07/006623	February 2nd, 2007	520,000.00
07/017484	March 22nd, 2007	450,000.00
		970,000.00

Adjustment by the official exchange rate at Mar/31/2007 of R$ 2.061 to USD 1.00

QUOTA HOLDERS' EQUITY	**Mar/31/2007**	**R$ 338,000.00**
	Previous balance	**R$ 338,000.00**

1. Capital stock - R$ 338,000.00

As of March 31, 2007, the company's capital stock totally subscribed and paid amounted R$ 338,000.00 (three hundred and thirty eight thousand Reais) divided into 338,000 (three hundred and thirty eight thousand) quotas, with face value of R$ 1.00 (one Real) each. The distribution between the stockholders is the following:

Quota holders	**Quantity of Quotas**	**Value of Capital - R$**	**Interests Held (%)**
SUN Pharmaceutical Industries Limited.	336,538	336,538.00	99.5675 %
Marco Antonio Belchior	1,462	1,462.00	0.4325 %
Total	**338,000**	**338,000.00**	**100.00 %**

The evolution and operations of this account are detailed in the Statement of Changes in Quota Holders' Equity.

SUN Farmacêutica Ltda.

Notes to the Financial Statements for the Period Ended as of March 31, 2007

(In Brazilian Reais)

ATTACHMENT I

COMPOSITION AND BREAK DOWN OF ACCOUNTS THAT COMPOSE

PERMANENT/ DEFERRED ASSETS (Entries in the Period)

PRE-OPERATING EXPENSES:

PRE-OPERATING EXPENSES:

Accounts Recognized	Accumulated or the previous period	Recognitions for the period from Apr/05 to Mar/06	Total Accumulated
Expenses with Personnel:			
– Salaries and Wages	218,700.00	6,150.00	224.850,00
– Annual Bonuses (13th salaries)	19,537.50	512.50	20.050,00
– Vacations	30,560.00	683.33	31.243,33
– INSS Social Charges	73,741.33	2,042.15	75.783,48
– FGTS Social Charges	22,321.11	624.39	22.945,50
Total expenses with Personnel:	**364,859.94**	**10,012.37**	**374,872.31**
Other Administrative Expenses			
– Rent and Condominium Expenses	139,930.71	3,200.00	143,130.71
– Third Party Services – (Dossier and Technical Translations)	142,889.80	710.00	143,599.80
– Traveling Expenses and Representations	37,922.39	10.80	37,933.19
– Fees of ANVISA, Associations and Trade Unions	133,304.87	1,013.20	134,318.07
– Communication Expenses – Telephone/ Mail/ Internet	34,817.91	991.81	35,809.72
– Professional Fees – Accounting and Legal	30,432.52	690.00	31,122.52
– Cleaning Material, Conservation, Maintenance and Repairs	58,378.10	370.00	58,748.10
– Transportation, Fuel, Lubricants and Expenses w/ Vehicles	10,794.38	360.00	11,154.38
– Office Supplies and Copies	10,847.77	55.00	10,902.77
– Notary Expenses and Legal Expenses	10,126.61	3,019.30	13,145.91
– Cost with Sample Importing	16,912.57	3,550.13	20,462.70
– Electric Power and Water	3,907.01	108.03	4,015.04
– Newspapers, Magazines, Technical Books and Training	3,047.00	90.00	3,137.00
– Expenses with Meals	3,022.38	—	3,022.38
– Insurance Expenses	886.90	81.08	967.98
– Little Value Amounts	597.90	—	597.90
– Depreciation of Fixed Assets	1,957.95	176.51	2,134.46
– Other Expenses	15,160.72	1,098.40	16,259.12
Total Other Administrative Expenses:	**654,937.49**	**15,524.26**	**670,461.75**
Sub-total to carry forward:	**1,019,797.43**	**25,536.63**	**1,045,334.06**
Taxes, Fees and Contributions			
– Municipal Taxes – Fee on Sanitary Surveillance and Fees on the Pick Up of Solid Residues	185,817.25	—	185,817.25
– Fees on Location and Functioning License	3,835.13	—	3,835.13
– CPMF - Provisional Contribution on Financial Transactions	5,630.81	1,124.97	6,755.78
– IPTU - Tax on Urban Land and Property	6,965.18	211.99	7,177.17
– Other Taxes and Fees Payable	5,306.06	471.19	5,777.25
Total Taxes, Fees and Contributions	**207,554.43**	**1,808.15**	**209,362.58**
Financial Expenses (-) Financial Earnings			
– Financial Expenses:			
– Passive Exchange Rate Variance	83,787.35	—	83,787.35
– Interest rate of Loans - Controller society	12,613.65	919.24	13,532.89
– Bank Expenses	6,936.64	186.74	7,123.38
– Commissions on Exchange Operations	6,364.00	449.19	6,813.19
– Expenses with Interest and Fines	425,22	10.70	435.92
	110,126.86	1.565,87	111,692.73
– Financial earnings:			
– Active Exchange Rate Variance	(160,632.40)	(35.788,06)	(196,420.46)
Net Financial Result	**(50,505.54)**	**(34,222.19)**	**(84,727.73)**
Total Net Deferred Expenses:	**1,176,846.32**	**(6,877.62)**	**1,169,968.70**
Refund of expenses			
– Amounts received from SUN PHARMACEUTICAL INDUSTRIES LIMITED during the period between 2004 and 2006 in the total amount of US$ 130,975.00	**(361,873.02)**	—	**(361,873.02)**
Amortization	**–**	**(148,150.87)**	**(148,150.97)**
Total Net Deferred Assets:	**814,973.30**	**(155,028.59)**	**659,944.71**

SPIL DE MEXICO S. A. de C. V.

Statutory Auditor's Report

Mexico City, February 15, 2007.

To the Shareholders of SPIL de Mexico S.A. de C.V.

In my capacity as Statutory Auditor, and in compliance with the provisions of Article 166 of the Mexican Corporations Act and the by-laws of SPIL de Mexico S.A. de C.V., I am pleased to submit my report on the veracity, sufficiency and reasonability of the Financial Statements for the year ended December 31, 2006, presented to you by the Board of Directors of the Company.

I have attended the Shareholders' and the Board of Directors' meetings to which I was summoned and I have obtained from the board members and the Company's officers all the information on the Company's operations, documentation and records, that I considered necessary for examination. I conducted my review in accordance with generally accepted auditing standards.

In my opinion, the accounting and reporting policies and procedures observed by the Company in the preparation of the financial statements that are being presented to the shareholders are adequate and sufficient and were applied on a basis consistent with that of the previous period. Therefore, it is also my opinion that the above-mentioned financial statements present fairly, in all material respects, the financial position of SPIL de Mexico S.A. de C.V. as at December 31, 2006, and are in conformity with accounting principles generally accepted in Mexico. Since the Company has not started any business activities during the year ended December 31, 2006, no Income Statement has been prepared for that year.

C. P. SAUL ALCANTAR POSADAS
Certified Public Accountant
Statutory Auditor

SPIL DE MEXICO S. A. de C. V.

BALANCE SHEET AS AT DECEMBER 31, 2006

	Mexican Pesos As at December 31, 2006	Indian Rupees As at December 31, 2006	Mexican Pesos As at December 31, 2006
ASSETS			
Current Assets			
Bank Balance	$ 24,119	98,645	$ 24,119
Pre Operative Expenses	$ 25,881	105,855	$ 25,881
	$ 50,000	**204,500**	**$ 50,000**
LIABILITIES AND SHARE HOLDERS' EQUITY			
Shareholders Equity			
Capital Stock	$ 50,000	204,500	$ 50,000
	$ 50,000	**204,500**	**$ 50,000**

The accompanying three notes are an integral part of these financial statements

C.P. SAUL ALCANTAR POSADAS
Certified Public Accountant
Statutory Auditor

LIC. FERNANDO SALVADOR RAMOS SUAREZ
Director and Legal Representative

Mexico City, 15th February, 2007

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR YEAR ENDED DECEMBER 31, 2006

Shareholders' Name	Opening and Closing Balance		
	No. of Shares	Mexican Pesos	Indian Rs.
Sun Pharmaceutical Industries Ltd.	99	$ 49,500	202,455
Sudhir V. Valia	1	$ 500	2,045
Total Capital Stock	**100**	**$ 50,000**	**202,500**
Period Ended December 31, 2006	100	$ 50, 000	204,500

The accompanying three notes are an integral part of these financial statements

C.P. SAUL ALCANTAR POSADAS
Certified Public Accountant
Statutory Auditor

LIC. FERNANDO SALVADOR RAMOS SUAREZ
Director and Legal Representative

Mexico City, 15th February, 2007

NOTES TO THE FINANCIAL STATEMENTS

1. **PRESENTATION :**

   This is a Mexican Company with foreign investors; since the company has not started any business operating activities during the Year ended December 31, 2006 no Income Statement has been prepared for the period ended on that date.

   The Financial Statements have been prepared in accordance with Accounting Principles Generally Accepted in Mexico; the Financial Statements are presented in Mexican pesos.

2. **SIGNIFICANT ACCOUNTING POLICIES**

   The Significant Accounting Policies adopted by the Company are in accordance with Accounting Principles Generally Accepted in Mexico.

   a) Pre Operative Expenses :

   The expenses incurred by the Company prior to starting Operations are accounted as Pre Operative Expenses.

3. **CAPITAL STOCK**

   As at December 31, 2006, the Fixed Capital Stock represents an amount of $50,000 Mexican Pesos (Previous Period $50,000 Mexican Pesos) represented by 100 (Previous Period 100) Nominative and free Shares of $500 Mexican Pesos (Previous Period $500 Mexican Pesos) each fully paid-up.

SUN PHARMA DE MEXICO S. A. de C. V.

Statutory Auditor's Report

Mexico City, March 22, 2007

To the Shareholders of Sun Pharma de Mexico S.A. de C.V.

In my capacity as Statutory Auditor, and in compliance with the provisions of Article 166 of the Mexican Corporations Act and the by-laws of Sun Pharma de Mexico S.A. de C.V., I am pleased to submit my report on the veracity, sufficiency and reasonability of the Financial Statements for the year ended December 31, 2006, presented to you by the Board of Directors of the Company.

I have attended the Shareholders' and the Board of Directors' meetings to which I was summoned and I have obtained from the board members and the Company's officers all the information on the Company's operations, documentation and records, that I considered necessary for examination. I conducted my review in accordance with auditing standards generally accepted.

In my opinion, the accounting and reporting policies and procedures observed by the Company in the preparation of the financial statements that are being presented to the shareholders are adequate and sufficient and were applied on a basis consistent with that of the previous year. Therefore, it is also my opinion that the above-mentioned financial statements present fairly, in all material respects, the financial position of Sun Pharma de Mexico S.A. de C.V. as at December 31, 2006, and the results of their operations, changes in the Company's shareholders' equity and changes in the company's financial position for the year then ended are in conformity with accounting principles generally accepted in Mexico.

Ing. Hector Macias Meana

Statutory Auditor

SUN PHARMA DE MEXICO S. A. de C. V.

BALANCE SHEET AS AT DECEMBER 31, 2006

	Mexican Pesos As at December 31, 2006		Indian Rupees As at December 31, 2006		Mexican Pesos As at December 31, 2005	
ASSETS						
Current Assets						
Cash and Bank Balances	$ 1,985,672		8,121,400		$ 1,703,288	
Customers	$ 13,463,124		55,064,175		$ 6,292,145	
Inventories	$ 4,929,257		20,160,660		$ 4,967,714	
Advances Given	$ 191,886		784,812		$ 417,090	
Value Added Tax Recoverable	$ 558,757		2,285,318		$ 675,480	
Advance income tax 2005	$ 401,991		1,644,144		$ 401,721	
Deposits	$ 31,940		130,635		$ 31,940	
Prepaid Expenses	$ 234,574	$ 21,797,200	959,406	89,150,549	$ 220,774	$ 14,710,153
Property Equipments and Leaseholds						
Computers & Office Equipments	$ 392,312		1,604,555		$ 356,824	
Vehicles	$ 3,455,136		14,131,508		$ 3,362,341	
Depreciation Vehicles and equipments	($ 1,487,805)	$ 2,359,643	(6,085,122)	9,650,941	($ 573,068)	$ 3,146,097
		$ 24,156,844		98,801,491		$ 17,856,249
LIABILITIES AND SHARE HOLDERS' EQUITY						
Short-Term Liabilities						
Short Term Loans	$ 1,148,912		4,699,050		$ 1,148,912	
Suppliers	$ 5,272,261		21,563,547		$ 226,374	
Other Accounts Payable	$ 1,420,781		5,810,993		$1,081,828	
Witholding Taxes Payable	$ 309,645		1,266,446		$ 200,330	
Taxes payable	$ 30,182	$ 8,181,780	123,445	33,463,482	$ 216,429	$ 2,873,873
Long-Term liabilities						
Long Term Loans		$ 909,198		3,718,622		$ 2,150,998
Shareholders Equity						
Capital Stock	$ 1,010,360		4,132,372		$ 1,010,360	
Profit and Loss Account	($ 5,447,892)	($ 4,437,532)	(22,281,878)	(18,149,505)	($ 7,387,195)	($ 6,376,835)
Share Capital Application Money		$ 19,503,397		79,768,892		$ 19,208,213
		$ 24,156,844		98,801,491		$ 17,856,249

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

VIPUL KUMAR J. TIMBADIA
Finance Manager

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

C. P. SAUL ALCANTAR POSADAS
Accountant

Mexico City, 22nd March, 2007

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

	Mexican Pesos As at December 31, 2006		Indian Rupees As at December 31, 2006		Mexican Pesos As at December 31, 2005	
Net Sales		$ 39,467,244		164,183,736		$ 16,759,028
Cost of Sales		$ 12,055,921		50,152,631		$ 4,854,395
Gross Profit		$ 27,411,323		114,031,105		$ 11,904,633
Operational Expenses						
Personal Expenses	$ 10,928,331		45,461,856		$ 10,397,273	
Marketing and Sales Expenses	$ 11,634,100		48,397,854		$ 8,938,824	
Administration Expenses	$ 1,245,922		5,183,035		$ 1,039,477	
Depreciation	$ 937,291	$ 24,745,643	3,899,129	102,941,874	$ 559,006	$ 20,934,580
Operating Profit / (Loss)		$ 2,665,681		11,089,231		($ 9,029,947)
Exchange Gain / (Loss) - Net		($ 480,183)		(1,997,561)		$ 319,543
Financial Expenses		$ 246,195		1,024,170		$ 233,233
Profit / (Loss) before Income tax		$ 1,939,303		8,067,500		($ 8,943,637)
Income tax		$0		0		$0
NET PROFIT / (LOSS)		$ 1,939,303		8,067,500		($ 8,943,637)

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

VIPUL KUMAR J. TIMBADIA
Finance Manager

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

C. P. SAUL ALCANTAR POSADAS
Accountant

Mexico City, 22nd March, 2007

SUN PHARMA DE MEXICO S. A. de C. V.

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 2006

(Amount - Mexican Pesos)

		Year Ended December 31, 2006		Year Ended December 31, 2005
OPERATING ACTIVITIES				
Net Income / (Loss)		**$ 1,939,303**		($ 8,943,637)
Charges not affecting Resources				
Depreciation		**$ 914,737**		$ 559,006
		$ 2,854,040		($ 8,384,632)
Changes in :				
(Increase) / Decrease Customers	**($ 7,170,978)**		$ 814,219	
(Increase) / Decrease Inventories	**$ 38,458**		($ 4,806,456)	
(Increase) / Decrease Advanced Given	**$ 225,205**		($ 400,660)	
Increase Advanced Income tax 2005	**($ 270)**		($ 401,721)	
(Increase) / Decrease VAT Recoverable	**$ 116,722**		($ 218,156)	
Increase Deposits	**$ 0**		($ 31,940)	
Increase Prepaid Expenses	**($ 13,800)**		($ 188,438)	
increase / (Decrease) Suppliers	**$ 5,045,887**		($ 3,444,302)	
Increase Others Accounts Payable	**$ 338,953**		$ 721,626	
Increase / (Decrease) Withold Tax Payable	**$ 109,314**		$ 71,026	
Increase / (Decrease) Tax Payable	**($ 186,246)**		($ 540,419)	
		($ 1,496,756)		($ 8,425,223)
Resources generated / (used) by/in Operating Activities		**$ 1,357,284**		($ 16,809,855)
FINANCING ACTIVITIES				
Loans accepted / (Paid) (Including Exchange Rate difference)		**($ 1,241,800)**		$ 2,171,649
Receipt of Share Capital Application Money (Including Exchange Rate difference)		**$ 295,183**		$ 19,208,213
Resources generated / (used) by/in Financing Activities		**($ 946,616)**		$ 21,379,862
INVESTING ACTIVITIES				
Acquisition of Fixed Assets		**$ 128,283**		$ 3,472,870
Resources used in Investment Activities		**$ 128,283**		$ 3,472,870
INCREASE IN CASH AND EQUIVALENTS		**$ 282,384**		$ 1,097,137
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD		**$ 1,703,289**		$ 606,152
CASH AND EQUIVALENTS AT END OF PERIOD		**$ 1,985,672**		$ 1,703,289

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

VIPUL KUMAR J. TIMBADIA
Finance Manager

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

C. P. SAUL ALCANTAR POSADAS
Accountant

Mexico City, 22nd March, 2007

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR YEAR ENDED DECEMBER 31, 2006

(Amount - Mexican Pesos)

Shareholders' Name	**Opening and Closing Balances**	
	No. of Shares	**Amount**
Sun Pharmaceutical Industries Ltd.	750	$ 757,770
Serral, S. A. De C.V.	250	$ 252,590
Total Capital Stock	**1000**	**$ 1,010,360**
Period Ended December 31, 2005	1000	$ 1,010,360

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

VIPUL KUMAR J. TIMBADIA
Finance Manager

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

C. P. SAUL ALCANTAR POSADAS
Accountant

Mexico City, 22nd March, 2007

SUN PHARMA DE MEXICO S. A. de C. V.

NOTES TO THE FINANCIAL STATEMENTS

1. **PRESENTATION :**

This is a Mexican Company with a foreign investor, involved in the trading business of Pharmaceutical Products.

