IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

FOREST LABORATORIES, INC., et al., Plaintiffs, v. COBALT LABORATORIES INC., et al., Defendants.	C.A. No. 08-021 (GMS) (LPS) CONSOLIDATED **REDACTED VERSION**
FOREST LABORATORIES, INC., et al., Plaintiffs, v. BARR LABORATORIES, INC., et al., Defendants.	C.A. No. 08-022 (GMS) (LPS)
FOREST LABORATORIES, INC., et al., Plaintiffs, v. DR. REDDY'S LABORATORIES, INC., et al., Defendants.	C.A. No. 08-052 (GMS) (LPS)
FOREST LABORATORIES, INC., et al., Plaintiffs, v. ORGENUS PHARMA INC., Defendant.	C.A. No. 08-291 (GMS) (LPS)

FOREST LABORATORIES, INC., et al.,	)	
Plaintiffs,	)	
v.	)	C.A. No. 08-336 (GMS) (LPS)
APOTEX INC., et al.,	)	
Defendants.	)	

APPENDIX (VOLUME I OF II) TO PLAINTIFFS' ANSWERING BRIEF IN OPPOSITION TO DEFENDANT ORCHID INDIA'S MOTION TO DISMISS FOR LACK OF PERSONAL JURISDICTION

AND

OPENING BRIEF IN SUPPORT OF THEIR CONTINGENT CROSS-MOTION TO TRANSFER

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EXHIBIT 1

FULLY REDACTED

EXHIBIT 2

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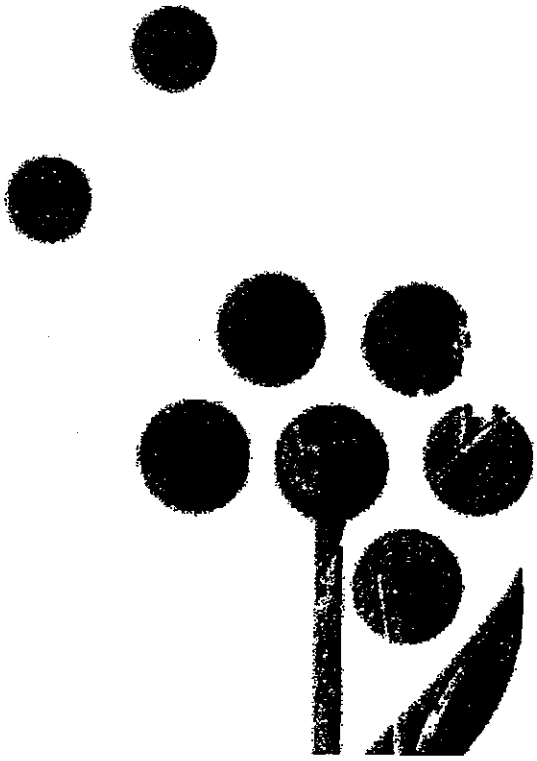
EXHIBIT 3

vision + vibrancy = value



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Orchid 8
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forward-looking statement

In this annual report, we have disclosed forward-looking information to help investors to comprehend our prospects and take informed investment decisions. This report is based on certain forward-looking statements that we periodically make to anticipate results based on the management's plans and assumptions.

We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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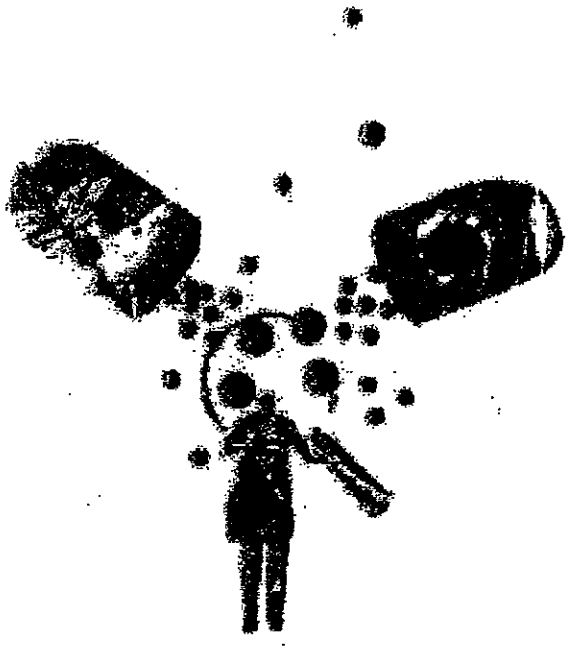
Our vision, translated into operational practice, integrates economic, social and environment objectives, to develop safe, efficacious and cost-effective medicines for global healthcare needs.

Our vibrancy is derived from visionary leadership, strategic management, organizational competencies and people empowerment.

The science behind our vision and vibrancy in our organization create value.

Value that is attractive, sustainable and growing.

Today and tomorrow.



strategy+execution =growth

IN A COMPETITIVE PHARMACEUTICAL INDUSTRY, INNOVATIVE STRATEGY AND FOCUSED EXECUTION DIFFERENTIATE COMPANIES THAT REPORT SUSTAINABLE GROWTH FROM THOSE THAT DO NOT. AT ORCHID CHEMICALS & PHARMACEUTICALS LTD. (ORCHID), WE SUCCESSFULLY LEVERAGED OUR PENCHANT FOR SCIENCE AND TECHNOLOGY TO CREATE NICHE PRODUCTS AND MANUFACTURING PLATFORMS LEADING TO ATTRACTIVE GROWTH



Orchid generated attractive growth through the following initiatives:

+ Entered product segments with challenging chemistry and high market exclusivity. The result is that we are now a leading global generic player with an end-to-end capability in the development and manufacture of a wide range of life-saving antibiotics

+ Developed and manufactured products marked by complex processes requiring the deployment of sophisticated technologies and commensurately higher investments. This commitment translated into Orchid emerging as among the first to introduce to the generic markets some of the most complex cephalosporins, betalactams and carbapenems as active pharmaceutical ingredients (APIs) and finished dosage forms (FDFs)

+ Established world-class quality, regulatory and compliance systems to meet stringent international standards. Consequently, Orchid emerged as an acknowledged industry player with an impressive track record of product and plant regulatory approvals across diverse therapeutic segments

+ Invested consistently in manufacturing and research facilities in every single year since inception. Our asset outlay was directed towards achieving globally benchmarked standards of technology and economies of scale, covering multiple therapeutic areas

+ Entered into business-enhancing marketing alliances with global majors for reaching our products deep inside regulated markets with a minimal time lag from development-through-plant-to market. The result is that we derived over 40% of our turnover from the regulated markets within just the first full year of positioning our finished dosage forms in the United States of America (US)

+ Extended proactively beyond generics with bold investments in the knowledge-driven field of drug discovery. Orchid is among the select Indian pharmaceutical companies to possess a globally competitive end-to-end connected drug discovery and drug development infrastructure

+ Nurtured intellectual capital covering different facets of pharmaceutical research. The result is that Orchid is now a top ranker with over 440 patent applications across various national and international patent offices, with more than 30% in the areas of drug discovery and other cutting-edge spaces

+ Pursued a multi-therapeutic and multi-lead drug discovery program. The result is that within only a few years of entering the challenging space of drug discovery, Orchid now possesses a pipeline of several lead compounds covering six therapeutic areas in various stages of development

The synergy of competitive strategy and emphatic execution has helped Orchid cross multiple milestones and post the following remarkable results:

+ Reached a topline of nearly Rs. 1,000 crore within only 13 years of going into production, the fastest growth track among Indian pharmaceutical companies

+ Extended presence to more than 70 countries, establishing one of the widest marketing footprints among Indian pharmaceutical companies

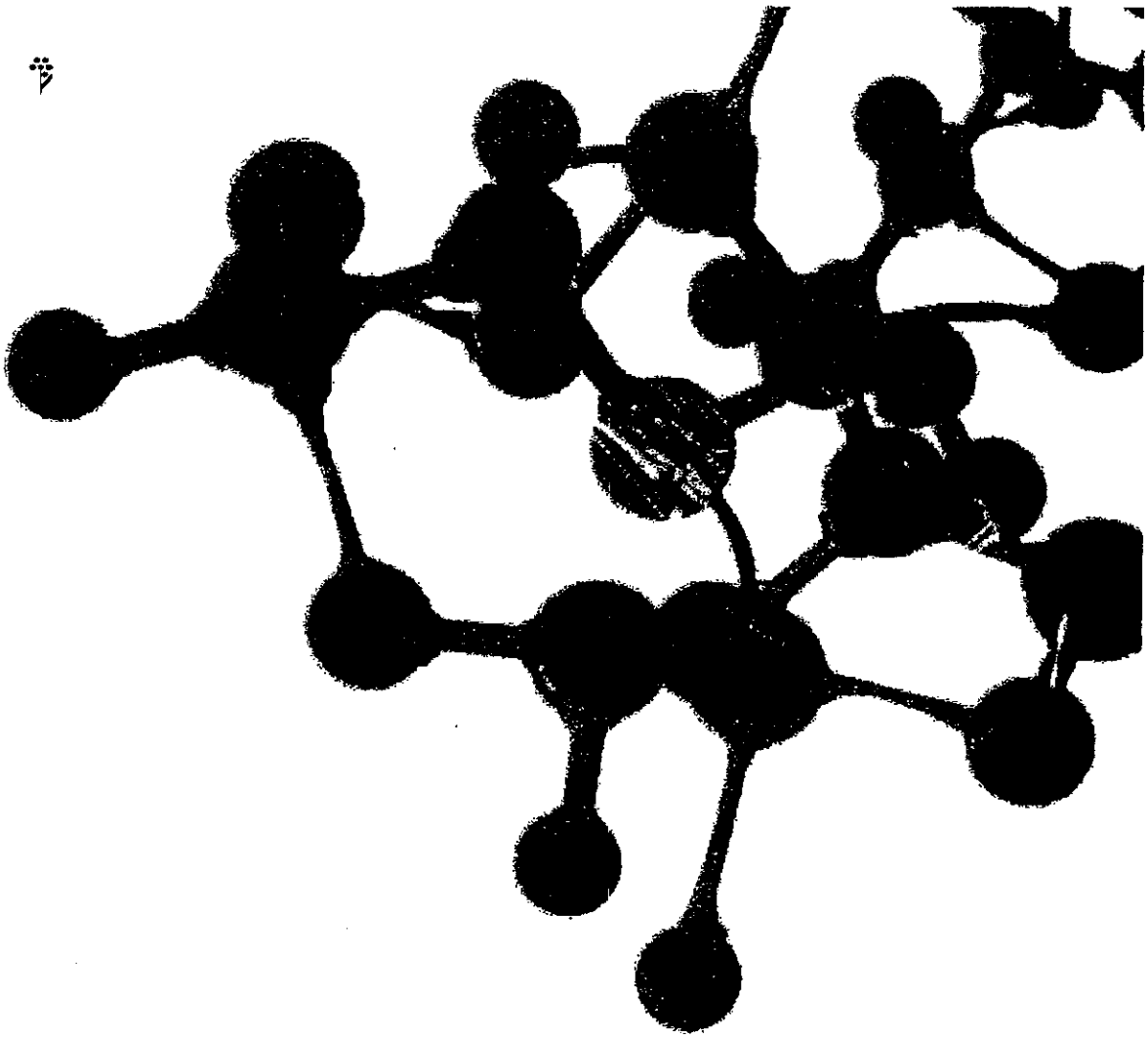
+ Achieved more than a two-fold increase in turnover and a seven-fold increase in profits over the last five years

+ Achieved an EBIDTA margin of 32% in 2006-07, among the highest in a competitive industry

+ Doubled business from dosage forms and regulated markets within two years of roll-out in the US and a strategic shift into generic dosage forms

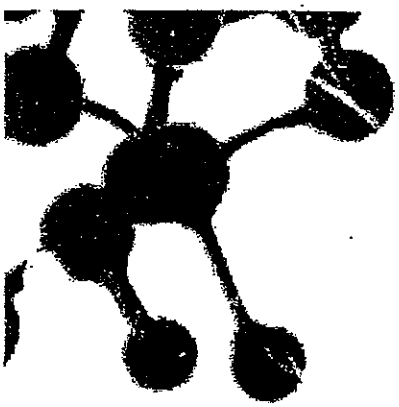
Countering price declines through sophisticated technology

Sterile life-saving antibiotic injections figure among highly challenging products for most global manufacturers. These products require the competent use of crystallisation and lyophilisation technologies at active ingredient and dosage form levels in US FDA and UK MHRA-approved plants. Orchid's proactive investment in these facilities has translated into attractive realizations for its generics business even in a post-patent environment.



specialization+diversification
=sustainability

IN THE GENERICS SEGMENT WHERE A PRICE DECLINE FOLLOWING PATENT LOSS TENDS TO BE GENERALLY EXTENSIVE, THERE IS A PREMIUM ON THE ABILITY TO SELECT A PRODUCT THAT WILL SURVIVE EROSION IN REALIZATIONS AND MARKET SHARE. AT ORCHID, WE HAVE DEMONSTRATED JUST SUCH A DISTINCTIVE CAPABILITY



+ Elected to be present in the cephalosporin niche of the antibiotic therapeutic segment. We invested with a distinctive commitment in this space during the first decade of our Operations (1994-2004); we established our position as the largest manufacturer-exporter of this product range in India and among the four leading global players in this segment

+ Invested in challenging aseptic manufacture covering crystalline and lyophilisation technologies. Our bold and proactive investments in lyophilisation facilities helped us capitalize on the relative under-penetration in these segments, resulting in a dominant position in a product like Cefazolin

+ Identified niche opportunities in sterile crystalline and lyophilised products. We are now one of few manufacturers in certain off-patent products and the largest in the US generics market with a market share of around 70% in Cefoxitin

+ Selected to manufacture Piperacillin + Tazobactam injections through a patented process and deployment of challenging technologies like in situ vial lyophilisation, paving the way for Orchid to emerge as a niche global generic player in this segment

+ Progressively extended our antibiotic blue print to cover all life-saving categories of cephalosporins (across all generations), high-end betalactams and futuristic carbapenems; we invested aggressively in the betalactam and carbapenem segments across API and dosage forms to carve out a global position

+ Even in the non-antibiotics or non-penicillin, non-cephalosporin (NPNC) segment, we have chosen products, which offer major patent, chemistry or formulation challenges. As a result, within the first two years of our non-antibiotic foray, we filed ANDAs for three products with paragraph IV first-to-file status, among the 11 ANDAs filed in this space so far. We are also set to soon launch the first NPNC product based on the anticipated final ANDA approval (tentative approval already received)

The judicious combination of specialization and diversification in managing our therapeutic and product portfolio enabled the Company to report sustainable growth in the competitive generics space. As a result, Orchid could:

+ Ensure a sustained pipeline of niche generic products, capable of generating premium revenues and profits

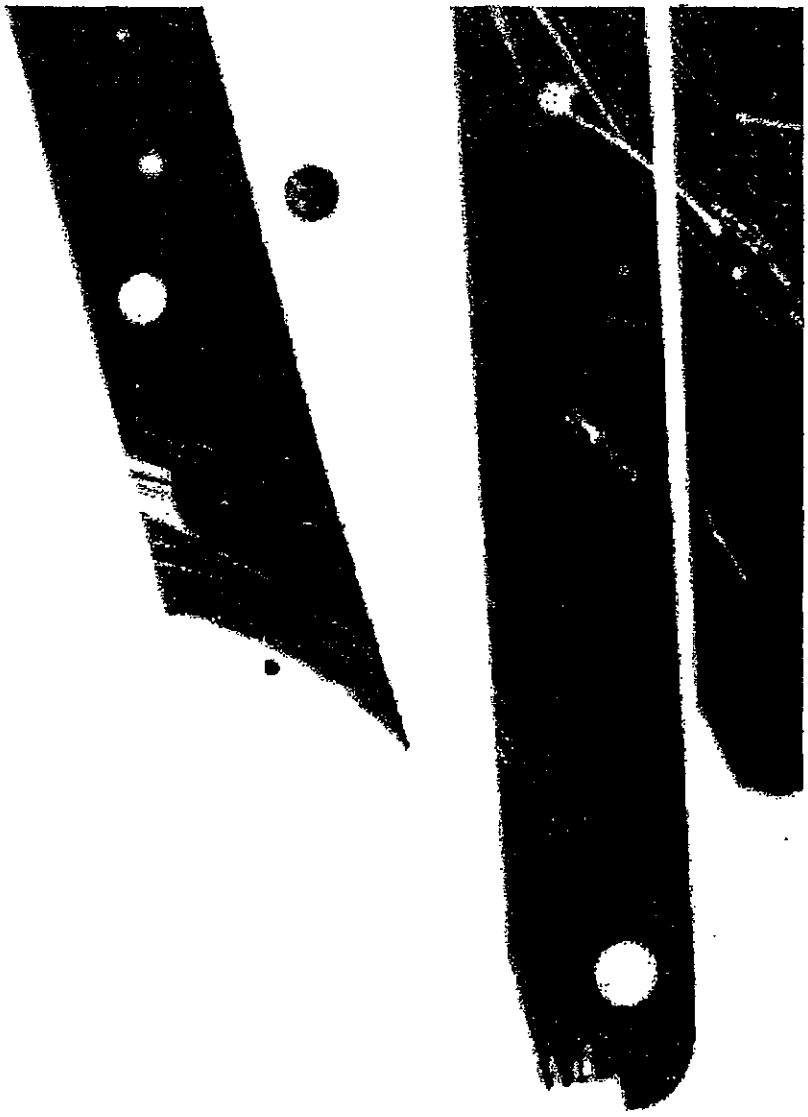
+ Compete in a challenging generics marketplace based on exclusivity and differentiation, seeking a growing market share and greater brand visibility

+ Achieve a fast-track growth in its chosen geographies; first in the emerging markets through APIs and now in the US generics market as a dominant antibiotic generics player

Creating a core competence out of globally benchmarked facilities

Aseptic manufacture requires a high degree of attention in the design of facilities, selection of equipment and maintenance of class conditions. As an extension, the corresponding regulatory and compliance barriers represent some of the highest standards in the pharmaceutical space the world over.

Creating facilities in line with these standards is a core competence at Orchid. Several approvals received for sterile products and sterile plants from US FDA and UK MHRA are a reflection of this competence.



scale+scope =leadership

IN GENERICS, MOST MANUFACTURERS PREFER TO DE-RISK THEIR BUSINESS MODEL BY SELECTING PRODUCTS THAT CAN BE MANUFACTURED IN MULTI-PURPOSE PLANTS. ORCHID HAS DARED TO FOCUS ON SCALE AND SCOPE IN CHOSEN SPECIALIZED PRODUCT VERTICALS INSTEAD, WITH THE OBJECTIVE TO ACHIEVE SEGMENT DOMINATION AND COST LEADERSHIP





+ Since inception, Orchid chose product segments that offered a mix of oral and sterile products spanning multiple generations with a differentiated therapeutic window. As a result, in complex product categories like cephalosporins, Orchid's brand enjoys the favourable recall of a global 'one-stop shop'

+ Each year, we added facilities, products and capacities, strengthening our global scale and scope; we excelled in products that involved high entry barriers in the form of complex chemistry, sophisticated technology and high investments. Today, we manufacture virtually every cephalosporin product, whether oral crystalline, sterile crystalline or sterile lyophilised, with global scale capacities in India in API as well as sterile vials, tablets, capsules and dry syrup bottles

+ We enjoy a presence across multiple therapeutic verticals comprising cephalosporins, betalactams, carbapenems and life-style drugs, each requiring dedicated investments in API and dosage form facilities, deploying sophisticated technologies – a feat matched only by few global companies

+ Even as our scale and scope were extended across the various therapeutic groups, the common threads of complex chemistry and aseptic manufacture served to strengthen core competencies, while enhancing our overall competitive edge

+ Our development and manufacturing exposure across these multiple specialized therapeutic verticals cover around 128 acres of sites in different locations with several discrete production plants; another 80 acres of sites have been acquired or are under acquisition for new projects or verticals

+ The remarkable strategic blend of scale and scope has helped Orchid secure industrial leadership, earning appreciation for its execution excellence across facilities on the one hand as well as product development and manufacturing capabilities on the other

The result has been

+ Our current product range for the US market comprises 21 antibiotics and 20 non-antibiotic dosage forms, many of which are also aimed at European as well as other regulated and emerging markets

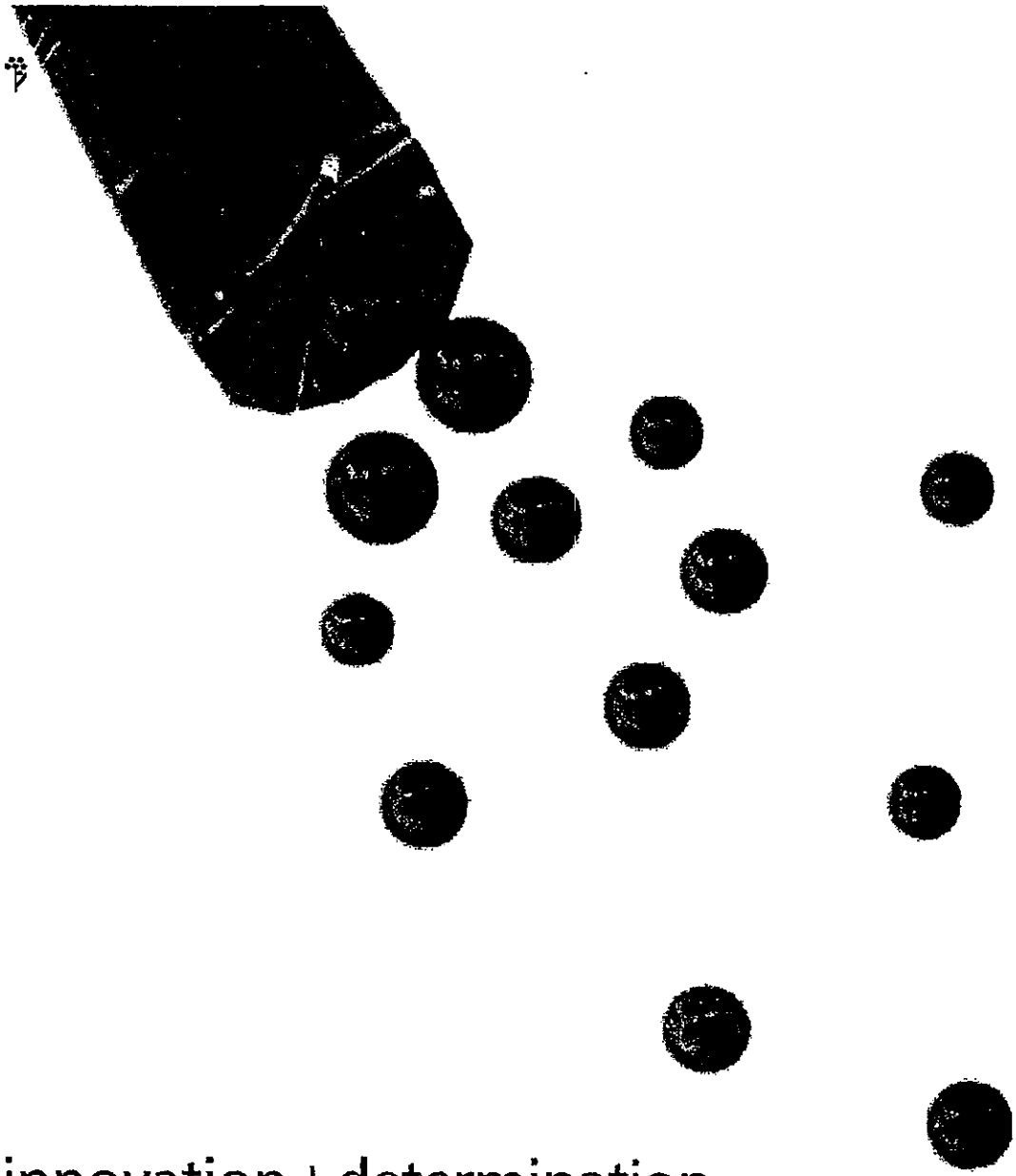
+ Our development pipeline for the next three years includes over 60 products across diverse therapeutic groups for US, European and other regulated and emerging markets

+ We emerged as a comprehensive, versatile, end-to-end connected player, facility-wise, from API to dosage forms across multiple therapeutic groups

Competence in establishing cGMP facilities with faster turnarounds

Orchid possesses unique capabilities in the execution of multiple development and manufacturing projects. This competence is reflected in the completion of these projects within progressively tighter schedules in compliance with stringent US FDA and UK MHRA standards. Over the last 10 years, Orchid has completed at least 20 such projects with typical lead times of a mere 18 months from ground breaking to total facility validation – in lower timeframes than the corresponding international standards.





innovation+determination =discovery

IN THE PHARMACEUTICALS BUSINESS, AN ABILITY TO DEVELOP ORIGINAL MEDICINES REPRESENTS THE ULTIMATE COMPETITIVE ADVANTAGE. AS A FIRST GENERATION ENTERPRISE, ORCHID FOCUSED FIRST ON THE API MODEL AND LATER ON A GENERICS DOSAGE FORM MODEL TO BUILD ITS BUSINESS; THEREAFTER, IT PROACTIVELY INTEGRATED THE BUSINESS OF TODAY WITH THE DRUG DISCOVERY OF TOMORROW



+ Over the last few years, we invested more than US$ 60 million to develop a world-class infrastructure for new drug discovery and development in Chennai with associated facilities for process research, pharma research and biotechnology

+ We consistently invested around 7% of our annual turnover on R&D, a significant portion in the area of drug discovery. We channelized our drug discovery activity through Orchid Research Laboratories Limited, a wholly owned subsidiary, for enhanced focus

+ To widen our therapeutic coverage across metabolic diseases (led by diabetes and obesity), we invested in Bexel Pharmaceuticals Inc., a US entity, and also enhanced our stake to 100% in the fiscal year 2007

+ We built a multi-therapeutic, multi-lead new chemical entity (NCE) development pipeline of 15 compounds in six therapeutic programs of diabetes, inflammation, oncology, obesity, depression and anti-infectives

+ Over a short span of time, we could take our anti-diabetes molecule into a larger proof-of-concept Phase II (a) human clinical study; one lead from our oncology program and another from our inflammation program are under development to enter Phase I human clinicals in this fiscal

+ We provided contract research and manufacturing services to global pharmacos and speciality discovery companies; contracts with Pfizer Inc. and Biovitrum AB represent two successful partnerships

Orchid recognizes that innovation and determination represent the essential prerequisites for successful drug discovery. At Orchid, this combination has resulted in the following:

+ Emerging as one of the very few Indian pharmacos with end-to-end connected drug discovery and development capabilities with global expertise

+ Establishing a medicinal chemistry platform that can cater to the discovery needs of multiple simultaneous therapeutic programs

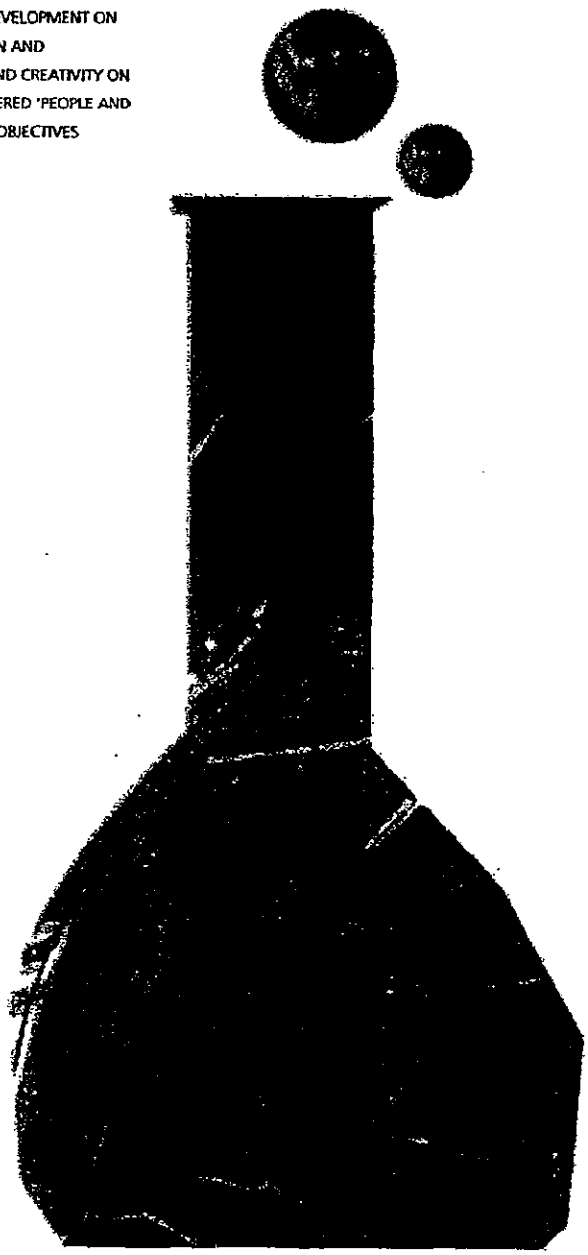
+ Acquiring a deep biological expertise in validating leads (in vitro and in vivo) across several challenging areas of drug development like diabetes, inflammation, oncology and anti-infectives

+ Accessing cutting-edge technologies in drug development through a front-end presence in the United States while creating a vast scientific powerhouse for integrated discovery operations in India

Orchid deploys a judicious mix of structure-based drug design with best-in-class clinical efficacy on the one hand and target-based drug design with novel mechanisms of action on the other. The objective is to discover safer and more effective drugs in blockbuster and niche therapeutic areas. The result: Over 130 patent applications have been filed across national and international patent offices in the area of drug discovery with several publications and patent grants from European and US patent offices.

people+processes =excellence

THE PHARMACEUTICAL INDUSTRY REPRESENTS A CHALLENGE IN TALENT MANAGEMENT AND BUSINESS PROCESS DEVELOPMENT ON ACCOUNT OF AN ONGOING EMPHASIS ON REGULATION AND COMPLIANCE ON THE ONE HAND AND INNOVATION AND CREATIVITY ON THE OTHER. ORCHID'S UNIQUE PARADIGM OF EMPOWERED 'PEOPLE AND PROCESS' MANAGEMENT HELPS ACHIEVE THESE TWIN OBJECTIVES



+ From an initial five-member team, Orchid is now a 3,200-plus diversified organization, spanning multiple locations, countries and functional domains. In the process, Orchid has transformed from an API and less regulated market-oriented Company to a fully integrated pharma corporation with a distinctive regulated market focus.

