

NPIL PHARMACEUTICALS (UK) LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2006

KAJAINÉ LIMITED

Chartered Accountants & Registered Auditors

1st Floor
Alpine House Unit 2
Honeypot Lane
London
NW9 9RX

THURSDAY



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COMPANIES HOUSE

NPIL PHARMACEUTICALS (UK) LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

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NPIL PHARMACEUTICALS (UK) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2006

The directors present their report and the financial statements of the company for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the company during the year, continued to be that of manufacturing and packaging of chemical intermediates and finished product for the pharmaceutical and agrochemical industries.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The loss for the year, after taxation, amounted to £455,412 (2005: loss 12,023,855). This includes exceptional income totalling £1,060,022 (2005: £8,374,324 expense).

The directors consider the financial position of the Company to be satisfactory and that during the year the business has been developed further.

RESULTS AND DIVIDENDS

The trading results for the period and the company's financial position at the end of the period are shown in the attached financial statements.

The directors have not recommended a dividend.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The directors make use of the parent company's risk management team to monitor and where possible mitigate the risks faced by the business. This includes credit risk, foreign exchange risk and interest rate risks.

DIRECTORS

The directors who served the company during the period were as follows:

Mr A Piramal
Mr M Fernandes
Mr D Killworth
Mr N Santhanam

The company is a wholly owned subsidiary of NPIL Life Sciences Ltd, a company incorporated in England. None of the Directors hold any shares in the Company or in its holding or subsidiary companies. The ultimate parent company is Nicholas Piramal India Limited, a company incorporated in India.

CHANGES IN SHARE CAPITAL

During the year, the Company allotted 2,432,500 Ordinary Shares of GBP 1 each to its holding company, NPIL Life Sciences Limited (UK).

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

NPIL PHARMACEUTICALS (UK) LIMITED**THE DIRECTORS' REPORT** *(continued)***YEAR ENDED 31 DECEMBER 2006****EMPLOYEE CONSULTATIONS**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings. The employees (or their representatives) are consulted regularly on wide range of matters affecting their current and future interests.

DONATIONS

During the year the company made the following contributions:

	2006	2005
	£	£
Charitable	<u>10,005</u>	<u>—</u>

SUPPLIER PAYMENT POLICY

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The maximum time period the company took to pay its suppliers in the year to 31 December 2006 was 90 days (2005 – 90 days).

RESEARCH AND DEVELOPMENT


The Company is committed to a program of continued improvement of the existing product range.

AUDITOR

A resolution to re-appoint Kajaine Limited as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Registered office:
NPIL Pharma Business Centre
PO Box 521 Leeds Road
Huddersfield
West Yorkshire
HD1 9GA

Signed by order of the directors


MR N SANTHANAM
Company Secretary

Approved by the directors on April 16, 2007

NPIL PHARMACEUTICALS (UK) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31 DECEMBER 2006

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then 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 directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are 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.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

NPIL PHARMACEUTICALS (UK) LIMITED**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
NPIL PHARMACEUTICALS (UK) LIMITED****YEAR ENDED 31 DECEMBER 2006**

We have audited the financial statements of NPIL Pharmaceuticals (UK) Limited for the year ended 31 December 2006 on pages 8 to 25 which have been prepared on the basis of the accounting policies set out on pages 11 to 13.

This report is made solely to the company's members, 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 members those matters we are required to state to them in an auditor's 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors' 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 Directors' Responsibilities on page 5.

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 Directors' 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 is not disclosed.

We read the Directors' 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 directors 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.

NPIL PHARMACEUTICALS (UK) LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
NPIL PHARMACEUTICALS (UK) LIMITED** *(continued)*

YEAR ENDED 31 DECEMBER 2006

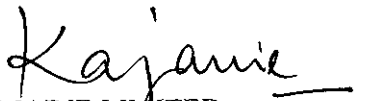
OPINION

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 December 2006 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 Directors' Report is consistent with the financial statements.