The Financial Statements have been prepared in accordance with Accounting Principles Generally Accepted in Mexico, the Financial Statements are presented in Mexican pesos.

2. **SIGNIFICANT ACCOUNTING POLICIES :**

The Significant Accounting Policies adopted by the Company are in accordance with Accounting Principles Generally Accepted in Mexico.

a) **Fixed Assets :**

The Fixed Assets are accounted for at their original purchase cost. Depreciation and Amortization are calculated and provided on the straight line method at the rates specified under the Mexican Tax Laws. The Depreciation on the new addition to the Fixed Assets is provided from the day, the Company starts using such new assets.

b) **Revenue Recognition :**

Revenues are accounted for on accrual basis.

c) **Sales :**

Sales are stated Net of Discounts.

d) **Income Tax, Asset Tax and Employee's Statutory Profit Sharing :**

The Liabilities, if any, in respect of the Income tax, Assets tax and Employees Statutory Profit Sharing, are determined and provided for in accordance with the vigor Mexican Laws.

3. **FIXED ASSETS:**

(Mexican Pesos)

Particulars	**Depn. Rate**	**As at December 31, 2006**	As at December 31, 2005
Computers		**$ 210,344**	$ 190,540
Accumulated Depreciation – Computers	**30%**	**($ 123,065)**	($ 64,912)
Office Equipments		**$ 181,968**	$ 166,284
Accumulated Depreciation – Office Equipments	**10%**	**($ 52,100)**	($ 35,932)
Vehicles		**$ 3,455,136**	$ 3,362,341
Accumulated Depreciation – Vehicles	**25%**	**($ 1,312,640)**	($ 472,224)

4. **BALANCES OF AND OPERATIONS WITH RELATED PARTIES :**

BALANCES :	**As at December 31, 2006 Mexican Pesos**	As at December 31, 2005 Mexican Pesos
Customers / Other Debtors :		
Serral, S.A. de C.V.	**$ 2,202,978**	$ 374,832
Sun Pharmaceutical Industries Ltd.	**$ 0**	$ 91,530
Advances Given :		
Serral, S.A. de C.V.	**$ 0**	$ 183,533
Suppliers :		
Serral, S.A. de C.V.	**$ 5,037,318**	$ 29,813

OPERATIONS :	**Year ended December 31, 2006 Mexican Pesos**	Year ended December 31, 2005 Mexican Pesos
Sales :		
Serral, S.A. de C.V.	**$ 2,667,978**	$ 1,174,832
Purchases (Including for Expenses) :		
Serral, S.A. de C.V.	**$ 14,896,852**	$ 10,751,970
Office Rent :		
Serral, S.A. de C.V.	**$ 67,800**	$ 344,801

5. **CAPITAL STOCK :**

As at December 31, 2006, the Fixed Capital Stock represents an amount of $1,010,360 Mexican Pesos, (Previous Year $1,010,360 Mexican Pesos) represented by 1,000 (Previous Year 1,000) Ordinary and Nominative Shares with no par value.

SUN PHARMACEUTICAL INDUSTRIES, INC.

DIRECTORS' REPORT

To

The Members of Sun Pharmaceutical Industries Inc

Fiscal Year 2006 – 07, the Third Year of Operations for your Company has been a very eventful one with the additional acquisition of land and building at our Bryan, Ohio facility. Further, during the Fiscal, we developed Five products at Cranbury & One product at Bryan. We filed Two ANDAs, making a total of Four ANDAs pending approval, of which we subsequently received approval for one product, Nimodipine, which was launched in April 07.

Acquisitions & Investments

During the Year, your Company made a further purchase of a house and land at Bryan, Ohio for approximately $125,000, and building and machinery investments of $1.2 million. Additionally, we have invested $1.5 million for building and machinery in our Cranbury facility.

Brands

The two Brands which the company owns namely Midrin and Orthoest have been actively marketed during the Year.

Operations

Your Company recorded net sales of $5.1 million during Fiscal 2007. Net loss for the Year was $10.1 million, primarily due to direct R&D expenses for $1.5 million, Utility expenses for $.8 million, Rent, taxes and operating costs of Cranbury facility for $1.8 million, Repairs for approximately $1 million, expenditure incurred for making a facility operational, which has been acquired during the year. The Company used cash in operations of $11.0 million and $6.5 million during Fiscal 2007 and Fiscal 2006, of which funding of working capital requirements were $11.0 and 7.0 million for Fiscal 2007 and Fiscal 2006 respectfully. At March 31, 2007, the Company had stockholders' deficit of $10.1million.

Sun Pharma Partnership

During the Year Sun Pharmaceutical Industries Limited and its affiliates loaned us $40,979,831 for completing the acquisitions and carrying out necessary operations. Further one of the affiliates of Sun Pharma has been carrying out the manufacturing and marketing of our Brands. We believe that Sun Pharma would be actively helping us in developing our products with its R& D setup and continue to infuse funds for our future needs.

Future Outlook

We intend to make our manufacturing facilities acquired during the Year to be fully operational at the earliest and expect to file minimum 17 ANDAs from Cranbury & Seven ANDAs from Bryan making a total of 24 ANDAs during the coming Year. We are hopeful of getting FDA clearance for our New Jersey facility in the coming Year.

I extend my sincere thanks and appreciation to our Stakeholders for your trust, to the other members of the Board of Directors for your active support and guidance, and to our dedicated employees for your hard work and commitment to our Company's growth.

Jitendra N. Doshi
Executive Director

May 1, 2007

INDEPENDENT AUDITORS' REPORT

To The Board of Directors

Sun Pharmaceutical Industries, Inc.

We have audited the accompanying balance sheets of Sun Pharmaceutical Industries, Inc. (a Michigan Corporation) as of March 31, 2007 and 2006, and the related statements of operation, changes in stockholder's equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sun Pharmaceuticals Industries, Inc. as of March 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in United States of America.

April 27,2007

Sd/-
Martin, Arrington Desai & Meyers, P.C.

SUN PHARMACEUTICAL INDUSTRIES, INC.

BALANCE SHEETS March 31, 2007 and 2006

ASSETS	2007 USD	2007 RS	2006 USD
CURRENT ASSETS:			
Cash and Cash Equivalents	$ 486,323	20,960,526	$ 525,708
Accounts Receivable - Trade	1,658,887	71,498,036	1,339,951
Inventories	4,966,949	214,075,508	4,492,762
Prepaid Expenses and Deposits	465,056	20,043,914	412,061
TOTAL CURRENT ASSETS	7,577,215	326,577,984	6,770,482
PROPERTY, PLANT AND EQUIPMENT, NET	18,753,793	808,288,478	20,668,540
OTHER ASSETS:			
Deferred Income Taxes	5,167,698	222,727,784	667,000
Trademarks (net of accumulated amortization of $520,861 and $290,193)	2,939,139	126,676,891	3,169,807
Organization Expense (net of accumulated amortization of $1,271 and $771)	1,229	52,970	1,729
TOTAL OTHER ASSETS	8,108,066	349,457,645	3,838,536
	34,439,074	1,484,324,106	$ 31,277,558
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Line of Credit	$ 1,500,000	64,650,000	$ —
Note Payable - Parent and Affiliates	—		32,041,656
Other Note Payable - Director	1,000	43,100	1,000
Accounts Payable - Trade	763,713	32,916,040	210,983
Accrued Expenses	1,304,747	56,234,596	238,479
TOTAL CURRENT LIABILITIES	3,569,460	153,843,736	32,492,118
LONG-TERM DEBT:			
Note Payable - Affiliate	40,979,831	1,766,230,716	—
TOTAL LIABILITIES	44,549,291	1,920,074,452	32,492,118
STOCKHOLDER'S EQUITY (DEFICIT):			
Common Stock, $1 par value, 60,000 shares authorized, 5,000 shares issued and outstanding	5,000	215,500	5,000
Retained Earnings (Deficit)	(10,115,217)	(435,965,846)	(1,219,560)
TOTAL STOCKHOLDER'S EQUITY (DEFICIT)	(10,110,217)	(435,750,346)	(1,214,560)
	34,439,074	1,484,324,106	$ 31,277,558

See accompanying notes to finacial statement

STATEMENTS OF OPERATION
FOR THE YEARS ENDED MARCH 31, 2007 AND MARCH 31, 2006

	2007 USD	2007 RS	2006 USD
SALES	$ 5,115,005	231,453,998	$ 3,590,028
COST OF GOODS SOLD	1,918,841	91,242,074	989,939
GROSS PROFIT	3,196,164	140,211,924	2,600,089
OPERATING EXPENSES			
Personnel Cost	5,553,290	251,286,371	1,315,067
Operating and Other Expenses	8,032,896	363,488,530	1,805,609
Depreciation and Amortization	2,913,450	131,833,626	951,576
TOTAL OPERATING EXPENSES	16,499,636	746,608,527	4,072,252
RESEARCH AND DEVELOPMENT EXPENSE	1,501,996	67,965,319	21,145
INCOME (LOSS) FROM OPERATIONS	(14,805,468)	(674,361,922)	(1,493,308)
OTHER INCOME (EXPENSE):			
Rental Income	60,000	2,715,000	—
Gain on Sale of Fixed Assets	1,490,762	67,456,981	—
Interest Income	17,018	770,065	222
Interest Expense	(158,667)	(7,179,682)	(475,270)
TOTAL OTHER INCOME (EXPENSE)	1,409,113	63,762,363	(475,048)
NET INCOME (LOSS) BEFORE INCOME TAXES	(13,396,355)	(610,599,559)	(1,968,356)
INCOME TAX BENEFIT (PROVISION)			
Current	—		—
Deferred	4,500,698	193,980,084	667,000
	4,500,698	193,980,084	667,000
NET INCOME (LOSS)	$ (8,895,657)	(416,619,475)	$ (1,301,356)

See accompanying notes to finacial statement

SUN PHARMACEUTICAL INDUSTRIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIT)
FOR THE YEARS ENDED MARCH 31, 2007 AND MARCH 31, 2006

	Common Stock	Retained Earnings	Total Stockholder's Equity (Deficit)
Balances at April 1, 2005	$ 5,000	$ 81,796	$ 86,796
Net Loss	—	(1,301,356)	(1,301,356)
Balances at March 31, 2006	5,000	(1,219,560)	(1,214,560)
Net Loss	—	(8,895,657)	(8,895,657)
Balances at March 31, 2007	$ 5,000	$ (10,115,217)	$ (10,110,217)

See accompanying notes to finacial statement

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	**$ (8,895,657)**	$ (1,301,356)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	**2,913,450**	951,576
Deferred Income Tax Benefit	**(4,500,698)**	(667,000)
Gain on the Sale of Fixed Assets	**(1,490,762)**	—
Increase in Accounts Receivable - Trade	**(318,936)**	(730,472)
Increase in Inventories	**(474,187)**	(4,492,762)
Increase in Prepaid Expenses and Deposits	**(52,995)**	(412,061)
Increase (Decrease) in Accounts Payable	**552,730**	(40,944)
Increase in Accrued Expenses	**1,241,098**	212,144
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(11,025,957)**	(6,480,875)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Equipment	**3,542,763**	—
Purchases of Property, Plant and Equipment	**(2,393,318)**	(21,388,950)
Capital Work in Progress	**(467,873)**	—
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**681,572**	(21,388,950)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Loans from Parent and Affiliates	**47,710,000**	59,927,128
Repayment of Loans Payable to Parent and Affiliates	**(38,905,000)**	(31,559,535)
Proceeds from Bank Line of Credit	**1,500,000**	—
NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	**10,305,000**	28,367,593
NET INCREASE (DECREASE) IN CASH	**(39,385)**	497,768
CASH AT THE BEGINNING OF THE PERIOD	**525,708**	27,940
CASH AT THE END OF THE PERIOD	**$ 486,323**	$ 525,708
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income Taxes Paid	**$ —**	$ 88,000
Cash Paid for Interest	**$ 25,492**	$ 457,678

See accompanying notes to finacial statement

SUN PHARMACEUTICAL INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Sun Pharmaceutical Industries, Inc. ("the Company") is a Michigan corporation and is a wholly owned subsidiary of Sun Pharmaceutical Industries, Limited ("SPIL"), a leading pharmaceutical company organized under the laws of India. The Company develops and intends to manufacture and market brand and generic prescription pharmaceutical products in the United States. The process of developing and manufacturing drugs requires approvals by the Food and Drug Administration (FDA) of Abbreviated New Drug Applications (ANDA). The Company's present product portfolio under development consists of solid oral dosages, liquids, and ointments in various strengths and package sizes. The Company's drugs relate to a variety of therapeutic segments.

The Company's manufacturing facilities are located in Cranbury, New Jersey and Bryan, Ohio. Both of these facilities were acquired during the year ended March 31, 2006.

The financial statements and the notes thereto pertain to the years ended March 31, 2007 (Fiscal Year 2007) and March 31, 2006 (Fiscal Year 2006).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less.

Revenue Recognition

Revenue from product sales, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, shipment of the goods has occurred, the selling price is fixed or determinable, and collectability is reasonably probable. Currently, the Company has two customers, of which one is an affiliate, Caraco Pharmaceuticals, Ltd. ("Caraco"), a Michigan corporation. With the other customer, Valeant Pharmaceuticals International ("Valeant"), the Company has a fixed contract manufacturing and sale agreement for its products.

Product Returns

The Company recognizes product returns in the period they occur.

Accounts Receivable

The Company sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances.

Inventories

Inventories, which consist principally of raw materials, work-in-process and finished good, are stated at the lower of cost, or market, on a first-in, first-out basis. The Company analyzes its inventory levels quarterly and writes down any inventory that has become obsolete or has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are written off as and when it occurs. Actual results may differ from those estimates and inventory write-offs may be required.

Fixed Assets and Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management believes that the carrying values of these assets will be recovered through cash flows from operations.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

Intangible Assets

The intangible assets, such as patents, trademarks, technology, licenses, and capitalized software, are amortized on a straight-line basis over their useful lives, ranging from 3 to 17 years. Indefinite-lived intangible assets, if any, are tested for impairment using a one-step process, which consists of a comparison of the fair value to the carrying value of the intangible asset. Such intangible assets are deemed to be impaired if their net carrying value exceeds their estimated fair value. All other intangible assets are evaluated for impairment as described under "Impairment of Long-Lived Assets" above.

Federal Income Taxes

The Company recognizes an asset or liability for the deferred tax consequences of temporary differences between the tax basis of assets and liabilities and reported amounts in the financial statements and future benefit realizable due to net operating loss carry forward. Deferred taxes are classified as current or noncurrent depending upon the classification of the assets or liabilities to which they relate.

The Company evaluates the realizability of its net deferred tax assets periodically. During this evaluation, the Company reviews its forecasts of income in conjunction with the positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. As deferred tax assets or liabilities increase or decrease in the future, or if a portion or all of the valuation allowance is no longer deemed to be necessary, the adjustments to the valuation allowance will increase or decrease future income tax provisions.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Fair Values of Financial Instruments

The carrying values of cash equivalents, accounts receivable, and accounts payable approximate their values due to the short-term maturities of these financial instruments.

2 INVENTORIES

Inventories consist of the following amounts:

	March 31	
	2007	2006
Raw materials	**$ 3,998,020**	$ 4,260,648
Packaging Materials	**89,849**	—
Work in process	**43,097**	23,861
Finished goods	**835,983**	208,253
Total inventories	**$ 4,966,949**	$ 4,492,762

The principal components used in the Company's business are active and inactive pharmaceutical ingredients and certain packaging materials. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers.

3 PROPERTY, PLANT AND EQUIPMENT AND TRADEMARKS

Cost of property, plant and equipment is summarized as follows:

	March 31,	
	2007	2006
Land	**$ 135,766**	$ 105,446
Buildings	**4,291,179**	3,560,142
Machinery and Equipment	**16,841,357**	17,086,648
Furniture and Fixtures	**644,342**	627,262
Vehicle	**9,452**	9,452
	21,922,096	21,388,950
Less: Accumulated Depreciation	**3,168,303**	720,410
Property and Equipment, net	**$ 18,753,793**	$ 20,668,540

Depreciation expense for the Fiscal Year 2007 and 2006 totaled $2,682,282 and $720,410, respectively.

During the Fiscal Year 2006, the Company acquired a manufacturing facility from Valeant, located in Bryan, Ohio, for consideration of $1.2 million. At this facility, the Company manufactures liquids and semi solid formulations. The other major acquisition consisted of the assets of Able Laboratories, Ltd. under Chapter XI Bankruptcy proceedings, with two manufacturing facilities located in the State of New Jersey, for a total consideration of $23.3 million. One of these facilities is on leased premises and has a total square footage in excess of 225,000. When fully operational, the Company will manufacture solid dosage forms including controlled substances.

The total cost for acquisition of trademarks, manufacturing know-how and intellectual property of $3,460,000 is being amortized over a period of 15 years. The amortization expense for the Fiscal Year 2007 and 2006 amounted to $231,166 and $230,667, respectively.

4 LINE OF CREDIT AND NOTES PAYABLE

The Company has a line of credit facility with Citibank which provides for borrowing up to $5,000,000. The interest on advances is payable monthly at the Euro dollar based rate or prime-based rate at the option of the Company. Advances, repayments and re-advances can be made from time to time. Each advance cannot be less than $50,000. This line is secured by all assets of the Company and an irrevocable and unconditional standby letter of credit issued by Citibank - India, in favor of Citibank. The initial face amount of such letter of credit is $500,000, which can be increased in multiples of $500,000. The current availability under this line of credit is $2,000,000, which can be increased or decreased subject to the amount of such letters of credit. This credit facility also contains certain restrictive covenants.

The Company also has a demand promissory note payable to one of its affiliates ICN-Hungary for $40,805,000. This note currently bears interest of 7.11% per annum and is adjusted quarterly based on LIBOR plus 2%. No payments are due, however, under this note until June 2008. The total balance outstanding at March 31, 2007 under this loan including accrued interest of $174,831 was $40,979,831.