+ To achieve this transformation, Orchid consistently invested in new competencies ahead of each strategic change

+ Orchid's core values of respect for human resource and empowerment, have emerged as a unique cohesive force, complementing established and new skill-sets with an integrated, motivated organization

+ The organization structure was reinvented periodically, deploying concepts like divisionalization and strategic business units to achieve organizational flexibility in line with ever-changing needs

+ Quality and regulatory compliance were accorded as much attention as creativity and innovation, resulting in a unique performance-centric culture; we successfully addressed various international challenges

The emphasis on people and processes has resulted in the following:

+ Orchid enjoys among the lowest attrition rates at senior management levels, reflecting the positive impact of empowerment and leadership opportunities

+ Scientific ideas have now grown into institutionalized departments in domains as diverse as API, dosage forms, biotechnology and discovery research; new facilities and laboratories are being continuously created through individual initiatives, leading to a culture of organizational excellence

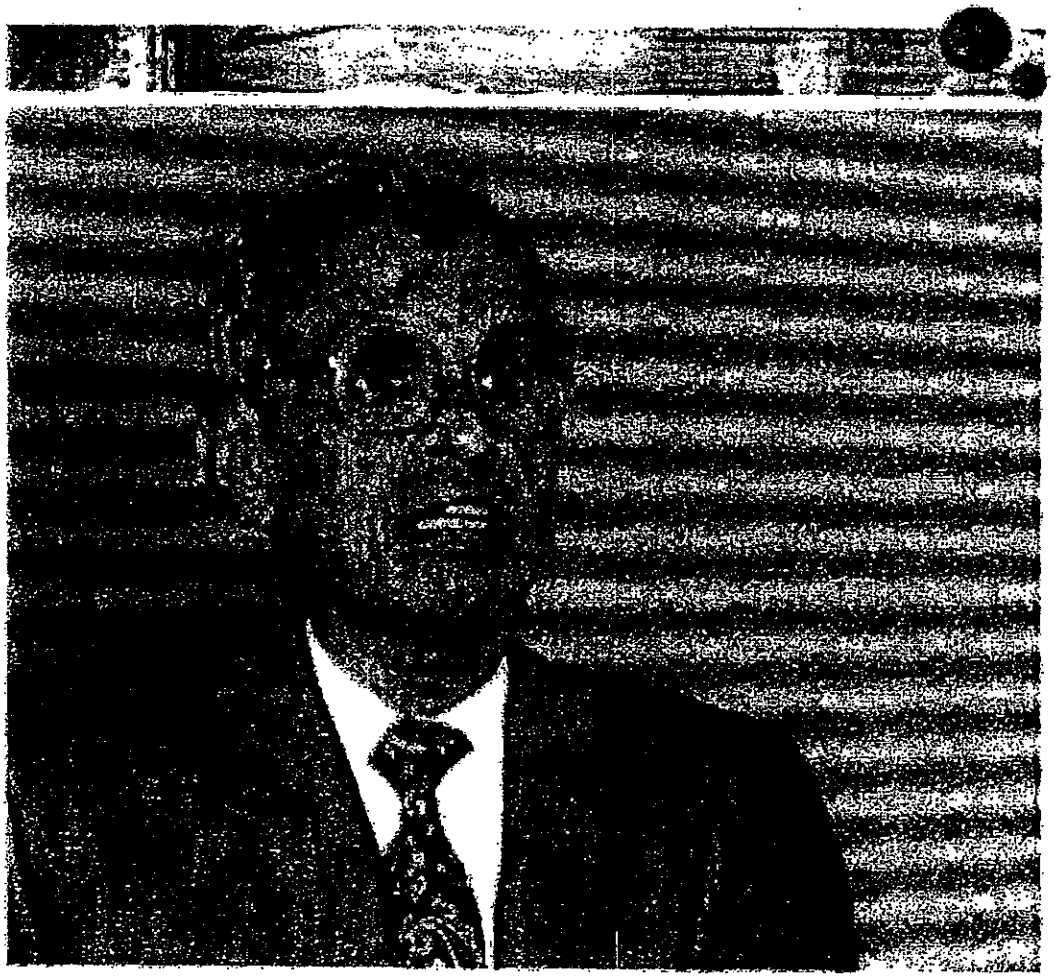
+ Orchid has retained the nimble-footedness and flexibility of a first generation enterprise even as it has matured into a multi-business, multi-product and multi-locational pharmaceutical organization

+ Orchid has successfully drawn on the innovative ideas and cost management skills of its people across domains to achieve consistent improvements in process yield, solvent management, product development and enhanced manufacturing throughput

Collaboration as the key to organizational success

At Orchid, people across locations collaborate to implement programs that make a difference in the organizational culture; it could be the introduction of an ERP solution enhancing pan-organization functionality, or a safety excellence journey touching every person across the organization.

chairman's statement





Dear members

It gives me great pleasure to pen this message to you in a year of record performance at Orchid.

All through the years, Orchid achieved an amazing and consistent growth, quantitatively and qualitatively. Visionary leadership and entrepreneurial energy cascading across the organization have enabled Orchid transform itself from an API and less regulated market oriented company to a fully integrated global pharmaceutical corporation. This remarkable structural transformation has few parallels in the Indian industry. An unrelenting emphasis on science, technology and intellectual power of the people has been a hallmark of this value chain transformation.

The years to come will see Orchid reap the full benefits of the world-class asset base and organizational competencies it has established across the domains of API, finished dosage forms and drug discovery. As the Company scales new trajectories of higher order growth, I am confident that all the stakeholders will experience the benefits of higher value that would be created at Orchid.

R Narayanan

our vision



Become an integrated pharmaceutical corporation of global scale and standing with a comprehensive coverage from 'Discovery to Delivery'

the corporate behind the brand

ORCHID CHEMICALS & PHARMACEUTICALS LTD. (ORCHID) IS A GLOBALLY RECOGNIZED, INTEGRATED PHARMACEUTICAL COMPANY COVERING THE ENTIRE VALUE CHAIN.

Our business

+ A vertically integrated pharmaceutical company

+ World-class in research, manufacturing and marketing capabilities

Our products

+ Presence across multiple therapeutic segments with a leadership in the antibiotics segment and sterile APIs / dosage forms

+ Range includes cephalosporins, betalactams, carbapenems (all life saving antibiotics) and cardio-vascular, neuro-psychiatry, osteoporosis, anti-histamine and other life style products

Our presence

+ Headquartered in Chennai, India

+ Two API manufacturing facilities in India and one API facility in China

+ Three manufacturing facilities for finished dosages in India

+ Two R&D campuses in India

+ Presence across 70 countries through alliances with global marketing leaders, distributors, agents and customers

Our collaborations

+ Joint venture for the manufacture of sterile cephalosporin APIs in China (NCPC Orchid Pharmaceuticals)

+ Marketing alliances with Apotex Inc., Actavis, DAVA, Hospira and other leading companies

+ R&D alliances with Pfizer Inc. and Biovitrum AB

Our credentials

+ Ranked among the 15 leading pharmaceutical companies in India and among the five leading cephalosporin antibiotic producers in the world

+ Facilities approved by US FDA and UK MHRA with additional certifications from EDQM and TGA

Our competitive advantage

+ State-of-the-art product development and manufacturing facilities

+ Spanning the entire pharmaceutical value chain; from API to finished dosages, from drug discovery to drug development

+ Stringent quality, regulatory and compliance standards

+ Global alliances and partnerships

what we are

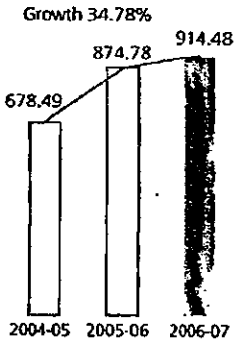
Commenced operations
February 1994

Revenue during 2006-07
Rs. 914.48 crore

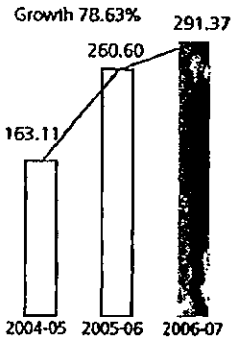
Number of employees
3,263

EBIDTA during 2006-07
Rs. 291.37 crore

Revenue (Rs. crore)



EBIDTA (Rs. crore)



value enhancement

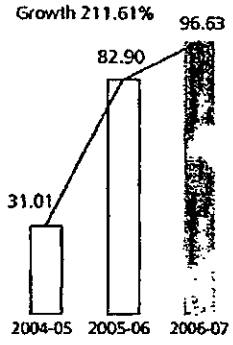
EBIDTA margin
31.86%
207 basis point growth over 2005-06

PAT margin
10.57%
109 basis point growth over 2005-06

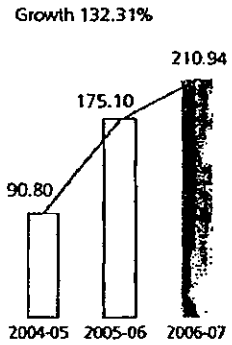
Cash profit margin
23.06%
305 basis points higher than in 2005-06

Interest cover
2.99
against 2.96 in 2005-06

PAT (Rs. crore)



Cash profit (Rs. crore)



how our entry into the regulated generics business ramped up value in 2006-07



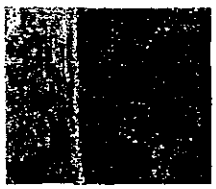
Business

+ 5% increase in turnover over 2005-06
+ 19% increase in dosage forms business over 2005-06
+ Significant market share increases in key products; dominant shares in select products



Regulatory filings

+ Filed 16 DMFs and 14 ANDAs in US (cumulative 46 DMFs and 40 ANDAs)
+ Filed 11 dossiers in the European Union (EU) and Australia, New Zealand (ANZ) in 2006-07 (cumulative 14)
+ Received approvals for seven ANDAs in 2006-07 (cumulative 18)
+ Received several US FDA and UK MHRA approvals for various products and facilities



Financial

+ Increased EBITDA to Rs. 291.37 crore and EBITDA margin to 32%
+ Increased PBT to Rs. 110.59 crore and PBT margin to 12%
+ US$ 82.6 million GDR cum FCCB issue in November 2005 to support growth and operations
+ US$ 175 million FCCB issue in February 2007 to reduce expensive debt of about US$ 138 million



Projects

+ Invested in and completed projects for expansion and diversification in the cephalosporin, betalactam and non-penicillin, non-cephalosporin (NPNC) or lifestyle drug spaces. Projects in carbapenem and upscaled NPNC space under advanced completion
+ Cephalosporin projects already translated into revenues; betalactam, carbapenem and NPNC projects will translate into revenues in this fiscal and beyond



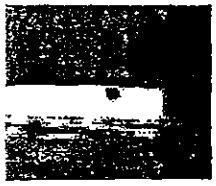
New products

+ Five generic products in multiple dosage forms and dosage strengths launched in the US
+ Achieved significant market shares in key products and dominant shares in certain products



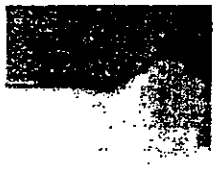
Alliances

+ Entered into an alliance with Mayne (Hospira) to market niche antibiotics in US, EU and ANZ
+ Entered into an alliance with Actavis to market nine key cephalosporin finished dosages in Europe



Research partners

+ Entered into a long-term agreement with Pfizer in the area of contract research and manufacture in the field of veterinary medicines
+ Signed an agreement with Biovitrum to undertake medicinal chemistry for NCEs in an identified target area



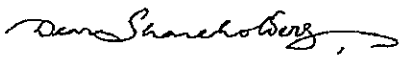
Operations

+ The manufacturing and productivity parameters enhanced to meet higher volumes and increased product varieties in the regulated markets
+ Supply chain management optimized to handle multiple SKUs

from the managing director's desk



Towards US$ 1 billion



It is an interesting time to be addressing you. We have done well in the recent past and we are perched on the cusp of an exciting future.

Let me begin with a review of how we performed in 2006-07. We widened our product range, extended our marketing reach, grew our product pipeline and enhanced our global presence. The result is the highest ever EBIDTA of Rs. 291.37 crore and a record profit after tax of Rs. 96.63 crore in our existence.



Road ahead

It took us 13 years to reach Rs. 10 billion in revenues from commencement of operations, which is a record for our business in India; we expect to reach US$ 1 billion in less than half the time.

What is the possibility that we can do this? Are we being realistic? These are the questions that could be on the minds of stakeholders.

My optimism is based on the foundation of a major strategic transformation we have achieved. It is also validated by the fact that we have delivered on our promises and goals in the past. Our aspiration is thus anchored in an encouraging past, a credible present and a realistic future.

Promises kept

It would be pertinent to reflect on how we have transformed our business over the last few years; this represents the foundation of why I believe that we will deliver increasing value over the coming years.

We started off as a mono-therapeutic company concentrated in cephalosporin APIs, marketing our products to the under-regulated markets. In 2001-02, we made a significant strategic shift and embarked on a three-year transformation of our business model:

+ We planned to move into high-end therapeutic segments, both antibiotics and non-antibiotics

+ We resolved to scale up the value chain from APIs to finished dosage forms

+ We strategized to establish our presence in the regulated markets, particularly through dosage forms

As we closed fiscal 2007, this is what we achieved:

+ We completed the establishment of world-class infrastructure for a range of antibiotics and non-antibiotics, securing several international approvals

+ We entered into distribution alliances with top-ranking generic players in the US and Europe, almost always tying up capacity in advance

+ We marketed several generic dosage forms in the US; we achieved over 40% of our revenues in 2006-07 from regulated markets

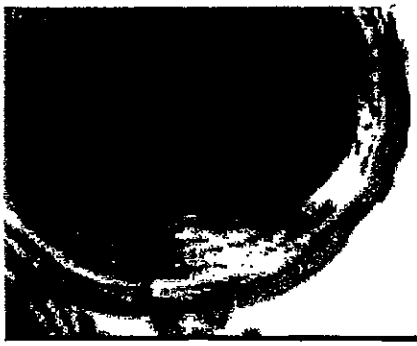
+ We laid a robust development and regulatory calendar for a continuous pipeline of products for further launches in the regulated markets

+ We created world-class infrastructure and scientific competencies for drug discovery, with multi-therapeutic, multi-lead programs

Our growth strategy

At Orchid, we have laid the foundation for a robust and sustainable growth strategy to harness two attractive and sustainable business opportunities:

Generics: The global generics space continues to offer a significant opportunity even after one considers that generic products tend to lose a significant part of their price following



Orchid was ranked as the 'most investor friendly company'

– Business Today, July 30, 2006.

launch. Orchid enjoys a positive differentiation given its high technology niche product focus. Each year, a large number of molecules will go off patent creating a growing market opportunity. Besides, Orchid's focus on specialty pharmaceuticals will provide a remarkable opportunity with exclusivity benefits across a significant period.

Drug discovery: The growing costs of new chemical entity research and lengthening new drug approval periods are prompting global pharmaceutical companies to partner with drug discovery companies that offer competitive new product pipelines as well as research services. Orchid, with its world-class medicinal chemistry, biology infrastructure and a pipeline of NCEs in various stages of development, is poised to participate in this challenging innovation space.

Positioned to capitalize

I am happy to state that we are competently positioned to capitalize on these opportunities through the following organizational attributes:

Speed: Speed in decision-making and execution.

Exclusivity: Strategic selection of complex and intellectually challenging segments.

Anticipation: Proactive analysis of emerging opportunities; an accurate timing of market entry to capitalize on a first-mover advantage.

Risk appetite: Investment in high reward-high risk segments where success can position us among a select few in the world.

Empowerment: Facilitating experts, leaders and doers to drive organizational growth.

Value for shareholders

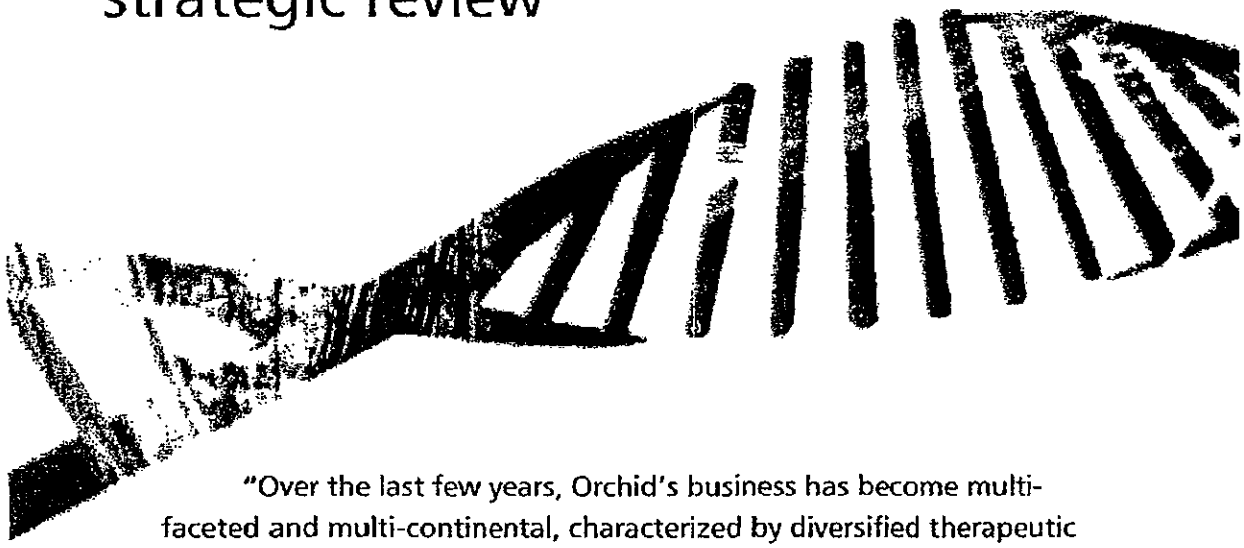
Over the last two years, our topline grew by 35% and the bottomline grew by 212%. Even more significantly, EBIDTA margin, the key marker of operational excellence and profitability, reached an impressive watermark of 32% in 2006-07.

We do have a relatively high level of debt, which was required to fund projects for regulated markets ahead of market opportunities. We have already taken steps to reduce our interest burden and improve our debt-equity ratio through overseas issues of GDRs and FCCBs. The anticipated increases in revenues and profits as a result of our various initiatives will further pare down debt in an EPS-accretive manner over the near future.

I am optimistic that this is only the beginning of a new phase of increasingly remunerative business development, enhanced value for all our stakeholders and superior returns for our shareholders as we evolve into a globally respected pharmaceutical organization.

K Raghavendra Rao

strategic review



"Over the last few years, Orchid's business has become multi-faceted and multi-continental, characterized by diversified therapeutic verticals and product range, world-class facilities for APIs and finished dosage forms with end-to-end connectivity, deepened value chain with focus on regulated markets and dosage forms and value building asset and knowledge platforms in drug discovery. The strategic and structural transformation achieved by Orchid has propelled the company into new horizons of growth"

Dr C B Rao, *Deputy Managing Director*

At Orchid, we implemented a number of initiatives in the last three years to transform our business. While their impact is only partially visible today, we are optimistic that they represent the foundation of our evolution and growth as an Indian pharmaceutical company transforming into a distinctively global corporation.

A total business transformation

As early as 1999-2000, despite a successful API business in less regulated markets, we recognized the limitations arising out of our large presence in the under-regulated countries for the following reasons:

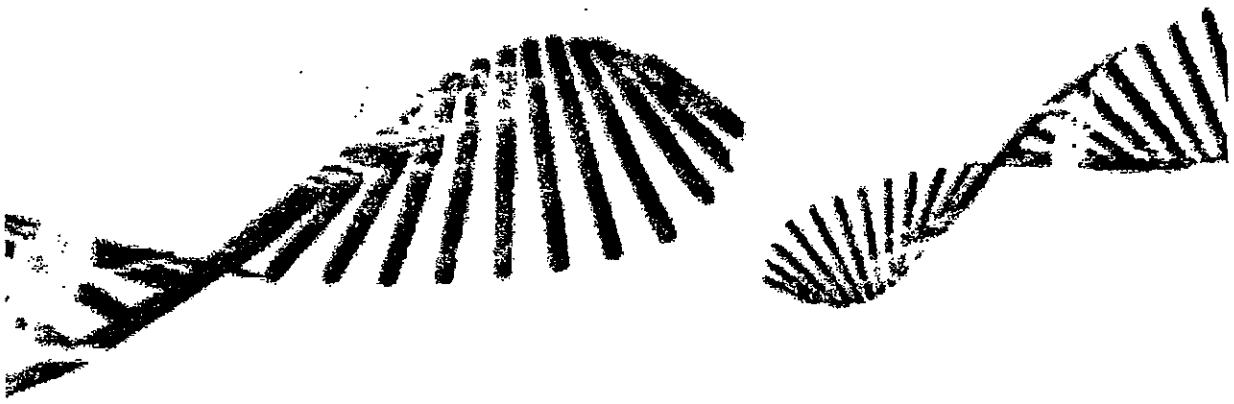
+ The under-regulated markets were integrating either forward or backward across the industry value chain

+ Most transactions were price-driven (as opposed to quality) resulting in commoditization characterized by declining margins

+ True value for Orchid as a science and technology-driven company would emanate from focusing on higher value-added products and markets

+ Harmonization of India's patent regime with a global product regime would offer new opportunities for Orchid in the global pharma space

At Orchid, we resolved that if we were to sustain our growth, we would need to 'move up the pharmaceutical value chain' and into marketing geographies which reward regulatory standards and intellectual accomplishments. The following is a discussion of the initiatives that made our transformation a reality.



1. Extention into formulations
At Orchid, we scaled the value chain from APIs to formulations seamlessly; we invested in a state-of-the-art multi-therapeutic formulations complex for the following reasons:

+ Formulations would help us operate more directly in the healthcare market space, capturing higher value and securing higher returns, depending on product complexity and competition

+ An end-to-end presence from API to formulations would enable us to become completely integrated; we would be able offer our customers, products and services across the pharmaceutical value chain with high reliability and control over the entire supply chain, widening our client base

+ A move into formulations would enhance our brand and visibility in the global pharmaceutical industry

Initiatives: We selected products in the cephalosporin antibiotic segment. Commencing from 2004, we filed 18 ANDAs with the US FDA in the very first year (cumulative 29 antibiotics, including a few betalactams). We received approvals for 18 products so far. Starting with sterile Ceftriaxone injections in the US market (second quarter of 2005-06), we successfully launched several other cephalosporin medicines, both oral and sterile.

Results: Revenue from the formulations business increased significantly – from 14% of revenues in 2004-05 to 44% in 2006-07; in absolute numbers, we doubled our formulations revenues in 2006-07.

Initiatives: We expanded our alliances to include betalactam antibiotics and non-antibiotics, besides cephalosporin antibiotics. We increased our total DMF count to 46 and ANDA count to 40.

Results: Our product range is multi-therapeutic; the first non-antibiotic products are set to be launched this fiscal.

2. Focus on regulated markets
We resolved to enhance our exposure in the regulated markets of US, EU and Japan for the following reasons:

+ US is the largest single market for pharmaceuticals and generics, accounting for over 50% of the US$ 600 billion global pharmaceutical market; EU and Japan account for about 33% of the global market

+ Enhanced prospects of a sustainability in revenues and margins through a presence in a large market, that also rewards intellectually-driven product offerings

+ Enriched value-volume mix of revenues from US and the EU, providing us with a better potential for innovation and quality enhancement

+ Increased visibility for the Company's brand in these important global markets

Initiatives: We invested management resources and intellectual capital towards developing products, building plants and securing regulatory approvals to meet this objective.

Product selection: We selected to enhance our presence in the cephalosporin, betalactam and carbapenem segments (antibiotics therapeutic category), a high return segment marked by low competition, but involving significant technical and commercial challenges. Within these segments, we selected to specialize in products with complex chemistry and high patent protection, an area with significant entry barriers. As a result, even as we were present in the area of generics, our products reported a lower price erosion and higher profitability.

An analysis of the emerging global pharmaceutical industry showed that while near-term prospects would be driven by cephalosporins and betalactams, sustainable growth would be driven by carbapenems, a futuristic



Recent regulatory accomplishments

In 2006-07 and the first quarter of this fiscal Orchid further reinforced its exceptional regulatory track record in terms of several international approvals.

+ Our dosage form plants for sterile cephalosporin injections and oral cephalosporin products (at Chennai) were approved by UK MHRA

+ Our API plants for oral and sterile cephalosporin

range of high value antibiotics. While carbapenems was the immediate option, keeping our core competence in mind we needed to move into non-antibiotics segments as well. We identified the high-growth lifestyle segment, which is expected to grow faster than the market as a whole. We selected products in the cardiovascular system (CVS), central nervous system (CNS), osteoporosis, anti-diabetes and pain management segments, among others, as our prospective growth drivers.

Plant approvals: We established, validated and commissioned multiple manufacturing plants for APIs and dosage forms in a tight time span to meet the above product needs. We progressively obtained US FDA and UK MHRA approvals and put in place an approved infrastructure for concurrent growth across several product verticals.

Marketing tie-ups: We forged alliances with global majors for marketing and distributing our products in the regulated markets, representing a win-win for the Company and the respective business partner, for the following reasons:

+ Combining the development and manufacturing capabilities of Orchid with the trans-continental marketing network of our business partners, minimizing our time-to-market and product ramp-up

+ Favourable commercial terms with mutual exclusivity based on transparent performance indicators, enhancing business

+ Complementary marketing arrangements based on smart product choices

+ A basket of products tied to a partner's expertise and capability, providing benefits of higher manufacturing and marketing throughput in each case

Regulatory filings: For growing our regulated generics business, we successively launched products in the US, based on ANDA approvals. Our marketing alliances generated revenues of US$ 112 million with only six products (in 11 dosage forms) being launched in the US markets. As we enjoy alliances for a cumulative 41 products (21 cephalosporins and 20 NPNC products) in several dosage forms, multiple SKUs and a number of products extendable to EU and other markets, we believe that a huge growth opportunity awaits us.

Results: Business from the regulated markets grew significantly in less than two years of roll-out from July 2005; their contribution to our total turnover stood at 44% in 2006-07.

3. Focus on fundamental innovation

We focused on generics (antibiotic and non-antibiotic segments) that are extensively patented, require high intellectual capabilities and involve challenging chemistry with stringent process and reaction conditions.

Initiatives: With respect and passion for intellectual property, we developed and filed a cumulative 442 applications with various national and international patent offices; of these, 44 were granted and 150 were published. Of the total filings, 30% related to NCE and a few other products of innovation research with significant value.

Results: As a result of these initiatives, we transformed ourselves into a multi-product, multi-geography and multi-capability organization. The focus on innovation helped us develop products, which are technically superior and cost-effective. By focusing on non-infringing process research and formulation development, we ensured the failure-

products (at Chennai) were also approved by UK MHRA

+ We successfully passed a repeat inspection by US FDA without any 483s for our oral and sterile cephalosporin API facilities (at Chennai)

+ Our high-end betalactam API plant (for Piperacillin-Tazobactam at Aurangabad) was approved by UK MHRA. The plant also underwent an inspection by US FDA without any 483s

+ Our high-end betalactam vial sterile lyophilisation facility (for Piperacillin-Tazobactam at Chennai) was approved by UK MHRA. The ANDAs, which are based on this plant, are under advanced review by US FDA

+ Our oral solid API facility for non-penicillin, non-cephalosporin products (at Aurangabad) successfully underwent an inspection by US FDA without any 483s. The ANDAs, which are based on this plant, and our non-penicillin, non-cephalosporin dosage forms plant at Chennai are under advanced review by US FDA

proof launch of our generic products.

Orchid - a commitment to the highest regulatory standards

At Orchid, the quest for achieving and sustaining the highest regulatory standards has been the motive force behind its transformation into a US-EU centric generics business.

Orchid has several API and dosage form manufacturing plants that cater to oral, non-sterile, sterile crystalline and sterile lyophilised products in cephalosporin, betalactam and non-penicillin, non-cephalosporin range. The dosage form plants include sterile dry powder injections, oral tables and capsules, oral dry syrups and sterile lyophilised injections. All these facilities have successfully undergone US FDA inspections and received plant approvals from the UK MHRA.

Orchid possesses a unique core competence in regulatory-compliant sterile facilities. Orchid's facility for generic cephalosporin dry powder injections approved by US FDA and UK MHRA and Orchid's high-end sterile betalactam vial lyophilisation facility (built to US FDA standards and approved by UK MHRA) reflect such competence. These have won the appreciation of global innovators as well as generics companies for their quality of design, execution and operation.

Following the US and EU submissions, Orchid enjoys an impressive record in terms of regulatory filings as well. In the very first year of ANDA filings, Orchid filed 18 ANDAs in the cephalosporin antibiotics space, the single largest filer of ANDAs in this space. Today, with a total of 29 ANDA submissions of cephalosporin and betalactam antibiotics, of which 18 cephalosporin ANDAs have been approved, Orchid has the largest ANDA filing and approval track record in the antibiotics space. In addition, Orchid has filed 12 dossiers in EU.

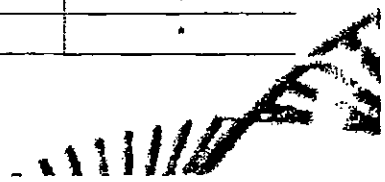
In the non-antibiotics space too, Orchid could make as many as 11 ANDA submissions within a short time span and is now geared to step up submissions. The approval lead times have been consistently better than the industry average and within the highest percentile, indicating the quality of its documentation discipline.

These achievements testify to the depth and breadth of Orchid's regulatory capabilities and compliance standards especially with a focus on stringent regulated markets.

The recent regulatory achievements, capping the achievements of the earlier years, underscore our capabilities in

	Territory	Filed in 2006-07	Cumulative filings	Cumulative approvals
ANDAs	US	14	40	18
ANDSs	Canada	1	6	2
Dossiers	EU, ANZ	11	14	1
DMFs	US, EU, ANZ	20	46	*

* approved as part of finished dosage form approval processes





establishing world-class manufacturing facilities for a range of critical antibiotics and non-antibiotics as well as securing international regulatory approvals for our facilities and products.

We continue to file several DMFs and ANDAs with US FDA and dossiers with UK MHRA at an aggressive pace. We continue to maintain a record of speedy approvals from US FDA for various ANDAs, including those for complex sterile products, despite lengthening queues for such approvals.

We are also in the process of completing a new sterile API plant at Aurangabad and a new sterile dosage forms plant at Chennai for the futuristic carbapenem range of products. Facilities for the upscaled production of NPNC APIs and dosage forms are under advanced completion at Aurangabad and Irungattukottai (Chennai) respectively. We are also establishing a second high-speed line for manufacturing sterile cephalosporin dry powder injections as an adjunct to our existing cephalosporin facility.

Orchid's regulatory track record is distinguished by the speed and correctness of project execution, the timeliness and quality of regulatory documentation and the overall positive approval record. Our track record makes us confident of securing speedy international regulatory approvals for these projects, contributing to a broader and richer range of product registrations, facilitating a consequent upswing in regulated market revenues over the years to come.

Looking ahead

We identified the following principal growth areas:

1. Regulated generics business US & Europe: The growth in revenue and profitability from formulation products for regulated markets, especially US and Europe, is expected to accelerate. In the antibiotics space we expect to launch new products in the cephalosporins, betalactams and carbapenem spaces between 2007 and 2010 in US, EU and Japan. These antibiotics typically possess challenging chemistry and require dedicated facilities. A few complex products are in the injectable space with limited competition. In the non-antibiotic space, Orchid is developing a robust pipeline of over 80 products covering diverse therapeutic segments; we already enjoy marketing alliances with international players for 20 NPNC products in the US. The Company could also seek inorganic growth opportunities to shrink the gestation period for product development, regulatory approval and market access in Europe.

Japan: The Company intends to establish a marketing presence in the second largest pharmaceutical market in the world (estimated at around US$ 60 billion), recognizing the following unique factors that could be leveraged for a niche position:

+ Among the toughest quality standards in the world with stiffer impurity profiling norms

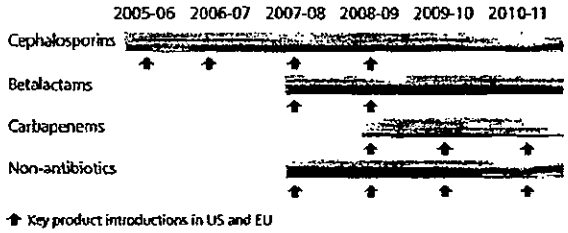
+ Procedures are tougher; bio-equivalence testing needs to be compulsorily done on Japanese volunteers, the cost of which is about four times the accepted international standard

+ The Japanese regulatory authority has been accepting filings only once a year for product approvals unlike in other regulated markets where the product filing and approval process is continuous

+ Marketing needs to be done by a local enterprise, necessitating the establishment of an own entity or a joint venture in that geography

Orchid expects to establish a foothold in Japan, leveraging its product portfolio,

Orchid's API and dosage form facilities enable integration across the value chain, imparting a flexibility to cover molecules across therapeutic areas and across geographies. As a result, the Company has a niche generics business model with an existing product pipeline to steer the Company's prospects across the foreseeable future.



quality / regulatory infrastructure and relevant business strategy.