1st Floor
Alpine House Unit 2
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NW9 9RX

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KAJAINE LIMITED
Chartered Accountants
& Registered Auditors

NPIL PHARMACEUTICALS (UK) LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 31 DECEMBER 2006**

	Note	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
TURNOVER	2	54,411,519	16,983,012
Cost of sales		<u>21,504,065</u>	<u>8,559,164</u>
GROSS PROFIT		32,907,454	8,423,848
Distribution costs		290,120	128,918
Administrative expenses		33,279,695	13,352,545
Other operating income	3	<u>(6,451)</u>	<u>(1,442,287)</u>
OPERATING LOSS	4	(655,910)	(3,649,531)
Interest payable and similar charges	7	859,524	34,203
EXCEPTIONAL ITEMS	8	1,060,022	(8,374,324)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(455,412)</u>	<u>(12,023,855)</u>
Tax on loss on ordinary activities	9	-	-
LOSS FOR THE FINANCIAL YEAR		<u>(455,412)</u>	<u>(12,023,855)</u>

All of the activities of the company are classed as continuing.

The notes on page 11 to 25 form part of these financial statements.

NPIL PHARMACEUTICALS (UK) LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****YEAR ENDED 31 DECEMBER 2006**

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Loss for the financial year attributable to the shareholders	(455,412)	(12,023,855)
Unrealised loss on revaluation of certain fixed assets	—	(983,175)
Unrealised loss on revaluation of tangible fixed assets:		
Plant & Machinery	—	(12,832,130)
Total gains and losses recognised since the last annual report	<u>(455,412)</u>	<u>(25,839,160)</u>

The notes on pages 11 to 25 form part of these financial statements.

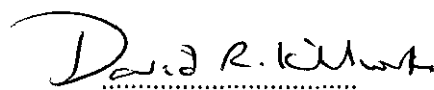
NPIL PHARMACEUTICALS (UK) LIMITED

BALANCE SHEET

31 DECEMBER 2006

	Note	2006 £	2005 £
FIXED ASSETS			
Tangible assets	10	15,013,041	4,615,181
Investments	11	750,002	750,002
		<u>15,763,043</u>	<u>5,365,183</u>
CURRENT ASSETS			
Stocks	12	22,891,103	7,182,245
Debtors	13	10,762,154	4,029,414
Cash at bank and in hand		1,094	1,398,811
		<u>33,654,351</u>	<u>12,610,470</u>
CREDITORS: Amounts falling due within one year	14	23,336,499	8,077,452
NET CURRENT ASSETS		<u>10,317,852</u>	<u>4,533,018</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>26,080,895</u>	<u>9,898,201</u>
CREDITORS: Amounts falling due after more than one year	15	18,849,039	—
		<u>7,231,856</u>	<u>9,898,201</u>
PROVISIONS FOR LIABILITIES			
Pensions	23	—	3,100,000
Other provisions	16	2,038,622	3,582,055
		<u>5,193,234</u>	<u>3,216,146</u>
CAPITAL AND RESERVES			
Called-up equity share capital	19	17,672,501	15,240,001
Profit and loss account	20	(12,479,267)	(12,023,855)
SHAREHOLDERS' FUNDS	21	<u>5,193,234</u>	<u>3,216,146</u>

These financial statements were approved by the directors on the April 16, 2007 and are signed on their behalf by:


MR D KILLWORTH


MR N SANTHANAM

NPIL PHARMACEUTICALS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2006****1. ACCOUNTING POLICIES****Basis of accounting**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

Consolidation

The company was, at the end of the year, a wholly-owned subsidiary of another company incorporated in the EEA and in accordance with Section 228 of the Companies Act 1985, is not required to produce, and has not published, consolidated accounts.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 from including a cash flow statement in the financial statements on the grounds that the company is wholly owned subsidiary and its ultimate parent, Nicholas Piramal India Ltd (see note 22) publishes a consolidated cash flow statement

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax. All turnover is recognised on delivery of goods to customer.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Intangible fixed assets and amortisation

Intangible fixed assets are stated at cost less amortisation. Amortisation is provided on all intangible fixed asset to write off costs, less estimated residual value, of each asset on a straight line basis over its expected useful life.