5 INCOME TAXES

The deferred tax asset and deferred tax liability are as follows:

	March 31, 2007	2006
Deferred Tax Asset:		
Net Operating Loss Carry Forward	**$ 6,519,602**	$ 1,319,000
Charitable Contributions	**10,188**	—
Valuation Allowance	—	—
	6,529,790	1,319,000
Deferred Tax Liability:		
Depreciation and Amortization	**(1,362,092)**	(652,000)
	$ 5,167,698	$ 667,000

Utilization of the net deferred tax asset of $5,167,698 as of March 31, 2007, disclosed above, is dependent on future taxable profits in excess of profits arising from existing taxable temporary differences. The management evaluates the realizability of the net deferred tax asset periodically and determines increasing or decreasing the valuation allowance. After considering the forecasts of taxable income in conjunction with the positive evidence surrounding the realizability of its deferred tax asset, the Company determined that valuation allowance was not required.

The income tax benefit (provision) consisted of the following:

	Fiscal Year 2007	2006
Current Income Tax Benefit (Provision)	**$ —**	$ —
Deferred Income Tax Benefit (Provision)	**4,500,698**	667,000
Total Current and Deferred Income Taxes	**4,500,698**	667,000
Decrease (Increase) in Valuation Allowance	—	—
Benefit (Provision) for Income Taxes	**$ 4,500,698**	$ 667,000

The Income tax (provision) benefit differ from the (expense) benefit that would result from applying federal statutory rates to income before taxes because certain expenses are not deductible for tax purposes.

At March 31, 2007, the Company has Federal net operating loss carry forwards that may be applied against future taxable income as follows:

Expires in Year Ending March 31,	
2026	$ 3,879,000
2027	15,296,000
	$ 19,175,000

6 RELATED PARTY TRANSACTIONS

During August and September 2004, SPIL acquired trademarks, manufacturing know-how, other intellectual property and certain pharmaceutical products, called Midrin and Ortho-Est, from Women First Healthcare, Inc., which was under bankruptcy proceedings. Upon completion of the acquisition on December 29, 2004, these products trademarks and manufacturing know-how were assigned to the Company at the same costs totaling $3,460,000.

The trademarks consist of cost of acquiring these products. The Company amortizes such costs on a straight-line basis over the estimated useful life. Impairment is recognized if the carrying amount exceeds the fair value of such intangible assets.

On December 29, 2004, the Company entered into a manufacturing and supply agreement for Midrin with Caraco. SPIL owns 66% of Caraco's issued and outstanding stock. Under the terms of the agreement, Caraco manufactures and supplies these products to the Company for commercial purposes.

On January 14, 2005, the Company also entered into distribution and sales agreements for the above products with Caraco. Under the provisions of these agreements, Caraco distributes and sells these products through its business organization, management personnel and distribution setup.

During the Fiscal Year 2005 and 2006, the Company received loans totaling $31.2 million from SPIL. As of March 31, 2006, these loans were paid off from loans received from another affiliated company, Sun Pharma Global, Inc. ("SPG"). These loans bear interest rates ranging from 3.81% to 5.1% and were repayable on demand. During Fiscal Year 2007 the Company obtained a loan of $40,805,000 from one of its affiliates, ICN-Hungary, and repaid all of the principle due to SPG. Accrued interest on the loans of $1,418,896 ($1,377,240, Fiscal Year 2007 and $41,656, Fiscal Year 2006) was forgiven. Interest expense on the new loan of $40,805,000 amounted to $174,831 and is included in the Note Payable - Affiliate on the balance sheet.

The Company purchased materials and services from its affiliates and parent as follows:

	March 31, 2007	2006
Caraco	**$ 86,764**	$ 367,602
SPIL	**158,165**	18,256
Sun Hospitality Services	**53,496**	17,694

The Company sold goods to its affiliate, Caraco, totaling to $904,111 and $ 1,019,606 during Fiscal Year 2007 and Fiscal Year 2006, respectively.

The accounts receivable from and payable to its parent and affiliates are as follows:

	March 31,	
	2007	2006
Accounts Receivable:		
Caraco	**$ 262,838**	$ 99,892
Accounts Payable:		
SPIL	**158,165**	18,256

During Fiscal Year 2007, the Company sold certain equipment to its parent with costs of $1,523,761 and net book value of $1,419,942, which resulted in a net gain of $1,438,687. The Company also sold equipment to its affiliate, Caraco, with cost of $579,634 and net book value of $544,637, which resulted in a net gain of $39,197.

Note Payable - Director consists of non-interest bearing advances by one of the members of the board of directors and is repayable on demand.

While management has a basis to reasonably believe that SPIL's substantial investment provides sufficient economic incentive to continue to assist the Company in developing its business and operations, there can be no assurance that such support will continue in the future.

7 LEASES

The Company leases it manufacturing facility, in Cranbury, New Jersey, under a non-cancelable agreement expiring in September 2015. This lease requires, in addition to basic rent, prorated share of taxes and operating expenses. The current lease obligations are expected to be renewed or replaced upon expiration. The lease expense towards this operating lease was:

	Fiscal Year	
	2007	2006
Basic Rent	**$ 1,287,632**	$ 321,908
Prorated Share of Taxes	**226,779**	55,203
Operating Expense	**224,917**	70,147

The future minimum lease payments required under this operating lease during the remaining non-cancelable lease term are as follows:

Fiscal Year	
2008	$ 1,287,632
2009	1,287,632
2010	1,287,632
2011	1,287,632
2012	1,287,632
Thereafter	4,453,061
	$ 10,891,221

Commencing January 1, 2007, the Company receives rental income of $30,000 per month from leasing its building facility located in South Plainsfield, New Jersey, under an operating lease for a period of fourteen (14) months, expiring on February 28, 2008. This lease agreement contains a provision that allows the tenant to purchase the building. Property under lease at March 31, 2007 consists of:

Land and Buildings	$ 3,257,137
Less: Accumulated Depreciation	(96,512)
	$ 3,160,625

The depreciation expense for this rental property for Fiscal Year 2007 was $77,466.

8 CONCENTRATIONS, COMMITMENTS AND CONTINGENCIES

Major Customers

During Fiscal Year 2007 and Fiscal Year 2006, sales to its affiliate, Caraco, comprised of approximately 18% and 28%, respectively, of total sales. The sales to Valeant approximated 82% and 63% of total sales in Fiscal Year 2007 and Fiscal Year 2006, respectively. The loss of these customers could have a material adverse effect on short-term operating results.

Product Sales Commitment

The Company has an agreement with Valeant for manufacturing and sale of its products. The contract required Valeant to buy products worth $6.4 million over a sixteen-month period commencing October 2005. The new contract began on January 1, 2007 and expires on December 31, 2007, which requires Valeant to purchase products worth $2.6 million.

Bank Accounts

The Company maintains deposits in financial institutions that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Company believes that there is no significant risk with respect to these deposits.

Product Liability and Insurance

The Company currently maintains general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Company's insurance policies provide coverage on a claim made basis and are subject to annual renewal. Such insurance may not be available in the future on acceptable terms or at all.

SUN PHARMACEUTICAL INDUSTRIES, INC.

Independent Auditors' Report on Supplementary Information

The Board of Directors

Sun Pharmaceutical Industries, Inc.

Our report on our audits of the basic financial statements of Sun Pharmaceutical Industries, Inc. for the years ended March 31, 2007 and 2006 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

April 27, 2007

Sd/-
Martin, Arrington Desai & Meyers, P.C.

SCHEDULES FOR THE YEARS ENDED MARCH 31, 2007 AND MARCH 31,2006
SCHEDULE 1: MATERIAL COST

	2007	2006
Inventories at the beginning of the year	**$ 4,492,762**	$ —
Purchases during the year	**2,393,028**	5,482,701
Inventories at the end of the year	**(4,966,949)**	(4,492,762)
	$ 1,918,841	$ 989,939

SCHEDULE 2: PERSONNEL COST

	2007	2006
Salaries, Wages and Benefits	**$ 5,062,339**	$ 1,192,379
Payroll Taxes	**421,213**	113,402
Employee Welfare Expenses	**69,738**	9,286
	$ 5,553,290	$ 1,315,067

SCHEDULE 3: OPERATING AND OTHER EXPENSES

	2007	2006
Supplies	**$ 485,310**	$ 141,532
Manufacturing Expense	**1,021,023**	268,564
Utilities	**832,513**	151,104
Rent	**1,269,756**	349,129
Taxes - State and Local	**330,660**	104,782
Insurance	**1,135,133**	259,052
Selling and Distribution	**36,367**	38,839
Repairs :		
Building	**88,103**	6,126
Plant and Machinery	**100,358**	47,419
Others	**792,742**	89,862
Printing and Stationery	**122,067**	46,122
Travel	**156,898**	95,666
Overseas Travel and Export Promotion	**35,562**	—
Telephone and Internet	**112,584**	40,156
Professional and Consultancy	**687,241**	34,471
Donations	**29,965**	—
Legal and Accounting	**—**	12,992
Security Services	**225,826**	26,474
Staff Recruitment	**268,351**	8,000
Moving and Transfer Expenses	**197,490**	13,680
Other Miscellaneous	**104,944**	71,639
	$ 8,032,896	$ 1,805,609

See accompanying independent auditors' report on supplementary information

Sun Pharmaceuticals UK Limited

Director's report for the year ended 31 March 2007

The director presents his report and the financial statements for the year ended 31 March 2007.

Principal activity and review of the business

The principal activity of the Company is that of wholesalers of pharmaceutical products as per Memorandum of Association of the Company. The Company also acts as nominee in respect of marketing authorisation licenses which the Company holds on behalf of its Parent Company, Sun Pharmaceutical Industries Limited, the beneficial owner for the marketing authorisation licences.

During the year ended 31 March 2007, the Company did not make any sales. The Company made a loss for the year of £160 compared to £1,440 in the previous period. All costs incurred by the Company in respect of marketing authorisation licenses which it holds as nominee were borne by the Parent Company.

Currently, the Company is not exposed to any significant risk. The director does not anticipate any significant change in the Company's activities or its risk exposure for the ensuing year.

Results and dividends

The results for the year are set out on page 5.

The director does not recommend payment of any final dividend.

Financial risk management objectives and policies

The Company has no third party debt. It obtains all financial support from its Parent Company on an interest free basis.

Director and his interest

The director who served during the year and his interest in the Company are as stated below:

	Class of share	31/03/07	01/04/06
Sunil Gandhi	Ordinary shares	—	—

Director's responsibilities

The director is responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of the affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements the director is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

The director who held office at the date of approval of the report of the director confirm that, so far as he is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined in the Companies Act 1985) and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Anderson Shaw be reappointed as auditors of the Company will be put to the Annual General Meeting.

This report was approved by the Board on 7th June, 2007 and signed on its behalf by

Sunil Gandhi
Director

Independent auditors' report to the shareholders of Sun Pharmaceuticals UK Limited

We have audited the financial statements of Sun Pharmaceuticals UK Limited for the year ended 31 March 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of director and the auditors

The director's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the director's report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions with the company is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

sd/-
Anderson Shaw
Chartered Certified Accountants and
Registered Auditors
4/5 Loveridge Mews
London
NW6 2DP

Dated: 7th June 2007

Sun Pharmaceuticals UK Limited

Profit and Loss account for the year ended 31 March 2007

	Notes	Continuing Operations 2007 £	2007 RS.	2006 £
Administrative expenses		(160)	(13,701)	(1,440)
Loss on ordinary activities before taxation		(160)	(13,701)	(1,440)
Tax on loss on ordinary activities	5	—	—	—
Loss on ordinary activities after taxation		(160)	(13,701)	(1,440)
Loss for the year		(160)	(13,701)	(1,440)
Accumulated (loss) / profit brought forward		(1,440)	(121,819)	0
Accumulated loss carried forward		(1,600)	(135,520)	(1,440)

There are no recoginesed gains or losses other than the profit or loss for the above two finacial years

The notes on pages 8 to 12 form an intergal part of these finacial statements

Balance Sheet as at 31 March 2007

	Notes	2007 GBP		2007 RS.		2006 GBP	
Fixed assets							
Intangible Assets	6		—		—		7,996
Current assets							
Cash at bank and in hand		564		47,771			
		564		47,771			
Creditors : amounts falling due within one year	7	(1,164)		(98,591)		(8,436)	
Net current liabilities			(600)		(50,820)		(8,436)
Deficiency of assets			**(600)**		**(50,820)**		**(440)**
Capital and reserves							
Called up share capital	8		1,000		84,700		1,000
Profit and loss account			(1,600)		(135,520)		(1,440)
Equity shareholder's funds - (Deficit)	9		**(600)**		**(50,820)**		**(440)**

The financial statements were approved by the Board on 6th June 2007 and signed on its behalf by

Sunil Gandhi
Director

The notes on pages 8 to 12 form an intergal part of these finacial statements

Sun Pharmaceuticals UK Limited

Cash flow statement for the year ended 31 March 2007

	Notes	2007 £	2006 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(160)	(1,440)
Depreciation		(276)	276
(Decrease) in creditors		(7,272)	8,436
Net cash outflow from operating activities		(7,708)	7,272
Cash flow statement			
Net cash outflow from operating activities		(7,708)	7,272
Capital receipt/(expenditure)	13	8,272	(8,272)
Financing	13	—	1,000
Increase in cash in the year		564	—
Reconciliation of net cash flow to movement in net funds (Note 14)			
Increase in cash in the year		564	—
Net funds at 31 March 2007		564	—

Notes to the financial statements for the year ended 31 March 2007

1. Accounting policies

1.1. Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

The company has consistently applied all relevant accounting standards.

1.2. Licenses

Licenses are valued at cost less accumulated amortisation.

Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 5 years.

Where the company acts as a nominee for holding licenses on behalf of the parent company, the costs of these licenses are not recorded in the company's books.

1.3. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.4. Going concern

The financial statements have been prepared on the going concern basis due to continued financial support of parent company and it is envisaged that the company will become profitable in future years once it commences selling.

2. Operating loss

	2007 £	2006 £
Operating loss is stated after charging/(crediting);		
Depreciation and other amounts written off intangible assets	(276)	276
Auditors' remuneration (Note 3)	411	411

3. Auditors' remuneration

Auditors'remuneration - audit of the financial statements	411	411

4. Employees

There were no employees during the current year & previous period apart from the director.

5. Tax on loss on ordinary activities

Analysis of charge in period	2007 £	2006 £
Current tax		
UK corporation tax	—	—
Total current tax charge	—	—

Factors affecting tax charge for period	2007 £	2006 £
Loss on ordinary activities before taxation	(160)	(1440)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (31 March 2006 : 19%)	(30)	(274)
Effects of:		
Expenses not deductible for tax purposes	—	144
Losses carried forward	30	130
Current tax charge for period	—	—

6. Intangible fixed assets

	Licenses £	Total £
Cost		
At 1 April 2006	8,272	8,272
Costs reimburse	(8,272)	(8,272)
At 31 March 2007	—	—
Amortisation/Provision for diminution in value		
At 1 April 2006	276	276
Amortisation write back	(276)	(276)
At 31 March 2007	—	—
Net book values		
At 31 March 2007`	—	—
At 31 March 2006	7,996	7,996

7. Creditors: amounts falling due within one year

	2007 £	2006 £
Amounts owed to group undertaking	753	8,025
Accruals and deferred income	411	411
	1,164	8,436

8. Share capital

Authorised equity		
1,000 Ordinary shares of £10 each	10,000	10,000
Allotted, called up and fully paid equity		
100 Ordinary shares of £ 10 each	1,000	1,000

9. Reconciliation of movements in shareholders' funds

Loss for the year	(160)	(1,440)
Net proceeds of equity share issue	—	1,000
Net addition to shareholders' funds	(160)	(440)
Opening shareholders' funds	(440)	—
Closing shareholders' funds	(600)	(440)

10. Related party transactions

During the year, the parent company, Sun Pharmaceutical Industries Limited, reimbursed the costs of licenses incurred by the company.

11. Ultimate parent undertaking

The company is a wholly owned subsidiary of Sun Pharmaceutical Industries Limited, a company incorporated in India.

12. Controlling party

The company is controlled by its parent company, Sun Pharmaceutical Industires Limited.

13. Gross cash flows

	2007 £	2006 £
Capital receipt/expenditure		
Payments to acquire intangible assets	—	(8,272)
Costs reimbursed	8,272	—
	8,272	(8,272)
Financing		
Issue of ordinary share capital	—	1,000

14. Analysis of changes in net funds

	Opening Balance	Cash Flows	Closing Balance
Cash at bank and in hand	—	564	564
Net funds	—	564	564

15 Comparative figures

The comparative period figures are from 20 June 2005 to 31 March 2006 and the company commenced activities in January 2006.

SUN PHARMACEUTICAL PERU S.A.C.

Independent Auditor's Report

To the Gentlemen Shareholders
SUN PHARMACEUTICAL PERU S.A.C.

We have reviewed General Balance Sheet until 31st December 2006 of Sun Pharmaceutical Peru S.A.C, the company doesn't have any commercial activity. It doesn't make any report about Profits and Losses.

These economic states are responsibility of Company's Management. Our responsibility consists of expressing an opinion about the company itself, on the basis of our audit.

The General Balance Sheet of the 31st December, 2006 agrees with Accounting Books that the company owns.

In our opinion the General Balance Sheet of the 31st December 2006, in accordance with the generally accepted principles of accounting, reflects the true situation of the company until that date.