Support to brand companies: With the increasing pace of genericisation and a spate of Paragraph IV – first-to-file cases, branded companies could be looking for additional strategies to protect their profitability. Orchid is competently placed to offer them support ahead of patent expiry by supporting their operations at competitive rates, a win-win proposition in the following ways: strengthening the innovator's robust profitability over a longer period (compared to having an authorized generic) and growing our volumes, profitability and presence with the additional prospect of emerging as an authorized generics player for the innovator company.

2. Innovation-led business

Long-term value for the Company will accrue from several initiatives being undertaken in the drug discovery and R&D services spaces.

New drug discovery: This is perhaps the most challenging, yet most value-driving opportunity. Realizing that science and serendipity play a role in this field, Orchid has deliberately chosen to work simultaneously on a few therapeutic programs and development platforms, thereby enhancing chances of success. The six therapeutic programs chosen for drug discovery have a significant market potential, marked by specific needs for new compound development. In addition, they also synchronize well with Orchid's overall manufacturing competencies, which provide certain advantages in providing scale-up and industrial scale quantities as projects move forward.

Novel drug delivery systems (NDDS): NDDS is a major opportunity in the innovation-led play, governed by the ideas that therapeutic efficacy, drug tolerability and patient convenience can be enhanced even for existing drugs, leading to better prescription compliance and more effective healthcare. The Company is leveraging its chemistry and formulation capabilities to develop this as a growth driver. These products, once developed, will provide a multi-year exclusivity for each approval and could emerge as helpful tools of product life cycle management by innovator companies.

Custom Research and Manufacturing Services (CRAMS): CRAMS is a multi-billion dollar opportunity for Indian pharmaceutical companies possessing requisite competencies. We expect to capitalize on this, leveraging our world-class facilities and competencies. Our completely integrated business model, cutting-edge research, capabilities, GLP-approved infrastructure, quality assurance and regulatory standards empower us to provide pharmaceutical services to global pharmaceutical companies at any point of the value chain.

In this respect, we already have two agreements in the area of custom research and manufacture:

+ With Pfizer Inc. for animal healthcare products

+ With Biovitrum AB to undertake medicinal chemistry

As an endorsement of our deep infrastructural and organizational capabilities in product development and manufacture as well as drug discovery and contract research, we were bestowed the awards of 'Partner of Choice for Competitive Excellence and Contract Research – Collaborative Drug Discovery' by Frost & Sullivan for two separate years.



integrated drug discovery – a key differentiator at Orchid

THE DEVELOPMENT OF PHARMACEUTICAL PRODUCTS IS AN INTRICATE SCIENCE, WHICH REQUIRES INTERACTION OF CHEMISTRY AND BIOLOGY IN A SYSTEMS APPROACH. THE ROUTE TAKEN BY ORCHID TO DISCOVER AND DEVELOP NEW DRUGS FOR MEETING GLOBAL HEALTHCARE NEEDS REFLECTS A BALANCED FUSION OF THESE TWO KEY DOMAINS



Orchid has established an end-to-end connected infrastructure for drug discovery and development which starts with in-silico design of new compounds or New Chemical Entities (NCEs) and takes the NCEs through several iterative stages of medicinal chemistry, analytical chemistry, scale-up chemistry, in-vitro and in-vivo biological screening for microbiological, pharmacological and safety parameters, CMC (chemistry, manufacturing and controls) and formulation through several specific departments looking after each domain. The drug discovery paradigm is thus geared to take NCEs with a structured program of synthetic, pre-clinical and clinical project flow.

To achieve this, Orchid invested in an integrated drug discovery infrastructure comprising a bioinformatics center, drug discovery centre, analytical centre, biology centre, pre-clinical facility including animal house, kilo laboratory and other associated facilities in its seven acre R&D campus in Sholinganallur, Chennai.

The R&D infrastructure at Orchid is certified for Good Laboratory Compliance (GLP) by the National GLP Authority of India, aligned with the OECD Principles of GLP. The R&D systems also meet world-class standards in terms of generation and protection of intellectual property, full-fledged development and operational quality assurance systems and regulatory protocols. Systems for the establishment and management of compound libraries, laboratory notebooks and the archiving are in line with global practices.

At Orchid, R&D initiatives for drug discovery are channelized through a wholly owned subsidiary, Orchid Research Laboratories Limited (ORLL), which also has a front-end entity in the US in Union City, San Francisco (called Bexel Pharmaceuticals, Inc.). ORLL is significantly benefited by the access to process research, formulations research and biotechnology research of the parent company as well as the end-to-end connected cGMP industrial scale facilities covering API and dosage forms across multiple therapeutic groups.

By leveraging superior infrastructure and deploying a judicious blend of structure-based drug design and target-based drug design, Orchid has been able to simultaneously work on six therapeutic programs and 15 lead NCEs. Orchid considers its multi-therapeutic and multi-lead discovery capability as a successful reflection of its R&D initiatives.

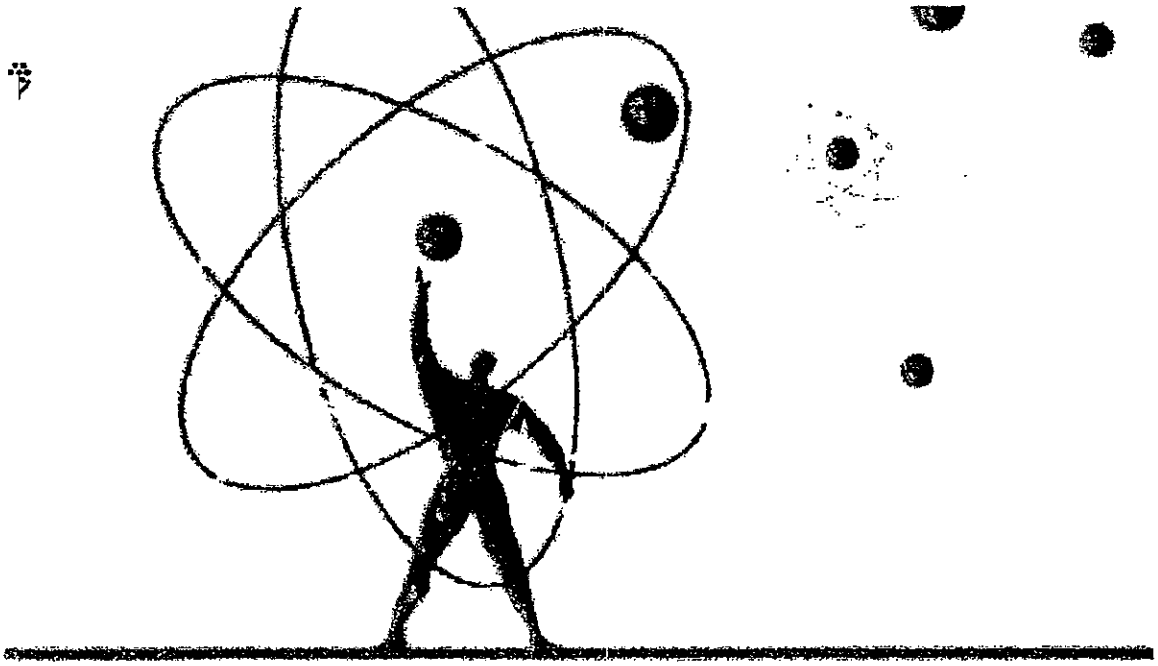
Summary

At Orchid, the investment phase is complete with respect to all its chosen business lines and product groups. The Company invested significantly in technologies and capabilities with the objective to generate attractive returns, which are already evident.

The Company expects to further enhance value through its proactive strategy: intellectually-driven growth, operational excellence and presence in value-added areas.

Orchid's discovery pipeline is as below:

Therapeutic Segment	Category	Discovery	Early Pre-clinical	Late Pre-clinical	Regulatory Toxicology	Phase I Clinical	Phase II Clinical
Diabetes	Tyosine-TZD, Non-PPAR DPP IV Inhibitor Non-TZD, Non-PPAR Novel						
Inflammation	Th1/Th2 Synthase Inhibitor PDE IV Inhibitor Kinase Inhibitor TNF α Inhibitor						
Oncology (Non-Cytotoxic)	STAT 3 /IL-6 Inhibitor HDAC Inhibitor						
Obesity	Orexin receptor agonist						
Depression	MAO-A Inhibitor						
Anti-infectives	Oxazolidinone Cephalosporin Betalactamase Inhibitor						



In 2007, Orchid Research Laboratories Limited received the Partner of Choice Award for Contract Research – Collaborative Drug Discovery from Frost & Sullivan

IN THE FIELD OF DRUG DISCOVERY, IT RARELY HAPPENS THAT A DISCOVERY ENTITY GETS TO PURSUE MULTIPLE THERAPEUTIC PROGRAMS SIMULTANEOUSLY AND ALSO POSSESSES CAPABILITIES TO PROVIDE WORLD-CLASS CUSTOM RESEARCH AND MANUFACTURING SERVICES FOR GLOBAL CLIENTS WITHIN A MERE FIVE YEARS FROM THE START OF DISCOVERY OPERATIONS.

Orchid Research Laboratories Limited ('Orchid Research'), a wholly owned subsidiary of Orchid, established for channelizing the drug discovery and development initiatives of Orchid, broke this barrier by building robust infrastructural and organizational strengths and reconciling them with a business vision and enhanced sensitivity to client needs. Its competitive excellence is reflected in the award given by Frost & Sullivan to Orchid Research Laboratories for being the top ranker in Contract Research-Collaborative Drug Discovery.

The parameters across which the Company was adjusted comprised:

Infrastructure capabilities | Knowledge capabilities | Business dynamics | Competitive advantage

Orchid Research Laboratories Limited

Orchid Research's multi-therapeutic, multi-lead portfolio and selective partnerships with global customers for their projects reflect its emergence in the global drug discovery space as a potential player.

Orchid Research reflects the presence of a well-thought-out strategy with the discipline of capable execution.

Infrastructural capabilities

+ Orchid's infrastructural capabilities cover all the key domains that are involved in end-to-end drug discovery, such as medicinal chemistry, biology, analytical, formulation, CMC and intellectual property

+ Orchid Research possesses several state-of-the-art medicinal chemistry laboratories with modern equipment and utilities, benchmarked to international standards and housed in a modern discovery centre spanning 60,000 sq. ft.

+ Another state-of-the-art 52,000 sq. ft discovery biology centre enables drug screening and development. The discovery centre has dedicated labs for in vitro as well as in vivo studies in microbiology, pharmacology, toxicology, including DMPK and ADME studies as well as regulatory toxicology studies essential for IND and IMPD filings of new drugs

+ The biology centre possesses a full-fledged, world-class animal house for breeding conventional animals (Swiss albino mice, wistar/NIN rats etc) as well as immuno-deficient animals (nude mice, scid mice etc) and transgenic animals (db/db mice, ob/ob mice, ZFD rat, DBA/1 mice, Lewis rats etc.)

+ Orchid's analytical research infrastructure spread over a 10,000 sq. ft. area is equipped with sophisticated instruments such as 400 MHz NMR, LC-MS/MS, GCMS, HSGC-MS, HPLCs , GCs, FT-IR, UV-IS, Powder-XRD, DSC, TG, polarimeter, flame photometry, prep HPLCs, MPLCs, freeze driers (lyophilisers) etc.

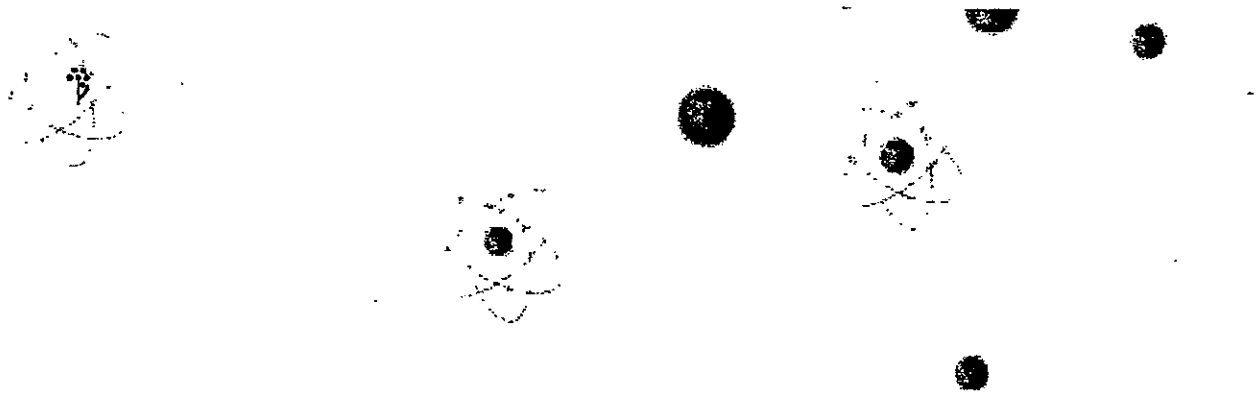
+ Orchid also has a modern bio-technology laboratory equipped with PCR machines, spectrophotometers, -20°C and -80°C cold cabinets, protein purification system, HPLC, gel documentation system, fermentors (varying capacity) and isolation facilities for fungal transformations

+ Orchid's R&D facilities are GLP accredited by National GLP Authority of India and are compliant with OECD principles. The animal house is registered with the Control and Supervision of Experiments on Animals (CPCSEA) and monitored by Institutional Animal Ethics Committee (IAEC)

+ Orchid possesses global scale competencies to synthesize molecules from milligram to gram and kilogram quantities from laboratory or kilo-lab respectively and supply quantities to support pre-clinical or clinical studies

+ Orchid's formulation development infrastructure, set in a 44,000 sq. ft. modern pharma research centre supports development of finished dosages in a wide format of immediate release as well as sustained release and controlled release technologies in solid oral dosage forms (tablets, capsules and dry suspensions) and parenteral dosage forms (sterile dry powders and lyophilisation products)

+ Orchid Research has modern



Orchid Research has been able to establish novel biological screens for cytokines, enzymes and transcription assays including such challenging ones as are required for STAT3, HDAC and DPP programs, to name a few.

bioinformatics software comprising Accelrys products and predictive software and global patent databases such as Delphion, Integrity and Sci-Finder and STN which add edge and novelty to drug discovery

+ Further, access to Orchid's US FDA and UK MHRA approved cGMP facilities assures smooth ramp-up to industrial scale manufacture as required

Knowledge capabilities

+ Orchid has over 130 scientists dedicated solely to drug discovery, several of them with advanced degrees and some with overseas experience. The scientific manpower is being ramped up further

+ The range of scientific skill sets in medicinal chemistry, analytical chemistry, microbiology, pharmacology, toxicology and molecular modelling and intellectual property provide an integrated platform of holistic knowledge

+ Orchid Research has developed globally competitive discovery knowledge platforms in the areas of inflammation, diabetes, oncology and anti-infective drugs. Platforms in depression, obesity and asthma are being established. Many of the targets are novel and validated

+ The Company has the ability to master any kind of chemistry, which is reinforced by innovative drug design and SAR platforms

+ The biological knowledge base is reflected by an ability to screen scores of compounds in the chosen therapeutic areas across several in vitro and in vivo biological screens on a regular basis

+ Orchid Research has been able to establish novel biological screens for cytokines, enzymes and transcription assays including such challenging ones as are required for STAT3, HDAC and DPP programs, to name a few

+ Orchid Research possesses a unique bank of over 3,000 clinical isolates, which positions, the Company uniquely in the field of discovery of novel antibiotic drugs

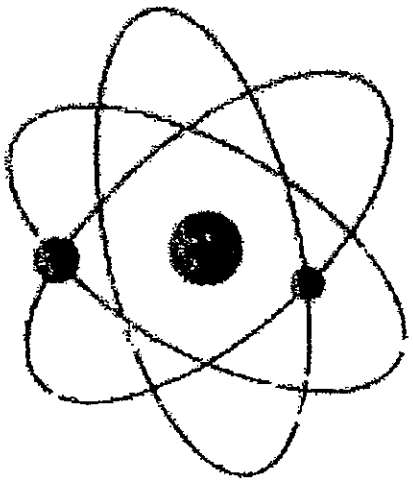
+ The inherent molecular biology capabilities of Orchid's bio-technology domain enable certain key cell-based studies for a more insightful biological evaluation of NCEs

+ The ability to scale-up chemical development in a technologically efficient and cost-effective manner is an added advantage of process optimization and CMC skills

+ Orchid Research possesses an especially critical analytical capability in terms of metabolite detection, structure elucidation, impurity profiling and polymorphism studies which add greater value to new compound development

Business dynamics

+ The ability to take a molecule seamlessly from discovery through various pre-clinical phases to the human clinical studies is a contemporary



business requirement. Far greater emphasis needs to be placed in the fundamental discovery and development phases prior to Phase I human clinical studies so that the risks of any subsequent, and extremely costly, attrition from human clinical development can be avoided

+ By virtue of its infrastructure and knowledge capabilities, Orchid Research ranks among the top rung pharmaceutical entities in the country in terms of end-to-end connected drug discovery and drug development that reflects such global standards and requirements

+ Orchid is fully capable of meeting these challenges of modern-day drug discovery given its infrastructure and the competencies for innovative medicinal chemistry and biology as well as the deployment of sharper efficacy and safety screens

+ Orchid Research also believes in an early interface with potential clients to ensure that its planned developments are aligned with potential customer and emerging global drug discovery needs

+ Orchid Research provides the much needed business flexibility with early phase to proof-of-concept collaboration possibilities, as well as contract research and development projects across multiple domains varying in scale and scope

+ In order to protect intellectual property of its partner, Orchid ensures complete intellectual firewalls to the teams working for partner companies. Our strong ethical values drive the business and activities at Orchid Research

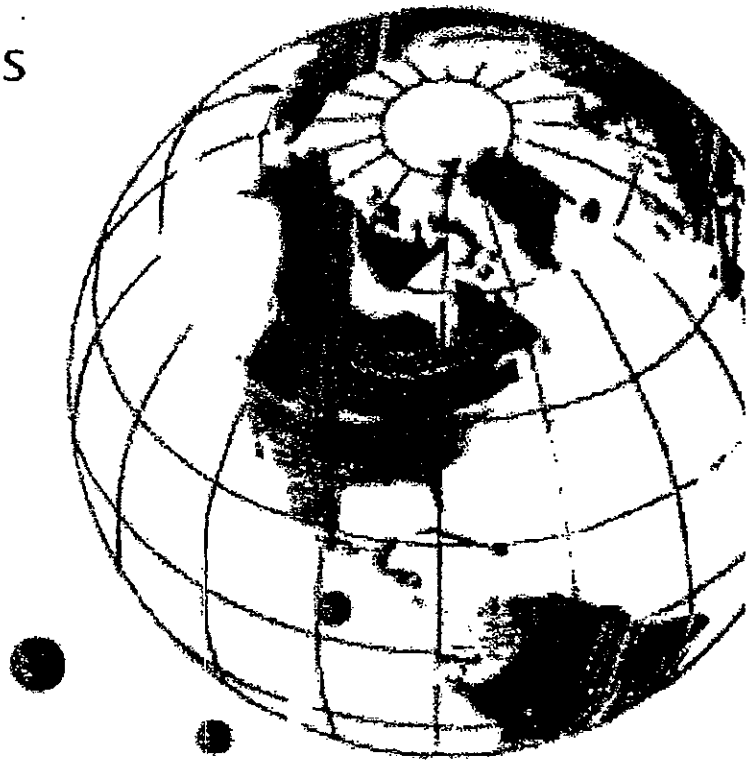
Competitive advantage

+ Orchid Research is one of the select few Indian discovery companies combining highly selective cutting-edge biology and rational drug design concepts with a vast medicinal chemistry and biology capabilities of the Indian infrastructure, to catalyze multi-therapeutic and multi-lead discovery programs

+ Orchid Research stands out in the drug discovery domain with the right mix of infrastructure, knowledge and business orientation, with faster decision making and execution excellence, reinforcing its position as a preferred partner

+ Orchid Research's project management, intellectual property management and quality management practices represent additional competitive advantages, valued in the drug discovery and development domains

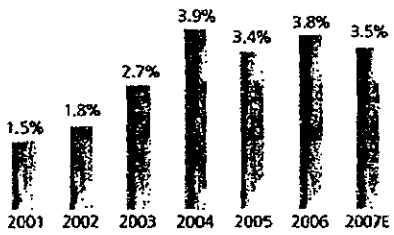
management's discussion and analysis



Global economy

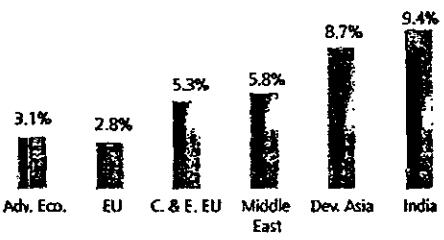
The global economy grew at 3.8% in 2006 and is poised for 3.5% growth in 2007 on a higher base. The emerging economies of Asia, Middle East, Central and Eastern Europe as well as CIS countries are expected to report a higher growth than the other geographies. India, in particular, has been posting high annual growth rates in GDP, the recent being a record growth rate of 9.4% for 2006. There has been an increasing global interest in India as a major partner country, not only for software services but also as a manufacturing and research outsourcing destination. Pharmaceutical products and services from India in particular offer attractive potential in this context.

World GDP growth

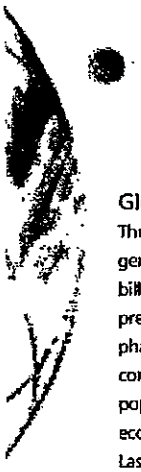


Source: IMF

GDP growth distribution (2006)



Source: IMF



Global pharmaceutical market

The global pharmaceutical market generated revenues of US$ 643 billion** in 2006, a 7% growth over the previous year (source: IMS Health). The pharmaceutical growth in 2006 continued to be driven by increased population, higher longevity, strong economies and innovative products. Last year, some 31 new molecular entities (including biologics) were launched in key markets; on the overall, contribution to the global market growth by products launched from 2001 to 2005 reached US$ 13.5 billion in 2006. Over 87% of the global pharmaceutical market was dominated by the developed markets of US, EU and Japan.

The global pharmaceutical industry is expected to grow to US$ 842 billion by 2010; the anti-infectives segment, valued at around US$ 9.7 billion, is expected to grow steadily at 4 to 5%.

In 2006, generics represented more than half the volume of pharmaceutical products sold in the seven key world markets – US, Canada, France, Germany, Italy, Spain, and the UK – reflecting the changing balance between new and old products and the growing 'genericisation' of a number of primary care categories. In terms of value, however, the share was a low 20% due to the differential in value of patented and generic products.

R&D pipeline growth remained strong, especially in the number of products in Phase I and Phase II clinical development. As per an analysis of 47 top drug and drug delivery companies world-wide, by 2007, 1,345 products were in development (up 9% from previous year), including 146 filed NDAs and 263 drugs in Phase III. Cardiovascular, central nervous system, oncology, diabetes, endocrinology, gastrointestinal, respiratory, urology and infectious diseases represented some of the therapeutic areas with high levels of development activity. Of the total pipeline, some 30% were biologic in nature. The developers of new molecular entities are increasingly looking at outsourcing and partnership opportunities to strengthen their pipelines as well as reduce time and cost of new drug development.

The outsourcing market in the pharmaceutical and biotechnology industry in 2006 was valued at US$ 100 billion, estimated to grow at 10.8% to US$ 168 billion by 2009. API manufacturing contributed 55% of the outsourcing pie, followed by clinical research (35%), drug discovery (25%) and dosage form development (20%).

Global pharmaceutical sales by region, 2006

World audited market	2006 sales (US$ BN)	% global sales	% growth year-on-year (Constant US$)
North America	289.9	47.7	8.0
Europe	181.8	29.9	4.8
Japan	56.7	9.3	-0.7
Asia, Africa and Australia	52.0	8.6	9.8
Latin America	27.5	4.5	12.9
Total IMS Audited*	$ 607.9	100	6.5

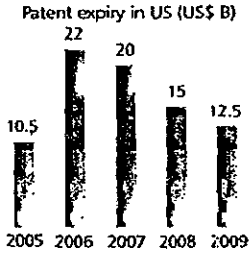
Source: IMS MIDAS®, MAT Dec 2006 *** includes audited and unaudited markets*

Global generic market

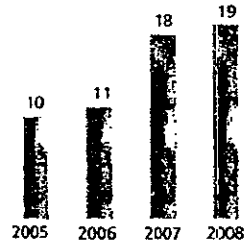
The global generics market is likely to account for US$ 36 billion in revenue by 2007-08. Globally, governments are under pressure to reduce healthcare costs and widen medicinal access even as a robust demand growth is derived from an ageing population, pressure on global healthcare budgets, increasing generics penetration (especially in some EU and semi-regulated markets) and patent expiries. Going forward, favourable legislation in the area of generics is expected to widen this market segment.

US: This is the world's largest and most profitable generics market, accounting for at least 50% of the global generics sale and a larger profit share. The US opportunity can be gauged from the fact that generics applications submitted to US FDA increased 37% y-o-y from 563 in 2004 to 771 in 2005. Besides, US$ 45-50 billion worth of products are likely to go off patent in the US by 2009. Even after factoring in generic price erosion, the potential market for generics players is likely to be worth a few billion dollars over the next three years. Cost competitive entrants from India are likely to maintain a pressure on US generics market. On the other hand, US regulations, like a ban on authorized generics (if implemented), will strengthen the prospects of Indian generics players who focus on patent challenges. The US market also offers distinctive incentives in terms of 180-day exclusivities related to the Paragraph IV, first-to-file products and longer exclusivity periods of three to seven years for products deploying improved chemistry and / or enhanced formulations.

Patent expiry in US (US$ B)



Products going off-patent in US

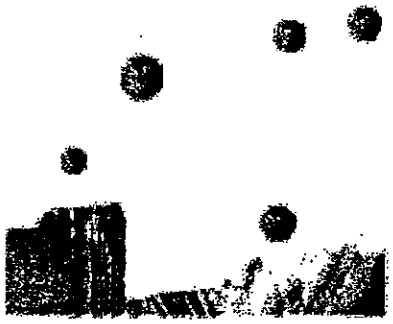


Source: Industry/analyst reports

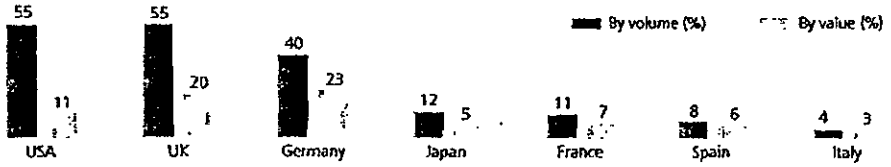
India enjoys favourable prospects in the US generics market. Nearly 15% of the total Indian pharma industry output accounts for generic exports to US. Besides, generic prescription trends indicate a greater room for growth. The implementation of Medicare Part D is expected to provide a thrust to generics sales, leading to an increase in prescriptions and revenues. In addition, India, and in particular companies such as Orchid, are well-positioned to capitalize on the US opportunity in terms of niche generics (eg., Orchid's antibiotics range) and specialty pharmaceuticals range where the entry barriers (of technology and investment) are high.

Europe: The penetration of generics is still low in a number of large pharmaceutical markets in Europe. Although France, Italy and Spain feature among the top 10 markets, the penetration of generics in these markets is still in single-digits. Western Europe will witness patent expiries worth about US$ 6 billion by 2009, creating a multi-billion dollar market even after factoring in generic price discounts and penetration. As more drugs go off patent on the continent, the respective governments are expected to enact favourable legislations to drive a generic-centric industry growth. What also makes this market attractive is the presence of a branded generics market in most European markets (except UK), resulting in relatively high entry barriers and lower price, discounting following patent expiry.

Other markets: The semi-regulated markets and smaller regulated markets are expected to grow by 25% by 2009. The opportunity spans 150 countries through Latin America, Asia, Eastern Europe, South Africa and Australia. Most of these are branded generics markets, resulting in attractive margins.



Generics penetration by volumes and values



Source: Industry/Motilal Oswal Securities

Orchid's initiatives

Orchid has embarked on strategic initiatives to meet the emerging global market profile.

+ Focused on product differentiation in the US generics market, through a range of APIs and finished dosage forms in multiple therapeutic areas

+ Established API and dosage plants, which comply with US FDA and UK MHRA standards, and have secured necessary plant and product approvals

+ Entered into marketing alliances for antibiotics as well as non-antibiotics dosage forms with major pharmaceutical players in the US and Europe, strengthening its regulated market position

+ Implemented a niche generics model to benefit from a growing focus on specialty pharmaceuticals

Global drug discovery market

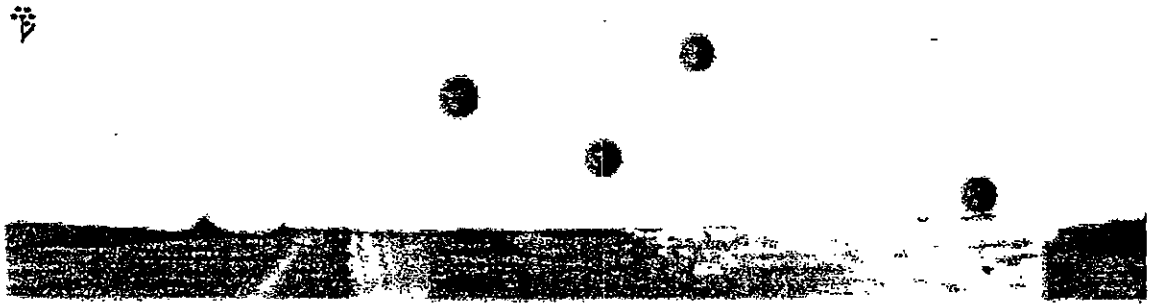
The drug discovery market generated revenues of US$ 7.44 billion in 2006; this is likely to reach US$ 19.35 billion in 2013 (Source: Frost & Sullivan, U.S. Drug Discovery Contract Research Organization Markets). However, successful R&D has been found to be challenging even by big pharma companies with enhanced regulatory scrutiny, leading to time and cost increases and declining output. While R&D spending is rising, the number of new drugs approved is declining. Typically, a novel drug requires a development time of around 10 to 15 years and entails a development cost of around US$ 800-1,000 million. According to industry reports, aggregate R&D spending by large pharmaceutical players has increased five-fold over the last 10 years but product approvals for small molecules have been around 25 in each of the last three years.

As a result, research outsourcing is now a reality with the objective to increase development capacity without increasing fixed costs, reducing time-to-market and generating a superior performance with respect to time and quality offered by specialist discovery firms and contract organizations. The trend of global pharmaceutical players strengthening their NCE pipelines in alliance with niche drug discovery firms will only intensify further.

A globalization of clinical trials backed by cross-border alliances will be yet another impetus to this development. Several CROs are expanding across geographical boundaries and augmenting their capacity. Along with the required expertise to manage complex global clinical trials across a variety of therapeutic segments, the availability of a full line of discovery and pre-clinical services will be a positive factor. These will catalyze the drug discovery outsourcing market. Besides, high efficiency and productivity of the firms offering such services will strengthen R&D outsourcing.

In the past, Intellectual Property Right (IPR) concerns discouraged global pharma companies to outsource to Asia. However, with a number of Asian countries (including India) signing the TRIPS agreement, there is a fresh spurt in outsourcing to technologically advanced India and China, enhancing their potential to emerge as major R&D players.

Apart from the maximum number of low-cost, quality-enhancing FDA-approved plants, the key Indian advantages comprise superior development capability, analytical



setup, delivery consistency, cGMP compliance, long-term commitment, evolved judicial system, English-speaking population, dependable documentation and transparent commercials.