On the acquisition of a business, fair values are attributed to the assets acquired. Purchased goodwill representing the excess of the fair value of the consideration given over the fair value of the separable net assets, is capitalised and is amortised to nil immediately.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Buildings - Straight Line 10 years and 33 years

Plant, machinery and equipment - Straight Line 10 years and 12 years

Motor vehicles - Straight Line 25%

Land and assets in the course of construction are not depreciated. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

NPIL PHARMACEUTICALS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2006****1. ACCOUNTING POLICIES** (*continued*)**Work in progress**

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Environmental liabilities

The company is exposed to environmental liabilities relating to operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when expenditure on remedial work is probable and the cost can be estimated within a reasonable range of possible outcomes.

Pension costs

The company operates both Defined Benefit and Defined Contribution scheme. The assets of the schemes are held separately from those of the Company. In the case of defined benefit schemes, assets are measured using market values. Liabilities are measured using a project unit method and discounted at the current rate of return of high quality corporate bond of equivalent term and currency. Costs and liabilities are assessed in accordance with the advice of independent qualified actuaries. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses. In the case of Defined Contribution schemes, the amount charged to profit and loss account represents the contributions payable to the scheme in the period.

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, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

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.

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at forward rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the closing rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. All exchange differences are included in the profit and loss account.

Government Grants

Government grants on capital expenditure are credited to a deferred account and are released to profit and loss account over the expected useful lives of the relevant assets once it is put to use.

Grants of a revenue nature are credited to profit and loss account in the period to which they relate.

2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the company. An analysis of turnover is given below:

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
United Kingdom	9,805,512	5,560,854
Europe	28,881,206	5,861,175
Rest of World	15,724,801	5,560,983
	<u>54,411,519</u>	<u>16,983,012</u>

3. OTHER OPERATING INCOME

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Profit on disposal of fixed assets	<u>6,451</u>	<u>1,442,287</u>

NPIL PHARMACEUTICALS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2006****4. OPERATING LOSS**

Operating loss is stated after charging/(crediting):

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Depreciation of owned fixed assets	601,241	406,847
Profit on disposal of fixed assets	(6,451)	(1,442,287)
Auditor's remuneration - as auditor	40,000	19,000
Net loss/(profit) on foreign currency translation	<u>18,675</u>	<u>(2,821)</u>

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	Year to 31 Dec 06 No	Period from 21 Feb 05 to 31 Dec 05 No
Sales and marketing	4	11
Research and developments	27	53
Manufacturing	530	122
Administration	60	14
	<u>621</u>	<u>200</u>

The aggregate payroll costs of the above were:

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Wages and salaries	14,702,529	5,708,188
Social security costs	1,481,532	456,196
Other pension costs	1,353,228	300,000
	<u>17,537,289</u>	<u>6,464,384</u>

NPIL PHARMACEUTICALS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2006****6. DIRECTORS' EMOLUMENTS**

The directors' aggregate emoluments in respect of qualifying services were:

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Emoluments receivable	138,865	129,212
Pension contributions	22,496	14,715
	<u>161,361</u>	<u>143,927</u>

**Number of directors
31 Dec 06**

Retirement benefits are accruing to the following number of directors under:

Defined benefit schemes	<u>1</u>
-------------------------	-----------------

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Interest payable on bank overdraft	401,190	34,203
Interest payable to fellow group undertaking	458,334	-
Interest payable and similar charges	<u>859,524</u>	<u>34,203</u>

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

8. EXCEPTIONAL ITEMS

	Period from 01 Jan 06 to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Exceptional items are as shown below:		
One time contract settlement fee	(1,440,000)	
Impairment of investment (a)	-	750,000
Provision on Onerous Contract (anticipated losses) (b)	-	2,101,000
Write off of Goodwill on acquisition of trade	-	3,808,000
Restructuring costs (c)	379,978	1,715,324
	<u>(1,060,022)</u>	<u>8,374,324</u>