Lima, Peru 8th May, 2007

C. P. C. Margarita Vera Pelaez
Independent Auditor Mat. No. 26954 CCPL

PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01st Jan, 2005 TO 31st Dec. 2006

PARTICULARS	SOLES	RS
	—	—

Note : - No Commercial activity has been carried on during the period

BALANCE SHEET AS AT 31ST DEC 2006

PARTICULARS	SOLES	RS
Share Capital		
Authorised		
150 Ordinary Shares of Soles 10/- each	1500	20,733
Issued & Paid up		
149 Ordinary Shares of Soles 10/- each held by Sun Pharmaceuticals industries Limited (India)	1,490	20,595
149 Ordinary Share of Soles 10/- each held by Milmet Pharma Limited	10	138
	1,500	20,733
Loan		
Loan from Sun Pharmaceuitical Industries Limited	75,759	1,047,142
	75,759	1,047,142
Current Liabilities and Provisions		
Other Liabilities	17,940	247,968
	17,940	247,968
	95,199	1,315,844
Fixed Assets		
Vehicle	27,233	376,417
Less : Depreciation	2,723	37,642
	24,510	338,775
Current Assets, Loans and Advanes		
Current Assets		
Bank Balance	3,588	49,595
Preliminary Expenditure		
Lawyer Fees	2,789	38,552
Registration Fees	4,071	56,271
	6,860	94,823
Pre Operative Expenses		
Other Operative Exp	51,143	706,898
Depreciation	2,723	37,642
Auditor Fees	2,106	29,109
Bank Interst	4,159	57,490
Exchange Fluctuations	109	1,511
	60,240	832,650
	95,199	1,315,844

For : **SUN PHARMACEUTICAL PERU S.A.C**

(Authosrised Signatory)
Dinesh Naidu

C.P.C Margarita Vera Pelaez
Independent Auditor
Mat No 269654 CCPL

ALKALOIDA Chemical Company Exclusive Group Limited

MANAGEMENT REPORT ON THE COMPANY'S ACTIVITIES DURING FINANCIAL YEAR ENDED ON 31 MARCH 2007

I. MAIN FEATURES OF THE BUSINESS ACTIVITIES DURING FINANCIAL YEAR FROM 1 APRIL 2006 TO 31 MARCH 2007

Adjusted to the parent Company's reporting system, our Company prepares its annual report for the period from 01 April 2006 to 31 March 2007, with March 31 as turning date of balance.

During the reporting period, the Company realised HUF 3,336.1 million net sales revenues, amounting to 472.7% of the previous period (first quarter of 2006). The net sales revenues also exceeded the previous year's proportional period by 18.2%. Growth can be observed in both relations; however, the sales revenues of the reporting period still remained below the total sales revenue of the year 2005.

Returns from domestic sales amounted to HUF 1,078.1 million, while those of the exported products to HUF 2,258 million.

The share of export sales within total sales of products increased from 65.3 to 67.7%, while the ratio of domestic sales decreased from 34.7 to 32.3%. Growth of the share of exports during the reporting period has been mainly due to the increase of active pharmaceutical ingredients' sales, directed mainly to abroad.

Among other incomes, in the reporting period the most important items included reversing of provisions and of depreciation of receivables in the domestic relation, and incomes from tangible assets' sales in the exports.

The most important economic data:

Description	Year			Percentage	Index 2006/2007 I. Quarter 2006
	2005	I. Quarter 2006 2006	2006/2007		
	million HUF			%	%
Net sales income	**4,358.6**	**705.7**	**3,336.1**	**98.68**	**472.74**
- domestic	1,126.2	244.7	1,078.1	31.89	440.58
- export	3,232.4	461.0	2,258.0	66.79	489.80
Other income	**658.0**	**13.1**	**44.5**	**1.32**	**339.69**
- domestic	658.0	13.1	11.6	0.34	88.55
- export	0.0	0.0	32.9	0.00	0.00
Operating income	**5,016.6**	**718.8**	**3,380.6**	**100.00**	**470.31**
Net sales income	4,358.6	705.7	3,336.1	98.68	472.74
Net profit per balance sheet	**-1,470.2**	**-309.8**	**41.3**	**1.22**	**-13.33**
Wage costs	1,186.4	278.5	1,053.8	31.17	378.38
Number of full-time employees	452.0	455.0	428.0	12.66	94.07
Research+development	17.4	3.2	12.7	0.38	396.88
Invested assets	5,085.3	5,174.0	6,026.5	178.27	116.48
Equity capital	**6,593.7**	**4,883.3**	**4,532.1**	**134.06**	**92.81**

The previous owner of the Company made up for the Company's loss of capital over the past few years by the increase of capital in 2001. With this, the Company's subscribed capital increased to HUF 5,919.3 million, remaining unchanged in 2002 and 2003. Our subscribed capital increased to HUF 6,268.8 million in 2004, through addition of the value of the employees' shares issued at that time. In 2005, the subscribed capital decreased to HUF 6,028.6 million, due to withdrawal of the employees' shares.

By the end of this reporting period, the Company's equity has decreased to HUF 4,532.1 million, in consequence of economic losses.

The Company has concluded business of the reporting year with HUF 41.3 million losses.

Business data of the period covered by this report are lower than planned.
The main reasons include: sales revenues were lower than planned, non-profitable production of psychotropic products and accounting of the connected devaluation, and low selling prices of the finished pharmaceutical products.

With consideration for the losses of the previous years, the Management of the Company gradually decreased the number of employees between 1999 and 2002 and outsourced certain activities.

Then in 2004, the Company decided again to make cut-backs, continued also in year 2005. Thereafter, staff reductions occurred through spontaneous fluctuation and through exploiting the early retirement possibilities. The average statistical number of the full time employees has decreased from 455 persons in the first quarter of 2006 to 428 persons during the reporting period.

As of 1st January 2007, the Company implemented 4.22% increase of the basic wages.

As a result of the contradictory effects of the cut-backs and of the wage increase, wage costs during the reporting period amounted to 378.4% of the relevant expenditures of the previous three months' period.

II. THE MARKET SITUATION

In the first quarter of 2006, the Company realised HUF 718.8 million operating incomes, while the same amounted to HUF 3,380.6 million during the reporting period. Even in time proportional comparison, the returns from sales exceed by 18% the same figure of the previous quarter.

Distribution of sales by area:

Description	Year			Percentage	Index 2006/2007 I. Quarter 2006
	2005	I. Quarter 2006 2006	2006/2007		
	million HUF			%	%
Net sales income	4,358.6	705.7	3,336.1	98.68	472.74
- domestic	1,126.2	244.7	1,078.1	31.89	440.58
- export	3,232.4	461.0	2,258.0	66.79	489.80
Other income	658.0	13.1	44.5	1.32	339.69
Operating income	**5,016.6**	**718.8**	**3,380.6**	**100.00**	**470.31**

Composition of sales by product groups:

Description	Year			Percentage	Index 2006/2007 I. Quarter 2006
	2005	I. Quarter 2006 2006	2006/2007		
	million HUF			%	%
Bulk Drug (API)	2,283.7	257.4	1,907.3	57.17	740.99
Finished pharmaceutical products	1,457.2	329.7	1,305.6	39.14	396.00
Other sales	617.7	118.6	123.2	3.69	103.88
Net sales income	**4,358.6**	**705.7**	**3,336.1**	**100.00**	**472.74**

The Company's long term goals continue to be the increase of the sale of finished pharmaceutical products and exports of the active pharmaceutical ingredients.

The following table shows the **composition by product groups of the domestic sales:**

Description	Year			Percentage	Index 2006/2007 I. Quarter 2006
	2005	I. Quarter 2006 2006	2006/2007		
	million HUF			%	%
Bulk Drug (API)	73.9	22.3	519.0	48.14	2327.35
Finished pharmaceutical products	461.0	103.8	438.6	40.68	422.54
Other sales	591.3	118.6	120.5	11.18	101.60
Net sales income	**1,126.2**	**244.7**	**1,078.1**	**100.00**	**440.58**

The Company's market share has not changed during the reporting period.

Considered proportionally, the domestic sales revenues during this year exceeded in total by 10% the incomes of the previous period, however are less than the total sales revenues of year 2005.

Pharmaceutical specialities constitute the most definitive field of the domestic market. In this area the time proportional performance was by 5.6% higher than the sales revenue of the first quarter of 2006, however lower than the full annual income of 2005. Within this product group, the sales revenue from products sold to Valeant Pharma Hungary Ltd. is the most determinant. These products are now manufactured in contract work. Previously they were our own products; however, based on decision of the then proprietor, manufacturing rights of the products amounting to 85% of the finished pharmaceutical products were sold to partner Companies in 2004.

Sales data of the active pharmaceutical ingredients and of the products ranked in the category of other sales have been combined in the different reporting periods, therefore sales incomes from these two product groups have to be analysed together. Poppy-seed, both for human consumption and as sowing-seed, constitutes the most important product within this group. In addition, sales revenues of a relatively unchanged amount are realised in each year from sales of Morphine derivatives and of Phenobarbital. This amounted to HUF 85.4 million in the reporting period.

Within the category of other sales, incomes from energy services and rents are the most determinative, amounting to HUF 114.6 million in the reporting period.

The following tables show the composition by product groups of the export sales:

in million HUF

Description	Year			Percentage	Index 2006/2007 I. Quarter 2006
	2005	I. Quarter 2006 2006	2006/2007		
	million HUF			%	%
Bulk Drug (API)	2,209.8	235.1	1,388.3	61.48	590.51
Finished pharmaceutical products	996.2	225.9	867.0	38.40	383.80
Other sales	26.4	0.0	2.7	0.12	0.00
Net sales income	**3,232.4**	**461.0**	**2,258.0**	**100.00**	**489.80**

in thousand USD

Description	Year			Percentage	Index 2006/2007 I. Quarter 2006
	2005	I. Quarter 2006 2006	2006/2007		
	million HUF			%	%
Bulk Drug (API)	11,052.7	1,110.3	6,728.0	61.49	605.96
Finished pharmaceutical products	4,982.6	1,066.9	4,201.0	38.39	393.76
Other sales	132.0	0.0	13.0	0.12	0.00
Net sales income	**16,167.3**	**2,177.2**	**10,942.0**	**100.00**	**502.57**

Our Company's export sales amounted to 489.8% of the sales in the first half of 2006 (in HUF); proportional to time, this also means an increase of 22.5% compared to the previous period, however constitutes a performance considerably less than that of year 2005.

Contradictory trends were observed in the two determinative product groups; on time basis, the sales revenues from finished pharmaceutical products decreased, against a 47.6% increase detected in the active pharmaceutical ingredients product group.

Within the category of active pharmaceutical ingredients, remarkable sales revenues were realised from topyramate and noroxymorphone, in addition to the traditional products (morphine derivatives, phenobarbital and glibornuride).

Composition of the pharmaceutical specialities product group has not changed during the reporting period; launching of new products is expected during the next period.

III. BUSINESS POLICY

Employment policy

Human resources management

The financial year 2006/2007 started with a total staff of 448 persons, while the average staff number amounted to 438. 9 to 10 persons were absent from among the employees in the annual average. About 34% of the employees worked in the production, however the production program required a higher staff that could not be satisfied even through internal redeployment. The staff number required by the production program has been granted through labour rent. In the average, 37 workers on rent have been employed during the reported period, however, the number of rented workers employed in the months of September, October and November amounted to 50 persons.

8 persons were engaged during last year, 6 of them arriving from SUN Pharmaceutical. Employment of 24 persons – 10 of them blue-collars – terminated. 17 persons thereof retired due to age or disability, 6 persons terminated their employment due to dissatisfaction with their job or with the working conditions, and 1 person for other reasons.

On 31 March 2007, the total staff amounted to 429 persons. 69.4% of the employed were blue collar workers.

At present, 148 persons are employed in the production, 129 of them being blue-collar workers. In compliance with the annual production program, this staff should be increased by 10 to 15 persons by May, as the poppy-head processing starts. This requirement may only be satisfied by new employments or by labour rent, as redeployment will only be possible in a minimum number, due to the organisational development implemented during the recent period.

In this year, we intend to grant duty repair service and maintenance activities by technicians making part of our own staff. This requires employment of 6 specialists; preparations for resolving this task are already in course.

With regard to the high average age of the staff, we shall be prepared for the replacement some specialists through recruitment on the external labour market.

Wage management

No wage increase occurred in year 2006, while the staff number decreased, consequently, also our wage bill continuously decreased until the end of 2006. As of 1 January 2007, an average increase of 4.22% of the basic wages occurred for compensating the increased tax burdens. The basic principle required to grant higher wage increase to those with lower earnings. In consequence of this compensation, our wage bill of March 2007 is only slightly lower than that of April 2006.

In spite of the compensation, the real earnings decreased by 7 to 8%. For the sake of adjustment, increasing the basic wages will be indispensable as of April 2007; the relevant negotiations have already been started.

Procurement

The amount of our purchases has not increased during the reporting period.
A non-planned price increase, remarkably influencing our management, occurred in the field of energy, though the mild whether in winter resulted in temporary price decrease. Strengthening of the Hungarian Forint, both against the Dollar and Euro, resulted in favourable changes.
In compliance with the world market developments, fluctuations – mainly price increases – occurred in some material categories (solvents, products of the petroleum industry). During the reporting period, the previously started revision of the suppliers' range has been continued.

No considerable change in respect of the payment terms occurred as compared to the previous year.

Changes in the production program rendered difficult planning of the procurements; all the same, we have succeeded in adjusting the purchases to the changing needs without serious difficulties.

Production

In the Chemistry I. Plant, processing of the remaining quantity of poppy-straw bought-up in 2005, has been continued in the first half of the year. Upon completion of the annual maintenance and refurbishment works, processing of the entire quantity of poppy straw purchased in 2006 has been completed. Due to construction of the new container park, full cleaning of the mother-liquor tanks will be completed in the next financial year.
12,299 kg or Morphine has been produced in continuous shifts on the morphine production line.

In autumn of 2006, an opium production line has been implemented in the former D2 hall that will be used later for codeine transformation.
In December 2006, processing of 1 MT of opium was finished in trial manufacturing, however at present, such processing does not seem to be economic. In February 2007, following some refitting of the production line, codeine transformation has been started. The actual capacity of the production line amounts to 3 MT of morphine/month; however considerable increase is expected thanks to the continuous improvement.

In the major part of the year, noroxymorphone and its intermediate, oxymorphone were manufactured in the pilot plant. In addition, more than 200 kg of acenocumarole and, in two cycles, more the 2 MT of topyramate have been manufactured; of this quantity, consignment to the store of 1 MT has protracted to the next period.

The transformation works in the codeine plant have progressed with several interruptions due to the important delay in receiving the dessicator from India. Taking advantage of the existing desiccating/crushing facilities, codeine phosphate and codeine base have been manufactured in major part of the year, intended principally to the Russian market. In addition, ethyl morphine, oxycodone and – to tablets of our own production – dihydro-codeine bitartarate have been manufactured in remarkable quantity. Beyond this, manufacturing of pholcodine has been restarted as trial production for granting commercial sample supply.

Phenobarbital was produced in the old Chemistry II plant. At the end of 2006, the production has been finally terminated.
Transformation of the production line for manufacturing hidroxy chloroquine sulphate has been completed in the Glibornuride plant, and also trial production occurred, however we could not put into operation the dryer, and therefore the product – stored in humid state – waits for drying. Thereafter, transformation of the production line for manufacturing Phenobarbital has been started, and is still in course.

In the Finished Pharmaceutical plant, we have manufactured medicines in sufficient quantity for satisfying the market demand on areas adapted temporarily for production and packaging, while reconstruction works are in course.

The above mentioned reconstruction works will result in the implementation of a plant complying with GMP requirements. Beyond transformation of the air conditioning system, new water supply system will be designed and executed. The new cast floor is already completed and the materials handling system's principle has been changed. The investment is already at its final stage.

175,136 thousand lose tablets (tablets, film coated tablets and capsules) have been manufactured in the plant. Their packaging resulted in 5,631,075 packs of pharmaceuticals. This quantity was sufficient for satisfying demands, because about 4-5 months' stock had been manufactured during the production period prior to March 2006, with respect to the investment.

Poppy-growing system (MR)

The 2006 year's poppy growing season did not start well, because due to rain and snow precipitation in March, only 57% of the contracted area could be sown by the producer, and only with about two weeks' delay, at the end of March.

Following sowing, favourable whether for the poppy entered in April, with plenty of slow rains. However, in May there was hardly any precipitation, and aridity prevailed. From the middle of May then, extremely low temperatures were measured until the middle of June, when one day to another, the temperature increased by 15-20 degrees, and the heat of 30-33 °C remained until middle of July. Due to the high temperature, fructification and milky sap formation problems occurred. By the middle of July, the poppy-heads were totally shrivelled and lost their weight (containing mainly only water). Thus, average yields were very low, and also the aggregate harvested quantity was far lower than expected. Finally a mere quantity of 3,299 MT of poppy-heads could be received from the producers (= 840 kg/hectare average yield). Several inexplicable and important differences were detected during the morphine content analyses. The morphine content of the poppy-heads received, presented wide differences, with all results between 6 and 15 per thousands. The reasons remain even now not quite clear; one of the possible reasons could be that representative sampling of the incoming poppy-head items could not be resolved in a satisfactory manner, especially in the case of machine harvested poppy-heads, where sampling of very heterogeneous materials should be made.

The Company's management decided at the end of September on the production conditions. Producers were favourable for the change that, in this year, the purchase price will not be already defined on the basis of the morphine content; however the price increase proved to be insufficient for the producers after two bad years for poppy-growing culture, therefore a total of mere 7,181 hectares have been contracted instead of the expected 10 to 12 thousand hectares.

Also this production year (2007) started well, because poppy-seed could be sowed very early, already between middle of February and beginning of March. The sowed area amounts to about 6,628 hectares in this year. Rains amounting 10-25 mm have fallen after sowing. This, too, was favourable, however later on soil cracking occurred in several places. Drought and extremely warm whether for the season came to stay, starting to dry out the poppy culture. At present (in middle of April), we estimate at least 2000 hectares of crop being starved. Our strain "Botond" will be first in public cultivation this year; we expect higher yield and higher morphine content therefrom, compared to the previous strains.

ALKALOIDA Chemical Company Exclusive Group Limited

Production data:

Description	Contracted area	Sown area	Harvested area	Poppy head volume	Average yield	Purchasing price	Nunber of farmers	Morphine content
Year	ha	ha	ha	MT	kg/ha	HUF/kg	pc	‰
2006	9,881	5,569	3,928	3,299	840	223	361	10.7
2007	7,181	6,628				250	236	

Sown area by brands

Brand	Alfa	Minoan	Botond
Year	ha	ha	ha
2006	3,150	2,419	
2007		2,965	3,663

Quality Assurance policy

Harmonisation of the Company's quality assurance system with that of SUN is now in course. Further reinforcement of this already successful area is to be expected, as, with this system, SUN is able to successfully pass several FDA audits in each year. Important GMP investments occurred both in the API plants and in the Finished Pharmaceutical plant, such projects being near to completion. Such projects have the purpose of making the production conditions fully complying with the GMP requirements of the EU and of the US FDA. Following site inspections to be performed by OGYI and issuance of the GMP certificates, considerable market extension is expected both in the field of active ingredients and of pharmaceutical preparations.