Orchid's initiatives

To participate in the challenging and growing drug discovery and development opportunity, Orchid took several proactive steps, comprising the following:

+ Engaged itself across the entire spectrum of pharmaceutical R&D from drug discovery to delivery

+ Created state-of-the-art drug discovery infrastructure that is end-to-end connected, comprising bioinformatics, synthesis, scale-up, in vitro and in vivo microbiological, pharmacological screening, safety pharmacology and animal studies

+ Entered into collaboration agreements with multinational pharmaceutical companies for R&D services and put in place plans to out-license new molecules with commercial potential

+ Filed over 440 patent applications with US PTO, PCT, European and Indian PTOs; of these, over 30% account for new drug discovery and other innovative products

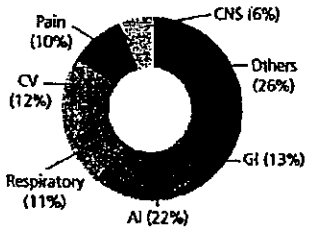
+ Achieved a strength of more than 300 scientific personnel to cover the entire spectrum of R&D across 36 laboratories

+ Established its capabilities in generics chemistry and pharma research; several US FDA and UK MHRA-approved API and dosage form plants in various therapeutic areas vindicated scale-up for enhanced CMC activities of NCEs

Indian pharmaceutical market

The Indian pharmaceutical market is one of the fastest growing in the world. It contributes over 10% in terms of volume and just over 1% in terms of value of total global sales. Sales increased by 17.5% to US$ 7.3 billion in 2006 (IMS Health). The growth rate is expected to sustain at 6 to 7% annually leading to a market size of US$ 10 billion by 2010 (McKinsey and IMS). The anti-infectives segment remains the largest in India, accounting for 22% of the market share.

Indian market by therapeutic category



Source: CRIS Ingac, ENAM Research

Orchid's initiatives

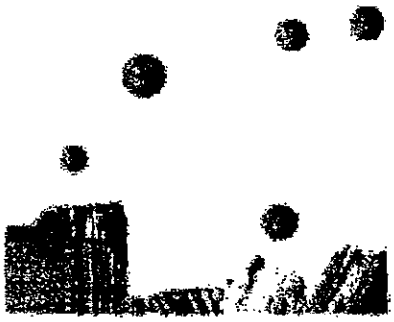
Orchid emerged as a mid-sized business domestic player, consistent with its predominant emphasis on an international presence. Apart from developing its antibiotic products in the Indian market as a critical care division, Orchid acquired a chronic therapy business to build divisions in the growing lifestyle disease segments of diabetes, cardio-vascular and central nervous system drugs.

Operational review

Revenues

Our total revenue (excluding excise duty) was Rs. 91,448 lakh for fiscal 2007, an increase of 5% from Rs. 87,478 lakh for fiscal 2006, attributed to a higher performance trajectory in the formulations business, propelled by our entry into the U.S. generics markets. In regulated markets we focused on the United States and Europe; in less regulated markets, we focused on China and Hong Kong. Since fiscal 2005, regulated market revenues also included development fees received from marketing arrangements.

With an increasing sales of finished dosage forms to regulated markets, our API sales are increasingly consolidated with our overall pharmaceutical sales. Accordingly, we report our business as one integrated pharmaceutical segment.



Nevertheless, for the convenience of a comparison with our historical performance, we have classified our revenues according to two segments: APIs and formulations. The following table sets forth the contribution of each of these segments, expressed as a percentage of our total revenues, for fiscal 2006 and 2007:

	Fiscal year	
	2006	2007
API revenues (%)	61	56
Formulations revenues (%)	39	44
Total revenues (%)	100	100

APIs: Our API revenues comprised sales of cephalosporins, high-end betalactams and other products, including nutraceuticals. In fiscal 2006 and 2007, our API revenues were Rs. 53,559 lakh and Rs. 51,213 lakh respectively, representing 61% and 56 % of our total revenues respectively. Exports constituted 82% and 81% of our API revenues in fiscal 2006 and 2007 respectively. Cephalosporins accounted for 89% and 88% of our API revenues in fiscal 2006 and 2007 respectively, while other product groups together accounted for the balance in each year.

High-end betalactam and carbapenem products, which are sold primarily in less-regulated markets, represented 7% and 11% of our API revenues in fiscals 2006 and 2007 respectively. Niche nutraceuticals (SAMe and Biotin) were sold primarily in regulated markets in small volumes.

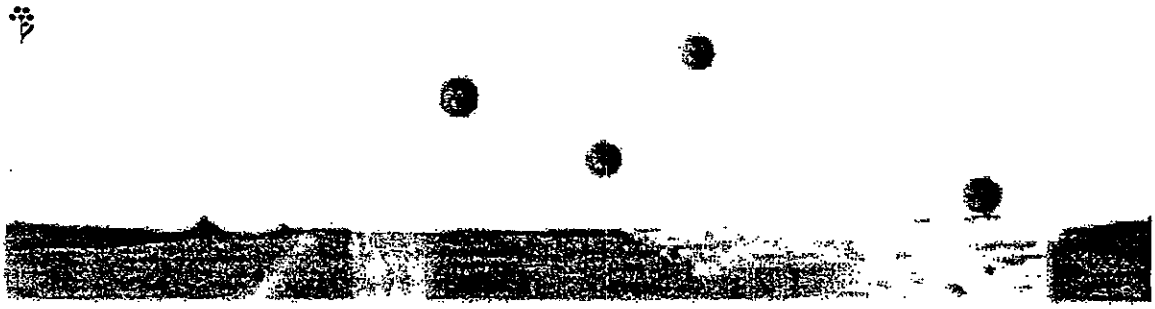
Formulations: Our total formulation revenues were Rs. 33,920 lakh and Rs. 40,234 lakh in fiscals 2006 and 2007 respectively, representing 39% and 44% of our total revenues, respectively. Arising from the entry into the US generic markets, our formulations business, which earlier focused on domestic and less regulated markets, turned around and drove incremental revenues and profits, a development, that is likely to continue. With our growth in regulated markets, we expect our formulations business to grow in revenue and profits.

Our formulation revenues were largely driven by the sales of our generic cephalosporin products in the United States. From the date of launch in July 2005, our US cephalosporin sales stood at Rs. 22,759 lakh and Rs. 27,328 lakh in fiscals 2006 and 2007 respectively.

Our other formulations revenues comprised sales of acute therapy products (anti-infectives and pain management drugs) through our Orchid Healthcare division and chronic therapy products (neuro-psychiatry, cardio-vascular and anti-diabetic drugs) and nutraceuticals through our Mano Pharma division from fiscal 2005.

Geographical distribution: During fiscals 2006 and 2007, the regulated markets of the United States, Europe and Japan contributed 29 % and 17% respectively of our total API revenues, while other less regulated markets including India contributed 71% and 83% respectively. During fiscals 2006 and 2007 each, the regulated markets of United States, Europe and Japan contributed 76% and 77% of our formulation revenues, while less regulated markets (including India) contributed 24% and 23% respectively.

Currently, we sell our APIs predominantly in a variety of export markets while our formulations are sold to a large extent in the United States. As we pursue our U.S. generics and broader regulated market strategy by selling key products whose patents are expected to expire each year, we expect to generate higher volumes of formulation sales in the export markets. We are selling our key injectable and oral generic products in the United States in alliances with our distribution partners. We plan to launch additional products progressively based on further approvals by the US FDA for our ANDAs. We will be pursuing a similar strategy for other product groups and other regulated markets.



The following tables set forth the geographical breakdown for sales of our products across various markets as a percentage of our total revenues for fiscals 2006 and 2007:

	APIs		Formulations	
	2006	2007	2006	2007
India (%)	18	19	18	18
Asia Pacific (other than India and Japan) (%)	33	42	2	2
Japan (%)	1	1	–	–
Europe (%)	18	16	1	1
Middle East (%)	11	15	–	–
South/Central America (%)	6	5	–	–
USA and Canada (%)	10	–	75	75
Russia and the CIS countries (%)	2	1	3	3
Rest of the world (%)	1	1	1	1
Miscellaneous (%)	–	–	–	–
Total (%)	100	100	100	100

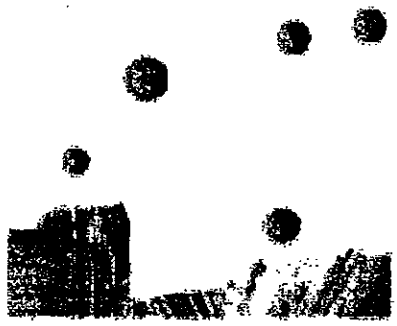
Expenses

Our principal expense component comprised material costs, staff costs and welfare expenses, power and fuel costs, other manufacturing, selling and other expenses, R&D, interest and depreciation expenses. Given alongside is the breakdown of our various expense components.

Operating expenses

Our material costs comprised raw material costs used in the manufacture of products like Pen-G, 7-ACA and intermediates. Staff costs and welfare expenses comprised wages, salaries, bonus and welfare expenses for our employees such as contributions to employee provident fund, medical and other funds. Power and fuel expenses comprised power, diesel and furnace oil for our manufacturing facilities. The principal components of other manufacturing, selling and other expenses comprised selling commission, insurance charges, and factory maintenance expenses, consumption of

	Fiscal year	
	2006	2007
Operating expenses:	*(Rs. lakhs)*	*(Rs. lakhs)*
Material costs	36407	31056
Staff costs and welfare expenses	7026	8399
Power and fuel	4322	5202
Other manufacturing selling and Other expenses	11001	13691
Sub total	58756	58348
R&D	2662	3963
Interest and finance charges	8701	9831
Depreciation and miscellaneous expenses written off	8298	8247
Taxes:		
Provision for current / fringe benefit tax	181	166
Provision for deferred tax	590	1230



stores, spares and chemicals, and traveling expenses.

R&D expenses comprised capital and revenue items, which included regular operating expenses, project expenses and expenses for operation of research and infrastructure programs. R&D revenue expenses comprised power and fuel, consumption of stores, spares, chemicals and employee costs; R&D capital expenses comprised expenditure on land, buildings and laboratory equipment. While R&D revenue expenditures were debited to the profit and loss account when incurred, R&D capital expenditures were added to assets and depreciated. Interest and finance charges comprised interest on long-term and working capital borrowings, bill discounting and other bank charges. Depreciation and miscellaneous charges comprised a major portion of our operating expenses. Taxes included both direct and indirect taxes. The effective tax rates for fiscals 2006 and 2007 stood at 33.66%.

Material costs: Our material costs were Rs. 31,056 lakh for fiscal 2007 compared to Rs. 36,407 lakh for fiscal 2006. We were able to reduce material costs despite an increase in revenue due to an optimal efficiency in our operations, new cost-effective processes and a decline in the average price of key inputs.

Staff costs and welfare expenses: Our staff costs and welfare expenses were Rs. 8,399 lakh for fiscal 2007, compared to Rs. 7,026 lakh for fiscal 2006. This increase of 20% or Rs. 1,373 lakh in staff cost and welfare expenses was mainly attributable to an increase in our personnel to meet larger developmental activities and the establishment of new facilities.

Power and fuel costs: Our power and fuel expenses were Rs. 5,202 lakh for fiscal 2007 compared to Rs. 4,322 lakh for fiscal 2006. This increase of 20%, or Rs. 880 lakh, in our power and fuel expenses for fiscal 2007 was primarily due to the expansion of commercial production across various plants to cater to the regulated markets as well as an increase in the input cost of fuel.

Other manufacturing, selling and other expenses: Other manufacturing, selling and other expenses were Rs. 13,691 lakh for fiscal 2007 as compared to Rs. 11,001 lakh for fiscal 2006. This increase of 25% or Rs. 2,690 lakh, in our manufacturing, selling and other expenses was attributed to the expansion of operations at our various new plants and general inflation.

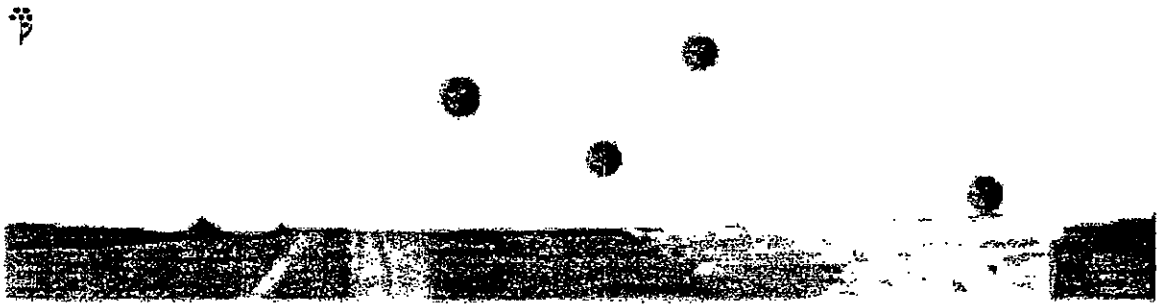
R&D: R&D expenses were Rs. 3,963 lakh for fiscal 2007 compared to Rs. 2,662 lakh for fiscal 2006. This increase of 49%, or Rs. 1,301 lakh, in R&D expenses was mainly attributable to the development of NPNC products for our regulated markets, and higher expenditure on drug discovery activities.

Operating profit (EBITDA): EBITDA was Rs. 29,137 lakh for fiscal 2007, compared to Rs. 26,060 lakh for fiscal 2006. This increase in EBITDA of 12%, or Rs. 3,077 lakh, was primarily due to higher margins arising from the ramp-up in the U.S. generics market.

Interest: Interest costs were Rs. 9,831 lakh for fiscal 2007 as compared to Rs. 8,701 lakh for fiscal 2006. This increase in interest costs of 13% or Rs. 1,129 lakh was mainly due to an increase in borrowings needed to complete our investments in the residual projects for the regulated markets and the increase in working capital. With the retiring of a significant amount of debt, interest expenses are expected to decline in fiscal 2008 and beyond.

Depreciation and amortization expenses: Depreciation was at Rs. 8,247 lakh for fiscal 2007 compared to Rs. 8,298 lakh for fiscal 2006.

Profit before taxation and exceptional items: Profit before taxation and exceptional items was Rs. 11,059 lakh for fiscal 2007 compared to Rs. 9,061 lakh for fiscal 2006. This increase of 22% or Rs. 1,998 lakh in our profit before taxation and exceptional items was mainly due to our entry into the



U.S. generics market, niche product mix and more efficient operations. Provision for taxation was Rs. 1,396 lakh in fiscal 2007 as against Rs. 771 lakh for fiscal 2006. This increase in the provision for tax was mainly due to a higher provisioning of deferred tax.

Profit after tax: Profit after tax was higher by 17% at Rs. 9,663 lakh for fiscal 2007 compared to Rs. 8,290 lakh for fiscal 2006. This increase was primarily due to our strengthening presence in the U.S. generics market.

Inventory: During the fiscal, the Company experienced an increase in inventory levels due to the larger and broader developmental effort for regulated markets in terms of API and dosage form exhibit batches for the products in the pipeline for US and EU. In addition, increasing regulated market business required the build-up of inventories in anticipation of product launches and product ramp-up. As more products get launched and supply chain optimized, the inventory norms will be improved, going forward.

With the completion of asset creation for cephalosporin, betalactam: and initial NPNC product groups and with the carbapenem and upscaled NPNC projects nearing completion, there will be a greater utilization of the asset base and improved asset turnover.

Internal control systems and their adequacy

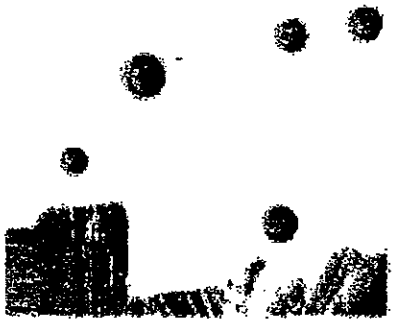
The Company introduced standard operating procedures (SOP) across all functions covering the daily operations of the business. To avoid work duplication, many SOPs were designed to meet the GMP/FDA/ISO/management and other statutory requirements. The Company continuously monitored compliance to procedures and introduced new systems from time to time. The introduction of an upgraded mySAP ECC 6.0 version of ERP in 2006-07 provided a uniformity and greater efficiency in practices across the organization.

The highlights of the internal control weaknesses and internal audit reports were placed before each audit committee meeting along with the recommendations and responses of the management. The members of the Board deliberated and advised the Management on improvements/ compliance. Apart from the above, statutory auditors also presented their concerns to the members for improvements or developments.

Additionally, the introduction of newer tools such as compliance calibrator, will provide greater thrust to other related aspects of risk management and prudential management.

Information technology

Orchid believes that information technology (IT) is an important enabler for pan-organization integration of all activities, ensuring transaction efficiency, integrity, transparence and control. Orchid made business-strengthening investments in



information technology in 2006-07, leading to a wider, deeper and more secure information access.

Orchid's initiatives

+ Upgraded the SAP R/3 4.6 version to the latest mySAP ECC 6.0 version to achieve higher transaction productivity and integration

+ Introduced a top-of-the-class eCTD system to facilitate dossier submissions to regulatory authorities in US and Europe as per electronic format

+ Implemented electronic labeling solutions (vACT:SPL) to cater to the US and EU labeling requirements

+ Introduced a sophisticated software platform leading to cost-saving opportunities in solvent recovery processes with corresponding efficiency improvement

+ Introduced a software solution to enhance safety systems (vACT: SHE and PHA Works) to support incident management, proactive observation process and hazard analysis addressing safety enhancement initiatives

+ Rolled out SAP in the wholly-owned drug discovery subsidiary, Orchid Research Laboratories Limited

+ Implemented the compliance calibrator from a reputed agency in the field (risk management software to identify and enforce appropriate segregation of duties in the transaction environment)

Benefits

+ The SAP upgradation, besides addressing the technical and support needs, helped in identification and resolution of bottlenecks in transaction processing

+ The hardware platform modernization resulted in a significant improvement in transaction speed

+ The solvent recovery software solution resulted in significant direct cost savings

+ Considerable improvement in software and hardware uptime was achieved

+ GRC (governance, risk and compliance) focus was strengthened in line with Orchid's governance commitment

IT outlook

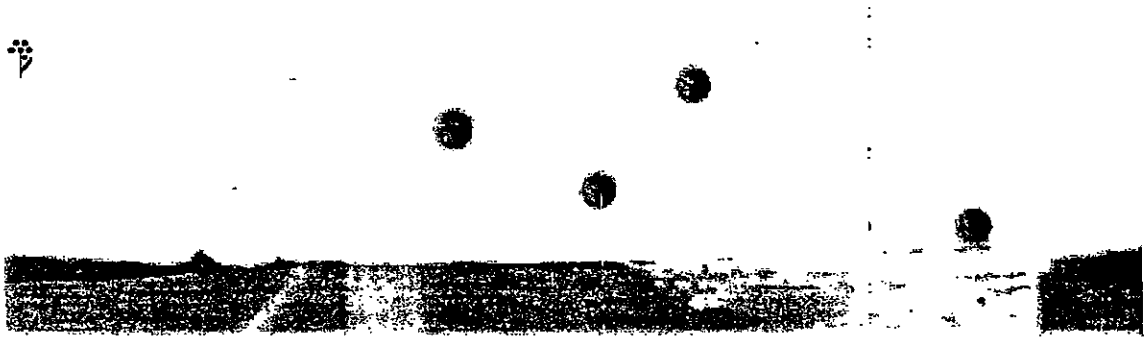
+ Orchid dovetailed its IT initiatives with its strategic vision and annual business plan

+ The Company is working on an intranet portal to create a knowledge repository and augment functional collaboration

+ Access by authorized users to information from any location will be considerably enhanced

+ A business information warehouse using SAP is being developed to facilitate better reporting and analysis

+ The external and internal security of the system will increase through the use of group policy implementation



+ An improved disaster recovery system and enhanced automation to back-up is being provided for additional protection to the business critical data

+ Information Technology will power more processes in the discovery-to-delivery cycle this year

The wide range of IT upgradation and new software solutions, aimed at operational excellence on the one hand and international regulatory needs on the other, will reinforce Orchid's position in the global pharmaceutical space.

Human resources

As on March 31, 2007, Orchid's 3,200 plus strong team included scientific and technical personnel and employees located across several manufacturing and research facilities including its joint venture and subsidiaries, corporate, managerial personnel and sales staff.

Orchid's initiatives

Recognizing the importance of talent in sustaining global competitiveness, Orchid took the following steps in the human resources domain:

+ Increased its focus on behavioural and technical training across all segments to enhance employee competencies and improve performance

+ Developed themes for behavioural training resulting in need-specific training

+ Utilized business simulation programs to enhance analytical capabilities

+ Empowered managers and executives to take decisions supported by the allocation of budgets

+ Trained potential high-track performers in leadership skills through reputed HR consultancy organizations

+ Enabled scientific and technical employees to attend national and international seminars and share knowledge across teams

+ Provided shop floor workmen with technical and chemical skill training

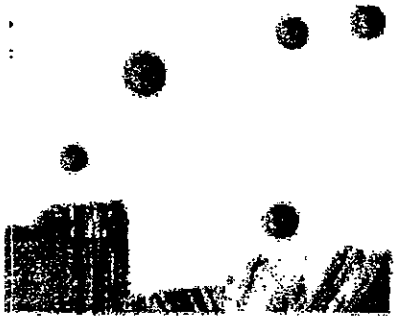
+ Formed a knowledge management cell, comprising teams from operations, quality and R&D divisions to discuss organizational best practices

+ Conducted employee welfare programs to enhance a sense of team spirit

+ Initiated intensive training in GMP, SOP, safety, environment and health consciousness

Opportunities and outlook

As discussed in sufficient detail in the preceding sections, generics and drug discovery represent two significant business drivers with a number of opportunities in each for Orchid. Continuous growth of global pharmaceutical markets, increasing genericisation in regulated markets of US, Europe and Japan due to yearly patent expiries, the growth of emerging economies and the resulting upswing in healthcare needs, necessitate the need for big pharma companies to actively integrate drug discovery outsourcing and in-licensing of new chemical



entities, representing major opportunities for Orchid.

Orchid has in place the requisite US FDA and UK MHRA approved multi-therapeutic API and dosage form manufacturing infrastructure to harness the global opportunities. Building on the foundation of successful introduction and ramp-up of cephalosporin generics in the US over the last two years, the strategy for 2007-08 and beyond involves the introduction of additional cephalosporin, betalactam and carbapenem antibiotic dosage form products in the remunerative generic markets of US, Europe and Japan. Also, the first non-antibiotic generic dosage forms will be introduced in the US generics market this year, followed by further introductions across geographies. This accelerating generics thrust, supported by increased filings and approvals of ANDAs and dossiers, is expected to increase revenues and profits significantly. Orchid also sees opportunities for increasing business in domestic and emerging markets to supplement the regulated market business in revenues.

Orchid's integrated drug discovery infrastructure and multi-therapeutic, multi-lead NCE development programs provide opportunities to benefit from global drug discovery and custom research and manufacturing partnerships. The out-licensing opportunity in the areas of diabetes, oncology and inflammation is promising for Orchid given the proof-of-concept trials for the anti-diabetic molecule currently underway and the envisaged progress of anti-inflammation and anti-cancer molecules towards Phase I human clinicals this fiscal.

On the overall, the business outlook for Orchid indicates higher revenues and profitability from the generics programs as well as long-term value building from drug discovery and CRAMS initiatives.

de-risking the business



Overview

ORCHID OPERATES IN A BUSINESS ENVIRONMENT CHARACTERIZED BY INCREASING GLOBALIZATION, INTENSIFYING COMPETITION AND COMPLEX TECHNOLOGIES. AS A RESULT, RISK IS INTEGRAL TO ITS BUSINESS

The Company has responded to this reality with a comprehensive and integrated risk management framework, reinforcing its capability to enhance value.

What is risk?

Risk may be defined as the possibility that an event, anticipated or unanticipated, will occur and adversely affect the achievement of the Company's objectives and goals. A business risk is the threat that an event or action will adversely affect an organization's ability to achieve its business objectives/targets. Business risk arises as much from the possibility that opportunities will not be realized as much from the fact that certain threats could well materialize and errors could be made, despite analysis and preemptive action.

What does risk management mean?

Risks accompany prospects. As a responsible management, it is our objective to minimize the risk inherent in the business with a view to maximize returns from any business situation. At the heart of this risk management framework lies the Company's long-standing commitment to vigilance, appraisal and proactive risk mitigating strategies.

What we are doing to de-risk our business?

Enterprise risk management is a comprehensive process to help companies identify the major risks facing the organization and create

consistent, enterprise-wide solutions for dealing with those risks. At the heart of the Company's risk mitigation is a comprehensive integrated risk management framework that comprises prudential norms, proactive management, structured reporting and systematic control. This approach ensures that the risk management discipline is centrally initiated by the senior management but cascaded across the organization, percolating to managers and executives at various levels, helping them anticipate and mitigate risks at the basic transactional level.

At Orchid, decisions are taken in a manner whereby risk and reward are prudently balanced; this ensures that the Company's revenue generating initiatives are consistent with the risks taken. The management of risk conforms to the Company's strategic direction and is consistent with shareholders' expectations, the Company's rating and desired risk appetite.

The review that follows addresses the key risks that Orchid as a globally oriented pharmaceutical company faces and outlines the risk mitigation strategies that are adopted. While the risk mitigation strategies are structured and executed with due care and are vindicated by positive outcomes in each case, the Company can give no assurance that unforeseen developments and events will not have an adverse impact on the business operations and results.

Dependence on limited therapeutic segments

Risk perception: Limited growth of current and planned products or an increase in product substitutes could reduce the demand for the Company's products.

De-risking: Historically, the Company has been in therapeutic segments (antibiotics) and that will remain relevant over the long-term. Antibiotics constitute around 25% of the pharmaceutical market, growing at an average of 4 to 5% annually. More importantly, the Company has strategically chosen to be in segments that involve complex chemistry and processes, an effective entry deterrent for competition. As a proactive measure the Company has already implemented projects to increase its presence in other therapeutic segments as well over the coming months and years.

Vindication: The Company has achieved consistent growth over the years leading to 2006-07 at a clip which is among the fastest in the Indian pharmaceutical industry. The product range has also substantially expanded across therapeutic verticals thus diversifying the range and reducing the dependence on single groups.

Inadequate supply of raw materials

Risk perception: Supply, quality and the cost of key inputs could impact product acceptance in regulated markets.

De-risking: The Company has long-term contracts with reputed suppliers of its key inputs (namely Pen-G and 7-ACA). It has been having such relationships with these vendors for the last several years. Following the Company's decision to increase its exposure in the regulated markets, it is sourcing materials from reputed US FDA-approved sources, eliminating the risk of product quality.



In addition, the Company carries out all necessary key checks across demanding parameters to ensure that the critical inputs meet the required specifications.

Vindication: Over the past several years, operations across the Company's units were not impacted at any point due to a paucity of key inputs. The Company maintained an anytime buffer to support continuous operations and deliveries. The successful launch and ramp-up in regulated markets validates the robustness of the Company's supply chain in meeting stringent needs of such markets as well.

Growing competition in the API and formulations businesses

Risk perception: Increasing global and domestic competition could lead to a pricing pressure.

De-risking: The Company selected to be present in those product segments requiring complex chemistry and formulation, deterring competition.

API: After having established itself globally in the cephalosporin segment, the Company has diversified presence to other challenging therapeutic segments with a large market (namely other antibiotics as well as non-antibiotics such as osteoporosis, central nervous system, oncology and cardiovascular drugs).

Formulations: The Company identified products with a long life-cycle requiring complex technologies and marked by a limited number of players. To strengthen its edge, the Company is introducing products on a continuous basis.

Vindication: On the overall, the Company has been able to increase its business and could more than double its formulations and regulated market business, reflecting the strength of its business model and product-manufacturing platform.

Patent litigation

Risk perception: Allegation of patent infringement made by brand companies or third parties could lead to legal issues, an inability to enter regulated markets or lead to legal costs and damages.

De-risking: The Company has anchored its generics strategy on patent non-infringing API processes and formulations. The Company filed several process patent applications for its key products in leading regulated markets, minimizing the risk of patent infringement and where necessary formulation patents have also been filed.

Where Paragraph IV products or Paragraph IV products with first-to-file certifications are involved, we are required to challenge the innovator's products or processes on grounds of invalidity or non-infringement which we do on the basis of robust internal scientific analysis and external patent attorney opinions. Such product filings are made after due consideration of litigation risks and costs as well as business rewards. We also ensure that the share of such Paragraph IV and first-to-file products in the overall product basket does not exceed our internal prudential norms. As a general policy, we have not been launching products at risk. However, any such launch may be considered based on the robustness of our patent position and independent attorney opinion.

Vindication: Orchid's presence in regulated markets increased to 44% of the total revenue in 2006-07 and the regulated market business has not been



affected on account of any legal issues so far.

Concentration on less regulated markets

Risk perception: The concentrated presence on less regulated markets, which are known for excessive competition, could impact realizations and profitability; on a larger canvas it could impact the Company's global visibility.

De-risking: Over the recent past, the Company has grown its presence in regulated markets. It has aggressively invested to emerge among the five largest cephalosporin manufacturers in the world. It invested over the last three years to expand and upgrade its facilities in line with international standards; these received approvals from regulatory authorities of these regulated markets. It has also tied up with leading global marketing partners for distributing its products.

Vindication: The Company has successfully diversified its product range in different geographies. Revenues from regulated markets more than doubled between 2004-05 and 2006-07.

The Company's drug discovery initiative may not succeed

Risk perception: Drug discovery is inherently a long gestation, high risk-high reward activity globally. Even big pharma companies suffer drop-outs of their new chemical entities based on unanticipated pre-clinical and clinical results. A failure in the drug discovery initiative could impact the Company's anticipated revenues from the out-licensing of novel molecules and from the joint development of molecules with global pharmaceutical companies.

De-risking: The Company has set up subsidiaries and separate R&D centers dedicated for research in novel molecules. It has committed substantial resources in terms of funds (US$ 40 million in the last three years), intellectual capital (over 130 research personnel) and equipment (best-in-class). As a result, we have been able to develop a number of NCEs across various therapeutic areas. In addition, the Company's objective of out-licensing a molecule after proof-of-concept Phase II a studies provide a lower risk-free opportunity, compared to full-length post-Phase III development which would take many more years and involve additional cost.

Vindication: The Company has been selected as the 'Partner of Choice for Contract Research – Collaborative Drug Discovery' by Frost & Sullivan, reflecting its basic competencies and strengths. A molecule from our US subsidiary (Bexel) has reached the Phase II human clinical stage in the anti-diabetes therapeutic segment. Two other molecules developed by the Indian subsidiary Orchid Research Laboratories (ORL) are moving towards Phase I clinicals. Select back-up molecules have also been developed.

Marketing is by and large outsourced or partnered

Risk perception: The success of the Company's marketing efforts is dependent on partners and agencies. Marketing in regulated markets is based on strategic alliances with distribution partners while marketing in less regulated markets is dependent on agents.

De-risking: The Company's marketing tie-ups are strategically designed to supplement Orchid's development and manufacturing capabilities. While it has a network of branch offices, joint



venture partners and subsidiaries for marketing its products in some countries, it has entered into alliances with global pharmaceutical companies for marketing its products in regulated markets. All of these agreements for the US market are exclusive contracts. However, as these contracts are based on an ownership of ANDAs by Orchid and stipulate clear deliverables and market performance parameters for the distribution partner, Orchid has the ability to ensure fair performance. Also, the Company's product profile is of a kind that does not provide for too many diverse sourcing options, making it a win-win situation for both business partners. In markets such as EU, most alliances are non-exclusive with Orchid owning the dossiers and marketing authorizations providing the needed flexibility.