- (a) The investment in Reaxa Ltd (associate) was impaired in 2005 to reflect the losses incurred by that company in the period to 31st December 2005. Management have reviewed the value of the investment as at 31 Dec 2006 and do not consider a further impairment is required.
- (b) Provision on Onerous Contract is due to contractual obligation for effluent treatment services (ETP) at a cost of £392,000 per annum up until 2024. This amount is split up as capital £324,000 (2005: £234,269) and finance cost £68,000 (2005: £24,000). The present value of this obligation is derived by taking a discounted rate of 9.84% (LIBOR+ risk premium). No further provision was necessary in 2006.
- (c) During the year, Management have instigated procedures to reduce staff numbers voluntarily. Similar costs were charged in 2005 for IT restructuring and redundancies.

9. TAXATION ON ORDINARY ACTIVITIES

	Period from 01 Jan 06 to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Current Tax:		
UK corporation tax on profits of period	-	-
Adjustments in respect of previous periods	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred Tax:		
Origination and reversal of timing differences	-	-
Effect of increased tax rate on opening liability	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

9. TAXATION ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for the period.

The tax assessed for the period is higher than the standard rate of corporation tax (30%) as explained below:

	Period from 01 Jan 06 to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Profit/(loss) on ordinary activities before tax	(455,412)	(12,023,855)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax (30%)	(136,624)	(3,607,157)
Effects of:		
Expenses not deductible for tax purposes	10,443	333,481
Research & development tax credits	—	(50,255)
Capital Allowances less than/(in excess of) depreciation)	177,643	1,258,038
Other timing differences	(51,462)	2,065,893
Adjustment to tax charge in respect of previous period	—	—
Current tax charge for the period	—	—

Factors that may affect future tax charges.

The company has tax losses of £41,119,567 (2005: £39,093,032) carried forward for use against future profits of the same trade, plus non trade loan relationship debits of £984,702 (2005: £125,178) carried forward for use against future non-trading profits. Capital allowances have not been claimed on eligible expenditure amounting to £ 22,047,155 (2005: £18,583,308). The company expects to be able to claim capital allowances in excess of depreciation in future years. No deferred tax asset has been recognised in the company accounts. The total potential deferred tax asset is £18,815,861 (2005: £18,689,680).

	Period from 01 Jan 06 to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Provision for deferred tax has been made as follows:		
Excess of tax allowances over depreciation	—	—
Other timing differences	—	—
	—	—

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

10. TANGIBLE FIXED ASSETS

	Land and buildings	Plant , Machinery & Equipment	Plant & machinery under construction	Motor Vehicles	Total
	£	£	£	£	£
COST					
At 1 January 2006	137,243	4,325,963	435,605	121,493	5,020,304
Additions	8,300,317	1,642,751	1,028,778	38,243	11,010,089
Transfers		488,238	(488,238)		-
Disposals	-	-	-	(61,608)	(61,608)
At 31 December 2006	8,437,560	6,456,952	976,145	98,128	15,968,785
DEPRECIATION					
At 1 January 2006	9,104	357,414	-	38,605	405,123
Charge for the year	52,283	520,788	-	28,170	601,241
On disposals	-	-	-	(50,620)	(50,620)
At 31 December 2006	61,387	878,202	-	16,155	955,744
NET BOOK VALUE					
At 31 December 2006	8,376,173	5,578,750	976,145	81,973	15,013,041
At 31 December 2005	128,139	3,968,549	435,605	82,888	4,615,181

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

11. INVESTMENTS

Unquoted Investments

	£
COST	
At 1 January 2006	<u>1,500,002</u>
At 31 December 2006	<u>1,500,002</u>
Amounts written off	
At 1 January 2006	750,000
Provided for the year	-
At 31 December 2006	<u>750,000</u>
NET BOOK VALUE	
At 31 December 2006	<u>750,002</u>
At 31 December 2005	<u>750,002</u>

The company owns 100% of the issued share capital of the companies listed below, except for Reaxa Limited (25%). The country of incorporation for the companies listed below is United Kingdom.