Recently, 3 buyers performed audits at our Company. Adjustment measures have been made in respect of the observations made, and we remained approved suppliers for topyramate at Ratiopharm, for Buspirone HCl, Buspirone 5mg and Buspirone 10mg tablets at Actavis Pharma and for Phenobarbital at Extractum Pharma Ltd.

Research and development

Due to decision of the previous proprietor, R+D activities in the API field have been entirely liquidated and strongly decreased also in the field of the finished pharmaceutical preparations.

All the same, the API Technology department, assuming certain activities of the R+D, successfully improved the quality of several active pharmaceutical ingredients being in production for long years, through technological modifications, thus avoiding outplacing of these products from the market. DMF in CTD format for several active pharmaceutical ingredients have been already prepared, this too being indispensable for improving our competitiveness.

Oxycodone HCl, with thebaine as alkaloid, constitutes a new development topic. Development of the API is at present in scaling-up stage; we have set the goal of preparing the EDMF in CTD format by the end of the first half of the year.

In the Pharmaceutical Technology department, development of the different strength Oxycodone retard tablets is in course. Formulation experiments of the tablets containing 10, 20 and 40mg oxycodone HCl have been already completed, stability tests of the preparations are in course. Oxycontine retard tablets serve as reference product.

The reproduction experiments indispensable for the toll manufacturing production of Bicoden have been successfully completed; the 5 batch samples – required for the registration procedure – have been prepared. We are now expecting clarification of the Russian partner's documentation requirements, prior to make further steps.

Environmental protection

The biological water purification plant has been in continuous operation. The quantity of the purified waste water issued amounted to 1,089,913m^3. The sewage sludge produced during purification and qualified as dangerous waste, has been disposed of through composting, at a cost of HUF 30,583,715. Until putting into operation of the new centrifuge, dehydration of the sewage sludge was made by a centrifuge in rent. The costs of rent amounted to HUF 5,120,344.

Dangerous waste amounting to 472,752 MT has been burned during the reporting period, with costs amounting to HUF 30,103,534.

The following returns and reports concerning the previous year have been prepared for the environmental protection authority:

- Return on dangerous and non-dangerous wastes,
- Return on air contamination point sources and on organic solvent emission sources,
- Underground water protection datasheets (container parks and sewage plant),
- Water quality basic and annual reports on sewage emission to surface waters; and
- we have calculated the 2006 years' amounts of air and water loading charges payable to APEH (air loading charge: HUF 17,245,165, water loading charge: HUF 4,095,982).

The environmental protection authority has charged us by an air contamination fine amounting to HUF 9,204,605 for year 2006, mainly due to the nitrogen oxide emission of the boilers.

Until now, no sewage fine has been imposed in the year of reporting.

We have prepared, and submitted to be audited by SGS Hungária Ltd., with success, the previous year's carbon dioxide emission report. (We have surplus quota of 5,533 MT in respect of the emission in year 2005, of 10,176 in year 2006, that is, of 15,709 MT in total.)

The comprehensive environmental protection audit report required for the obtention of the integrated environmental permit has been prepared and submitted to the environmental protection authority.

UTB Envirotec Ltd. has prepared the modelling study for purification of the ground water to be extracted from the contaminated area marked SZ-I, and the related application for water-privilege permit modification of the sewage purification plant, at a cost of HUF 3,750,000; these materials have been submitted to the environmental protection authority.

ELGOSCAR-2000 Ltd. has installed 44 pcs extracting and absorbing wells in the contaminated areas SZ-I, SZ-VIII and SZ-X, at a cost expenditure of HUF 40,239,000.

At a cost of HUF 2,729,000, ELGOSCAR-2000 Ltd. has prepared the schedule concerning final delimitation of the contamination, and such plan has been submitted to the environmental protection authority. The authority approved the plan and ordered completion of the delimitation tasks in a decision.

ENVIROKOMPLEX Ltd. has submitted water-privilege permit application for filling up the unused potable water well No. VI, then, following issuance of the water-privilege permit, filling up of the well has been performed. Total costs amounted to HUF 5,800,000.

Három Kör DELTA Ltd. has completed the ground water and shallow ground water monitoring tests, to be performed twice a year as required by the authority, preparing and submitting to the authority the evaluation reports. Monitoring costs in the first half of the year amounted to HUF 9,594,000, those of the second half, to HUF 10,216,000.

Delimitation of the soil contamination near the waste burner occurred in two stages, with costs amounting to HUF 1,710,000 and HUF 1,719,500, respectively. The assessment reports have been also prepared and submitted to the environmental protection authority.

Risk Management

The risks and uncertainties accompanying the Company's operations are originated from the market tendencies typical of the industry, which, at the same time, provide opportunities for the introduction of new products and expansion in the markets.
There were no unusual financial risks inherent in the management, which was why the price, credit, liquidity and cash flow risks were not significant.

IV. COMPANY STRUCTURE

Registered office of the Company: 4440 Tiszavasvári, Kabay János u. 29.

The Company performs its business activities in Tiszavasvári.
Pursuant to the decision by the Company's foremost body, ALKALOIDA Chemical Company exclusive group Limited is controlled by one person. The leader of the Company represents the Company and also signs this Report.
The internal supervision of the Company's management is performed by the Management, the Board of Supervisors, and the Company's auditor.

Board of Supervisors:

Sudir Valia, Chairman
(address: 173 Aalap, Hindu Colony, Dadar, Mumbai– 400 014)

Sailesh Desai, Member
(address: B-402, 4. Floor, Avishkar, old Padra Road, Vadodara –390 015, Gujarat)

Sándorné Ondi, Member
(address: 4440 Tiszavasvári, Kárpát u. 17)

Auditor: PV AUDITOR Ltd's (4400 Nyíregyháza, Kandó Kálmán u. 12.)
appointed employee: **János Varga** (4400 Nyíregyháza, Kandó Kálmán u. 12.)

Equity Capital, Shareholders

Issued capital: 6,028,614,000 HUF.

Classes of Shares:

7,003,310 pieces of shares of a par value of 3 HUF each and granting general rights;
2,002,500 pieces of shares of a par value of 3,000 HUF each and granting general rights; and
34,792 pieces of registered shares of a par value of 3 HUF for small investors.

On 8th Aug, 2005, the previous majority shareholder, ICN Pharmaceuticals, Inc., sold its block of shares to the British Virgin Islands -based Sun Pharma Global Inc.

Ownership structure:

in thousand HUF

Shareholders	Number of shares				Par value (thousand HUF)				Percentage of ownership	
	31/03/2006		31/03/2007		31/03/2006		31/03/2007		31/03/2006	31/03/2007
	3,- HUF	3000,- HUF	3,- HUF	3000,- HUF	3,- HUF	3000,- HUF	3,- HUF	3000,- HUF	%	%
Sun Pharma	7,003,310	2,002,500	7,003,310	2,002,500	21,010	6,007,500	21,010	6,007,500	99.9983%	99.998%
Minority shareholders	0	0	0	0	0	0	0	0	0.00%	0.00%
Employees	0	0	0	0	0	0	0	0	0.00%	0.00%
Small investors	34,792	0	34,792	0	104	0	104	0	0.0017%	0.0017%
Total	**7,038,102**	**2,002,500**	**7,038,102**	**2,002,500**	**21,114**	**6,007,500**	**21,114**	**6,007,500**	**100.00%**	**100.00%**

ALKALOIDA Chemical Company Exclusive Group Limited

Capital structure:

in thousand HUF

Description	31/03/2006	31/03/2007	Difference 2007-2006	Index % 2007/2006
Subscribed capital	6,028,614	6,028,614	0	100.00%
Capital reserve	371,152	371,152	0	100.00%
Accumulated profit reserve	-1,869,934	-2,128,114	-258,180	113.81%
Tied-up reserve	353,420	301,816	-51,604	85.40%
Net profit per balance sheet	-309,784	-41,334	268,450	13.34%
Own capital	**4,573,468**	**4,532,134**	**-41,334**	**99.10%**

In the period accounted, changes in capital structure can be seen as for profit, accumulated profit reserve as well as for tied-up reserve due to applied depreciation of R+D.

ALKALOIDA Chemical Company exclusive group Limited. is an affiliated company.

Parent company: Sun Pharma Global Inc.
(address: International Trust Building, P.O. Box No. – 659, Road Town, Tortola, British Virgin Islands)

The following persons are authorized to sign the annual report:

Harin Mehta, Chairman of the Board of Directors
(address: A 603, Rashumi Avenue, Thakur Complex Kandivli (East) Mumbai – 400 101 India.)

Jayesh Shah, Member of the Board of Directors
(address: 29714 Orion Court, Farminston Hills, Michigan 48334 USA)

Katalin Szilágyi, Member of the Board of Directors
(address: 4440 Tiszavasvári, Kelp Ilona u. 3.)

Events after the accounting day

There were no events after the accounting day that would affect the evaluation of the actual circumstances, and the present report provides a reliable and truthful picture about the Company's assets, financial and income situation, and business operations.
There were no major trends after the accounting day that would affect the evaluation of the actual circumstances.

On behalf of the Board of Directors of ALKALOIDA Chemical Company exclusive group Limited.

Tiszavasvári, 10 May 2007

Harin Mehta
Chairman of the Board of Directors / Company Manager

P. V. AUDITOR Ltd. H- 4400 Nyíregyháza, Kandó K street 12.
Tax number: 11651394-3-15. Chamber registered number: 001697.

Independent Auditors' Report

(Free translation)

To the quota holders shareholders of ALKALOIDA Chemical Company exclusive group Limited

We completed the overall analytical review of the attached financial statement of the **ALKAOIDA Chemical Company exclusive group Limited** of the year 2007. This financial statement contains the balance sheet, compiled to the balance date of 31 March 2007, in which the equal total amount of assets and liabilities is ***19 899 148 thousand HUF*** and the loss of the year is ***-41 344 thousand HUF (loss),*** the profit - and loss statement for the year ended at the mentioned date, and the supplementary enclosure.

The responsibility of the management for the annual report

Compilation - according to the Low of Accountancy and to the Hungarian Accepted Accounting Principles - and actual presentation of the annual report is the responsibility of the management. This responsibility includes the formation, introduction and maintenance of the internal control system, which is relevant from the view of the compilation and actual presentation of the annual report - which is devide from any significant wrong statement, derived either from fraud or from mistake - the selection and use of the appropriate accounting policy and the preparation of the - under the circumstances - rational accounting estimations.

The responsibility of the auditor

The responsibility of the auditor is to give opinion about the financial statement on basis of his audit, and to adjudge, whether the business report corresponds to the data included in the financial statement. We accomplished our audit on basis of Hungarian National Auditing Standards, of updated acts concerning auditing activity in Hungary and of other legislative provisions. Under the terms of the above standards, we have to suit the certain ethical requirements, and by planning and doing the auditing activity we have to get enough evidence and make sure that the financial statement does not contain significant incorrect statements. Our audit included the fulfillment of such procedures, which purposes are to get enough audit evidence about the amounts and disclosures performed in the financial statement. The selected procedures - included the assessment of the risk of significant incorrect statement in the financial statement derived either from fraud or from mistake - depend on the judgement of the auditor. In case of such assessment of the risk, the auditor ponders the internal control system - which is relevant in the compilation and the actual presentation of the annual report - in order to be able to design such auditor procedures, which are - under the circumstances - appropriate, but not in order to offer an opinion about the internal control system of the company.

Our audit included furthermore the valuation of the compliance of the applied accounting principles, of the reasonableness of the accounting estimations of the management and of the comprehensive presentation of the financial statement. Our work related with the business report was confined to the judgement of the correspondence between the business report and the financial statement and did not include the review of other information, which are deducted from other, non-audited accounting registers.

We are convinced that the possessed audit evidences give sufficient and appropriate basis for the auditor's clause.

Clause

During our audit activity we supervised the financial statement of the ALKALOIDA Chemical Company exclusive group Limited parts and items of that, accounting and documentary corroboration of that on basis of updated national accounting standards. According to these we have sufficient and appropriate evidence that the financial statement was compiled on basis of the Low of Accountancy and according to General Accounting Principles.
The annual report puts a reliable and true face of the property, income and financial situation of the ALKALOIDA Chemical Company exclusive group Limited on 31 March 2007, The business report corresponds to the data included in the financial statement.

Without qualifying our opinion we draw your attention to the fact that combined balance of own funds decreased below the value of subscribed capital.

Nyíregyháza, 10th May 2007

János Varga
Registered Auditor
Licence No.: 002059
12 Kandó K street, 4400 Nyíregyháza

János Varga
Partner
PV AUDITOR Ltd.
Licence No.: 001697
12 Kandó K street, 4400 Nyíregyháza

ALKALOIDA Chemical Company Exclusive Group Limited

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	1	5

Statistical code

1	5	—	1	0	—	0	4	0	3	3	0

Company registration number

ALKALOIDA Chemical Company exclusive group Limited

"A" BALANCE Assets

No.		Item		Previous year 3/31/06 (THUF)	Previous year(s)' modifications (THUF)	Reference year 3/31/07 (THUF)	Reference year 3/31/07 Rs. (in thousand)
a		b		c	d	e	f
01.	A	**FIXED ASSETS**	(2.+10.+18.)	5,173,965	0	6,026,510	1,446,362
02.	I.	INTANGIBLE ASSETS	(3. ... 9.)	367,036	0	313,580	75,259
03.		Capitalised value of foundation and restructuring costs					
04.		Capitalised value of research and development		353,420		301,816	72,436
05.		Concessions and similar rights and assets k					0
06.		Intellectual property		13,616		11,764	2,823
07.		Goodwill					0
08.		Advance payments on intangible assets					0
09.		Revaluation of intangible assets					0
10.	II.	TANGIBLE ASSETS	(11. ... 17.)	3,995,887	0	4,914,618	1,179,508
11.		Land and buildings and related concessions and similar rights		3,451,170		3,999,552	959,892
12.		Technical equipment, machinery and vehicles		224,729		397,024	95,286
13.		Other equipment, fittings and vehicles		153,463		242,376	58,170
14.		Breeding stock					
15.		Capital WIP, renovations		113,225		275,666	66,160
16.		Advance payments on Capital WIP		53,300		0	0
17.		Revaluation of tangible assets					
18.	III.	FINANCIAL INVESTMENTS	(19. ... 25.)	811,042	0	798,312	191,595
19.		Long term investments in related companies		795,616		793,180	190,363
20.		Long term loans given to related companies					0
21.		Other long term investments		0		0	0
22.		Long term loans given to other investees					0
23.		Other long term loans given		15,426		5,132	1,232
24.		Securities representing long term loans					0
25.		Revaluation of financial investments					0
26.	B	**CURRENT ASSETS**	(27.+34.+40.+45.)	4,461,185	0	13,832,131	3,319,711
27.	I.	INVENTORIES	(28. ... 33.)	3,484,658	0	5,341,806	1,282,033
28.		Raw materials and consumables		608,377		574,420	137,861
29.		Work in progress and semi-finished products		1,894,351		4,596,125	1,103,070
30.		Animals					0
31.		Finished goods		933,015		165,285	39,668
32.		Goods		46,608		0	0
33.		Advance payments on inventories		2,307		5,976	1,434
34.	II.	RECEIVABLES	(35. ... 39.)	705,547	0	8,365,749	2,007,780
35.		Trade accounts receivable		500,657		360,809	86,594
36.		Receivables from related companies		0		7,772,586	1,865,421
37.		Receivables from other investees					0
38.		Bills of exchange receivables					0
39.		Other receivables		204,890		232,354	55,765
40.	III.	MARKETABLE SECURITIES	(41. ... 44.)	0	0		0
41.		Investments in related companies					0
42.		Other investments					0
43.		Own shares, own quotas		0		0	0
44.		Securities representing loans held for sale					0
45.	IV.	LIQUID ASSETS	(46.+47.)	270,980	0	124,576	29,898
46.		Cash in hand, cheques		337		357	86
47.		Bank deposits		270,643		124,219	29,813
48.	C	**PREPAID EXPENSES AND ACCRUED INCOME**	(49. ... 51.)	7,509	0	40,507	9,722
49.		Accrued income		7,509		39,439	9,465
50.		Prepaid expenses		0		1,068	256
51.		Deferred expenses					0
52.		**TOTAL ASSETS**	**(1.+26.+48.)**	**9,642,659**	**0**	**19,899,148**	**4,775,796**

Date: TISZAVASVARI, MAY 10, 2007

head of the company
(representative)