Vindication: Business from marketing tie-ups contributed to almost all the regulated market performance over the last three years leading to 2006-07. In certain cases, where the original distribution partner was bought over by another global pharmaceutical giant, the marketing alliance continued undisturbed with the new ownership due to the care taken in product selection and the contractual obligations on the partner.

High leverage constrains future growth funding options

Risk perception: The Company's existing debt-equity ratio may constrain its ability to raise additional funds for future capex-oriented initiatives.

De-risking: The Company has invested substantial funds for growing its scale in established locations, setting up new capacities in other locations and in R&D facilities. All the investments required for the chosen businesses and product lines have been completed. While the recent past can be termed an asset-building phase, the present and future represent a phase where attractive returns will be generated. The entry into and ramp-up in the regulated markets with a portfolio of finished dosages is expected to increase cash flow. In November 2005 the Company raised US$ 40.1 million of GDRs and US$ 42.5 million of FCCBs while in February 2007 the Company raised US$ 175 million of FCCBs, targeted to retire a substantial part of its debt and reduce expensive interest outflow. Specifically, around 80% of the recent FCCB funds mobilized by the Company were deployed to retire high cost debt.

Vindication: The ability to raise GDRs and convertible bonds in global markets demonstrates the faith of the investors in the Company's business model, track record, prospects and sustainability. The conversion of a part of the earlier bonds into shares, the paring down of interest bearing debt and the potential for conversion of the balance bonds, in part or in full, indicate a more favourable debt-equity ratio going forward.

Ineffective management of operations

Risk perception: An inability to manage operations in a cost-effective manner could blunt the Company's competitive edge.

De-risking: The Company has embarked on a number of initiatives to ensure that its generics business remains cost-effective. Its R&D and process development activities develop cost-effective processes on a continuing basis. At the operational level, the



management reduced cycle time and improved the efficient utilization of resources (power and utilities). These initiatives translated into a strong cost-effective platform for the regulated markets.

Vindication: Manufacturing costs as a proportion of sales declined by 766 basis points over the previous year.

Hazardous chemicals and operations could prove dangerous

Risk perception: Pharmaceutical and chemical operations involve hazardous raw materials and processes which could endanger life and limb, and cause business interruptions.

De-risking: Safety is superordinate at Orchid. The Company has put in place sophisticated equipment and robust systems to ensure safety. The safety environment has been further enhanced by an alliance with DuPont to develop safety standards at par with the best in the world. Operational processes have been designed around safety considerations. The Company is among the few in India's pharmaceutical industry to create a safety mascot (Tara), facilitating top-of-the-mind safety recall for each member of the Orchid team.

Vindication: Over the last three years, the Company invested significantly in safety initiatives. The Company remains committed to DuPont programs with further investments. Safety consciousness in the Company is at an all-time high.

Exchange rate fluctuation

Risk perception: An adverse exchange rate fluctuation could hamper profitability

De-risking: The Company imports key raw materials, which act as a partial hedge. It also hedges a part of its net foreign exchange earnings based on a periodic cash flow, enabling it to minimize the impact of the rupee's strengthening. The emphasis on business expansion and cost management takes such adverse exchange fluctuations in its stride.

Vindication: The Company posted topline and bottomline increases during fiscal 2006-07 to enhance profitability to record levels.

People attrition could slow business growth

Risk perception: In a knowledge-driven business, the loss of key executives could prove detrimental.

De-risking: Orchid provides a conducive environment for learning and growth. It empowers its employees to take informed decisions in their area of expertise. Moreover, the physical and emotional safety of employees and their families are looked after by the Company. The positive organizational ethos has resulted in the formation of strong teams, institutionalization of talent and continuity of knowledge development.

Vindication: Orchid's attrition rate is lower than the industry average. Orchid has been able to consistently develop business across newer horizons of knowledge.

how we made Orchid a safe place to work in



"Becoming safer is all about bringing about safe behaviour in our every day lives, whether professional or personal."

K Raghavendra Rao, *Managing Director*

Vision

Orchid is driven by the vision to become a world-class, safety-driven pharmaceutical organization by conducting its business processes and operations with commitment to the highest standards of safety, health and environment.

Orchid's safety vision is inspired by a succinctly-stated goal 'Zero Incident'.

Safety philosophy

Orchid believes any potential accident is the outcome of an incident, which did or could cause injury, property loss, environmental release, adverse community reaction or business interruption. Orchid emphasizes that all incidents should be reported and acted upon to minimize the possibility of mishap. Thanks to this broad definition, the Company formulated seven safety principles.

Organizational safety principles

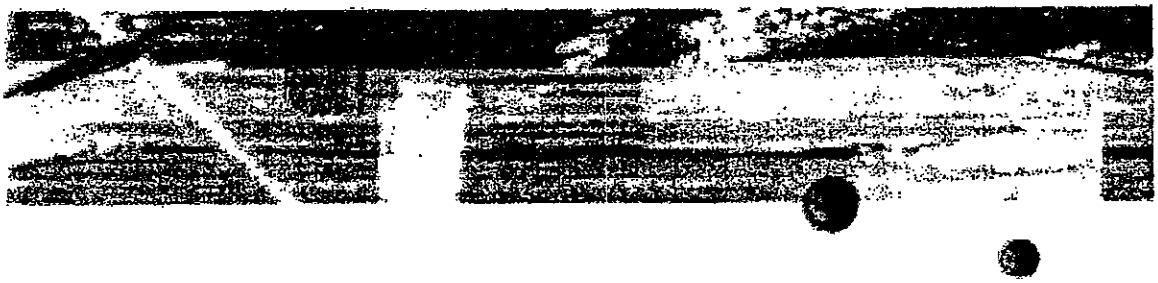
Safety at Orchid is cascaded by the following seven principles:

+ Safety is a core organizational value
+ Management is responsible for preventing injuries
+ All injuries can be prevented and occupational exposures minimized
+ All incidents must be reported and acted upon
+ Working safely is a condition of employment and contract
+ Training employees in safety is essential
+ Safety makes good business

Initiatives

In August 2006, Orchid appointed international safety pioneers DuPont to strengthen its safety management through the fundamental tenet that an organization's business processes and operations can be classified as technical or behavioural. Leveraging its decades of rich experience, DuPont identified 22 elements encompassing technical and behavioural aspects.

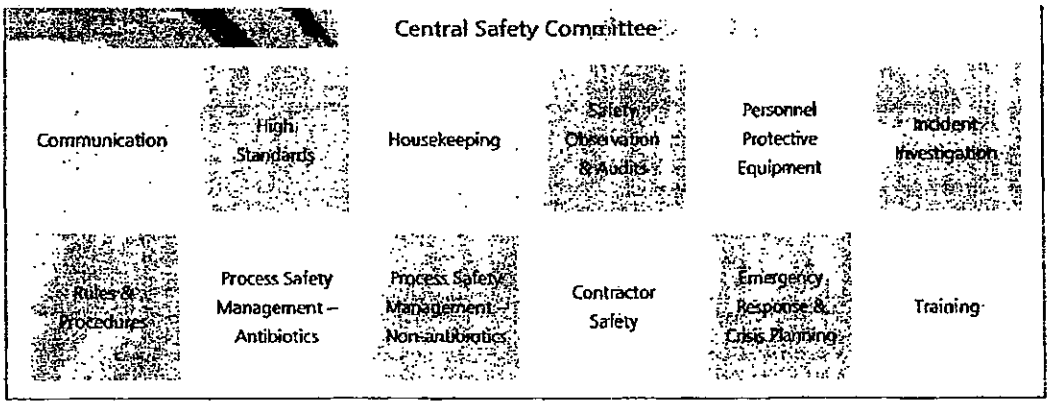
This 22-pronged approach remains the most comprehensive initiative to achieve a world-class safety environment. A network of Safety Committees with personnel drawn from all departments of the organization ensures a systematic improvement in the safety culture and its development as a core organizational value. Arising from this partnership, Orchid has incorporated safety initiatives which are unique to its field of operations, extending from infrastructure to philosophy and practices.



People structure initiatives

The Company invested in a number of organizational structures and initiatives:

+ Three-tier safety committees were formed – Central Safety Committee (CSC) and Departmental or Domain-based Sub-committees (SCs) as corporate bodies. The pulse of the organization is monitored by site teams at various locations



Health

The Orchidian value system requires that every employee is assured of the safety of his or her health at all times of his or her association with the Company – at the entry level, while working or in the midst of emergencies.

The Company's health-protecting initiatives comprise:

+ A comprehensive pre-employment medical test is performed with respect to each employee

+ Orchid's sites are equipped with round-the-clock doctors and nurses to look after employees' medical needs

+ Protective gear is provided to all employees to safeguard against health hazards while at work

+ Periodic annual medical check-up is conducted to monitor health and counsel employees for health specific information

+ An industrial social expert is always available to handle emotional needs

+ Summer camps are organized for periodic sessions, promoting wellbeing of employees and their families



Tara – Orchid's face of safety

Tara was introduced to the members at Orchid in 2006-07, reinforcing the concept of safety through the mascot of a cute, innocent girl child. Tara reminds members to observe safety while working in the plant as well as when driving or reaching back home. Tara's acceptance was spontaneous across all members at Orchid, appealing to their human emotion.

Environment

Orchid commenced operations from its Alathur plant inside an industrial estate. The management was aware of the absence of a facility to reuse treated waste water. In line with its environment-friendly values, the Company put in place a high-technology, high-investment and first-of-its-kind system in India to recycle pharmaceutical effluents through ultra-filtration and reverse osmosis technologies, converting the effluents into high quality water suitable for use in utilities. The generated solid waste following the filtration process was sent to an evaporator for further recovery of water as steam; the steam generated was reused for process heating in the plant. The complement of filtration, reverse osmosis and evaporation made the plant a zero-discharge unit.

Air

Orchid has recognized that control of emissions to air is as important as treatment of liquid effluents. Since inception Orchid installed state-of-the-art equipment like the Vent Gas Condensation system to capture condensable emissions.

To reduce gaseous emissions following combustion in the boilers, the plant used special Dunphy burners, which provide an optimum mix of fuel and air for combustion. These possessed internal control mechanisms which direct the burner to reduce air inflow according to the needs of the boiler. The Oxygen Trim mechanism monitors the oxygen content in the flue gas and instantly provides feedback to optimize air inflow. As a result, Orchid's releases of oxides of sulphur and nitrogen, carbon dioxide and particulate matter were well within the relevant statutory standards.

Energy conservation remains a core value at Orchid, not only for its economic advantages; every watt of energy saved was seen as an important contribution towards the reduction of greenhouse gases.

In 2006-07, Orchid was awarded the Energy Excellence Award by the CII, thanks to its energy-saving measures.

Solid waste management

Bio-sludge from the aeration process of an industrial effluent treatment plant has been classified as hazardous waste by legislation. Orchid pioneered a unique bio-composting model that converted this bio-sludge into quality bio-compost. This model was evaluated and tested jointly with scientists at the University of Madras, and is now integral to Orchid's unique Environment Management System, acclaimed by Environmental Specialists of the World Bank.

Water conservation

At Orchid, the concept of 'zero discharge' encouraged water conservation at all plants. The Company devised a unique method of roof-top-mounted air cool condensers, enabling the 10.5 MW power plant in Alathur to operate without the use of water.

Moreover, the plant used refrigerant systems to cool volatile gases. To evacuate the heat generated by these systems, air condensers were used. Another conservation measure adopted by the Company comprised evaporative condensers, not entirely air-cooled or water-based, but using a fine spray of water, adequate for cooling purpose. This measure, compared to conventional methods, helped conserve 400,000 litres of water a day.

how Orchid is a socially responsible citizen

"As a responsible member of the society, we realize that we cannot alienate ourselves from the eco-system and have to give back to the world sustainability from our industrial and business operations."

K Raghavendra Rao, *Managing Director*

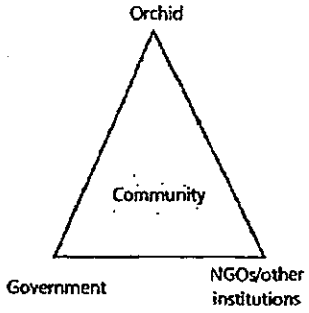


Vision
An empowered neighbourhood through sustainable development programs for socially and economically vulnerable groups.

Mission
We care for our neighbours.

Overview
At Orchid, community development represents an extension of the Company's professional ethos.

Orchid's Tripartite Approach



The Company's community development agenda is derived from the belief that community benefits when industry, government and institutions work collaboratively.

Government: It has the mechanisms to receive and document the needs of society. It also has the legislative and administrative power to take forward developmental programs.

Industry (Orchid): It has the strength of technology and managerial skills required to identify solutions and execute projects in a time-bound manner.

NGOs and other institutions: They penetrate deep into the community to propagate ideas and act as a vibrant feedback mechanism.

Approach
Corporate India follows two community development approaches. One option followed by some companies involves pursuing a particular activity segment on a pan-Indian basis, addressing the social requirements of defined regions.

The second option focuses on all aspects of the neighbourhood community, gradually expanding the circle of involvement.

Orchid follows the second model.

Initiatives
The Company created the Orchid Trust in line with its commitment to enhance the quality of life for the neighbouring community. The focus has been on certain vital parameters which reduce vulnerability and enhance competencies of the socially under-privileged. The investments also focus on building infrastructure for sustainable development.

Education
+ Set up tuition centres helping students for better curriculum understanding

+ Provided supplementary teachers across several government schools facing faculty shortage, for knowledge dissemination

+ Provided teaching aids to schools including furniture, boards and other teaching tools

+ Provided career guidance for the youth, channelizing their energies into productive areas

+ Provided prize sponsorships for school events, best student and teacher awards

+ Conducted training and refresher courses for teachers, strengthening their teaching techniques

+ Provided special coaching for final year students of schools

+ Provided scholarships for poor and deserving students

+ Conducted talent/skill improvement programs for identifying and developing niche skill sets

+ Provided additional buildings/ furniture/electrification across various schools

+ Organized summer camps for school students



+ Sponsored school exposure programs

+ Developed the Bharat Scouts campus in Alathur, Tamil Nadu

Health

+ Organized weekly mobile health programs in Alathur and Pattipulam villages; benefited hundreds of villagers on a regular basis

+ Need-based special health camps comprising eye camps, paediatric camps and gynaecological camps were organized

+ Provided vehicles to facilitate hospitalization for the aged and the needy

+ Organized health education and awareness campaigns including care and nourishment of the new born and malaria awareness

+ Sponsored government health camps including pulse polio programs and general health camps

+ Conducted mother and child care training in coordination with ICDS

Women's development

Orchid has accorded special importance to the development and empowerment of women, recognizing their crucial role in shaping the family and society. Some of the steps taken comprised:

+ Credit and thrift society for providing financial support

+ Awareness education

+ Leadership training to meet the challenges of daily life

+ Formation of self help groups

+ Rural awareness camps

+ Registration of women's groups

+ Embroidery training for women in Paiyanur

+ Job orders to supplement family income

+ Tailoring training for women in Thiruporur, Alathur and Pattipulam villages

+ Vermicompost training for the women

Youth development programs

+ Organized career guidance programs

+ Provided opportunities for entrepreneurship development through various programs and training sessions

+ Facilitated spoken English coaching, a key ingredient for a lucrative industry opportunity

+ Imparted leadership training – taking up issues like the elimination of undesirable habits and providing basic facilities for villages

+ Coordinated community tuition centres

+ Enhanced youth employability; several trainees were employed in garment export units while members of youth started micro-enterprises

Community asset creation

The Company embarked on a number of initiatives in supplementing the existing village infrastructure with additional assets.

Besides, the Company embarked on the following intiatives:

+ Organized veterinary camps for farmers

+ Organized awareness programs for fishermen communities

+ Organized rural awareness camps

+ Sponsored the distribution of newspapers in the villages

Orchid has always believed that enhancing the social well being of individuals would add a lot more meaning to its overall business existence. Caring for the people and the community has therefore been an important facet of its business philosophy. Orchid is happy that through the several initiatives and programs undertaken it has influenced the lives of several people in the vicinity of its facilities.

board of directors

Shri R Narayanan, *Chairman*

Shri K Raghavendra Rao, *Managing Director*

Dr C Bhaktavatsala Rao, *Deputy Managing Director*

Directors

Dr M R Girinath

Dr I Seetharam Naidu

Shri Deepak Vaidya

Shri Subramanian Andi (IDBI Nominee)

Dr Anzaghi Piergiorgio

Shri Anil Thadani

Dr Bishwajit Nag

Management Team

Shri D S Bhaskara Raju, *President – Finance & Business Planning*

Dr Gautam Kumar Das, *President – Active Pharmaceutical Ingredients*

Shri Chandan Kumar, *Senior Vice President – Manufacturing (Active Pharmaceutical Ingredients)*

Ms Edna Braganza, *Senior Vice President – International Marketing & Procurement*

Shri Kalidindi V Raju, *Senior Vice President – Manufacturing*

Shri S Mani, *Senior Vice President – Manufacturing & CSR*

Shri Ashutosh Ojha, *Country Head (Domestic Formulations)*

Shri L Chandrasekar, *Vice President – Internal Audit & Co. Secretary*

Shri P N Deshpande, *Vice President – Production & Technical*

Shri C R Dwarakanath, *Vice President – Corporate Safety, Health & Environment*

Shri Imtiyaz Basade, *Vice President – Regulatory Affairs*

Shri S Krishnan, *Vice President – Finance*

Dr S Mahender Rao, *Vice President – Chemical Development*

Dr P Y Naidu, *Vice President – Analytical Research & Quality Control*

Shri S Nammalvar, *Vice President – Projects & Engineering Services*

Shri V S Padalkar, *Vice President – Projects & Maintenance*

Shri K C Pathak, *Vice President – PPIC & Outsourcing*

Dr Praveen Reddy, *Head – Pharma Research*

Dr Rajiv Desai, *Vice President – Analytical R&D and Quality Control*

Shri K Ramesh, *Vice President – Analytical Development*

Shri M S Rangesh, *Vice President – Human Resources*

Dr Sanjiv Sharma, *Vice President – Regulatory Affairs & Quality Assurance*

Shri Satish Haribhau Joshi, *Vice President – Quality Assurance*

Dr U P Senthil Kumar, *Vice President – Chemical Development*

Shri S Sridharan, *Vice President – Information Technology*

Shri A Suresh Babu, *Head – Corporate Affairs*

Bankers

Allahabad Bank

Bank of Baroda

Bank of India

Canara Bank

Federal Bank

ICICI Bank Ltd

IDBI Limited

Indian Bank

Punjab National Bank

State Bank of India

Syndicate Bank

Union Bank of India

Auditors

Statutory Auditors

SNB Associates

Chartered Accountants

No. 12, 3rd Floor, Gemini Parsn Complex

121, Anna Salai, Chennai 600 006

Tamil Nadu, India

Cost Auditors

Shri V Kalyanaraman

Cost Accountant

No. 4 (Old No. 12), Second Street, North Gopalapuram

Chennai 600 086, Tamil Nadu, India

directors' report



Dear members

Your Directors have pleasure in presenting the 15th Annual Report of your Company along with the audited statement of accounts for the financial year ended March 31, 2007. The Report also includes the Management's Discussion and Analysis Report in accordance with the guidelines on Corporate Governance and the consolidated financial statements.

The highlights of the financial results for 2006-07 are given below:

(Rs. Lakhs)

Particulars	Year ended March 31, 2007	Year ended March 31, 2006
Sales and operating income (Gross)	93417.55	88876.64
Other income	155.98	132.73
Total expenditure	64436.97	62949.31
Gross profit	29136.56	26060.06
Interest and finance charges	9830.65	8701.32
Gross profit after interest but before depreciation and taxation	19305.91	17358.74
Depreciation	8246.73	8297.57
Profit before tax	11059.18	9061.17
Provision for taxation		
– Deferred tax	1230.00	590.00
– Fringe benefit tax	166.00	181.00
Profit after tax	9663.18	8290.17
Add: Surplus brought forward	4519.18	2748.36
Surplus available	14182.36	11038.53
Appropriations:		
– Transfer to general reserve	7000.00	4000.00
– Excess provision of dividend for earlier year written back	(268.09)	–
– Dividend	2940.54	2209.47
– Tax on distributed profits	499.74	309.88
Balance carried to balance sheet	4010.17	4519.18



Performance

During the year under review your Company achieved a turnover and operating income of Rs. 934.17 crore compared to Rs. 888.76 crore in 2005-06, registering a 5% increase; gross profit before providing for interest, depreciation and taxes in 2006-07 stood at Rs. 291.36 crore compared to Rs. 260.60 crore in the previous fiscal, registering a 12% increase.

After providing for interest of Rs. 98.30 crore (Rs. 87.01 crore previous fiscal) and depreciation of Rs. 82.46 crore (Rs. 82.98 crore previous fiscal), the profit before tax of the Company was Rs. 110.59 crore, compared to the previous year's profit before tax of Rs. 90.61 crore, registering a 22% increase. Net profit after tax stood at Rs. 96.63 crore, compared to Rs. 82.90 crore in the previous fiscal, registering a 17% increase.

Your Company operates in the single segment of pharmaceuticals business with an increasing quantum of active pharmaceutical ingredients being sold as finished dosage forms, especially in the regulated markets, which are contributing to an increasing share of our business turnover. From an operational viewpoint, some of the trends are presented below, in respect of these two product groups.

Active Pharmaceutical Ingredients (API) Business

Orchid continued to maintain its strong position in the global cephalosporin markets. The net sale of all Active Pharmaceutical Ingredients (APIs) during 2006-07 was Rs. 497.71 crore compared to Rs. 498.27 crore in 2005-06; sale of oral APIs accounted for Rs. 365.59 crore (Rs. 337.01 crore previous fiscal) and sterile APIs stood at Rs. 132.12 crore (Rs. 161.26 crore in 2005-06). The Company sold 764 MT of APIs and intermediate products during the year under review, compared to 713 MT during the previous fiscal. During the year, a significant quantity of APIs has gone into development of formulations for the US business as part of the Company's forward integration strategy.

During the year under review, the betalactam API facility located in Aurangabad, Maharashtra has been approved by the UK regulator, Medicines and Healthcare products Regulatory Agency (MHRA). The API facility also underwent a US FDA inspection successfully. The NPNC API facility in Aurangabad also underwent a successful US FDA inspection.

Formulations business

The turnover of the formulations business was Rs. 376.68 crore during the fiscal, compared to Rs. 323.22 crore in 2005-06. Our formulations business has been buoyant due to our foray and ramp-up in the US generics markets. Orchid continues to hold a niche position in the cephalosporin generics market in the US; entry into the US regulated market will be supplemented with European foray in fiscal 2007-08. During the fiscal, approvals were received from UK MHRA for the oral and sterile cephalosporin dosage form facilities as well as the sterile betalactum vial lyophilisation (dosage form) facility.

Efforts have been made during the fiscal to consolidate and expand the formulations business in less regulated markets. Progress has been achieved in large key markets such as Russia and CIS. The Company is working on diversified growth opportunities in the domestic market across four therapeutic areas (viz. antibiotics, anti-diabetes; cardiovascular and neuro-psychiatry medicines) to



reinforce growth. The consolidated performance of all the four divisions of the domestic formulations segment has grown by 24% compared to the previous financial year to Rs. 76.91 crore.

Dividend

Your Directors recommend a 30% dividend (Rs. 3.00 per equity share of Rs. 10/- each) for the year ended March 31, 2007 subject to the approval of shareholders in the ensuing Annual General Meeting. Under the Income Tax Act, 1961, the receipt of dividend is tax-free in the hands of the shareholders.

Regulatory filings and approvals

Your Company achieved significant progress in the filing of DMFs (Drug Master Files) and ANDAs (Abbreviated New Drug Applications). Your Company has till date filed 46 US DMFs and 40 ANDAs to support its US generics thrust. With 18 ANDAs for cephalosporin products already approved, the Company has the highest approval record in the antibiotics space.

Your Company continued its ANDA filing activities in the recently entered non-penicillin, non-cephalosporin space; 13 DMFs and 7 ANDAs were filed in the NPNC space and several products are under various stages of API and formulation development. With further filings, Orchid expects to significantly increase its total filing count in the NPNC space.

As of date, Orchid has filed 12 dossiers (five injections and seven oral products) in EU with UK as reference member state under the Mutual Recognition Procedure (MRP) route for most of the filings.

Collaboration

During the year, your Company signed a major pan-European collaboration with Actavis, a global top-ranking generics firm, to market nine of Orchid's key cephalosporin products across EU and CEE regions. While Orchid will license the dossiers and support Actavis with product supplies on a non-exclusive basis, Actavis will source all of its product requirements on Orchid exclusively. More country-wise collaboration opportunities are being pursued for the rapidly expanding product pipeline.

Research and Development

Your Company's drug discovery activities are channelled under its wholly owned subsidiaries in India and US–Orchid Research Laboratories Limited (ORLL) and Bexel Pharmaceuticals respectively. The discovery pipeline includes New Chemical Entities (NCEs) in the fields of oncology, inflammation, anti-infectives, diabetes, obesity and depression. These are in various stages of pre-clinical, regulatory too and human clinical development.

During the year under review, ORLL entered into a contract with Biovitrum AB (Publ) to undertake medicinal chemistry work to support certain of its drug discovery activities. Biovitrum is an integrated biopharma company with a broad drug discovery research portfolio, headquartered in Sweden, Europe. Orchid considers this tie-up as yet another validation of its ability to offer world-class drug discovery services to reputed clients around the globe.

Simultaneously, the projects with Pfizer for NCE development in the animal health field are proceeding well. A beginning was also made in their human health field with certain projects. Efforts are on to enter into selective alliances with reputed partners in the Custom Research and Manufacturing Services (CRAMS) field. Orchid's industrial scale API and dosage form facilities provide an extended value proposition for undertaking CRAMS projects as end-to-end discovery to delivery solutions by the Company.

Intellectual property

During the year, Orchid continued to accelerate the IPR work on a number of

products. The total number of patent applications filed by Orchid in various national and international patent offices during the financial year 2006-07 was 94, taking the cumulative count to 422 (process, formulation, NCE, biotech and nanotech). As of March 31, 2007, 140 patent applications have been published while 46 patents have been granted cumulatively.

Outlook

Orchid is poised to generate enhanced revenues and profitability during the current year with further broadening and deepening of its regulated market generics business. Key product approvals for the US generics markets are expected in the US. The successful inspection of the NPNC API facility and the betalactum API facility by US FDA and the related reviews and anticipated approvals of ANDAs pave the way for commercial production of respective APIs and dosage forms for the regulative markets. In particular, the likely dossier approvals and filings coupled with the UK MHRA approvals for cephalosporin and betalactam dosage form facilities would start generating remunerative generic business in Europe from the second half of 2007-08 for these products.

The current fiscal would also see the launch of first wave of non-antibiotic products by Orchid based on expected ANDA approvals. Orchid has a large number of products in the areas of cardiovascular, neuro-psychiatry, anti-diabetes, osteoporosis and pain management segments for development and launch in US and Europe based on product registrations and approvals.

In terms of long term value building, the drug discovery efforts would continue to move the development pipeline forward towards human clinicals. The efforts in the areas of custom research and manufacture would also result in additional projects.

Long-term resources

FCCBs

During February 2007, your Company raised US$ 175 million from the international markets through the issue of Foreign Currency Convertible Bonds (FCCBs). The zero-coupon convertible bonds have a tenor of five years and are convertible into equity shares at an initial conversion price of Rs. 348.335. The bonds are listed on the Singapore Stock Exchange. The proceeds of the issue have been utilized for repayment of debt to a significant extent. Other uses pertain to acceleration of your Company's efforts to grow its business into regulated markets through enhanced product development and regulatory filings, and strengthening of its overseas marketing and distribution infrastructure.

Out of the US$ 42.50 million raised by way of convertible bonds during 2005-06, FCCBs amounting to US$ 22.79 million have been so far converted into equity shares. 42,00,903 equity shares of the Company have been issued upon conversion of the FCCBs. Pursuant to the conversions, as of March 31, 2007, US$ 19.71 million FCCBs are outstanding. All the outstanding 9,250,000 GDRs issued and listed, have been converted into equity shares of the Company, by the GDR holders.

Issue of warrants

Out of the total warrants issued to Promoter / Promoter Group(s) in August 2005, 35,95,000 warrants were outstanding as on March 31, 2006. Of these, 35,000 warrants were converted during the year. The balance portion of the warrants amounting to 35,60,000 were not converted within the stipulated period. Hence the 10% advance paid by the allottees amounting to Rs. 805.54 lakhs on the unexercised warrants was forfeited.

In terms of the resolution passed by the shareholders at an Extra-ordinary general meeting held on February 14, 2007, 50,00,000 warrants were allotted to the Promoter / Promoter Group(s) on

March 01, 2007. These warrants are eligible for conversion at the option of the Warrant holders, into equity shares of the Company at a price of Rs. 202.58 per share within a period of 18 months of the date of allotment. The Company received from the allottees of warrants, an amount of Rs. 1012.90 lakhs equivalent to 10% of the total consideration.

Employees stock option plan

For the 3,00,000 options granted during April 2006 at a price of Rs. 339.25, the Compensation Committee of the Board of Directors considered re-pricing of the options in the interest of the employees, due to the fall in the price of the shares of the Company and accordingly approved a re-pricing of the options from Rs. 339.25 to Rs. 193.25 as per the closing price of Orchid at National Stock Exchange on August 11, 2006. This variation requires the consent of the shareholders and a resolution seeking this change is proposed before the shareholders for approval.

In terms of the resolution passed by the Company at the Extra-ordinary general meeting held on April 10, 2005, 6,10,000 options were allotted on August 12, 2006 to the eligible Directors and employees as per the scheme formulated under 'ORCHID-ESOP 2005' by the Compensation Committee of the Board of Directors. Each option is convertible into one equity share of Rs. 10.00 each at a price of Rs. 193.25 per share including premium. The details of the options granted to employees and the status of such options as on March 31, 2007 are given in Annexure VI to this report.

Pursuant to exercise of options by the employees under the different tranches as applicable, 11,040 equity shares of Rs. 10/- each were issued during the year. The details of options granted to employees and the status of such options as on March 31, 2007 are given in Annexure VI to this Report.

A stock option plan viz. Orchid – ESOP 2007 has been formulated for allotment of shares to the employees of Subsidiary Companies either working in India or overseas or a Director of the Company whether executive or non-executive Director but excluding the Promoter Directors.

Under the said scheme 5,00,000 options (five lakhs only) are proposed to be granted to the employees of Subsidiaries from time to time in one or more tranches, each option convertible into equity share with nominal value of Rs. 10/- each.

As per the amended SEBI (ESOS & ESPS) Guidelines, 1999 a separate approval is required to be obtained from the members for grant of stock options to the employees of the Subsidiary Companies. A resolution seeking the approval is placed before the shareholders.

Listing of equity shares

Your Company's equity shares are presently listed on the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE) and the Madras Stock Exchange Limited (MSE). The Company has got listing approval from the above stock exchanges for the listing of 11,98,109 equity shares issued during the year. The convertible bonds issued during 2005-06 are listed on the Luxembourg Stock Exchange and the London Stock Exchange. The convertible bonds issued during February 2007 by the Company are listed on the Singapore Stock Exchange.

Overseas joint ventures

NCPC Orchid Pharmaceuticals Company Limited, China: Your Company's 50:50 joint venture in China, NCPC Orchid Pharmaceuticals established for manufacture of sterile cephalosporin APIs has been progressing well. During the year under review, NCPC-Orchid

recorded a turnover of US$ 31.10 million. The JV is planning to enhance its presence and market share further in the current year.

