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.

(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.

	4. INVESTMENTS		**31.03.2007 USD**	**31.03.2007 Rs.**	31.03.2006 USD
(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.

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

Notes forming part of the financial statements

		31.03.2007 USD	31.03.2007 Rs.	31.03.2006 USD
6.	**ACCOUNTS PAYABLES AND ACCRUALS**			
	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.

		31.03.2007 USD	31.03.2007 Rs.	31.03.2006 USD
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**

Sun Pharmaceutical (Bangladesh) Limited

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.

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

Name of assets	Cost				Depreciation				Written down value		
	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**

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
18.1	**Cost of production**			
	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)

	Opening Balance		Purchase		Closing Balance		Consumption	
Particulars	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.

		31 March 2007 Taka	31 March 2007 Rupees	31 March 2006 Taka
18.3	**Packing materials consumption & closing stock**			
	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**

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
Forming an Integral Part of the Financial Statement

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.

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.

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 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
<u>Assumptions</u>	
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.

- **Taxable Income:**

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) TAXES ON GROSS REVENUE

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:

- **Option for Assumed Income Method – Cumulative PIS and COFINS System**

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.

- **Option for Taxable Income Method – Non-Cumulative PIS and COFINS System**

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) STATE TAXES – ICMS:

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) FEDERAL SOCIAL CONTRIBUTIONS – INSS and FGTS on Salaries:

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) OTHER FEDERAL TAXES

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) TAXES ON IMPORTS:

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.

(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.

NOTES TO FINANCIAL STATEMENTS

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.

NOTES TO FINANCIAL STATEMENTS

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	2007 £	2007 RS.	2006 £
		Continuing Operations		
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 GBP	2007 RS.	2007 RS.	2006 GBP	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

			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.	**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)

(Data shall be construed in T HUF)

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

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