ALKALOIDA Chemical Company Exclusive Group Limited

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	1	5

Statistical code

1	5	—	1	0	—	0	4	0	3	3	0

Company registration number

ALKALOIDA Chemical Company exclusive group Limited

"A" BALANCE Liabilities

				THUF			Rs. (in thousand)
No.		**Item**		**Previous year 3/31/06**	**Previous year(s)' modifications**	**Reference year 3/31/07**	**Reference year 3/31/07**
a		b		c	d	e	f
53.	**D**	**SHAREHOLDERS' EQUITY**	(54.+56.+57. ... 61.)	4,573,468	0	4,532,134	1,087,713
54.	I.	ISSUED CAPITAL		6,028,614		6,028,614	1,446,867
55.		Of line 54: ownership shares repurchased at face value					
56.	II.	ISSUED BUT NOT PAID CAPITAL	(-)				0
57.	III.	CAPITAL RESERVES		371,152		371,152	89,076
58.	IV.	RETAINED EARNINGS FROM PREVIOUS YEAR		-1,869,934		-2,128,114	-510,747
59.	V.	NON DISTRIBUTABLE RESERVES		353,420		301,816	72,436
60.	VI.	REVALUATION RESERVE					
61.	VII.	PROFIT PER BALANCE SHEET		-309,784		-41,334	90,304
61A.	VIII.	EXCHANGE RATE FLUCTUATION					-100,223 *
62.	**E**	**PROVISIONS**	(63. ... 65.)	20,636	0	20,116	4,828
63.	1.	Provisions for expected liabilities					
64.	2.	Provisions for future expenses		20,636		20,116	4,828
65.	3.	Other provisions					
66.	**F**	**LIABILITIES**	(67.+71.+80.)	4,683,848	0	14,719,263	3,532,623
67.	I.	SUBORDINATED LIABILITIES	(68. ... 70.)	0	0	0	0
68.		Subordinated liabilities to related companies					
69.		Subordinated liabilities to other investees					
70.		Subordinated liabilities to other enterprises					
71.	II.	LONG TERM LIABILITIES	(72. ... 79.)	0	0	0	0
72.		Long term credits					
73.		Convertible bonds					
74.		Debt on the issue of bonds					
75.		Investment and development loans					
76.		Other long term loans					
77.		Long term liabilities to related companies					
78.		Long term liabilities to other investees					
79.		Other long term liabilities					
80.	III.	SHORT TERM LIABILITIES	(81. ... 89.)	4,683,848	0	14,719,263	3,532,623
81.		Short term credits					
82.		Of line 81: convertible bonds					
83.		Short term loans		419,558		788,118	189,148
84.		Advance payments received from customers		5,914		0	0
85.		Trade accounts payable		371,576		302,144	72,515
86.		Bills of exchange payable					
87.		Short term liabilities to related companies		3,885,600		13,628,012	3,270,723
88.		Short term liabilities to other investees		434		697	167
89.		Other short term liabilities		766		292	70
90.	**G**	**ACCRUED EXPENSES AND DEFERRED INCOME**	(91. ... 93.)	364,707	0	627,635	150,632
91.		Deferred revenues					
92.		Accrued expenses and deferred income		253,820		520,075	124,818
93.		Deferred income		110,887		107,560	25,814
94.		**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	**(53.+62.+66.+90.)**	**9,642,659**	**0**	**19,899,148**	**4,775,796**

*** Includes the impact of gain due to exchange rate fluctuation**

Date: TISZAVASVARI, MAY 10, 2007

head of the company
(representative)

ALKALOIDA Chemical Company Exclusive Group Limited

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	1	5

Statistical code

1	5	—	1	0	—	0	4	0	3	3	0

Company registration number

ALKALOIDA Chemical Company exclusive group Limited

"A" STATEMENT OF INCOME
(With current cost method)

			THUF			Rs. (in thousand)
No.	**Item**		**Previous year 3/31/06**	**Previous year(s)' modifications**	**Reference year 3/31/07**	**Reference year 3/31/07**
a	b		c	d	e	f
01.	**Net domestic sales**		244,644		1,078,115	237,185
02.	Net export revenues		461,014		2,257,937	496,746
I.	NET SALES REVENUES	(01+02)	705,658	0	3,336,052	733,931
03.	Direct cost of sales		621,080		2,968,692	553,714 *
04.	Cost of goods sold		41,430		8,545	1,880
05.	Value of services provided		0	0	1,634	359
II.	DIRECT COST OF SALES	(03+04+05)	662,510	0	2,978,871	555,953
III.	GROSS SALES INCOME	(I.-II.)	43,148	0	357,181	177,978
06.	Cost of sales		42,237		144,053	31.692
07.	Administration cost		80,736		325,733	71,661
08.	Other overheads		3,181		12,646	2,782
IV.	INDIRECT COST OF SALES	(06+07+08)	126,154	0	482,432	106,135
V.	OTHER INCOME		13,141		44,543	9,799
	- teherof: loss of value written back		8,844		2,747	604
VI.	OTHER EXPENDITURES		128,486		306,062	67,334
	- theeof: loss of value		85,319		209,874	46,172
A.	**TRADING PROFIT**	(+-III-IV+V-VI)	**-198,351**	0	**-386,770**	**14,308** *
09.	Dividend received					
	- Of which: received from related companies					
10.	Gain on sale of investment					
	- Of which: received from related companies					
11.	Interest received and gain on financial investments					
	- Of which: received from related companies					
12.	Other interest received		227		34,038	7,488
	- Of which: received from related companies				32,697	7,193
13.	Other revenues from financial transactions		41,145		779,568	171,505
VII.	REVENUES FROM FINANCIAL TRANSACTIONS	(9+10+11+12+13)	41,372	0	813,606	178,993
14.	Loss on financial investments					
	- Of which: given to related companies					
15.	Interest paid		58,982		438,939	96,567
	- Of which: given to related companies		52,106		386,683	85,070
16.	Interest paid					
17.	Other expenditures of financial transactions		95,927		34,679	7,629
VIII.	EXPENDITURES OF FINANCIAL TRANSACTIONS	(14+15+16+17)	154,909	0	473,618	104,196
B.	**FINANCIAL PROFIT**	(VII.-VIII.)	**-113,537**	0	**339,988**	**74,797**
C.	**PROFIT ON ORDINARY BUSINESS**	(+-A+-B)	**-311,888**	0	**-46,782**	**89,105** *
IX.	EXTRAORDINARY REVENUES		2,104		5,448	1,199
X.	EXTRAORDINARY EXPENDITURES		0		0	
D.	**PROFIT ON EXTRAORDINARY EVENTS**	(IX.-X.)	2,104	0	5,448	1,199
E	**NET PROFIT BEFORE TAXATION**	(±C±D)	**-309,784**	0	**-41,334**	**90,304** *
XI.	TAX LIABILITY					
F	**PROFIT AFTER TAX**	(±E-XI)	**-309,784**	0	**-41,334**	**90,304** *
18.	Dividends paid out of accumulated profit reserve					
19.	Dividends paid (approved) out of current year profits					
G	**NET PROFIT PER BALANCE SHEET**	**(±F+22-23)**	**-309,784**	**0**	**-41,334**	**90,304** *

***Includes the impact of gain due to exchange rate fluctuation**

Date: TISZAVASVARI, MAY 10, 2007

head of the company
(representative)

ALKALOIDA Chemical Company Exclusive Group Limited

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	1	5

Statistical code

0	5	—	1	0	—	0	4	0	3	3	0

Company registration number

ALKALOIDA Chemical Company exclusive group Limited

CASH-FLOW STATEMENT FOR THE YEAR 2007 ("A" TYPE)

THUF

No.		Item		Previous year 31/03/06	Reference year 31/03/07
	I.	**Change in cash out of ordinary activity**	(lines 1-13.)	**-847,427**	**-9,238,131**
		(operational cash flow)			
1	±	Profit or loss before tax		-309,784	-41,334
2	+	Depreciation charge		85,558	370,350
3	±	Loss in value/write back of loss in value		-59,854	-209,564
4	±	Difference between provisions made and used		0	-520
5	±	Proceeds from sale of invested assets		0	0
6	±	Change in trade accounts payable		-146,406	-69,169
7	±	Change in other short term liabilities		-121,960	-474
8	±	Change in accrued expenses		80,690	262,928
9	±	Change in trade accounts receivables		-544	-7,660,202
10	±	Change in current assets (except for: trade accounts and liquid assets)		-387,672	-1,857,148
11	±	Change in prepaid expenses		12,545	-32,998
12	-	Corporate tax paid (payable)			
13	-	Dividend paid (payable)			
II.		**Change in cash provided by operating activities**	(lines 14-16.)	**-102,390**	**-1,029,539**
14	-	Purchase of invested assets		-102,390	-1,062,470
15	+	Sales of invested assets		0	32,931
16	+	Dividend received		0	0
III.		**Change in cash used in investing activities**	(lines 17-27.)	**1,131,668**	**10,121,266**
17	+	Share issue (capital increase)			
18	+	Bond issue			
19	+	Borrowings		4,290,710	10,110,972
20	+	Repayment, cancellation of long term loans and bank deposits			10,294
21	+	Cash received			
22	-	Share withdrawal			
23	-	Bond redemption			
24	-	Loan repayment		-3,159,042	
25	-	Long term loans given and bank deposits			
26	-	Cash transferred			
27	±	Change in liabilities towards the owners and in other long term liabilities			
	IV.	**Movement in cash and cash equivalent**	(±I±II±III. lines)	**181,851**	**-146,404**

Date: TISZAVASVARI, MAY 10, 2007

head of the company
(representative)

ALKALOIDA Chemical Company Exclusive Group Limited

SUPPLEMENTARY ANNEX FOR THE YEAR ENDING ON 31 MARCH 2007

(Data shall be construed in T HUF)

1 **PRESENTATION OF THE COMPANY**

ALKALOIDA Chemical Company exclusive group Limited (hereinafter referred to as “Company”) is the member of the SUN Pharmaceutical Industries Ltd. international corporation based in India.

The Company, acting upon the accounting system of the parent company, prepares annual report for the period between 01 April 2006 and 31 March 2007, date of balance is 31 March .

Our company limited was established by János Kabay in the North-Eastern part of Hungary, in Tiszavasvári, in 1927, as Alkaloida Chemical Factory.

Morphine was produced in the factory from green poppy. A couple of years later János Kabay took out the patent for his new technology utilising dry poppy heads, which has ever since been applied all over the world. The prosperous company was socialised in 1948 and developed dynamically. The production of fully manufactured medicines was launched in the 60s. The company entered into a great number of licence agreements for the preparation of diverse medicines with international companies (such as Zeneca, Sandoz, Bayer, Hoffmann-La Roche), some of which are still in force. In the 70s the Company started pesticide production as well as additional products and API production. Due to continuous growth, in the 80s the Company became one of the biggest company in the county with its three main product group: API, final products and pesticides. Later in the 90s – called as profile cleaning – the Company to be privatised phased out pesticide production but did not increase number of products to compensate the formermentioned.

In the course of the privatisation following the change of the political regime in Hungary the majority of the company shares were acquired by the ICN Pharmaceuticals Inc. in 1996. The stakes were sold to Sun Pharma Global Inc., a company based in British Virgin Islands in August 2005. Currently SUN has 99.99% proportion of property in the Company. The company in Tiszavasvári is one of the five largest companies engaged in the pharmaceutical industry of Hungary having world wide reputation.

Core activities of ALKALOIDA Cemical Company Ltd.:

- Active pharmaceutical ingredients (morphine alkaloids, codeine and its derivatives – regarding these the Company Limited is among the largest exporters of the world);

  Chloroquine salts used against malaria and Phenobarbital used for tranquillisers;

  Intermediate products and finished preparations (some sixty different types of pharmaceutical preparations).

Our medicines are used typically to the following scopes of therapies: cardio-vascular diseases, locomotive disorders, disorders of the digestive system and those of the nervous system.

Registered seat of the Company: 4440 Tiszavasvári, Kabay János u. 29.

Business activities of the Company is in Tiszavasvári.

ALKALOIDA Chemical Company Ltd.. has no subsidiary companies accordingly, no consolidated report is prepared.

ALKALOIDA Chemical Company Ltd. has no authorities in any enterprise on the basis of which or in pursuance of the accounting standards it shall be considered as a corporation of joint administration or associate company.

The parameters of any enterprises being in holding relations with the company are included in Annex 3.

Our Company possesses no direct power or power ensuring majority control, nor does it have substantial influence in any business organisation.

Issued capital stock of the Company: 6 028 614 T HUF, which is composed of the following elements:

7,003,310 pieces of shares with the face value of three HUF each providing general rights, 2,002,500 pieces of shares with the face value of three thousand HUF each providing general rights, and 34,792 pieces of registered shares for small investors with the face value of 3 HUF each.

The former majority owner, the ICN Pharmaceuticals Inc., sold its equity stake forming its majority ownership on 8 August 2005 to the Sun Pharma Global Inc., based in British Virgin Islands.

Ownership structure:

in thousand HUF

Shareholders	Number of shares				Par value (thousand HUF)				Percentage of ownership	
	31/03/2006		31/03/2007		09/08/2005		31/03/2007		31/03/2006	31/03/2007
	3,- HUF	3000,- HUF	3,- HUF	3000,- HUF	3- HUF	3000,- HUF	3,- HUF	3000,- HUF	%	%
Sun Pharma	7,003,310	2,002,500	7,003,310	2,002,500	21,010	6,007,500	21,010	6,007,500	99.9983%	99.998%
Minority shareholders	0	0	0	0	0	0	0	0	0.00%	0.00%
Employees	0	0	0	0	0	0	0	0	0.00%	0.00%
Small investors	34,792	0	34,792	0	104	0	104	0	0.0017%	0.0017%
Total	**7,038,102**	**2,002,500**	**7,038,102**	**2,002,500**	**21,114**	**6,007,500**	**21,114**	**6,007,500**	**100.00%**	**100.00%**

Capital Structure:

in thousand HUF

Description	31/03/2006	31/03/2007	Difference 2007-2006	Index % 2007/2006
Subscribed capital	6,028,614	6,028,614	0	100.00%
Capital reserve	371,152	371,152	0	100.00%
Accumulated profit reserve	-1,869,934	-2,128,114	-258,180	113.81%
Tied-up reserve	353,420	301,816	-51,604	85.40%
Net profit per balance sheet	-309,784	-41,334	268,450	13.34%
Own capital	**4,573,468**	**4,532,134**	**-41,334**	**99.10%**

(Data shall be construed in T HUF)

The enterprises involved in the administration of the ALKALOIDA Chemical Company Ltd. do not prepare a consolidated report in Hungary

2 ACCOUNTING POLICY

a) General Information

The Company shall prepare **annual reports** accordingly it shall perform accounting in accordance with the rules of **double entry book-keeping.**

The Company shall prepare ordinary annual report for the period under review similar to the previous year in Hungarian language in accordance with the accounting standards of Hungary.

The Company, acting upon the accounting system of the parent company, prepares annual report for the period between 01 April 2006 and 31 March 2007, date of balance is 31 March.

Date of reporting shall be: 10 May.

The annual report has been prepared in line with the Hungarian accounting standards with the application of the principle of selling costs.

The Company shall prepare "A" type balance sheet.

The Company shall prepare "A" type profit and loss statement based on the principle of the turnover cost method..

The Company is not subject to the preparation of consolidated statements.

The books include figures in Hungarian Forint and the data of the annual report – apart from the marked exceptions – shall be interpreted in thousand Hungarian Forint.

The person authorised to prepare the report and statement, and to control the rules of accounting shall be qualified as a certified accountant, and shall be registered in the List of Accounting Service Providers maintained by the Ministry of Finance, and shall bear all relevant licences entitling to the execution of the mentioned activities.

Name of the person being responsible for the preparation of the report: **Macsuga Tamásné,** (4440, Tiszavasvári, Nánási u. 2), recorded in the registry under entry: 143 607.

The correctness, reliability and truthfulness of the report for the year under review have been verified by the auditor. Name of the auditor who has checked the report: **Varga János** (4400 Nyíregyháza, Kandó Kálmán u. 12), number of membership at the chamber of auditors:

b) Major elements of the accounting policy

Under the Act C on Accounting of 2000 the Company (hereinafter referred to as "Act on Accounting") has executed its activities in accordance with the provisions of other statutes on accounting in force.

In line with the act on accounting the Company has developed its own regulations pertaining to the management of funds, inventory, evaluation of assets and sources, and to the calculation of prime costs.

The Company has specified in its accounting policy, that the application of completeness, authenticity, clearness, commensurability, continuity, consistence, cautiousness, gross accounting, individual evaluation, accrued and deferred items, the dominance of content over form, significance and the cost-profit comparison as principles of accounting shall be ensured in the course of business.

With respect to the report all and any information the omission or incorrect presentation of which may affect the decisions of the users shall be considered essential. Accordingly the Company shall consider items over 10 MHUF as significant.

An error the value of which is in excess of 1% of the aggregate amount of the balance or exceeding 500 million HUF shall be qualified as consequential (significant) error during the audit or self-checking.

There is no value limit defined in the Accounting Policy for the year-end revaluation of assets and sources incurred in foreign currency, consequently each item shall be revaluated in the books regardless of the value limit.

When the devaluation is defined a stock shall be qualified as a stock of low value in kind in the case of which the cost of lead through the ledger exceeds the amount of loss in value. For these sorts of stocks the accounting of the devaluation shall be made in proportion of the book value.

For the purchased stocks the closing stock shall be indicated at the latest purchase price.

The purchased stocks shall be indicated at reduced value which

- Do not conform to the relevant regulations (standards, requirements specified in the supply contract, etc.),
- Do not conform to the originally intended purposes (e.g. due to physical, chemical impacts, or become outdated, etc.) and
- The sale or usage is doubtful, shall be considered as excess stock (e.g. those that are not marketed any longer, or are not usable owing to the changeover of types, etc.)

The closing material stock shall be indicated in the balance sheet with decreased value if the book value of such stocks (at the latest purchase prices) was permanently and significantly higher than that the actual market values thereof known at the time when the balance sheet was prepared.

In the case of stocks of private (own-) production (semi-finished and finished products, work in progress) the closing stock is indicated at actual indirect prime cost.

Devaluation is accounted for stocks of private (own-) production if

- The physical condition of the stock of private (own-) production deteriorated (due to damage, impairment of quality, destruction, etc.),
- The stock of private (own-) production cannot be used for their originally intended purposes (becoming unmarketable, marketable only with considerable reduction, at a discount, etc.),
- The (expectable) selling price of the stock of private (own-) production on the day of balance sheet preparation is lower than the cost of production.

In the case of the retrieval of devaluation the book value of the stock may not exceed the market value in accordance with Section 62, paragraphs (2)-(3) of the Act on accounting.

The following persons shall be authorised as signatories with respect to the annual report:

Harin Mehta, Chairman of the Board of Executives
(address: A 603, Rashumi Avenue, Thakur Complex Kandivli (East) Mumbai – 400 101, India.)

Jayesh Shah, Member of the Board of Executives
(address:29714, Orion Court, Farminston Hills, Michigan 48334, USA)

Szilágyi Katalin, Member of the Board of Executives
(address: 4440 Tiszavasvári, Kelp Ilona u.3.)