Biotechnological Chemical Development Limited – United Kingdom: The joint venture was set up as a limited time horizon project to develop and assimilate select peptide technologies. Your Company has taken steps for dissolution of the JV Company and has made the necessary application before the UK registry authorities. Your Company has also transferred the IP and assets of the JV to India.

Subsidiaries

Orchid Research Laboratories Limited, India (ORLL): ORLL has been developing its NCE pipeline in the fields of oncology, inflammation and anti-infectives aggressively. ORLL has been conducting extensive pre-clinical studies of the lead molecules, in the chosen therapeutic areas. ORLL has also been providing extensive medicinal chemistry and biology support to its front-end US subsidiary, Bexel Pharmaceuticals Inc in the areas of diabetes, obesity and depression.

Bexel Pharmaceuticals Inc. – USA (Bexel): Bexel has been focusing on drug discovery research in metabolic diseases (such as diabetes, obesity and auto-immune diseases). Bexel's anti-diabetes molecule BLX-1002 has progressed the most among these, having completed Phase I safety and tolerability studies in healthy human volunteers as well as safety and tolerability studies in diabetic patients. A Phase II (a) human clinical trial in Europe is currently underway.

To consolidate its drug discovery research under a common umbrella, Orchid reached an understanding with Bexel and its US promoters by which the Company extended its ownership in Bexel to 100% during the fiscal under review. This move supports a seamless integration of the several drug discovery programmes being pursued at Orchid and Bexel while retaining the advantages of having a discovery front-end in the US and a discovery-cum developmental back-end at Orchid, Chennai. The shareholding of the US founders of Bexel Pharmaceuticals was bought out by Orchid for a cash consideration of US$ 3 million. The managerial and scientific organization of Bexel will continue to be an integral part of the new structure, providing continuity and commitment to Orchid's broader drug discovery thrust.

Orchid Europe Limited – United Kingdom: Your Company's wholly owned subsidiary Orchid Nutricare limited was renamed as Orchid Europe Limited considering the future course of business activities. The future business of Orchid Europe would be in terms of pharmaceutical generics. The entity is already active in the field of generics registrations and in identifying business partnerships.

Ogna Farma – Brazil: To leverage its presence in the large and fast market for cephalosporin, your Company has established a subsidiary in Brazil to cater to the product registration and marketing requirements. The Company has submitted applications to the Brazilian regulatory authorities for inspection of the injectable formulation facilities in Irungattukottai.

Gene Arrays Inc. – USA: Upon the development of the three cDNA libraries, the libraries and certain equipment bought with the funding provided by Orchid have been transferred to Orchid's R&D. Pursuant to a termination agreement signed, the Company is in the process of closing the subsidiary.

Orchid Pharmaceuticals Inc. – USA: Your Company established Orchid Pharmaceuticals Inc. in the Delaware State of USA as a 100% subsidiary company. The Company would help provide identified services to Orchid in the areas of business development and logistical co-ordination in the US.



Orchid Pharmaceuticals (South Africa) Pty Ltd - South Africa: During the year, Orchid Pharmaceuticals (South Africa) Pty Ltd was incorporated as a wholly owned subsidiary of your Company in South Africa to market bulk drugs and formulations.

Your Company has received an approval under Section 212 (8) of the Companies Act, 1956 from the Department of Company Affairs, Ministry of Finance vide letter No: 47/101/2007-CL-III dated March 28, 2007 exempting the Company from attaching the annual report of subsidiary companies with the Annual Report of Orchid and to provide the accounts in the same manner as certified by overseas auditors in the respective countries where the subsidiaries are situated. The statement as required under the said approval is given as part of this report.

The consolidated financial statements of the subsidiaries duly audited are presented along with the accounts of your Company. The annual accounts of subsidiary companies are kept at the Company's registered office and also at the respective registered office of the subsidiaries for inspection and shall be made available to the members seeking such information.

Fixed deposit

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

Directors' Responsibility Statement

In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956, your Directors confirm:

- That in the preparation of the annual accounts for 2006-07 the applicable accounting standards were followed along with proper explanation relating to material departures, if any.
- That the Directors selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year (March 31, 2007) and of the profit or loss of the Company for that period (2006-07).
- That the Directors took proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- That the Directors prepared the annual accounts for 2006-07 on a going concern basis.

Safety excellence journey

Orchid has been committed to high standards of safety since inception. Orchid embarked on a project called Safety Excellence Journey covering all locations. The arrangement with DuPont who are the acclaimed global leader in safety, will enable Orchid to reach world-class standards in safety performance.

As part of improving the process safety management several scientists and engineers were trained in Process Hazard Analysis (PHA). This team works on hazard analysis at various stages of new products development from lab scale to plant scale. The cross-functional teams trained in PHA play a very important role in the entire process hazard management; groups of operating executives / managers were also trained in process safety and risk management.

Additional training modules cover the areas of incident investigation and contractor safety management. Simultaneously the implementation of various recommendations will continue under the guidance of DuPont as per the project plan for achieving excellence in safety.

Conservation of energy

Your Company has always been striving hard in the field of energy conservation. Several measures to conserve energy and to reduce associated costs were taken. Particulars in respect of conservation of energy as required under Section 217 (1) (e) of the Companies Act, 1956, are given in Annexure I to this report.

Foreign collaboration

The particulars in respect of R&D/Technology absorption as required under Section 217 (1)(e) of the Companies Act, 1956, are given in Annexure II to this Report.

Foreign exchange earnings and outgo

The particulars in respect of Foreign Exchange Earnings and Outgo as required under Section 217 (1)(e) of the Companies Act, 1956, are given in Annexure III to this Report.

Particulars of employees

There was an industrial unrest created by a section of the workers at the Company's API Plant in Chennai demanding increase in wages & benefits. The Company is working closely with the authorities and relevant Government departments to resolve the issues

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 forms part of this Report and is given in Annexure IV to this Report.

Corporate Governance

The spirit of good Corporate Governance remains integral to the Company's corporate philosophy. It follows the code of Corporate Governance issued by the stock exchanges for listed companies. For 2006-07 all information relating to Corporate Governance is given in Annexure V to this Report. A compliance certificate from the Statutory auditors is appended to this report. General Shareholders Information is given in Annexure VII to this report.

Directors

Resignation of Dr. Francis Pinto

Dr. Francis Pinto who has been a Director of Orchid since July 2003 resigned from the Board during August 2006. The Board places on record its appreciation for the contributions made by Dr. Francis Pinto as Director.

Retirement of Directors by rotation

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the Company, Dr. Anzaghi Piergiorgio and Dr. M R Girinath retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Appointment of Shri Anil Thadani as a Director

The Board appointed Shri Anil Thadani as a Director, to fill a casual vacancy. In accordance with Section 262 of the Companies Act, Shri Anil Thadani shall hold office till the outgoing director would have held office. Accordingly, Shri Anil Thadani's office gets vacated at the ensuing AGM. A resolution seeking his appointment as Director is being placed before the shareholders for approval.

Re-appointment of Shri K Raghavendra Rao as Managing Director

The five-year tenure of Shri K Raghavendra Rao would be coming to an end on June 30, 2007 and your Directors felt it appropriate to re-appoint him for a further period of 5 years with effect from July 01, 2007. The necessary resolution seeking the re-appointment of Shri K Raghavendra Rao as Managing Director of the Company and payment of remuneration to him has been included as an item in the notice of Annual General Meeting.

Revision of salary grade of Dr C Bhaktavatsala Rao, Deputy Managing Director

Dr C Bhakatavatsala Rao was re-

appointed as Deputy Managing Director and his salary grade was fixed as Rs. 2.25 lakhs pm to Rs. 4.00 lakhs pm by the shareholders at the Annual General Meeting of the Company held on July 25, 2003. The Remuneration Committee and the Board of Directors felt it appropriate to revise his salary grade and the revised grade shall be Rs. 2.25 lakhs pm to Rs. 9.00 lakhs pm. This revision requires the consent of the shareholders and a resolution seeking this change is proposed before the shareholders for approval.

Auditors

The existing Statutory Auditors, M/s SNB Associates, Chartered Accountants retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

Cost Audit

The Central Government has prescribed that an audit of the cost accounts maintained by the Company in respect of bulk drugs and formulations be conducted under Section 233B of the Companies Act, 1956. Consequently, your Company has appointed Shri V Kalyanaraman, B.Sc., FICWA, as Cost Auditor for 2006-07, with the consent of the Central Government, for the audit of cost accounts maintained by the Company in respect of both bulk drugs and formulations.

Acknowledgments

Your Directors are thankful to Bank of India, Industrial Development Bank of India Limited, State Bank of India, ICICI Bank Limited, Indian Bank, Union Bank of India, Allahabad Bank, Canara Bank, Punjab National Bank, Bank of Baroda and other public sector and private sector banks and institutions for meeting long term and working capital needs of the Company's expanding operations and also to the holders of FCCB for their support.

The Directors are grateful to the Central and State Governments and the Central DCGI and State FDAs for their continued support to the Company's expansion plans. Your Board places on record its appreciation of the support provided by the customers, suppliers and equipment vendors to the Company. Your Directors are also thankful to the vendors, distributors and agents for their continued support.

Your Directors are thankful to the esteemed shareholders for their support and encouragement, enabling the Company to venture into various projects and develop its global business successfully. The Directors acknowledge the commitment and contribution of all employees to the growth of the Company.

For and on behalf of the Board

Place: Chennai
Date: May 3, 2007

R Narayanan
Chairman

Statement pursuant to Section 212 of the Companies Act, 1956, relating to subsidiary companies

S No	Particulars	Orchid Europe Limited (Formerly Orchid Nutricare Limited), United Kingdom		Ogna Farma Distribuicao Importacao Exportacao Assessoria Ltda, Brazil		Gene Arrays Inc., USA		Orchid Pharmaceuticals Inc., USA		Bowl Pharmaceuticals Inc., USA		Orchid Pharmaceuticals SA (Proprietary) Limited South Africa		Orchid Research Laboratories Ltd., India	
	Financial year of the Subsidiary	April – March		Jan – Dec		April – March		Jan – Dec		Jan – Dec		March – Feb		April – March	
		£	Rs lakhs	Brazilian Reais R$	Rs lakhs	$	Rs lakhs	$	Rs lakhs	$	Rs lakhs	S.A. Rand	Rs lakhs	Rs	Rs lakhs
1.	Capital	10000	8.46	663557	138.82	200100	86.38	100100	43.21	16748494	7230.32	72825	4.22	148766000	1487.66
2.	Reserves	(307618)	(260.28)	(657728)	(137.60)	(259000)	(111.81)	40017	17.28	(18340334)	(7917.52)	(51609)	(2.99)	(129830747)	(1298.31)
3.	Other Liabilities	–	–	22979	4.81	59750	25.79	168	0.07	2253815	972.97	22000	1.28	–	–
4.	Total liabilities	(297618)	(251.81)	28808	6.03	850	0.37	140285	60.56	(661975)	(285.77)	43216	2.51	18935253	189.35
5.	Total Assets	(297618)	(251.81)	28808	6.03	850	0.37	140285	60.56	(661975)	(285.77)	43216	2.51	18935253	189.35
6.	Details of investment	–	–	–	–	–	–	–	–	–	–	–	–	59908750	599.09
7.	Turnover	–	–	–	–	111550	48.16	–	–	–	–	–	–	–	–
8.	Profit / (Loss) before Taxation	(172530)	(145.98)	(150125)	(31.41)	18582	8.02	17557	7.58	(3277644)	(1414.96)	(51609)	(2.99)	(118013456)	(1189.13)
9.	Provision for Taxation	–	–	–	–	–	–	550	0.24	–	–	–	–	478480	4.78
10.	Profit / (Loss) after Taxation	(172530)	(145.98)	(150125)	(31.41)	18582	8.02	17007	7.34	(3277644)	(1414.96)	(51609)	(2.99)	(118491936)	(1184.92)
11.	The net aggregate of profit / (loss) for the current period of the Subsidiary so far as it concerns the members of the holding company														
	a) Dealt with or provided for in the accounts of the holding company		(145.98)		(31.41)		8.02		7.34		(1414.96)		(2.99)		(1184.92)
	b) Not dealt with or provided for in the accounts of the holding company		Nil		Nil		Nil		Nil		Nil		Nil		Nil
12.	The net aggregate of profit/(loss) for previous financial years of the Subsidiary so far as it concerns the members of the holding company														
	a) Dealt with or provided for in the accounts of the holding company		(2.38)		(36.34)		(30.27)		(0.14)		(2149.43)		NA		(112.14)
	b) Not dealt with or provided for in the accounts of the holding company		Nil		Nil		Nil		Nil		Nil		NA		Nil

Note: i) Indian equivalent of figures have been arrived at by applying the year end rate 1£ = Rs. 84.61, 1 Brazilian Rea = Rs. 20.92, 1 South African Rand = Rs. 5.8 and 1US$ = Rs. 43.17 and do not form part of the reports of Orchid Europe Limited,Ogna Farma Distribuicao Importacao, Exportacao Assessoria Ltda, Orchid Pharmaceuticals SA (Proprietary) Limited South Africa, Gene Arrays Inc, Orchid pharmaceuticals Inc and Bowl Pharmaceuticals Inc. ii) Holding Companys interest is as stated in the schedule Q Notes to accounts 29 (a) iii) Shares held by the holding company in the subsidiary is as stated in the schedule E of the audited accounts

On behalf of the Board

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

annexure to the directors' report

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2007.

Annexure I
Conservation of energy

a) Energy conservation measures taken
The following energy conservation measures were taken in the manufacturing plants:

- Interconnection of simultaneous utility services and cooling towers at remote locations
- Interlock provision for the accessories in refrigeration systems
- Installation of economizers, de-super heaters in refrigeration systems
- Elimination of primary pumps and optimization of delivery head by regulating the flow in refrigeration systems
- Replacing higher capacity motors with lower capacity motors without affecting the process parameters
- Reduction in number of air changes

b) Additional investments and proposals, if any, being implemented for reduction of energy consumption
Some of the proposals that are considered / being implemented for saving energy consumption are:

- Replacement of furnace oil fired boiler with coal-fired boiler
- Replacing WHR boiler by higher capacity boiler to reduce flue gas outlet temperature
- Providing energy efficient air-compressor and refrigeration compressors
- Installation of VAM in CPP hot water circuit
- Replacing the existing single stage screw compressor with double stage screw compressor in refrigeration systems

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods
Due to the energy conservation measures adopted by the Company during the year under review, the Company could achieve a saving of around 24,000 units of electricity consumption per day, leading to a saving of around Rs. 390.15 lakhs per annum.

Further the energy conservation measures proposed to be taken up by the Company as mentioned in (b) above are expected to bring in additional savings of about Rs. 1640 lakhs per annum.

d) Total energy consumption and energy consumption per unit of production:

	Year ended March 31, 2007	Year ended March 31, 2006
A. Power and fuel consumption		
1. Electricity*		
a) Purchased:		
Units	9414346	7029788
Total amount (Rs lakhs)	456.37	249.90
Rate per unit (Rupees)	4.85	3.55

	Year ended March 31, 2007	Year ended March 31, 2006
b) Own generation:		
i) Through diesel generator:		
Units	5070836	4217065
Units per litre of diesel oil	3.48	3.46
Cost per unit (Rupees)	7.05	5.64
ii) Through furnace oil generator:		
Units	72839125	69322750
Units per litre of fuel oil	4.27	4.29
Cost per unit (Rupees)	3.39	2.99
2. Coal		
Quantity (tonnes)	Nil	Nil
Total cost	Nil	Nil
Average rate	Nil	Nil
3. Furnace oil		
Quantity (K litres)	29115.10	26728.76
Total cost (Rs lakhs)	4219.57	3431.32
Average rate (Rs per Kl)	14492.72	12837.55
4. Others/internal generation		
i) Windmills		
Quantity (in units) *	2790913	2419815
ii) Gas based		
Quantity (in units) *	374345	Nil
Rate per unit (Rs)	2.63	Nil
B Consumption per unit of production		
Products with details:		
i) Bulk drugs & intermediates		
Oral & sterile (in MT)	764	720
Electricity (Rs lakhs per MT)	3.65	3.21
Furnace Oil (Rs lakhs per MT)	5.18	4.76
Coal	Nil	Nil
Others	Nil	Nil
ii) Formulations		
It is not practical to classify energy consumption data on the basis of product, since the Company manufactures finished dosages in various forms and pack sizes with different energy requirements.		

* Units generated are wheeled to our manufacturing facilities

Annexure II
Technology absorption

I. Research and Development

1. Specific areas in which research and development activities have been carried out by the Company during the year.

The Company's areas of research comprise process research, new drug discovery research, pharma research and biotechnology research.

The focus of process research has been mainly on developing non-infringing processes for APIs to support the generics activities in the regulated markets. The research covers the areas of antibiotic and non-antibiotic APIs.

The laboratories are well equipped to synthesize and evaluate simple to complex molecules at various levels during the development stage. A team of dedicated scientists work on the process design and synthesis of the molecules. Complete analytical profiling of the APIs and method validation are done as part of the development.

The focus of pharma research has been on developing non-infringing formulations for US and European generic markets. Formulations for emerging markets are also developed. Accent is also on developing novel drug delivery systems, which could offer therapeutic benefits for select products.

Drug discovery, under Orchid Research Laboratories Limited (ORLL) has separate laboratories for medicinal chemistry, analytical chemistry, molecular modeling, pharmacology, pharmacokinetics and safety toxicology. ORLL continues to focus on anti-inflammatory, anti-cancer, anti-infective and metabolic disorder programmes. In anti-inflammation and anti-cancer areas, promising candidates have been identified for intensive pre-clinical development leading to proposed IMPD / IND filings this fiscal. There is a healthy pipeline of active molecules in these areas. The Company has also developed innovative biological screens in the above mentioned areas to achieve multi-screening of compounds and enlarge the basket of promising hits. Attempts are being made in pre-formulation department to achieve improved oral bio-availability for many of the promising hits. Further proof-of-concept clinical studies and mechanism studies of anti-diabetes BLX1002 are being addressed. Research and Development efforts have lead to several international and national filings for novel product patents.

The Company has commenced a collaborative agreement with Indian Institute of Technology Madras (IIT-M), under Department of Science and Technology (DST), Government of India programme in the emerging high-technology field of nanotechnology. ORLL is continuing its collaboration with Shanmugha Arts, Science, Technology and Research Academy (SASTRA) as part of another DST program for development of a novel herbal formulation for coronary heart disease.

A collaboration agreement was signed with a discovery company in Sweden, Biovitrum for providing medicinal chemistry support for design and synthesis of a novel inhibitor for a receptor. The projects with Pfizer for custom synthesis and manufacture of products for its veterinary NCE programme are also continuing.

Biotechnology laboratory is involved in the development of cost-effective and environment-friendly technologies for the manufacture of various raw materials and intermediates required for cephalosporin production. Process development for the manufacture of a key intermediate based on proprietary technology is underway.

2. Benefits derived as a result of the above Research and Development activities

The process research has resulted in development of several non-infringing patentable processes and supported API development for generics. Several APIs were developed and 20 DMFs filed during the year

Pharma research has resulted in development of a number of generic

products for US, Europe and other global markets. Products have been specifically developed for US and 14 ANDAs filed.

Products have been developed for Europe based on which 9 dossiers were filed. As part of the filings, the Company could make two Paragraph IV first to file submissions with the US FDA for two generic launches.

As a result of ORLL activities, a robust NCE pipeline has been built in the areas of oncology, inflammation, diabetes, anti-infectives and certain other areas. The clinical and pre-clinical developments are underway in diabetes, oncology and inflammation areas.

Biotechnology research has resulted in the development of 'green chemistry' which rendered certain manufacturing operations more eco-friendly and also resulted in cost savings.

3. Future plan of action

The Company's R&D aims to constantly upgrade the technical expertise of the teams and ensure that the latest facilities and techniques are used to accelerate research activity in line with international standards. Fast screening of drugs at a very early stage of the projects will further help in accelerating the projects in hand. Advanced instruments for polymorph analysis and detection will be acquired at the R&D centres and the same would also be installed at the manufacturing locations to ensure consistency of product quality. Automation in documentation practices and analytical instruments will be given major importance in the coming years to ensure regulatory compliance and error free documentation. Process Automation Technology (PAT) which finds global acceptance as a tool to ensure consistency in quality of the processes and products will also be considered for implementation at the manufacturing sites.

Orchid's value proposition of end-to-end drug discovery solution, which covers in silico designing, synthesis and biological screening, will be further reinforced. Efforts are being focused on lead optimization of the hits to enhance new drug discovery pipeline. Two of the promising leads in the areas of inflammation and cancer are being evaluated for regulatory dog toxicology studies based on which they will be taken to Phase I human studies. The Phase II (a) clinical trial on anti-diabetes product will be completed during this fiscal.

In the area of biotechnology, future plan of action include development of novel enzymes for achieving green chemistry for more of cephalosporin intermediates and end products. Additional projects to reduce or eliminate the usage of relatively hazardous chemicals will be undertaken.

4. Expenditure on R&D

The R&D outlay has been as follows:

(Rs lakhs)

	Year ended March 31, 2007	Year ended March 31, 2006
a) Capital	2334.46	3474.15
b) Recurring	3963.13	2662.10
c) Total	6297.59	6136.25
d) Total R&D expenditure as a % of the total turnover	6.74	6.90

II Technology absorption, adaptation and innovation

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

During 2007-08, process R&D has developed and initiated scale-up activities on cephalosporin antibiotics such as Cefepime for EU, Ceftibuten, Aztreonam, Cefditoren pivoxil and a couple of veterinary cephalosporin products. A highly stable polymorphic form of a key antibiotic has been identified and process for producing through a novel patentable process has been developed. The PCT application has been published, with international search report acknowledging the novelty and other elements.

Apart from cephalosporin antibiotics, R&D has developed and scaled up in Pilot Plant, a new penem antibiotic. R&D also carried out product development activities on a range of cephalosporins, carbopenems and their intermediates. In the area of drug discovery, the programmes have resulted in the development of robust platforms for progressing of NCEs in the identified areas of diabetics, inflammation, oncology and anti-infectives. Several novel biological arrays have been established as part of this. A new drug discovery effort has resulted in an improved beta lactamase inhibitor.

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

The above have resulted in the development of additional generic products, both APIs and dosage forms for broader business development in regulated and emerging markets. Improvement of stability, enhancement of process efficiency and reduction of costs have been some of the tangible benefits. Availability of newer generic products through the efforts of the Company's R&D reduce the import dependence of the costs on one hand and enhance the export competitiveness. Several of the generic API processes and formulations have been patended.

Research in new drug discovery has resulted in the development of several patentable NCEs for which patent applications have been filed in national and international patent offices. Work during the year resulted in advancing of various compounds across the set developmental milestones of discovery and pre-clinical activities.

In the field of biotechnology too, several product patent applications have been filed to protect proprietary enzyme mutants and corresponding processes for key raw materials and intermediates. Technology for enzymatic production of a key intermediate was developed and successfully transferred for commercial manufacturing. It is an improved process, which avoids undue demand for utilities and enhances product quality. Similarly, enzymatic technology for the manufacture of a cephalosporin product has been transferred for process scale-up. Effort is made to extend the same technology for multiple products within this year and it is likely to create major impact in the operational environment and reduction in the use of hazardous chemicals.

3. Imported technology (imported during the last 5 years reckoned from the beginning of the financial year):

a) Technology	No new technology has been imported by Orchid during the year.
b) Year of import	Not applicable.
c) Has this technology been fully absorbed	Not applicable.
d) If not fully absorbed, areas where this has not taken place, reasons thereof and future plans of action.	Not applicable.

Annexure III

Foreign exchange earnings and outgo

a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, and export plans.

• Focus on the regulated generic drugs markets: To improve market share, the Company is focusing on the sale and distribution of APIs and generics in regulated markets including the United States, Canada, Europe, Japan, and Australia, as applicable.

b) Total foreign exchange earnings and outgo

(Rs. Lakhs)

	Year ended March 31, 2007	Year ended March 31, 2006
1. Earnings in foreign exchange during the year		
F.O.B value of exports	70108.35	62101.36
Export of services (net of TDS)	2937.96	4329.09
2. C.I.F. Value of imports (on cash basis)		
Raw materials	31428.70	32280.59
Capital goods	5272.42	3347.28
Spare parts, components and consumables	6671.20	3594.55
3. Expenditure in foreign currency during the year (on cash basis)		
Travelling expenses	136.34	101.91
Interest and bank charges	1098.24	755.48
Consultancy fees	525.11	191.87
Others	5537.98	2847.86
4. Dividend remittances in foreign currency during the year		
Net dividend	425.68	479.55
5. Total foreign exchange used (2+3+4)	51095.67	30246.65

Particulars of Employee

Annexure IV to Directors' Report

Information Pursuant to Section 217(2A) of The Companies Act, 1956

A. Employed throughout the year and in receipt of remuneration aggregating Rs. 24,00,000 or more per annum.

Name	Age (Yrs)	Designation	Gross Remuneration (Rs lakhs)	Qualification	Experience in years	Date of Joining	Previous Employer & Position held
Ashutosh Ojha	50	Country Head (Domestic Formulations)	34.61	B.Pharm., MBA	26	15-Jan-05	Alkem Laboratories Limited, President – Corp Strategy & Business Development
Dr Bhaktavatsala Rao C *	57	Deputy Managing Director	99.22	B.E., M.Tech, Ph.D.	33	19-Aug-98	Ashok Leyland Limited, Deputy General Manager – Corporate Planning
Bhaskara Raju D S	46	President – Finance & Business Planning	41.02	B.Com., ACA	24	1-Jul-92	Oman Chemicals & Pharmaceuticals Limited, LLC, Sultanate of Oman, Finance Manager
Chandrasekar L	49	Vice President – Internal Audit & Company Secretary	32.99	B.Sc., FCA, FCS, DICM, DISA	25	9-Jul-93	Air Command India Limited, DGM – Finance & Secretary
Deshpande P N	49	Vice President – Production & Technical	27.13	M.Sc.	27	2-May-97	SOL Pharmaceuticals Limited, Senior Manager - Production Development
Dwarakanath C R	53	Vice President – Corporate Safety, Health & Environment	27.44	B.Tech, DMS	31	6-Aug-98	Arvind Mills Limited, General Manager - Materials
Edna Braganza	45	Senior Vice President – International Marketing & Procurement	41.36	B.Com.	24	1-Nov-93	Al Buraimi Group, Sultanate of Oman, Commercial Manager
Dr Gautam Kumar Das	54	President – (API)	49.53	M.Sc., Ph.D.	28	1-Apr-95	Lupin Laboratories Limited, Senior Manager – Process Development
Imtiyaz Basade	41	Vice President – Regulatory Affairs	37.92	M.Pharm.	18	2-Jan-06	Wockhardt Limited, Vice President – Global Scientific & Regulatory Affairs
Kalidindi V Raju	47	Senior Vice President – Manufacturing	31.00	M.Pharm., PGDMM, MBA	24	2-Jan-04	Kunshan Rotam Reddy Pharmaceuticals Limited, Vice General Manager - Manufacturing
Dr Mahender Rao S	41	Vice President – Chemical Development	24.05	M.Sc., Ph.D.	11	4-Mar-04	Dr Reddy's Laboratories Limited
Mani S	47	Senior Vice President – Manufacturing & CSR	41.18	B.E. (Mechanical)	24	1-Jul-92	Bharat Heavy Electricals Limited, Deputy Manager - Projects Management
Nammalvar S	52	Vice President – Projects & Engineering Services	30.29	M.E.(Chem)., PGDBM	27	23-Feb-06	Wockhardt Limited, Associate Vice President
Dr Praveen Reddy	45	Head – Pharma Research	35.82	M.Pharm, Ph.D.	19	5-Aug-05	Dr Reddy's Laboratories Limited, Director – R&D

Name	Age (Yrs)	Designation	Gross Remuneration (Rs lakhs)	Qualification	Experience in years	Date of Joining	Previous Employer & Position Held
Rangesh M S	49	Vice President – Human Resources	33.21	B.Sc., PGDPM&IR, BGL	26	1-Dec-04	Madhvani Group of Companies, Uganda (Africa), Group General Manager – HR
Raghavendra Rao K *	48	Managing Director	527.51	B.Com., PGDM (IIM-A), ACS, AICWAI	28	1-Jul-92	Al Buraimi Group, Sultanate of Oman, Director
Ramesh K	43	Vice President – Analytical Development	24.26	M.Sc., M.Tech.	19	5-Apr-01	Ranbaxy Laboratories Limited
Dr Senthil Kumar U P	41	Vice President – Chemical Development	25.35	M.Sc., Ph.D.	13	6-Aug-97	Torrent Pharmaceuticals Limited, Manager

B. Employed for part of the year and in receipt of remuneration aggregating Rs. 2,00,000 or more per month.

Chadrasekharan A R	54	President – Corporate Finance	10.35	B.Com (Hons.), LL.B, ACA, ACS, CAIIB	32	19-Jan-02	Sterlite Industries India Limited, Vice President (Finance)
Chandan Kumar S	49	Senior Vice President – Manufacturing (API)	14.37	M.Sc. (Org. Chem)	26	4-Dec-06	Astrix, Head – India Operations
Makarand Deshpande	46	Vice President – International Marketing	10.58	B.Sc.	23	1-Oct-04	Cadila Health Care Limited, General Manager – Exports
Dr Om Reddy G	57	President & Chief Scientific Officer	37.43	M.Sc., Ph.D.	30	4-Dec-03	Dr Reddy's Laboratories Limited, Senior Vice President
Dr Rajiv Desai	44	Vice President – Analytical R&D and Quality control	0.94	M.Sc., Ph.D., MBA	18	19-Mar-07	Dr Reddy's Laboratories Limited, Director – Quality Management, API
Dr Sanjiv Sharma	41	Vice President – Regulatory Affairs & Quality Assurance	28.64	M.Sc., Ph.D.	18	4-Jul-06	Dr Reddy's Laboratories Limited
Sridharan S	45	Vice President – Information Technology	27.44	B.E., MBA	23	1-Jun-06	Tata Tea, CIO
Dr Sumant Baukhandi	52	President – Regulatory Affairs & Quality Assurance	15.53	M.Sc., Ph.D.	30	4-Mar-02	Ranbaxy Laboratories Limited, General Manager (Quality Operations & GMP's Training)
Umesh D Kapre	49	Vice President – Manufacturing	26.24	B.Tech.	26	19-Jul-04	Ranbaxy Laboratories Limited, Senior Manager

NOTES : 1. Gross Remuneration includes salary, house rent, bonus / incentive and other perks like medical reimbursement, leave travel assistance, Company's contribution towards provident fund etc.,

2. All appointments are in terms of respective letters of appointment and applicable Company's rules and regulations except in the case marked* whose appointments are contractual

3. None of the employees mentioned in the list is a relative of any Director of the Company.

corporate governance
Annexure V to the Directors' Report



1. Philosophy on Code of Corporate Governance

Ever since its inception Orchid was committed to the highest standards of Corporate Governance practices because it believes that a robust Corporate Governance policy drives healthy business growth and reinforces vibrant capital markets, besides being an important instrument of investor protection. Good Corporate Governance provides an appropriate framework for the Board and the management to set corporate objectives to enhance shareholder wealth. Orchid complies with the Corporate Governance code enshrined in Clause 49 of the Listing Agreement.

2. Board of Directors

The Chairman of the Board of Directors is a Non-Executive, Independent Director. The Board has a composition of two Executive Directors and eight Non-Executive Directors. Four out of 10 Directors are Independent Directors.