	2006 £	2005 £
Aggregate capital and reserves		
	Nature of Business	
NPIL Pension Trustees Limited	Dormant 1	1
NPIL Overseas Limited	Marketing/Sales agents 1	1
Reaxa Limited (Associate)	Pharmaceutical production <u>1,921,112</u>	<u>2,931,786</u>
Profit and (loss) for the period		
NPIL Pension Trustees Limited	-	-
NPIL Overseas Limited	-	-
Reaxa Limited (Associate) *	<u>(1,013,675)</u>	<u>(136,337)</u>

* Unaudited management accounts

12. STOCKS

	2006 £	2005 £
Raw materials	9,604,315	2,989,342
Work in progress	8,327,371	1,490,187
Finished goods	<u>4,959,417</u>	<u>2,702,716</u>
	<u>22,891,103</u>	<u>7,182,245</u>

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

13. DEBTORS

	2006	2005
	£	£
Trade debtors	10,115,775	3,775,405
Amounts owed by group undertakings	207,783	196,305
Other debtors and prepayment	438,596	57,704
	<u>10,762,154</u>	<u>4,029,414</u>

14. CREDITORS: Amounts falling due within one year

	2006	2005
	£	£
Bank loans and overdrafts	9,378,092	—
Trade creditors	7,132,769	4,106,743
Amounts owed to group undertakings	2,202,994	2,801,036
Other creditors including taxation and social security:		
PAYE and social security	651,999	218,025
VAT	934,158	30,236
Other creditors	83,064	37,551
	<u>1,669,221</u>	<u>285,812</u>
Accruals and deferred income	2,953,424	883,861
	<u>23,336,499</u>	<u>8,077,452</u>

Bank overdraft of £9,378,092 (2005 – NIL) is secured by a fixed charge over the freehold and leasehold properties owned by the company.

15. CREDITORS: Amounts falling due after more than one year

	2006	2005
	£	£
Staff Retainment Bonus (a)	3,849,039	—
Amounts owed to group undertakings (b)	15,000,000	—
	<u>18,849,039</u>	<u>—</u>

(a) The company agreed to a staff retainment bonus, in June 2006. A provision has been made for the bonus liability, which becomes payable in June 2009.

(b) The loan of £15,000,000 (2005 – NIL) from group undertaking is unsecured and repayable in June 2009. The loan carries an option for the company to prepay the loan or any part thereof after a period of one year from the date of disbursement of the loan. The loan bears interest at 0.75% over LIBOR.

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

16. OTHER PROVISIONS

	2006	
	£	
Provision on an onerous contract:		
Balance brought forward		1,866,731
Amount paid during the year		(324,000)
		<u>1,542,731</u>
Restructuring costs provision:		
Balance brought forward		1,715,324
Amount paid during the year		(1,219,433)
		<u>495,891</u>
Total provisions		<u>2,038,622</u>
The provisions are due to be paid as follows:	2006	2005
	£	£
Within 1 year is:	791,891	2,039,324
Between 2 and 5 years is:	919,000	1,164,000
More than 5 years is:	327,731	378,731
	<u>2,038,622</u>	<u>3,582,055</u>

17. CONTINGENCIES

At the balance sheet date the following contingent liabilities existed:

Guarantee by the bank in favour of H M Customs & Excise for £200,000.

18. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption allowed by Financial Reporting Standard No 8 "Related party disclosures", not to disclose any transactions with group companies on the basis that its ultimate parent company prepares consolidated financial statements which are publicly available.

There are no other related party transactions.

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

19. SHARE CAPITAL

Authorised share capital:

	2006 £	2005 £
19,340,001 Ordinary shares of £1 each	<u>19,340,001</u>	<u>19,340,001</u>

Allotted, called up and fully paid:

	2006 No	£	2005 No	£
Ordinary shares of £1 each	<u>17,672,501</u>	<u>17,672,501</u>	<u>15,240,001</u>	<u>15,240,001</u>

On 21st April 2006 2,039,000 ordinary shares of £1 each were issued at par to NPIL Life Sciences Limited. On 4 December 2006 further 393,500 ordinary shares of £1 each were issued at par to NPIL Life Sciences Limited.