Principles of valuation at market value:

c) Intangible Assets

The purchase or production cost of intangible assets reduced with the accumulated depreciation shall be indicated at a value not higher than their known market values. Calculation of depreciation shall be made with the application of the linear method, on the basis of the rate of amortisation required for the accounting of the depreciation of intangible assets during their expectable service life.

In the case of intellectual products the rate of amortisation shall be defined individually, and the capitalised value of the development and research activities shall be accounted in 5 to 10 years as cost of depreciation.

Extraordinary depreciation shall be accounted for intellectual products, if they become useless, become damaged or are destroyed, if they cannot be used any longer for research and development activities, if the activities are restricted, terminated or the development activity is closed without results.

Expectable useful life of intangible assets is the following:

Intellectual products	3 to 5 years
Capitalised value of research and development	5 to 10 years

d) Tangible Assets

Tangible assets are included in the balance sheet at purchase value, or at production cost deduced with cumulated depreciation. Calculation of depreciation is made by means of the linear method, on the basis of the rate of amortisation requisite for the depreciation of the value of the assets in the course of their expectable useful lives. The expectable useful lives of assets are the following:

Real assets	50 to 100 years
Technological equipment	7 to 10 years
Other equipment	3 to 10 years

The expectable useful life time of tangible assets is defined with regard to the time of their continuous serviceability. The residual value in the case of tangible assets is specified individually on the basis of the opinion of the technical department.

Assets of an individual value of less than 100 000 HUF are considered as low value tangible assets.

The fundamental criteria of the alteration of accounting and retrieval of the budgeted depreciation and extraordinary depreciation are defined in accordance with the provisions of Sections 53, 57, and 58 of the Act on accounting.

e) Invested Financial Assets

Investments meaning proportion of property are valuated at purchase price until their market values permanently decline under their registered value. In this case the market price at the time of balancing shall form basis for the valuation, or– if such is not available – the proportion possessed by the Company in the shareholders' equity as per the statement.

f) Inventory

The purchased stocks are reported at latest purchasing price.

a. The purchased stocks shall be indicated at reduced value which

1. Do not conform to the relevant regulations (standards, requirements specified in the supply contract, etc.),
2. Do not conform to the originally intended purposes (e.g. due to physical, chemical impacts, or become outdated, etc.) and
3. The sale or usage is doubtful, shall be considered as excess stock (e.g. those that are not marketed any longer, or are not usable owing to the changeover of types, etc.)

b. The closing material stock shall be indicated in the balance sheet with decreased value if the book value of such stocks (at the latest purchase prices) was permanently and significantly higher than that the actual market values thereof known at the time when the balance sheet was prepared.

In case of stocks of private (own-) production (semi-finished and finished products, work in progress) the closing stock is indicated at actual indirect prime cost.

Devaluation is accounted for stocks of private (own-) production if

1. The physical condition of the stock of private (own-) production deteriorated (due to damage, impairment of quality, destruction, etc.),
2. The stock of private (own-) production cannot be used for their originally intended purposes (becoming unmarketable, marketable only with considerable reduction, at a discount, etc.),
3. The (expectable) selling price of the stock of private (own-) production on the day of balance sheet preparation is lower than the cost of production.

Use of inventory is as per FIFO principle.

g) Receivables

On the basis of the classification of the customer as debtor the Company accounts devaluation for the outstanding receivables at the balance date of the financial year (including sums lent, or amounts paid in advance, as well as receivable type items existing between accrued and deferred revenues) – on the basis of information available on the day of balancing – in the amount of the – loss type - deviation between the book value of the receivables and the amount of the receivables anticipated to be refunded, if the mentioned difference appears permanently and is of material value.

If on the basis of the classification of the customer as debtor, the amount of the receivables anticipated to be repaid significantly exceeds the book value of the receivables, the difference shall be deduced with the devaluation accounted earlier by means of retrieval. Through the retrieval of the devaluation the booked value of the receivables will not be in excess of the value of registration.

The original registration value of the receivables, or the retrieved and cumulated devaluation accounted in the financial year are itemised according to the balance sheet in Section 6 below.

(Data shall be construed in T HUF)

h) Securities

The securities reported among the current assets are indicated in the balance sheet at cost price until their value decreases permanently below the registration value.

i) Accounting of Securities and Transactions in Foreign Currency

Transactions in foreign currency shall be accounted at the middle exchange rate being valid on the day of the transaction and announced by the bank keeping the company's bank account (Raiffeisen Bank Rt.). The profit or loss on the exchange rate due to the exchange rate difference on the day of the effectuation of payment and the actual date of the business transaction shall be reported in the financial statement.

The valuation of assets and sources registered in liquid assets of foreign currency is made in the balance sheet as follows:

The currency supplied recorded in the balance sheet under the currency cash desk line, the foreign exchange on the foreign currency account, additionally all receivables for outstanding payments and liabilities in foreign currency – as classified in accordance with Sections 54-55 of the Act on accounting -, shall be indicated in the balance sheet after conversion into HUF in accordance with middle exchange rate announced by the mentioned financial institute on the balance day of the financial year. No value limit of effects of the exchange rate difference that could be significant in terms of profit or loss regarding the valuation of assets and liabilities in foreign money value on the balance day is defined by our Company.

The difference of the booked values of foreign exchange in the currency cash desk, and on the foreign currency account, as well as the receivables in foreign currency, the invested financial assets, securities, and liabilities prior to valuation on the balance day and that of the value in HUF on the day of valuation:

a) shall be accounted as loss on exchange rate, if it is loss when cumulated, under the line Other expenses on financial transactions,

b) shall be accounted as profit on exchange rate, if it is profit when cumulated, under the line Other incomes from financial activities.

j) Revenues

The turnover (net sales) shall be accounted on the day of effectuation, excluding value added tax.

k) Provisions

Our Company forms provisions against the income before tax for the payment liabilities to third parties deriving from past transactions and transactions and contracts in progress (pending liabilities, future liabilities, early retirement, payment liabilities owing to proceedings in progress), that – according to the information available on the balancing – are expected or are sure to occur, but whose amount or due dates are uncertain at the time of balancing, but the coverage is not otherwise ensured by our Company for such liabilities.

l) Corporate Tax

Corporate tax shall be accounted in the income statement in pursuance of the tax regulations being in force in the year under review. Our Company shall not pay corporate tax in the tax year concerned owing to the business performance of the year under review.

m) Valuation at Real Value

ALKALOIDA Chemical Company Ltd.. shall not avail itself of the opportunity of valuation at real value, thus there exists neither valuation difference not valuation reserve for real valuation in the balance sheet, and the income statement includes no valuation difference either.

3. FINANCIAL STATUS AND LIQUIDITY

No financial event occurred following the balance date that would materially influence the report of the Company dated on 31 March 2007.

The pace of payments is stabilised and the rate of receivables being overdue decreased significantly compared to the previous reporting period.

Hereafter we are presenting the variations of the Lines of the Balance Sheet projected in the view of changes before 31 March 2007.

Similar to the previous years the audit and the self check found no incorrectness in the year under review, and the balance sheet includes no adjustments pertaining to the previous periods. There is no item in the balance sheet that could be indicated as entry in more than one line in the balance sheet.

The data of the balance sheet – apart from the rearrangements required by the alterations in the provisions of the relevant statutes – are comparable to the relevant data of the previous reporting period.

There are no invisible or unclosed transactions by the balance date, such as pending or certain future liabilities.

There exists no financial liability not indicated in the balance sheet that would be significant in terms of the evaluation of the financial status.

Composition of assets

Data in HUF thousand

Description	**31/03/2006**	**31/03/2007**	**Deviation**	**Index % 2007/2006**
Intangible assets	367,036	313,580	-53,456	85.44%
Tangible assets	3,995,887	4,914,618	918,731	122.99%
Invested financial assets	811,042	798,312	-12,730	98.43%
Investments	**5,173,965**	**6,026,510**	**852,545**	**116.48%**
Stocks	3,484,658	5,341,806	1,857,148	153.29%
Receivables	705,547	8,365,749	7,660,202	1185.71%
Securities	0	0	0	0.00%
Liquid assets	270,980	124,576	-146,404	45.97%
Current assets	**4,461,185**	**13,832,131**	**9,370,946**	**310.06%**
Accrued and deferred assets	**7,509**	**40,507**	**32,998**	**539.45%**
Total of assets	**9,642,659**	**19,899,148**	**10,256,489**	**206.37%**

(Data shall be construed in T HUF)

Decrease of intangible assets comes from depreciation booked in the accounted period.
In case of tangible assets the increment of uncompleted investments resulted in an increase, activated investments in the period accounted was 1 126,5 million HUF, as for unfinished investments it is 275,7 million HUF.
In case of invested financial assets cause of reduction is devaluation of shares of Tivabusz Ltd. as well as decrease of employee loans.
Increase of stocks comes from increase of own manufactured stock.

Increase of receivables is related to increase of short term loans, as the Customer's readiness to settle their outstanding arrears also improved significantly, consequently the rate of liquid assets grew.

composition of sources

Data in HUF thousand

Description	31/03/2006	31/03/2007	Deviation	Index % 2007/2006
Issued capital stock	6,028,614	6,028,614	0	100.00%
Capital reserve	371,152	371,152	0	100.00%
Profit reserve	-1,869,934	-2,128,114	-258,180	113.81%
Tied up reserves	353,420	301,816	-51,604	85.40%
Profit or loss per balance sheet	-309,784	-41,334	268,450	13.34%
Equity capital	**4,573,468**	**4,532,134**	**-41,334**	**99.10%**
Provisions	**20,636**	**20,116**	**-520**	**97.48%**
Deferred liabilities	0	0	0	0.00%
Long-term liabilities	0	0	0	0.00%
Short-term liabilities	4,683,848	14,719,263	10,035,415	314.26%
Liabilities	**4,683,848**	**14,719,263**	**10,035,415**	**314.26%**
Accrued and deferred liabilities	**364,707**	**627,635**	**262,928**	**172.09%**
Total of Sources	**9,642,659**	**19,899,148**	**10,256,489**	**206.37%**

On the side of Sources change in equity capital comes from the negative value of profit or loss according to the balance sheet.

The increase in the short-term liabilities was attributable to the short-term loans received from the parent company.

Accrued and deferred liabilities increased by 72.1%, caused by accrued wage for a month, as well as increase in energy costs and in interest payment liabilities.

Development of equity capital and liabilities

Data in HUF thousand

Description	31/03/2006	Appropriation	Redemption of shares / release of tied up reserves	Utilisation of capital reserve for the negative profit reserve	Posting as tied up reserve/ release - R&D	Profit or loss according to balance sheet	31/03/2007
Issued capital stock	6,028,614	—	—	—	—	—	6,028,614
Capital reserve	371,152	—	—	—	—	—	371,152
Profit reserve	-1,869,934	-309,784	—	—	51,604	—	-2,128,114
Tied up capital	353,420	—	—	—	-51,604	—	301,816
Profit or loss per balance sheet	-309,784	309,784	—	—	—	-41,334	-41,334
Total	**4,573,468**	**0**	**0**	**0**	**0**	**-41,334**	**4,532,134**

In terms of the elements of the equity capital the following changes occurred on 31 March 2007:

- **Issued capital stock**
  No change.
- **Capital reserve**
  No change.
- **Profit reserve**
  Transit of profit or loss of previous year as well as transit of accrued depreciation of R+D decreasing tied up capital.
- **Profit or Loss according to the balance sheet**
  This amount in the accounted period: -41 million HUF.

(Data shall be construed in T HUF)

The figures required for the analysis of the financial situation of the Company are included in Annexes 6-7-8.

4. SUPPLEMENT TO THE DATA OF THE REPORT

The Company prepares balance sheet type "A", respectively turn over cost method-based profit and loss statement type "A". The balance sheet and the profit and loss statement contain no further breakdown in addition to the breakdown prescribed in the Accountancy Act.

1. Intangible assets	**31/03/2007**	**313,580 HUF th**
	31/03/2006	**367,036 HUF th**

The development of the value of the intangible assets during the year is illustrated by those contained in annex No. 1.

During the course of fiscal year finishing on 31 March 2007, the value of the intangible assets of the Company was not considerably increased by significant purchases

Description	thousand HUF 31/03/2007
Various softwares	2,860
Total	**2,860**

The accounting method of the depreciation of the intangible assets has not changed compared to the past year.

2. Tangible assets	**31/03/2007**	**4,914,618 HUF th**
	31/03/2006	**3,995,887 HUF th**

The value of the tangible assets developed during the course of the year according to those contained in annex No.2:

In the reporting period the Company continued investments and reconstruction started in 2005, changes is shown in Annex no. 2.

Renewing and expanding of tangible assets are in process.

The method of accounting for depreciation in the case of tangible assets has not changed compared to last year.

3. Leased assets

Our Company signed no leasing contract last year and has got no leased assets.

4. Financial investments	**31/03/2007**	**798,312 HUF th**
	31/03/2006	**811,042 HUF th**

The development of the company's share is illustrated by annex No. 3.
The composition of the shares did not change during reporting period. The balance of permanent loans (5 132 thousand HUF) includes the stock of employee loans due over a year.

5. Inventory	**31/03/2007**	**5,341,806 HUF th**
	31/03/2006	**3,484,658 HUF th**

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index %
Raw Materials	608,377	574,420	94%
Semi-finished goods and work in progress	1,894,351	4,596,125	243%
Live stock	0	0	0%
Finished goods	933,015	165,285	18%
Goods	46,608	0	0%
Advance payments for stock, goods	2,307	5,976	259%
Total	**3,484,658**	**5,341,806**	**153%**

Within the inventory, HUF 3 520 thousand (in 2006 I. quarter HUF 35 667 thousand) were accounted for the financial year as devaluation concerning the purchased stocks, and HUF 203 512 thousand (in 2006 I. quarter HUF 84 850 thousand) as devaluation concerning self manufactured stock.

Decrease in the stock value of the raw materials is caused by poppy head from prior year that was processed partly, increase in the stock value of semi-finished goods and work in progress was caused by the value of morphine and morphine derivatives processed from poppy-head.

6. Receivables	**31/03/2007**	**8,365,749 HUF th**
	31/03/2006	**705,547 HUF th**
Trade receivables	**31/03/2007**	**360,809 HUF th**
	31/03/2006	**500,657 HUF th**

(Data shall be construed in T HUF)

Receivables from related companies worth of 150 212 thousand HUF are trade receivables and 7 622 374 thousand HUF are loans given to affiliates.

Receivables from related companies	**31/03/2007**	**7,772,586 HUF th**
	31/03/2006	**0 HUF th**

At the end of the period the Company has no overdue receivables at related parties.

In 2006 I. quarter, our Company charged devaluation worth 469 thousand HUF for overdue receivables, which does not concern the companies belonging to the group. On 31 March 2007 this amount represented 2 842 thousand HUF as buyer's devaluation.

Classification of receivables

Data in HUF thousand

Description	31/03/2006	31/03/2007
Due receivables	450,052	319,361
Overdue receivables	50,605	41,448
of which: between 0-90 days	47,821	41,448
between 91-180 days	975	0
between181-360 days	410	0
over days	1,399	0
Total	**500,657**	**360,809**

The change in the devaluation of the receivables during the year developed as below:

Data in HUF thousand

Description	31/03/2006	31/03/2007
Opening	11,121	**2,747**
Growth in devaluation	469	2,842
evaluation writeback	8,843	2,747
Bad debt writte-off	0	0
Closing	**2,747**	**2,842**

WRITE -OFF RECEIVABLE 31/03/2007	in HUF thousand
CUSTOMER	**ORIGINAL AMOUNT**
	0
TOTAL	0
DEVALUATION 31/03/2007	**in HUF thousand**
CUSTOMER	**ORIGINAL AMOUNT**
Balogh Tamás	8
Bodnár Ilona	7
Danka Attila	29
Dombrádi Lajosné	9
Dudás Tímea	22
Gyöngyösi Zoltán	15
Kanyuk Tamás	7
Kolozsi Gábor	7
Lajos János	0
Lakomecz Lászlóné	14
Losonczi Péter	14
Pokoradczki István	83
Pokoradczki Istvánné	83
Virág István	19
Volosinóczki Béla	7
Zagyváné Gazdag Ibolya	34
Aventis Pharma,Venezuela	763
Capsifar	608
Total	**2,842**

The devaluation worth 2747 thousand HUF accumulated in the I. quarter of 2006, was reversed on 31 March 2007 and was made a new devaluation on the basis of ageing.

(Data shall be construed in T HUF)

There were no dead debts in the accounted period.

The Company has no overdue receivable against related party on 31 03 2007.

Within the devaluation charged, the Company charges devaluation exclusively for overdue receivables similarly to the last year.

Other receivables		
	31/03/2007	**232,354 HUF th**
	31/03/2006	**204,890 HUF th**

From among the balances of the other receivables the below deserve attention:

Data in HUF thousand

Other receivables	**31/03/2006**	**31/03/2007**
Advance payments for services	7,335	708
Other receivables	2,645	59,936
Advance payment for salary to employee	2,283	6,445
Prescribed debt of quit employees	218	217
Advance payments against rendering accounts	154	2
Supply	422	382
Refundable VAT	152,709	145,933
Down payment for travelling	—	—
Luncheon vouchers	394	329
Purchases with managers' Visa Card	—	—
Caution	170	170
Insurance account	—	315
Payment liability balance	—	2,549
Wage accounting	295	495
Personal income tax balance	—	12,295
Communal tax	37,887	—
Short term loan given to employee	378	2,578
Total	**204,890**	**232,354**

From among the balances of the other recivables the below deserve attention:

– consolidated balance of general ledger numbers 466-468 containing tax reclaim, that was relatively high in the accounted period.

7. Securities		
	31/03/2007	**0 HUF th**
	31/03/2006	**0 HUF th**

The company has no security investment at present.

8. Cash and Bank		
	31/03/2007	**124,576 HUF th**
	31/03/2006	**270,980 HUF th**

The Company has in principle four account-keeping banks in the reporting period. Raiffeisen Bank Zrt., a CIB Bank Zrt. and Calyon Bank Magyarország Zrt and OTP Bank Nyrt.
The account turnover is considerable on both the HUF and foreign exchange accounts in the first 3 banks. At OTP Bank the Company has only HUF exchange account, turnover is little. Cash has decreased in the period accounted.