Composition and category of Directors as of March 31, 2007 is as follows:

Sl. No	Name(s) of Director(s)	Category	Number of Directorships held in other Indian companies@	Number of Board Committee memberships held in other companies*
1.	Shri R Narayanan	Non-Executive – Independent	12	5
2.	Shri K Raghavendra Rao	Promoter and Executive Director	None	None
3.	Dr C Bhaktavatsala Rao	Executive Director	None	None
4.	Dr M R Girinath	Non-Executive – Independent	None	None
5.	Dr I Seetharam Naidu	Non-Executive – Independent	None	None
6.	Shri Subramanian Andi (IDBI Nominee)	Non-Executive – Independent	None	None
7.	Shri Deepak Vaidya	Non-Executive	4	3
8.	Dr Bishwajit Nag	Non-Executive	1	None
9.	Dr Anzaghi Piergiorgio	Non-Executive	None	None
10.	Shri Anil Thadani / Shri Raj Rajkumar is an Alternate Director to Shri Anil Thadani	Non-Executive	2	None

@ Excludes foreign companies and private limited companies.

* Includes only membership in Audit and Investor Grievance Committee.



Attendance record of the Directors

Five Board meetings were held during the year from April 01, 2006 to March 31, 2007. The dates on which the meetings were held are April 28, May 04, July 27, October 19 in 2006 and on January 19 in 2007. The attendance records of all Directors are as follows:

Name(s) of Director(s)	No of Board meetings		Last AGM Attendance
	Held	Attended	
Shri R Narayanan	5	4	Present
Shri K Raghavendra Rao	5	5	Present
Dr C Bhaktavatsala Rao	5	5	Present
Dr M R Girinath	5	5	Not Present
Dr I Seetharam Naidu	5	5	Present
Shri Deepak Vaidya	5	3	Not Present
Shri Subramanian Andi	5	4	Present
Dr Anzaghi Piergiorgio	5	2	Not Present
Dr Bishwajit Nag	5	4	Present
Shri Anil Thadani / Shri Raj Rajkumar	5	4	Not Present
Dr Francis Pinto[1]	3	0	Not Present

1 Resigned from the Board with effect from August 21, 2006.

3. Audit Committee

The Company constituted an Audit Committee comprising Non-Executive Directors during 1998.

Terms of Reference of the Audit Committee include:

a. A review of

- financial statements before submission to the Board
- draft financial statements and Auditors' Report (before submission to the Board)
- accounting policies and practices
- risk management policies and practices
- compliance with stock exchange and legal requirements concerning financial statements
- related party transactions
- the internal control systems and internal audit reports and their compliance thereof, and

b. Recommending the appointment of Auditors and fixing their fee

Four meetings were held during the year from April 01, 2006 to March 31, 2007. The said meetings were held on April 28, July 27, October 19 in 2006 and on January 19 in 2007.

The constitution of the Committee and the attendance of each member of the



Committee as on March 31, 2007 are given below:

Name	Category	No of meetings	
		Held	Attended
Shri R Narayanan, Chairman	Non-Executive – Independent	4	3
Dr M R Girinath	Non-Executive – Independent	4	4
Dr I Seetharam Naidu	Non-Executive – Independent	4	4
Shri Deepak Vaidya	Non-Executive	4*	3
Shri Subramanian Andi	Non-Executive – Independent	4	4

* Shri Raj Rajkumar, alternate to Shri Anil Thadani attended an Audit Committee meeting in the absence of Shri Deepak Vaidya. Both Shri Deepak Vaidya and Shri Anil Thadani are Investor Directors.

The Chairman of the Audit Committee, Shri R Narayanan was present at the Annual General Meeting of the Company held on June 02, 2006.

The Company Secretary is the Secretary of the Audit Committee.

4. Remuneration Committee

The Remuneration Committee determines and recommends the remuneration payable to the Executive Directors. The Board of Directors approves the remuneration payable to the Executive Directors on the basis of their performance as well as the Company's performance, subject to consents as may be required.

The Non-Executive Directors are not paid any remuneration except for the sitting fees for attending the Board meetings / Committee meetings.

The resolutions for the appointment and remuneration payable including commission to the Executive Directors are approved by the shareholders of the Company.

The remuneration to the Executive Directors consists of a fixed salary and other perquisites. The leave travel allowance is paid as per the Company rules. Provident fund and superannuation are provided for as per the Company's policy. Wherever applicable the perquisites are considered a part of remuneration and taxed as per income tax laws. The commission recommended by the Remuneration Committee to the Board is paid to the Managing Director in accordance with the provisions of the Companies Act, 1956.

The Remuneration Committee comprises Shri R Narayanan, Dr M R Girinath, Dr I Seetharam Naidu, Shri Deepak Vaidya and Shri Subramanian Andi, all Non-Executive Directors. The Committee deals with all elements of remuneration package, stock options, service contracts, etc. of all whole-time Executive Directors. One meeting of the Remuneration Committee was held during 2006-07 on April 28, 2006 and all the Directors except Shri Deepak Vaidya attended the meeting. However, Shri Raj Rajkumar attended the Remuneration Committee meeting in the absence of Shri Deepak Vaidya.

Details of remuneration paid to Directors for the year 2006-07 are given below:

Rs. lakhs

Name(s) of Director(s)	Remuneration paid during the year 2006-07			
	Salary	Commission/ bonus / incentive	Sitting fees	Total
Shri R Narayanan, Chairman	–	–	5.80	5.80
Shri K Raghavendra Rao	152.41	375.10+	–	527.51
Dr C Bhaktavatsala Rao	99.12	0.10	–	99.22
Dr M R Girinath	–	–	3.20	3.20
Dr I Seetharam Naidu	–	–	3.40	3.40
Shri Deepak Vaidya	–	–	1.20	1.20
Shri Subramanian Andi, Nominee – IDBI	–	–	2.20	2.20*
Dr Anzaghi Piergiorgio	–	–	0.40	0.40
Dr Bishwajit Nag	–	–	0.80	0.80
Shri Anil Thadani / Shri Raj Rajkumar	–	–	1.20	1.20
Dr Francis Pinto@	–	–	–	–

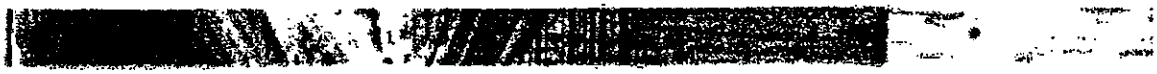
* Sitting fees of Rs. 2.20 lakhs paid directly to IDBI Limited.

+ Includes commission of Rs. 375 lakhs approved by the Board at its meeting held on May 03, 2007 and yet to be paid.

@ Resigned from the Board with effect from August 21, 2006.

During the year, the Company has granted employee stock options to the following Directors at a price of Rs. 193.25 per share.

Name(s) of Director(s)	Number of options granted	
	1999 Scheme	2005 Scheme
Dr Bishwajit Nag	NIL	5,00,000
Dr C Bhaktavatsala Rao	NIL	6,000
Shri Deepak Vaidya	NIL	10,000



The shares held by Directors as on March 31, 2007 are given below:

Name(s) of Director(s)	Number of shares
Shri R Narayanan	14,567
Shri K Raghavendra Rao	69,25,173
Dr C Bhaktavatsala Rao	15
Dr M R Girinath	4,89,934
Dr I Seetharam Naidu	3,47,430
Shri Deepak Vaidya	NIL
Shri Subramanian Andi	NIL
Dr Anzaghi Piergiorgio	NIL
Dr Bishwajit Nag	NIL
Shri Anil Thadani	NIL
Shri Raj Rajkumar	70,000

5. Share transfer and Investors' Grievance Committee

The Company's shares are compulsorily traded in dematerialized form. The Committee has met once a month to consider the transfers in the physical segment. During 2006-07, the Committee met 12 times on April 28, June 01, June 29, July 28, August 29, September 26, October 26, November 24, December 27 in 2006 and on January 29, February 28 and March 26 in 2007.

Name(s) of Director(s)	No of meetings	
	Held	Attended
Shri R Narayanan, Chairman	12	12
Shri K Raghavendra Rao	12	12
Dr C Bhaktavatsala Rao	12	12

The Board has designated Shri L Chandrasekar, Company Secretary as Compliance Officer.



The following table shows the nature of complaints received from shareholders during 2006-07 and 2005-06, all of which have been responded within one month.

S No.	Nature of complaints	Received and answered	
		2006-07	2005-06
1.	Non-receipt of share certificates sent for transfer/bonus shares	31	61
2.	Non-receipt of dividend warrants	38	27
3.	Complaints from SEBI, stock exchanges and government departments	2	4
	Total	71	92

6. Details of Annual/Extraordinary General Meetings

Location and start time of the General Meetings held in the past three years

Year	AGM / EGM	Location	Date	Time
2007	EGM	Kamaraj Memorial Hall, New No. 492, Old No. 573, 574-A, Anna Salai, Chennai 600 006.	14/02/2007	10.00 AM
2006	AGM	Kamaraj Memorial Hall, New No. 492, Old No. 573, 574-A, Anna Salai, Chennai 600 006.	02/06/2006	10.00 AM
2005	EGM	Kasturi Srinivasan Hall, The Music Academy, Old No. 306, New No. 168, TTK Road, Royapettah, Chennai 600 014.	18/08/2005	10.30 AM
2005	AGM	Kamaraj Memorial Hall, New No. 492, Old No. 573, 574-A, Anna Salai, Chennai 600 006.	18/07/2005	10.30 AM
2004	AGM	The Music Academy, Main Hall, Old No. 306, New No. 168, T T K Road, Chennai 600 014.	28/07/2004	10.30 AM
2004	EGM	Sathguru Gnanananda Hall, (Narada Gana Sabha), No. 314, (Old No. 254), TTK Road, Chennai 600 018.	10/04/2004	10.30 AM

All the resolutions including the special resolutions set out in the respective notices were passed by the shareholders unanimously.

None of the resolutions passed at the above meetings were required to be passed through postal ballot.



7. Disclosures

- No transaction of material nature were entered into by the Company with related parties i.e. Company's subsidiaries, Directors or management or relatives conflicting with the Company's interest

- Transactions with the related parties are disclosed in Note 20 of Schedule "Q" to the financial statements in the Annual Report

- There were no instances of non-compliance by the Company on any matter related to capital markets during the preceding three years. Hence, there were no penalties, strictures imposed by SEBI / Stock Exchange or any other statutory authorities against the Company

- Presently the Company does not have a whistleblower policy. No employee has been denied access to approach the Audit Committee to report any serious concerns

- No differential treatment from the Accounting Standards was followed in the preparation of the financial statements of the Company

8. Means of communication

- Financial results are published by the Company in Economic Times and Dinamani / Dinamalar

- Results are also displayed in the URL www.orchidpharma.com. Official news releases are also updated in the site

- Presentations made during the year are available on the Company's website www.orchidpharma.com

9. General shareholder information and Management's discussion and analysis

Appended to this Report as Annexure VII

10. CEO / CFO Certification

As required under Clause 49 of the Listing Agreement a Certificate duly signed by Shri K Raghavendra Rao, Managing Director (CEO) and Shri D S Bhaskara Raju, President – Finance and Business Planning (CFO) was placed at the meeting of the Board of Directors held on May 03, 2007.

11. Auditors' Certificate on compliance of conditions of Corporate Governance

Certificate from the Auditors is enclosed along with this Report.

Non-mandatory requirements

1. Chairman's office

The Company maintains an office for the Chairman at its registered office at 'Orchid Towers', 313, Valluvarkottam High Road, Nungambakkam, Chennai – 600 034, Tamil Nadu, India and also reimburses the expenses incurred in performance of his duties.

2. Remuneration Committee

The Company has constituted a Remuneration Committee. The Terms of Reference of the Committee have been described at Serial No.4 herein above.

3. Shareholders rights

The quarterly financial results are published in the newspapers as mentioned in Serial No. 8 above. The results are also displayed on the web site of the Company and are not separately circulated to the shareholders.

Code of Conduct Certification

The Board of Orchid Chemicals & Pharmaceuticals Limited has laid down a code of conduct for all Board members and senior management. The code of conduct has been posted in the Company's URL namely www.orchidpharma.com. All the Board members and the senior management have affirmed compliance of the code for 2006-07.

Place: Chennai
Date: May 03, 2007

K Raghavendra Rao
Managing Director

Auditors' Certificate on Corporate Governance

To
The Members of
Orchid Chemicals & Pharmaceuticals Limited

We have examined the compliance of conditions of Corporate Governance by Orchid Chemicals & Pharmaceuticals Limited (the Company), for the year ended on March 31, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of management. Our examination was limited to procedures and implementation thereof, adopted by the Company to ensure compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended March 31, 2007, no investor grievances are pending against the Company for more than one month as per the records maintained by the Company and presented to the Investors' Grievances/Share Transfer Committee.

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

For SNB ASSOCIATES
Chartered Accountants

(S Lakshmanan)
Partner
Membership No. 20045

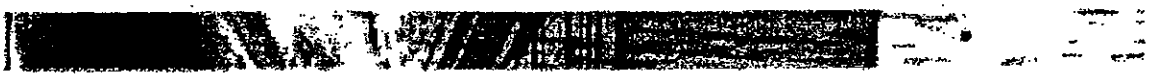
Place: Chennai
Date: May 03, 2007

Annexure VI to the Directors' Report

Details of options granted to employees under ORCHID – ESOP 1999 & ESOP 2005 Scheme

Options granted	ORCHID – ESOP 1999 Scheme • During 2006-07, 300,000 options were granted • In the year 2005-06, 292,075 options were granted • In the year 2003-04, 307,925 options were granted • In the year 1999-00, 600,000 options were granted ORCHID – ESOP 2005 Scheme • During 2006-07, 610,000 options were granted The above options are convertible into equity share of Rs. 10 each.
The pricing formula	The price being the closing price of shares of Orchid on the date on which the options were granted by the Compensation Committee of the Board of Directors. ORCHID – ESOP 1999 Scheme • 2006-07 – Rs. 339.25* • 2005-06 – Rs. 300.65 • 2003-04 – Rs. 252.00 • 1999-00 – Rs. 243.35 Subsequent to the bonus issue, the number of options outstanding and the price were adjusted by the Board. Accordingly, the revised price applicable for the options allotted during various years prior to bonus issue have been revised as follows: • 2005-06 – Rs. 200.44 • 2003-04 – Rs. 168.00 • 1999-00 – Rs. 162.24 * For the options granted during April 2006 at a price of Rs. 339.25, the Compensation Committee of the Board of Directors considered repricing of the options from Rs. 339.25 to Rs. 193.25 (as per the closing price of Orchid on August 11, 2006, being the date of the Compensation Committee meeting in which repricing was considered), subject to the obtaining of the approval from the shareholders. ORCHID – ESOP 2005 Scheme • 2006-07 – Rs. 193.25

Options vested during the year	292,075 options granted under 1999 Scheme
Options exercised during the year	11,325 options (including the adjusted options that were exercised by the employees, subsequent to the Bonus issue)
Total no. of shares arising out of exercise of options	11,325 shares
Options lapsed	608,272 options (507,929 options have lapsed out of the original 1,500,000 options granted under ORCHID ESOP 1999 Scheme and 100,343 options have lapsed out of the options arising out of the adjustment due to bonus issue)
Variations of terms of options	ORCHID ESOP 1999 Scheme An adjustment in share price/the number of options outstanding was made by the Company in respect of the Employee Stock Options granted but not exercised by the Employees due to the issue of bonus shares during October 2005. Accordingly, the total numbers of options outstanding (so as to be multiplied by 3/2) as well as the price at which each option may be exercised (so as to be multiplied by 2/3) were adjusted. For the 300,000 options granted during April 2006 at a price of Rs. 339.25, the Compensation Committee of the Board of Directors considered repricing of the options in the interest of the employees, due to the fall in the price of the shares of the Company and accordingly approved a repricing of the options from Rs. 339.25 to Rs. 193.25 as per the closing price of Orchid at National Stock Exchange on August 11, 2006, subject to the obtaining of the approval from the shareholders.
Total no. of options in force	14,93,632 options are in force.



<table>
<tr><td>Employee wise details of options granted to
i) Senior managerial personnel</td><td>Details of options granted to senior managerial personnel during the year<table><tr><th>S.No.</th><th>Name</th><th>No. of options granted</th></tr><tr><td>1.</td><td>Dr Gautam Kumar Das</td><td>1700</td></tr><tr><td>2.</td><td>Mr D S Bhaskara Raju</td><td>1700</td></tr><tr><td>3.</td><td>Ms Edna Braganza</td><td>1700</td></tr><tr><td>4.</td><td>Mr S Mani</td><td>1700</td></tr><tr><td>5.</td><td>Mr L Chandrasekar</td><td>1500</td></tr><tr><td>6.</td><td>Mr C R Dwarakanath</td><td>1500</td></tr><tr><td>7.</td><td>Mr P N Deshpande</td><td>1500</td></tr><tr><td>8.</td><td>Mr S Krishnan</td><td>1500</td></tr><tr><td>9.</td><td>Mr K Ramesh</td><td>1500</td></tr><tr><td>10.</td><td>Mr Satish Haribhau Joshi</td><td>1500</td></tr><tr><td>11.</td><td>Dr U P Senthil Kumar</td><td>1500</td></tr><tr><td>12.</td><td>Mr K C Pathak</td><td>1500</td></tr><tr><td>13.</td><td>Mr A Suresh Babu</td><td>1500</td></tr></table></td></tr>
<tr><td>ii) Employees holding 5% or more of the total number of options granted during the year</td><td>NIL</td></tr>
<tr><td>iii) Employees who were issued shares equal to or exceeding 1% of the issued capital</td><td>NIL</td></tr>
<tr><td>Consideration received against the no. of shares issued during the year</td><td>Rs. 20.56 lakhs</td></tr>
<tr><td>Earnings per share (diluted)</td><td>Rs. 13.23</td></tr>
<tr><td>Where the Company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed.</td><td>The Company has granted the options to the employees on the closing price of shares of Orchid on November 22, 1999, January 20, 2004, April 27, 2005 and April 28, 2006 under ORCHID ESOP-1999 Scheme and on August 11, 2006 under ORCHID ESOP-2005 Scheme and not on the intrinsic value. Hence, the difference between the employee compensation and the employee compensation cost that shall have been recognized if it had used the fair value of the options, may not be applicable.</td></tr>
<tr><td>Weighted – average exercise price</td><td>The weighted average exercise price (26 weeks preceding the date of grant) was Rs. 183.42 for the options granted on November 22, 1999, Rs. 199.31 for the options granted on January 20, 2004, Rs. 299.30 for the options granted on April 27, 2005 and Rs. 282.14 for the options granted on April 28, 2006 under ORCHID ESOP-1999 Scheme and Rs. 267.89 for the options granted on August 11, 2006 under ORCHID ESOP-2005 Scheme.</td></tr>
</table>

Annexure VII to the Directors' Report
General Shareholders' Information

1. Registered Office	'Orchid Towers', 313 Valluvar Kottam High Road, Nungambakkam, Chennai - 600 034, Tamil Nadu, India.
2. Date, time and venue of 15th Annual General Meeting (AGM)	July 19, 2007, 10.30 a.m. at Kamaraj Memorial Hall, New No. 492, Old No. 573, 574-A, Anna Salai, Chennai 600 006, Tamil Nadu, India.
3. Dividend Payment Date for fiscal 2007	End of July 2007 subject to approval of shareholders.
4. Dates of book closure	July 15, 2007 to July 19, 2007 (both days inclusive)
5. Financial Calendar	
Financial reporting for	
Quarter ending June 30, 2007	Third week of July 2007
Quarter ending September 30, 2007	Last week of October 2007
Quarter ending December 31, 2007	Last week of January 2008
Year ending March 31, 2008	Last week of April 2008
6. The equity shares of Rs. 10/- each are listed at	Madras Stock Exchange Limited Exchange Building, Post Box No. 183, New No. 30 (Old No. 11), Second Line Beach, Chennai - 600 001, Tamil Nadu, India Tel: 91-44-25228951, Fax: 91-44-25244897 National Stock Exchange of India Limited Regd Office: "Exchange Plaza", Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051, Maharashtra, India Tel: 91-22-26598100, 56418100, Fax: 91-22-26598237 / 38, 26598120 Bombay Stock Exchange Limited New Trading Ring, Rotunda Building, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001, Maharashtra, India Tel: 91-22-22721233, 22721234, Fax: 91-22-22723677, 22722082 / 3132
7. Foreign Currency Convertible Bonds (FCCBs)	
Aggregating to US$ 42.5 million issued in November 2005 and due in November 2010 are listed at	Luxembourg Stock Exchange Bourse de Luxembourg BP 165, L-2011 Luxembourg, Siège social, 11, avenue de la Porte-Neuve Tel: +352 47 79 36-1; Telefax: +352 47 32 98
Aggregating to US$ 175 million issued in February 2007 and due in February 2012 are listed at	Singapore Exchange Limited 2 Shenton Way #19-00 SGX Centre 1, Singapore 068804 Tel: (65) 62368888, Fax: (65) 65362005

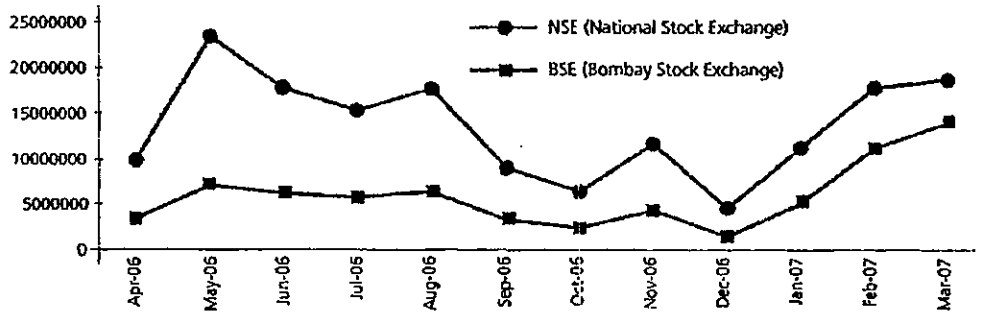
8. Listing Fees	Listing Fees has been paid for all the above Stock Exchanges for 2006-2007 and 2007-2008

9. Stock Market data

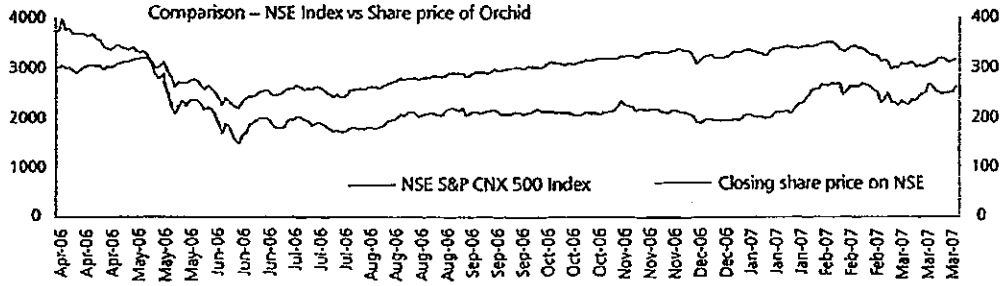
a) Monthly high and low quotations along with the volume of shares traded at NSE and BSE for 2006-2007 are:

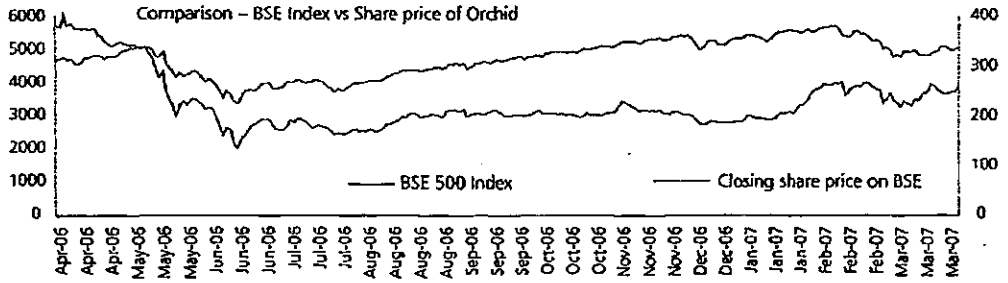
Month	NSE			NSE S&P CNX 500 Index (Avg)	BSE			BSE 500 Index (Avg)
	High (Rs)	Low (Rs)	Volume of Shares (Nos)		High (Rs)	Low (Rs)	Volume of Shares (Nos)	
Apr-06	399.95	309.20	9793979	2995	399.90	319.90	3281494	4690
May-06	352.00	160.00	23315733	2937	353.00	179.60	6986307	4630
Jun-06	233.90	142.00	17780201	2425	234.00	142.35	5998340	3824
Jul-06	207.55	164.50	15237573	2524	207.90	164.50	5682908	3970
Aug-06	213.50	174.20	17617196	2715	213.70	174.50	6276462	4276
Sep-06	219.85	199.00	8836622	2898	220.00	199.00	3049870	4579
Oct-06	217.80	202.00	6198985	3046	218.30	202.00	2195652	4835
Nov-06	235.90	204.60	11503725	3216	234.60	204.80	4196545	5128
Dec-06	214.80	180.55	4455615	3245	214.75	180.55	1290700	5187
Jan-07	254.95	195.20	11028368	3356	254.75	192.50	4848445	5365
Feb-07	271.90	222.70	17763972	3367	272.00	221.95	11146865	5372
Mar-07	269.50	204.00	18700538	3073	270.00	204.00	13860930	4865
Total			162232507				68814518	

b) Graphical representation of Volume of Shares traded of Orchid during April 2006 - March 2007



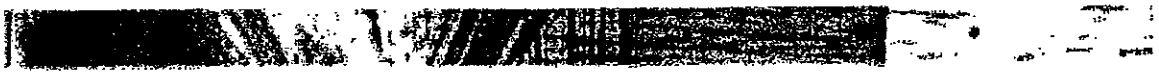
c) Comparison of broad based indices with share price of Orchid





10. Stock Exchange Security Code and other related information

Madras Stock Exchange Limited	OCL
Bombay Stock Exchange Limited	524372
National Stock Exchange of India Limited	ORCHIDCHEM
Luxembourg Stock Exchange	US68572Y2090
Singapore Exchange Limited	XS0287742653
Depository ISIN No.	INE191A01019
Corporate Identification Number (CIN)	L24222TN1992PLC022994



11. Distribution of Shareholding as on

No of equity shares held	31st March 2007			31st March 2006		
	No of shares	No of Shareholders	% of Shareholders	No of shares	No of Shareholders	% of Shareholders
1 – 500	5607754	49226	92.76	4358756	34177	90.94
501 – 1000	1614297	2142	4.04	1378281	1879	5.00
1001 – 2000	1274621	882	1.66	1195657	837	2.23
2001 – 3000	671705	259	0.49	610252	236	0.63
3001 – 4000	423072	120	0.23	375024	106	0.28
4001 – 5000	358020	77	0.15	310244	67	0.18
5001 – 10000	990392	138	0.26	821377	113	0.30
10001 & above	54876430	216	0.41	55568591	164	0.44
Total	65816291	53060	100.00	64618182	37579	100.00

12. Dematerialization of Shares

The shares of the Company are in compulsory demat segment and are available for trading in both the depository systems, namely, National Securities Depository Limited and Central Depository Services (India) Limited. Shares dematerialized upto March 31, 2007 are:

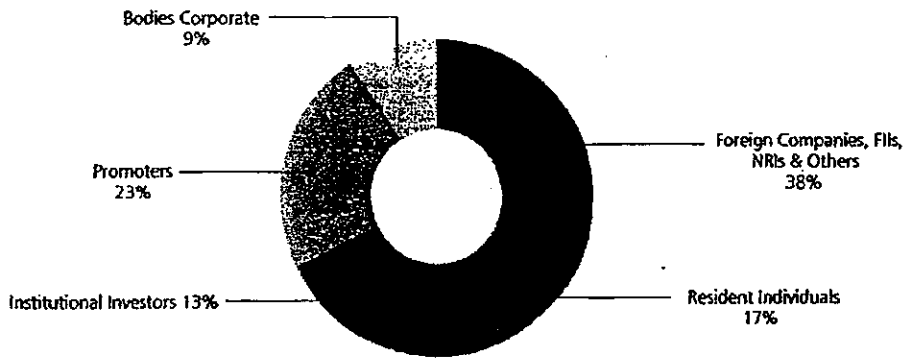
No. of Shares	% of Shares	No. of Shareholders	% of Shareholders
65220962	99.10	50288	94.78

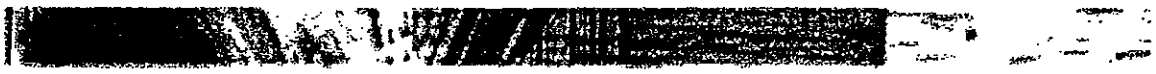
13. a) Shareholding Pattern as on March 31, 2007

Category	No of Shares Held	Percentage of Shareholding
A. Promoter Holding		
1. Promoters		
a) Indian Promoters	14982672	22.76
b) Foreign Promoters	Nil	Nil
2. Persons acting in concert	Nil	Nil
Sub-Total (1+2)	14982672	22.76

Category	No of Shares Held	Percentage of Shareholding
B. Non-Promoter Holding		
3. Institutional Investors		
a) Mutual Funds	3535527	5.37
b) Banks, Financial Institutions, Insurance Companies (Central / State Govt. Institutions / Non-government Institutions)	4968879	7.55
c) Foreign Institutional Investors (FIIs)	9495796	14.43
Sub-Total (3)	18000202	27.35
4. Others		
a) Private Corporate Bodies	6177312	9.39
b) Indian Public (Resident Individuals)	10997946	16.71
c) Non Resident Indians / Overseas Corporate Bodies	413625	0.63
e) Foreign Companies	15244534	23.16
Sub Total (4)	32833417	49.89
Grand Total (1+2+3+4)	65816291	100.00

b) Shareholding Pattern Chart





14. Outstanding GDRs/FCCBs/Share Warrants and conversion dates

Name of the Instrument	Total Issued	Converted as on 31/03/07	Outstanding as on 31/03/07	Likely Conversion Date
a) Warrants issued during 2006-07	50,00,000 nos	NIL	50,00,000 nos	On or before August 31,2008
b) Foreign Currency Convertible Bonds (FCCBs) (issued during 2005-06)	USD 4,25,00,000 *	USD 2,27,90,000 *	USD 1,97,10,000 *	On or before November 03, 2010
c) Foreign Currency Convertible Bonds (FCCBs) (issued during 2006-07)	USD 17,50,00,000 *	NIL	USD 17,50,00,000 *	On or before February 28, 2012

* FCCBs are represented in value till the time they are converted into equity shares.

15. Legal Proceedings

There are a few pending cases relating to the disputes on the title of the shares. The Company has been made a party to the disputes but these, however, are not material in nature.

16. Share Transfer System

M/s Integrated Enterprises (India) Limited are the Registrar and Share Transfer Agents for servicing activities relating to both Physical and Electronic segments. The share transfer committee met 12 times during the year 2006-2007.

17. Unclaimed Dividends

Pursuant to Section 205 A of the Companies Act, 1956, the unclaimed dividend for the financial year 1998-99 was transferred to the Investor Education and Protection Fund (IEPF) in September 2006.

Dividend for the financial year 1999-2000 is due for transfer to IEPF in May 2007.

The dividends for the years from 2000-2001 onwards, which remain unclaimed for seven years will be transferred to Investor Education and Protection Fund established by the Central Government under Section 205 C of the Companies Act, 1956 as and when due. Shareholders who have not encashed their dividends for these periods are requested to contact the Company immediately.

18. ECS Mandate

To service its investors better, the Company requests all shareholders who hold shares in electronic form to update their bank particulars with their respective depository participants immediately. Shareholders holding shares in physical form may kindly forward the bank particulars to the Company's Registrar and Share Transfer Agent.