20. PROFIT AND LOSS ACCOUNT

	Year to 31 Dec 06 £	Period from 21 Feb 05 to 31 Dec 05 £
Balance brought forward	(12,023,855)	—
Loss for the financial year	<u>(455,412)</u>	<u>(12,023,855)</u>
Balance carried forward	<u>(12,479,267)</u>	<u>(12,023,855)</u>

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Loss for the financial year	(455,412)	(12,023,855)
New ordinary share capital subscribed	<u>2,432,500</u>	<u>15,240,001</u>
Net addition to shareholders' funds	<u>1,875,200</u>	<u>3,216,146</u>
Opening shareholders' funds	<u>3,216,146</u>	—
Closing shareholders' funds	<u>5,193,234</u>	<u>3,216,146</u>

22. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of NPIL Life Sciences Limited which is incorporated in the United Kingdom. The ultimate parent company is Nicholas Piramal India Limited, a company incorporated in India.

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

23. PENSIONS

NPIL Pharmaceuticals (UK) Limited sponsors a defined benefit retirement plan. The plan also has a defined contribution section where the level of company contribution is fixed at a set level or percentage of employees pay. In the defined benefit section, the benefits are based on employees' years of service and final remuneration. The plan is funded through a separate trustee-administered fund. The pension cost for the main defined benefit plans is established in accordance with the advice of independent qualified actuary.

The contribution rate currently payable by the employer is 14.5% of pensionable salaries plus defined contributions payable to members of the Fund. The first formal funding valuation of the Fund is being carried out with the effective date of 31 December 2005 and this valuation will be finalized by 31 March 2007. The information provided below on the pension scheme has been provided by Hewitt Associates, a firm of independent actuaries in their report of the scheme dated 19 February 2007.

The company accounts for pension costs in accordance with FRS 17 'Retirement benefits'.

Major assumptions	31 Dec 06	31 Dec 05
Rate of general increase in salaries	4.1%	3.85%
Rate of increase to pensions in payment	3.1%	2.75%
Discount rate for plan liabilities	5.1%	4.70%
Price inflation	3.1%	2.85%

The assets in the schemes and the expected rate of return were:

	Long term rate of return expected 31 Dec 06	Value as at 31 Dec 06 £ million	Long term rate of return expected 31 Dec 05	Value as at 31 Dec 05 £ million
Equities	8.00%	21.9	7.50%	20.2
Government bonds (index-linked)	4.25%	8.4	3.75%	6.0
Corporate bonds	5.00%	8.3	4.40%	6.1
Other	5.25%	0.6	4.50%	0.1
Market value of asset		39.1		32.4
Present value of scheme liabilities		(39.1)		(35.5)
Deficit		-		(3.1)

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

23. PENSIONS *(continued)*

Movement of deficit during the period:

	31 Dec 06 £million
Opening Deficit	(3.1)
Current service cost	(1.8)
Past service cost	(0.3)
Company contributions	2.1
Escrow Payment	2.0
Other financing income	0.4
Actuarial gain /(loss)	0.7
Gain due to settlement/curtailment	0.0
Deficit at period end	<u>—</u>

Analysis of the amounts charged to operating profit:

	Period from 01 Jan 06 to 31 Dec 06 £million	Period from 21 Feb 05 to 31 Dec 05 £million
Current service cost	1.8	0.3
Past service cost	0.3	0.0
	<u>2.1</u>	<u>0.3</u>

Analysis of amounts included in other financing (charge)/credit:

	31 Dec 06 £million	31 Dec 05 £million
Interest cost	(1.7)	(0.4)
Expected return on asset	2.1	0.4
	<u>0.4</u>	<u>—</u>

NPIL PHARMACEUTICALS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

23. PENSIONS (*continued*)

Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)

	31 Dec 06 £million	31 Dec 05 £million
Actual return less expected return on pension scheme assets	0.0	0.0
Experience gains and losses arising on pension scheme liabilities	(0.6)	0.0
Changes in assumptions underlying the present value of the scheme liabilities	1.3	0.0
	<u>0.7</u>	<u>—</u>