9. Prepayments and deferrd incomes		
	31/03/2007	**40,507 HUF th**
	31/03/2006	**7,509 HUF th**

(Data shall be construed in T HUF)

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index %
Services, sold energy	7,509	6,781	90.30%
Interest on deposits tied up	0	32,658	0.00%
Deferred income	**7,509**	**39,439**	**525.22%**
Registration fee	0	0	0.00%
Labour rent cost	0	0	0.00%
Meal tickets	0	0	0.00%
Insurance fee	0	0	0.00%
Subscription fees	0	1,068	0.00%
Oter costs deferred	0	1,068	0.00%
Deferred expenses	0	0	0.00%
Total	**7,509**	**40,507**	**539.45%**

The amount of deferred income has increased in the reported period, what is due to the increase of deferred interest income.

10. Shareholder's equity

31/03/2007	**4,532,134 HUF th**
31/03/2006	**4,573,468 HUF th**

We mentioned the changes in capital resources elements in Point 3. Financial status and liquidity.

11. Provisions

31/03/2007	**20,116 HUF th**
31/03/2006	**20,636 HUF th**

Changes of provisions as the following table.

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index %
Pending lawsuits	18,638	20,116	107.93%
Early retirement	1998	0	0.00%
Total	**20,636**	**20,116**	**97.48%**

The balance of the provisions is represented only by amounts payable on early retirement and severance payments to be shown according to the Accountancy Act, and by provisions accumulated for pending lawsuits. All lawsuits for which we accumulated provisions will be closed foreseeable in 2007.

12. Short term liabilities

31/03/2007	**14,719,263 HUF th**
31/03/2006	**4,683,848 HUF th**

The short term liabilities are formed from short term loans given by the parent company.

The stock of the short-term loans is introduced by annex No. 4.

Other liabilities:

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index%
Amex card account	—	20	0.00%
Distraint	—	28	0.00%
Transfer deposit of employees	—	—	0.00%
Personal income tax	766	—	0.00%
Social Insurance liability stipulation	—	—	0.00%
Luncheon voucher	—	—	0.00%
Social security liabilities	—	—	0.00%
Communal taxes	—	244	0.00%
Other	—	—	0.00%
Total	766	292	38.12%

(Data shall be construed in T HUF)

Considerable decrease can be seen as for other liabilities in the accounted period, considerable issue are communal taxes.

13. Accruals	**31 03 2007**	**627,635 HUF th**
	31 12 2006	**364,707 HUF th**

Classification of accruals as per the following table:

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index%
Accrued income	0	0	0.00%
Accruals of costs and expenses	253,820	520,075	204.90%
Deferred revenue	110,887	107,560	97.00%
Total	**364,707**	**627,635**	**172.09%**

The details are shown in the below chart.

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index%
Accruals of costs and expenses	**253,820**	**520,075**	**204.90%**
Interest on loan	26,713	329,879	1234.90%
Bonus	8,233	1,732	21.04%
Maintanance	7,743	695	8.98%
Environmental protection cost	3,105	6,581	211.95%
Audit	2,000	2,000	100.00%
Energy supply	33,493	28,536	85.20%
Wages, staff reduction related costs	125,345	109,503	87.36%
Leasing fee	1,280	—	0.00%
Safety technology cost	—	6,031	0.00%
IT costs	—	—	0.00%
Other service	14,160	5,373	37.94%
Vocational training contribution	—	—	0.00%
Post expenses	—	200	0.00%
Innovation fee	7,326	10,360	141.41%
Fuel cost	—	867	0.00%
Labour rent cost	3,942	4,681	118.75%
Travel	—	—	0.00%
Wage accounting cost	2,300	—	0.00%
Transportation cost	4,413	1,981	44.89%
Export commission	—	—	0.00%
Marketing cost	—	—	0.00%
Material costs	3,767	—	0.00%
R+D assignments	—	—	0.00%
Penalties	10,000	11,656	116.56%
Deferred revenue	**110,887**	**107,560**	**97.00%**
Deferred revenue	110,887	107,560	97.00%

14. Net sales	**31/03/2007**	**3,336,052 HUF th**
	31/03/2006	**705,658 HUF th**

Domestic and export sales as the followings:

Data in HUF thousand

Description	31/03/2006	31/03/2007	Index%
Domestic	244,644	1,078,115	440.69%
Export	461,014	2,257,937	489.78%
Total	**705,658**	**3,336,052**	**472.76%**

Sale of the two periods are not comparable, sales in 2006 I. quarter is less than sales of the current year, pro-rata we can see 18% sales increase in the reporting period.

(Data shall be construed in T HUF)

Export sales in the accounting period developed as below broken down by geographically separated markets:

Description	31/03/2006 USD th	31/03/2006 HUF th	31/03/2007 USD th	31/03/2007 HUF th
Europe	2,136	452,361	7,400	1,527,070
of which: EU	1,606	340,149	5,544	1,144,179
America	39	8,262	2,311	476,947
Asia	-1	-123	1,164	240,127
Africa	0	0	53	10,837
Australia	2	514	14	2,956
Total	**2,177**	**461,014**	**10,942**	**2,257,937**

The company has not got any export subvention in this period.

15. Other income

15. Other income	**31/03/2007**	**44,543 HUF th**
	31/03/2006	**13,141 HUF th**

Details as below.

Data in HUF thousand

Description	31/03/2006	31/03/2007
Revenue from sale of intangible and tangible	0	32,930
Revenue related to previous years	0	0
Writeback of receivable devaluation from previous year	8,844	2,747
Other	3,085	6,594
Rounding	0	0
Received delay interest,compensation	1,212	274
Provision writeback	0	1,998
Reclaimed product fee	0	0
Total	**13,141**	**44,543**

At the end of the period accounted provision of early retirement and severance pay were written back as provision on 31 March 2006 was not used and we do not expect these expenses to be paid at present.

16. Breakdown of cost by types of cost

Data in HUF thousand

Description	31/03/2006	31/03/2007
Capitalised value of self produced assets	—	—
Change in self-produced inventory	737,527	1,934,045
Correction of change of stocks/ devaluation	84,680	205,859
Material related expenses	**1,127,940**	**3,675,408**
Material cost	904,055	2,782,508
Services rendered	182,455	882,720
Cost of goods sold	41,430	8,545
Intermediated services	—	1,635
Staff expenses	**393,301**	**1,521,897**
Wages and salaries	278,529	1,053,767
Personal related expenses	17,242	102,827
Social security contribution	97,530	365,303
Depreciation and amosrtisation	**85,558**	**370,350**
Other cost	**4,072**	**33,552**

(Data shall be construed in T HUF)

16 b. For those who prepare profit and loss statement type turnover cost method

Data in HUF thousand

Description	31/03/2006	31/03/2007
Cost of sales	621,080	2,968,692
Cost of goods sold	41,430	8,545
Intermediated services	0	1,634
Direct costs of sales	**662,510**	**2,978,871**
Management costs	80,736	144,053
Sales, marketing costs	42,237	325,733
Other overhead	3,181	12,646
Indirect costs	**126,154**	**482,432**

17. Other expenditure	**31/03/2007**	**306,062 HUF th**
	31/03/2006	**1,341,571 HUF th**

Data in HUF thousand

Description	31/03/2006	31/03/2007
Devaluation Inventory and receivable	920,342	209,874
Extraordinary depreciation of tangible assets	0	0
Net value of assets sold	516	9
Taxes	20,974	10,481
Fines	16,407	13,679
Non-invoiced discount	0	0
Compensation for damages	33,447	24,520
Other	16,718	2,214
Scrapping	31,047	10,361
Late interest	9,220	246
Environment pollution fee	0	22,972
Accumulation of provisions	20,636	1,478
Refunding to OEP	9,400	2,626
Rounding	0	3,607
Law suit costs	717	0
Other expenditures	262,147	3,995
Total	**1,341,571**	**306,062**

18. Result of financial operations	**31/03/2007**	**339,988 HUF th**
	31/03/2006	**-113,537 HUF th**

Data in HUF thousand

Description	31/03/2006	31/03/2007
Income from fin.transactions		
Other interest received	227	1,341
Dividens received	0	0
Interest, int.related revenue, exchange gain	0	0
Exchange gain on sale of shares	0	0
Interest on invested fin. Assets	0	32,697
Receivables, liabilities, exchange	41,145	779,568
Revenues from financial trans.	**41,372**	**813,606**
Other expenses related to fin. trans		
Interest payable	32,269	52,256
Exchange loss on fin. Investments	-16,621	2,436
Devaluation of shares, securities	26,713	386,683
Receivables,liabilities, exchange	112,548	32,243
Expenses on financial transactions	**154,909**	**473,618**
Profit (loss) of financial transactions	**-113,537**	**339,988**

(Data shall be construed in T HUF)

19. Extraordinary profit (loss)

31/03/2007	**5,448 HUF th**
31/03/2006	**2,104 HUF th**

Data in HUF thousand

Description	31/03/2006	31/03/2007
Extraordinary expenditure		
Goods given to parties free of charge	0	0
Own share bought back (withdrawal)	0	0
Supprt redered	0	0
Book value of released receivables	0	0
Total	**0**	**0**
Extraordinary revenue		
Market value of assets received as present	0	2,121
Own share bought back	0	0
Value of gone receivables	2,104	3,327
Total	**2,104**	**5,448**
Extraordinary profit or loss	**2,104**	**5,448**

20. TAXATION

Correlation's between the outcome forming basis of accounting and taxation:

Data in HUF thousand

Corporate Tax	31/03/2006	31/03/2007
Income before tax	**-309,784**	**-41,334**
Items deducible from income before tax		
Amount accountable in accordance with Section 17 of the Act on Accounting from the deferred loss of the previous tax years, deduced in the tax year	—	—
Provision recognised in the tax year, exceeding the acknowledged rate	—	1,998
Depreciation accounted as per the act on taxation, and the registration value defined when the asset was derecognised	87,753	383,347
Dividends received	—	—
Cooperation agreement with educational institutes, 12 % of the minimal wage per student	1,598	6,113
Subsidies received	—	—
Irrecoverable receivables, retrieval of devaluation	8,844	2,747
Depreciation as per tax law	—	—
Amount of legal consequences accounted as revenue	—	—
Direct costs of accounted R&D	711	—
50% of local tax accounted as expenditure if there are no public liabilities	0	0
Donations to foundations	—	—
Non-repayable subsidies, assets taken over /the retrieved amount shall be considered as revenue in the tax year when the accrued and deferred liability is terminated/	2,105	3,327
Employment of disabled persons, less than 20 persons	—	—
Total	**101,011**	**397,532**
Items increasing the income before tax		
Provisions	—	1,478
Devaluation accounted as cost, the amount accounted as expenditure when the asset is derecognised	85558	370360
Amount of devaluation accounted as expenditure for receivables	469	2,842
Costs related to activities other than business	2,436	3,995
Binding judgements	3	13,678
Amount of irrecoverable receivables depreciated in the tax year	—	—
Subsidies	—	—
Total	**88,466**	**392,353**
Tax base	**-322,329**	**-46,513**
Corporate tax	**0**	**0**
Income after tax	**-309,784**	**-41,334**
Profit or loss according to balance sheet	**-309,784**	**-41,334**

There was no overall audit by the Tax Authority at our Company in the reported period.

(Data shall be construed in T HUF)

The tax authority shall be entitled to carry out the auditing of the accounts and books any time within 5 years following the year of taxation under review, and may levy additional tax or fines.

The management of the Company has no information of any circumstances that may imply the possibility that any such liabilities of the kind could be imposed on the Company.

21. TRANSACTIONS WITH ASSOCIATED COMPANIES IN THE FRAMEWORK OF PARTICIPATION

The following transactions were executed by the Company during the year under review in the framework of participation with associated companies:

Data in HUF thousand

Associated Company	Customer turnover	Supplier turnover	Customer/Supplier turnover
Reanal Ltd.	0	3,470	-3,470
Total	**0**	**3,470**	**-3,470**

We had following transactions with the companies belonging to the associated companies of the new Owner in the year.

Data in HUF thousand

Associated Company	Customer turnover	Supplier turnover	Customer/Supplier turnover
SPI Panoli	185,824	0	185,824
SPI Chennai	32,025	0	32,025
SPI Dadra	5,297	0	5,297
SPI Andheri, Mumbai	0	17,690	-17,690
Total	223,146	17,690	205,456

LIABILITIES AND PENDING LIABILITIES

a) Summary on the environmental protection activities implemented in the reported period:

The biological water purification plant has been in continuous operation. The quantity of the purified waste water issued amounted to 1,089,913m^3. The sewage sludge produced during purification and qualified as dangerous waste, has been disposed of through composting, at a cost of HUF 30,583,715. Until putting into operation of the new centrifuge, dehydration of the sewage sludge was made by a centrifuge in rent. The costs of rent amounted to HUF 5,120,344.

Dangerous waste amounting to 472,752 MT has been burned during the reporting period, with costs amounting to HUF 30,103,534.

The following returns and reports concerning the previous year have been prepared for the environmental protection authority:

- Return on dangerous and non-dangerous wastes,
- Return on air contamination point sources and on organic solvent emission sources,
- Underground water protection datasheets (container parks and sewage plant),
- Water quality basic and annual reports on sewage emission to surface waters; and
- we have calculated the 2006 years' amounts of air and water loading charges payable to APEH (air loading charge: HUF 17,245,165, water loading charge: HUF 4,095,982).

The environmental protection authority has charged us by an air contamination fine amounting to HUF 9,204,605 for year 2006, mainly due to the nitrogen oxide emission of the boilers.

Until now, no sewage fine has been imposed in the year of reporting.

We have prepared, and submitted to be audited by SGS Hungária Ltd., with success, the previous year's carbon dioxide emission report. (We have surplus quota of 5,533 MT in respect of the emission in year 2005, of 10,176 in year 2006, that is, of 15,709 MT in total.)

The comprehensive environmental protection audit report required for the obtention of the integrated environmental permit has been prepared and submitted to the environmental protection authority.

UTB Envirotec Ltd. has prepared the modelling study for purification of the ground water to be extracted from the contaminated area marked SZ-I, and the related application for water-privilege permit modification of the sewage purification plant, at a cost of HUF 3,750,000; these materials have been submitted to the environmental protection authority.

ELGOSCAR-2000 Ltd. has installed 44 pcs extracting and absorbing wells in the contaminated areas SZ-I, SZ-VIII and SZ-X, at a cost expenditure of HUF 40,239,000.

At a cost of HUF 2,729,000, ELGOSCAR-2000 Ltd. has prepared the schedule concerning final delimitation of the contamination, and such plan has been submitted to the environmental protection authority. The authority approved the plan and ordered completion of the delimitation tasks in a decision.

ENVIROKOMPLEX Ltd. has submitted water-privilege permit application for filling up the unused potable water well No. VI, then, following issuance of the water-privilege permit, filling up of the well has been performed. Total costs amounted to HUF 5,800,000.

Három Kör DELTA Ltd. has completed the ground water and shallow ground water monitoring tests, to be performed twice a year as required by the authority, preparing and submitting to the authority the evaluation reports. Monitoring costs in the first half of the year amounted to HUF 9,594,000, those of the second half, to HUF 10,216,000.

(Data shall be construed in T HUF)

Delimitation of the soil contamination near the waste burner occurred in two stages, with costs amounting to HUF 1,710,000 and HUF 1,719,500, respectively. The assessment reports have been also prepared and submitted to the environmental protection authority.

Significant projects for the following year and their estimated costs:

- Installing remediation system and mechanic part of wells at SZ-I,SZ-VIII,SZ-X areas as well as starting remediation (74 600 000 HUF)
- Final impoundment at the formermentioned areas, at incinerator and at SZU-II area.
- Analyse of drilled wells outside the factory, closing IV/A drinking water well and transforming to be as a monitoring well (75 000 000 HUF)
- Preparing technical design on works at SZU-II area (6 000 000 HUF)
- Preparing execution design on remediation system at SZU-II area, installing remediation system (248 000 000 HUF)
- Reconstruction of ETP Plant (97 500 000 HUF)
- Annual ground water and swallow layer water monitoring (23 000 000 HUF)
- Removing buildings and structures of old ETP Plant (settler) in the factory (80 000 000 HUF)

b) Liabilities related to Research and Development:

Our Company concluded a contract on 3 August 2001 with the Gyógynövénykutató Intézet Rt for the development of a new poppy species or generic notion with at least 2% morphine content. The research is completed, and the new poppy of generic notion as “Botond” is registered.

Our contractual obligations on condition that the research-development target is fulfilled: to crop an area of at least 4000 ha annually for 5 years. Our company committed itself to pay a royalty of 0.051 USD + VAT/kg after the produced poppy heads. Should we fail to produce the poppy with the mentioned generic notion in any of the mentioned years, a penalty of 43,500.-USD should be paid as compensation to the Institute.

The poppy of the mentioned generic notion developed for us shall be cropped in the year 2007 first.

23. BUSINESS ADMINISTRATION, MANAGEMENT AND BOARD OF SUPERVISORS

The executive officers, the members of the executive board, the business administration and the members of the board of supervisors received no emoluments for their activities in 2005.

24. WAGE FIGURES AND STAFF NUMBER

The development of wages and personal allowances, and the contributions related thereto in the reported period:

Staff group	Average statistical headcount persons	Wage costs	Contributions of wages	Other Compensation	Staff costs altogether
		Data in HUF thousand			
Full-time, blue collar	299	543,371	187,253	59,850	790,475
Full-time white collar	129	496,623	171,143	54,701	722,468
Part time employees	2	3,721	1,282	410	5,412
Others not in staff		4,196	1,446	462	6,104
Total	**430**	**1,047,911**	**361,125**	**115,423**	**1,524,459**

25. CASH-FLOW STATEMENT

The Cash-Flow statement for the reported period is included in Annex 5.

On behalf of the Board of Executives of the ALKALOIDA Chemical Company exclusive group Limited.

Tiszavasvári, 10 May 2007

Harin Mehta
Chairman of the Board of Executives/Company Manager