19. Plant Locations

a) Active Pharmaceutical Ingredient Facilities

i) Alathur Works
Plot Nos. 85-87, 98-100,
126-131, 138-151 and 159-164
SIDCO Industrial Estate, Alathur
Kancheepuram Dist, Pin 603 110
Tamil Nadu, India

ii) Aurangabad Works
L-8 & L-9 MIDC Industrial Area
Waluj, Aurangabad District,
Pin 431 136
Maharashtra, India

b) Formulations (Finished Dosage Form) Facilities

i) A10/A11, SIDCO Industrial Estate
Alathur, Kancheepuram Dist,
Pin 603 110
Tamil Nadu, India

ii) Plot Nos. B3–B6,
B11–B14 and B15–B18
SIPCOT Industrial Park,
Irungattukottai Sriperumbudur (Tk.),
Pin 602 105
Tamil Nadu, India

iii) B-77, SIDCO Industrial Estate
Alathur, Kancheepuram Dist,
Pin 603 110
Tamil Nadu, India

20. Research and Development Centres

a) Plot No. 476/14,
Old Mahabalipuram Road,
Sholinganallur
Chennai 600 119
Tamil Nadu, India

b) Plot Nos.B21–B23 & B31–B33,
SIPCOT Industrial Park,
Irungattukottai Sriperumbudur (Tk.),
Pin 602 105, Kancheepuram Dist
Tamil Nadu, India

21. Investor Contacts

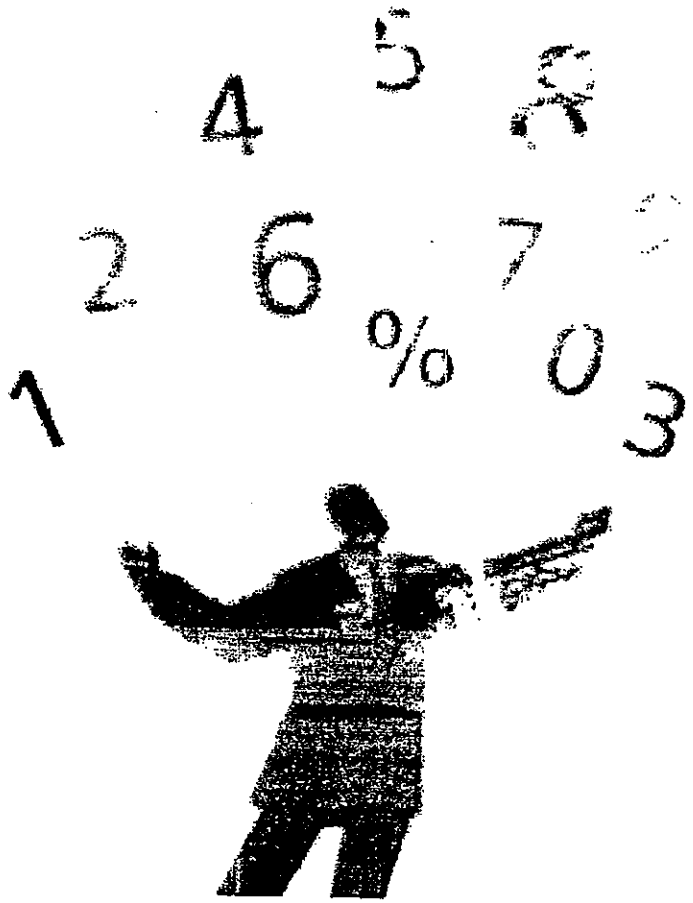
a) Corporate Communications
Mr Ch Ram
Head, Corporate Communications & Investor Relations
Phone: 91-44-28244908;
Fax: 91-44-28211002
E-mail: ram@orchidpharma.com

b) Investor Correspondence
Mrs Bhoomija Murali
Deputy General Manager – Secretarial & Legal
Phone: 91-44-28244302;
Fax: 91-44-2827 5960
E-mail: bhoomija@orchidpharma.com

c) Compliance Officer
Mr L Chandrasekar
Vice President – Internal Audit & Secretary
Phone: 91-44-28284232/28244301;
Fax: 91-44-2827 5960
E-mail: lcs@orchidpharma.com

d) Registrar and Share Transfer Agent
Integrated Enterprises (India) Limited
2nd Floor, Kences Towers,
No.1 Ramakrishna Street,
North Usman Road, T. Nagar,
Chennai - 600 017
Tamil Nadu, India
Tel: 91-44-28140801 – 03,
Fax: 91-44-28142479
E-mail: yesbalu@iepindia.com

financial section



Auditors' Report

Report of the Auditors to the Members

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

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

3. As required by the Companies (Auditor's Report) order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we annexe hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.

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

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

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

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

   d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash flow statement dealt with by this report comply with the accounting standards as referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   e) On the basis of written representations received from the directors, as on 31st March 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

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

      i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2007;

      ii) In the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      iii) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For SNB Associates
Chartered Accountants

S Lakshmanan
Partner
Membership No. 20045

Place: Chennai
Date: May 3, 2007

Annexure to Auditors' Report

Referred to in Paragraph 3 of our Report of even date:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets. According to the information and explanations given to us, most of the fixed assets have been physically verified by the Management during the year. In our opinion, the frequency of such physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification as compared to the available records. There was no substantial disposal of fixed assets during the year.

2. Physical verification of Inventory has been conducted by the Management at reasonable intervals. The procedures for physical verification of stocks followed by the Management are reasonable and adequate in relation to the size of the company and nature of its business.

   The company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

3. As informed to us, the company has granted unsecured loans to three wholly owned subsidiary companies, which is covered in the register maintained under Section 301 of the Companies Act, 1956, amounting to Rs.1365.84 lacs.

4. The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

5. In our opinion and according to the information and explanation given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system.

6. In our opinion and according to the information and explanation given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

   The transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices / Joint venture agreements at the relevant time.

7. The company has not accepted any deposits from the public.

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

9. We have broadly reviewed the books of account maintained by the Company, pursuant to the rules made by the Central Government for the maintenance of the Cost Records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

10. The company is generally regular in depositing undisputed Statutory Dues including Provident fund, Investor education and protection fund, Employees' state insurance, Income-Tax, Sales-Tax, Wealth-Tax, Service-Tax, Custom duty, Excise duty, Cess and any other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of sales-tax, Income-Tax, Wealth Tax, Service Tax, Custom duty, Excise duty and Cess were outstanding at the year end for a period of more than six months from the date they became payable.

    According to the records of the company, there are no disputed amounts that have not been deposited with appropriate authorities on account of Income Tax, Sales-tax, Wealth Tax, Service-Tax, Custom duty, Excise duty and Cess except the following:

Name of the Statute	Nature of the Dues	Period to which the amount relates	Amount Rs. Lakhs	Forum where the dispute is pending
Central Excise Act, 1944	Excise Duty	1999-00 to 2000-01	111.96	Customs, Excise and Gold (Control) Appellate Tribunal Chennai.
		2000-01 & 2001-02	37.12	
		2004-05	124.77	Commissioner of Central Excise, Chennai.
			0.54	Commissioner of Central Excise (Appeals), Chennai.
		2005-06	0.59	Commissioner of Central Excise (Appeals), Chennai.
			91.53	Commissioner of Central Excise, Chennai.
			11.57	Joint Commissioner of Central Excise, Chennai.
			1.70	Deputy Commissioner of Central Excise and Customs, Aurangabad.
		2006-07	1.93	Assistant Commissioner of Central Excise, Chennai.
Finance Act, 1994 (Chapter V)	Service-Tax	June 1997 to 2001-02	42.26	Commissioner of Central Excise, Chennai.
Tamil Nadu Tax on Consumption or sale of Electricity Act, 2003	Electricity Cess	2003-04 64.64		Honourable High court of Chennai.
		2004-05	74.27	
		2005-06	75.64	
		2006-07	79.58	
Income-Tax Act, 1961	Income-Tax	AY 1997-98	53.82	Income-Tax Appellate Tribunal, Chennai.
Income-Tax Act, 1961	Interest on Income Tax	AY 1997-98 & 98-99	68.88	Commissioner of Income Tax, Chennai.
Income-Tax Act, 1961	Income-Tax	AY 2001-02 & 2002-03	11.58	Income-Tax Appellate Tribunal, Chennai.
Income-Tax Act, 1961	Income-Tax	AY 2004-05	38.39	Income-Tax Appellate Tribunal, Chennai.
Income-Tax Act, 1961	Income-Tax	AY 2004-05	8.13	Commissioner of Income-Tax, Appeal, Chennai.

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

12. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in payment of dues to financial institutions and banks. The company does not have any borrowings by way of debentures.

13. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

14. In our opinion and according to the information and explanations given to us, the nature of activities of the company does not attract any special statute applicable to chit fund and nidhi / mutual benefit fund/societies.

15. Based on our examination of records and the information and explanations given to us, the company has not dealt / traded in any shares, securities, debentures and other investments during the year.

16. According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions.

17. The term loans obtained by the company were applied only for the purposes for which the loans were obtained.

18. According to the cash flow statement and other records examined by us and the information and explanations given to us on an over all basis, the funds raised on short-term basis, prima facie, have not been used during the year for long-term investment other than temporary deployment pending application.

19. The company has made preferential allotment of 4965000 warrants, to promoters covered in the register maintained under Section 301 of the Companies Act, 1956, each warrant convertible into one equity share of Rs. 10 each within 18 months from the date of issue. The above issue of warrant is in accordance with SEBI guidelines.

20. The company did not have any outstanding debentures / bonds during the year for which creation of securities is required.

21. During the year the company raised funds through issue of Foreign Currency Convertible Bonds amounting to Rs. 77358.75 lakhs. The end use of the money raised has been disclosed and verified.

22. Based on the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the course of our audit.

For SNB Associates
Chartered Accountants

S Lakshmanan
Partner
Membership No. 20045

Place: Chennai
Date: May 3, 2007

Balance Sheet as at March 31, 2007

(Rs. Lakhs)

	Schedule		31.03.2007		31.03.2006
I SOURCES OF FUNDS					
A. Shareholders' Funds					
Share Capital	A		6581.63		6461.82
Share application money pending allotment (Refer Note 11)			0.96		-
Reserves and Surplus	B		43542.57		72040.71
B. Loan Funds					
Secured Loans	C		68966.76		82655.85
Unsecured Loans					
From Banks			9000.00		8500.00
Foreign Currency Convertible Bonds (Refer Note 7)			85224.57		11669.02
C. Deferred Tax Liability (Refer Note 24)			9236.00		8006.00
Total			222552.49		189333.40
II. APPLICATION OF FUNDS					
D. Fixed Assets	D				
Gross Block		143181.65		125764.20	
LESS Depreciation		44940.05		36774.35	
Net block		98241.60		88989.85	
Capital Work in Progress		45517.52		21638.79	
Advance for capital items		9527.64		5278.61	
			153286.76		115907.25
E. Investments	E		11570.80		9823.69
F. Current Assets, Loans and Advances					
Inventories	F	60227.22		43807.72	
Sundry Debtors	G	36425.13		32881.53	
Cash and Bank Balances	H	11225.76		1129.59	
Other Current Assets	I	14.92		50.74	
Loans and advances	J	13140.42		9803.51	
		121033.45		87673.09	
G. Less Current Liabilities and Provisions	K	63338.52		24070.63	
			57694.93		63602.46
Total			222552.49		189333.40
Notes on accounts	Q				

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

S Lakshmanan
Partner

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Profit and Loss Account for the year ended March 31, 2007

(Rs. Lakhs)

	Schedule		31.03.2007		31.03.2006
I INCOME					
Sales & Operating Income	L	93417.55		88876.64	
Less: Excise Duty		2125.77	91291.78	1530.93	87345.71
Other Income	M		155.98		132.73
			91447.76		87478.44
II EXPENDITURE					
Material Cost	N		31055.55		36407.03
Manufacturing, Selling & Other Expenses	O		31255.65		25011.35
Interest and Finance charges	P		9830.65		8701.32
Depreciation / Amortisation			8246.73		8297.57
			80388.58		78417.27
III Profit					
Profit for the year before tax			11059.18		9061.17
Less: Provision for tax					
Current Taxes		–		–	
Fringe Benefit Tax		166.00		181.00	
Deferred Taxes (Refer Note 24)		1230.00	1396.00	590.00	771.00
Profit for the year after tax			9663.18		8290.17
Balance brought forward			4519.18		2748.36
Balance Available for Appropriation			14182.36		11038.53
IV Appropriations					
Excess provision of dividend & tax thereon of earliers year written back			(268.09)		–
Proposed Dividend		2940.54		2209.47	
Tax on proposed dividend		499.74	3440.28	309.88	2519.35
Transfer to General Reserve			7000.00		4000.00
Balance carried to Balance Sheet			4010.17		4519.18
V Earnings per Share (Equity shares of Rs. 10/- each fully paid up)					
Basic (Rs.)			14.70		14.85
Diluted (Rs.)			13.23		13.64
Notes on Accounts	Q				

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

S Lakshmanan
Partner

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Schedules to the Accounts as at March 31, 2007

(Rs. Lakhs)

		31.03.2007		31.03.2006
Schedule 'A' – Share Capital				
Authorised				
10,00,00,000 (Previous year 9,00,00,000) Equity Shares of Rs. 10/- each		10000.00		9000.00
Issued, Subscribed and Paid-up				
6,58,16,291 (Previous year – 6,46,18,182) Equity Shares of Rs. 10/- each fully paid.		6581.63		6461.82
Of the above				
1,73,76,940 Equity Shares of Rs. 10/- each are allotted as fully paid up by way of bonus shares by Capitalisation of reserves.				
Schedule 'B' – Reserves & Surplus				
Capital Reserve				
– Opening Balance	–	–	–	–
– Additions during the year (Ref Note 23(b))	805.54	805.54	–	–
Securities Premium Account				
– Opening Balance	57430.04		34874.35	
– Additions during the year	2788.21		26016.11	
	60218.25		60890.46	
Deductions during the year				
– Issue of Bonus shares	–		1737.69	
– Provision for premium on redemption of FCCB (Refer Note 7(c))	36371.36		458.68	
– GDR/FCCB issue expenses adjustment	2211.52	21635.37	1264.05	57430.04
General Reserve				
– Opening Balance	10091.49		6091.49	
– Add: Transfers during the year	7000.00	17091.49	4000.00	10091.49
Surplus in Profit & Loss Account		4010.17		4519.18
		43542.57		72040.71
Schedule 'C' – Secured Loans				
From Banks				
Rupee Term Loans	38890.64		46067.15	
Rupee & Foreign Currency Packing Credit & Advance against Bills	29865.47		30588.39	
		68756.11		76655.54
From Financial Institutions				
Rupee Term Loans	–	–	5906.25	5906.25
Hire Purchase Finance		210.65		94.06
		68966.76		82655.85

Term loan from Bank of Baroda for NPNC project is secured on the assets of NPNC project at Aurangabad and Irungattukottai. All other Rupee Term Loans and Foreign Currency Term Loans from Banks are secured by Pari Passu charge by way of joint mortgage on immovable and movable assets situated at Factory premises at SIDCO Industrial Area, Alathur, MIDC Industrial Area, Aurangabad, SIPCOT Industrial Park, Irungattukottai and R&D premises at Sholinganallur and current assets, subject to prior charges created/ to be created on current assets in favour of bankers and financial institutions for securing working capital borrowings. Total term loans aggregating Rs. 20000 lakhs are additionally secured by personal guarantees of Shri K Raghavendra Rao, Managing Director of the Company.

Packing Credit and Advances against bills from Banks and Working Capital Loans from Banks are secured by first charge on all current assets namely, Stocks of Raw materials, Semi-finished & Finished Goods, Stores and Spares not relating to Plant & Machinery (Consumable Stores and Spares), Bills Receivable, Book Debts & all other movable property both present and future excluding such movables as may be permitted by the banks/ financial institutions from time to time and by second charge on immovable properties after charges created/ to be created on immovable assets in favour of Financial Institutions/Banks for securing Term Loans. The borrowings from banks are additionally secured by personal guarantee of Shri K Raghavendra Rao, Managing Director of the Company.

Hirepurchase Loans are secured by the assets acquired through such loans.

Schedules to the Accounts as at March 31, 2007

Schedule "D" Fixed Assets

(Rs. Lakhs)

Sl. No.	Asset Description	Gross Block (At Cost)				Depreciation/Amortisation				Written Down Value	
		As at 1.4.2006	Additions during the year	Deletions during the year	As at 31.3.2007	Up to 31.3.2006	For the year	On Deletions	Up to 31.3.2007	As at 31.3.2007	As at 31.3.2006
1.	Freehold land & Site Development	1302.09	302.16	11.96	1592.29	-	-	-	-	1592.29	1302.09
2.	Leasehold land	643.05	181.10	-	824.15	-	39.04	-	39.04	785.11	643.05
3.	Buildings	15141.22	1062.48	-	16203.70	1864.63	482.73	-	2347.36	13856.34	13276.59
4.	Plant & Machinery	91937.71	12357.26	63.18	104231.79	29654.24	6327.68	32.80	35949.12	68282.67	62283.47
5.	Factory Equipment	953.00	154.48	-	1107.48	430.42	101.60	-	532.02	575.46	522.58
6.	Laboratory Equipment	6211.17	708.46	-	6919.63	1078.57	313.29	-	1391.86	5527.77	5132.60
7.	Office Equipment	1532.14	361.01	0.06	1893.09	772.44	149.37	0.01	921.80	971.29	759.70
8.	Furniture & Fittings	1218.81	49.59	-	1268.40	369.75	73.87	-	443.62	824.78	849.06
9.	Vehicles	502.26	243.56	102.80	643.02	164.60	55.13	48.22	171.51	471.51	337.66
10.	Intangible Assets										
	Acquired Brands & Trademarks*	2202.60	575.56	-	2778.16	1430.04	459.71	-	1889.75	888.41	772.56
	Internally Generated DMF & ANDA **	4120.15	1599.79	-	5719.94	1009.66	244.31	-	1253.97	4465.97	3110.49
	Total	125764.20	17595.45	178.00	143181.65	36774.35	8246.73	81.03	44940.05	98241.60	88989.85
	Previous years figures	98082.47	28889.68	1207.95	125764.20	28555.46	8297.57	78.68	36774.35	88989.85	

* Represents value of registrations and value of applications filed Pending registration

** Refer Note 1 (b) (iv) of Schedule Q

Schedules to the Accounts as at March 31, 2007

(Rs. Lakhs)

	31.03.2007		31.03.2006	
Schedule 'E' - Investments	Nos.	Rs. In Lakhs	Nos.	Rs. In Lakhs
(At cost)				
Long Term				
Trade, UnQuoted				
Subsidiary Companies				
Orchid Europe Limited, UK (previously known as Orchid Nutricare Limited) Common stock of GBP 1 each fully paid up	10000	6.42	10000	6.42
Less: Provision for diminution in value		(6.42)		(6.42)
		–		–
Ogna Farma, Brazil				
Common stock		115.35		87.89
Gene Arrays Inc., USA *#				
Preferred stock with par value of US$ 0.001	200000	91.10	200000	91.10
Less : Provision for diminution in value		(91.10)		–
		–		91.10
Orchid Pharmaceuticals Inc., USA				
Common stock of US$ 1 each fully paid up	100100	44.72	100100	44.72
Less: Provision for diminution in value		(40.21)		(40.21)
		4.51		4.51
Bexel Pharmaceutical Inc.**				
10,000,000 Series A & 48,93,740 Series B Convertible Preferred Stock par value USD 0.001 per share and 9,001,090 Common stock of par value USD 0.001 per share	23894830	8883.24	13562500	6703.69
Orchid Pharmaceuticals SA (Proprietary) Limited, South Africa 10000 shares each fully paid up	10000	4.49	–	–
Orchid Research Laboratories Ltd.				
Fully paid up equity shares of Rs.10/- each	14876600	1487.66	6550000	655.00
Less: Provision for diminution in value		(1297.06)		(112.14)
		190.60		542.86
		9198.19		7430.05
Joint Venture Companies				
BChD Biotechnological Chemical Development Limited, UK #				
Common stock of GBP 1 each fully paid up	31100	21.03	31100	21.03
Less: Provision for diminution in value		(21.03)		–
		–		21.03
NCPC Orchid Pharmaceuticals Company Ltd., China		2364.24		2364.24
Common stock representing 50% interest in the company				
		2364.24		2385.27
Non – Trade, Quoted				
Bank of India				
Fully paid up Equity shares of Rs. 10/- each	18600	8.37	18600	8.37
		8.37		8.37
Total Value of Investments		11570.80		9823.69

Market Value for quoted investment is Rs. 31.21 Lakhs. (Previous year Rs. 24.84 Lakhs)
Units bought and sold during the year:
Chola Mutual Fund 118011966 units valued at Rs. 11837.64 Lakhs.
Reliance Mutual Fund 26009297 units valued at Rs. 2600 Lakhs.

* Each Preferred stock is convertible into One Common stock, at any time, at the option of the Company and will have voting rights equal to one common stock and has the same value as common stock.

** Each Series A & B Preferred stock is convertible into One Common stock, at any time, at the option of the Company and will have voting rights equal to one common stock and has the same value as common stock.

\# represents companies under liquidation.

Schedules to the Accounts as at March 31, 2007

(Rs. Lakhs)

	31.03.2007	31.03.2006
Schedule "E" - Inventories (Refer Note 1 (f) Schedule "O")		
Raw materials	11133.59	9480.13
Stores and Spare parts	2012.73	1867.09
Chemicals and Consumables	1134.83	796.06
Packing Materials	1255.91	948.45
Intermediates & WIP	36859.20	25914.43
Finished Goods	7240.42	4173.09
Traded Goods	590.54	628.47
	60227.22	43807.72
Schedule "G" - Sundry Debtors		
Debts more than 6 months (Unsecured)		
Considered Good	25408.29	19869.07
Considered Doubtful	1615.11	1615.11
Other Debts (Considered Good)		
Secured	1021.54	62.86
Unsecured	9995.30	12949.60
	38040.24	34496.64
Less: Provision for Doubtful Debts	1615.11	1615.11
	36425.13	32881.53
Schedule "H" - Cash and Bank Balances		
Cash in Hand	9.37	8.67
Balances with scheduled Banks on		
Current Account	419.08	471.71
Term Deposit Account	0.58	0.55
Margin Money Deposit	618.62	589.43
Share Application Money and Dividend Account	51.61	49.21
Balances with other Banks on		
Current account (Ref Note 16)	10126.50	10.02
	11225.76	1129.59
Schedule "I" - Other Current Assets		
Interest accrued on deposits and advances *	35.99	71.81
	35.99	71.81
Less: Provision for Doubtful Interest accrued	21.07	21.07
	14.92	50.74
*Includes dues from subsidiary Rs. 21.07 Lakhs (Previous year – Rs. 21.07 Lakhs)		
Schedule "J" - Loans and Advances (Unsecured)		
Considered Good		
Share Application Money Pending Allotment	30.00	–
Advances recoverable in cash or kind or for value to be received *	11534.03	8657.78
Advance Payment of Tax	918.31	863.50
Loans to Subsidiaries	–	43.54
Deposits		
– With Government authorities	291.78	165.89
– Others	366.30	72.80
Considered Doubtful		
– Loan to Subsidiary	78.19	78.19
– Others	491.10	–
	13709.71	9881.70
Less: Provision for Doubtful Advances	569.29	78.19
	13140.42	9803.51
*Includes dues from subsidiary Rs. 1365.84 Lakhs (Previous year – Rs. 213.21 Lakhs)		

Schedules to the Accounts as at March 31, 2007

(Rs. Lakhs)

		31.03.2007		31.03.2006
Schedule "K" – Current Liabilities and provisions				
Acceptances		900.11		617.02
Sundry creditors (other than SSI) for				
– Capital Items		4641.66		1577.57
– Other supplies		11268.53		13254.45
– Expenses		3574.09		3332.89
(Includes due to Directors – Rs. 375 lakhs (Previous year – Rs. 300 lakhs)				
Dues to Small Scale industrial undertakings (SSI) for				
– Other supplies		434.57		324.84
Investor Education and Protection Fund shall be credited by the following amounts namely:*				
– Unclaimed Dividend		51.61		49.21
– Share Application Money Refundable		5.42		5.42
Interest Accrued but not due		–		5.24
Premium payable on redemption of FCCBs (Ref Note 7(c))		36830.03		458.68
Other liabilities (Refer Note 23(d))		1746.77		1480.51
Provisions				
– For Taxation		445.45		445.45
– Proposed Dividend		2940.54		2209.47
– Tax on Proposed Dividend		499.74		309.88
		63338.52		24070.63

* Represents balances in those accounts as of 31st March. Actual amount to be transferred to the Investor Education and Protection Fund will be determined on due dates.

Schedules to the Accounts for the year ended March 31, 2007

Schedule "L" – Sales & Operating Income				
Sales	89532.90		83637.62	
Less: Excise Duty	2093.63	87439.27	1488.56	82149.06
Operating Income				
Income from services rendered				
Technical & Consultancy Fees (TDS – Rs. Nil (Previous year – Rs. 7.45 Lakhs))		2.88		114.56
Contract Research & Development		496.56		1000.24
Sale of Other Materials	516.23		293.85	
Less: Excise Duty	32.14	484.09	42.37	251.48
Development Fee		2434.56		446.21
Licence Fee		328.75		2479.50
Transfer of IPR		–		560.00
Other Operating Income		105.67		344.66
		91291.78		87345.71
Schedule "M" – Other Income				
Interest on Advances		–		21.52
Income from Investments				
Dividend – Non Trade		14.94		10.26
Profit on sale of fixed assets		9.75		57.07
Miscellaneous Income		131.29		43.88
		155.98		132.73
Schedule "N" – Material Cost				
Raw Materials Consumed	40064.93		34405.08	
Cost of Traded Goods	2205.68	42270.61	2034.14	36439.22
Less: (Accretion to) / Depletion in Stocks				
Closing Stock of Intermediates, WIP & Finished Goods	44099.62		30087.52	
Opening Stock of Intermediates, WIP & Finished Goods	30087.52	(14012.10)	28174.81	(1912.71)
Consumption of Packing Materials		2797.04		1880.52
		31055.55		36407.03

Schedules to the Accounts for the year ended March 31, 2007

(Rs. Lakhs)

	31.03.2007	31.03.2006
Schedule 'O' – Manufacturing, Selling and Other Expenses		
Power and Fuel	5202.05	4321.94
Conversion Charges	1337.97	1721.31
Consumption of Stores, Spares & Chemicals	2658.79	2126.26
Factory Maintenance	1633.92	1130.93
Salaries and Wages	6181.04	5361.22
Contribution to Provident & other funds	812.51	515.29
Staff Welfare	779.02	644.67
Rent	14.26	17.67
Rates & Taxes	73.76	147.49
Insurance	1317.84	1058.13
Postage, Telephone & Telex	144.16	153.68
Printing & Stationery	201.37	168.75
Vehicle Maintenance	46.87	45.63
Research & Development Expenses (Refer Note 30)	3963.13	2662.10
Advertisement	24.17	41.92
Recruitement expenses	86.41	45.28
Auditors' Remuneration		
Statutory Auditors (Refer Note 12)	57.18	60.53
Cost Auditors	12.79	10.12
Travelling and Conveyance	865.55	752.88
Directors' Remuneration & perquisites (Refer Note 13)	626.73	504.66
Directors' Travelling		
Inland	10.79	9.68
Overseas	80.20	40.93
Directors' sitting fees	18.20	19.80
Loss on sale of fixed asset	47.24	16.64
Freight outward	1598.69	1492.54
Commission on Sales	1058.34	1108.75
Business Promotion and Selling Expenses	1105.69	537.36
Consultancy & Professional Fees	1102.91	617.66
Exchange Rate Loss / (Gain)	(2247.64)	(865.96)
Loss / Provision for Diminution in value of Investments	1297.05	152.35
Provision for doubtful advances	491.10	–
Bad debts and advances written off	38.23	–
Miscellaneous expenses	1162.85	1023.13
	31803.17	25643.34
Less: Loss of profit – Insurance claim (Refer Note 20)	547.52	631.99
	31255.65	25011.35
Schedule 'P' – Interest and Finance Charges (Refer Note 14)		
Interest on Term Loans	4914.55	4021.05
Other Interest & Finance Charges	4916.10	4680.27
	9830.65	8701.32

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

S Lakshmanan
Partner

Place: Chennai
Date: May 3, 2007

R Narayanan
Chairman

Dr C Bhaktavatsala Rao
Deputy Managing Director

D S Bhaskara Raju
Chief Financial Officer

K Raghavendra Rao
Managing Director

Dr M R Girinath
Director

Dr I. Seetharam Naidu
Director

L Chandrasekar
VP – Internal Audit & Secretary

Schedules to the Accounts for the year ended March 31, 2007

Schedule "O" – Notes on Accounts

1. Significant Accounting Policies

a) **Accounting Convention**

The Financial Statements are prepared under historical cost convention. Revenues are recognised and expenses are accounted on their accrual with necessary provisions for all known liabilities and losses.

b) **Fixed Assets**

i) Fixed Assets are stated at the original cost inclusive of inward freight, incidental expenses related to acquisition and related pre-operational expenses.

ii) Machinery spares which can be used only in connection with specific fixed assets and the use of which are irregular, are charged over the period of the life of such fixed asset, in accordance with Accounting Standard (AS 10).

iii) Brands represent brands acquired by the company and includes IPR & Licences purchased for a consolidated consideration.The cost of brands, patents and trademarks are amortised over a period of 60 months from the month of acquisition.

iv) Internally Generated Intangible assets – DMF & ANDA

DMF and ANDA costs represent expenses incurred on development of processes and compliance with regulatory procedures of the US FDA, in filing Drug Master Files ("DMF") and Abbreviated New Drug Applications ("ANDA"), in respect of products for which commercial value has been established by virtue of third party agreements / arrangements. This is in accordance with the requirements of Accounting Standard 26 of the Institute of Chartered Accountants of India.

The cost of each DMF / ANDA is amortised to the extent of recovery of developmental costs as applicable per terms of agreement or over a period of five years from the date on which the product covered by DMF / ANDA is commercially marketed, whichever is earlier.

v) Assets are depreciated on straight line basis at the rates specified in Schedule XIV of the Companies Act, except in respect of the following assets, where the useful lives reckoned in computing the depreciation for the year are different from those derived from the rates specified in Schedule XIV of the Companies Act, 1956. The revised useful life of the assets have been determined by the Management based on technical assessment.

Asset Categories	Useful life
Reactors, Pipes, Pipe fittings, Valves, Motors, Pumps, Nitrogen Plant, Gear Boxes, Cables and Centrifuges Evaporator (indigenous), Jet aeration system(indigenous), Ventilation & Exhaust system, HCL column, ETP(indigenous), scrubber, incenarator(indigenous).	9 years

vi) Leasehold assets cost is amortised over the period of the Lease.

vii) Depreciation on assets added/disposed off during the year is provided on pro-rata basis from the month of addition or up to the month of disposal, as applicable.

viii) Impairment of assets

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the assets and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above.

c) **Borrowing Costs**

Interest cost on qualifying asset being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, is capitalised at the weighted average rate of the funds borrowed and utilised for acquisition of such assets.

d) **Treatment of expenditure during construction period.**

Expenditure during construction period is included under capital work-in-progress and the same is allocated to the respective fixed assets on the completion of construction.

e) **Investments**

Investments considered long term are shown at cost. Diminution in the value of investments other than temporary are provided for. Current investments are valued at lower of cost and market value.

Schedules to the Accounts

Schedule 'O' - Notes on Accounts (contd)

f) **Inventories**

i)	Stores & Spares	– At weighted average cost
ii)	Raw Materials	– At annual weighted average cost
iii)	Finished Goods @	– At lower of cost & net realisable value
iv)	Work in Progress & Intermediates @	– At lower of cost & net realisable value

@ After adjustment of unrealised profits on inter division transfer.

g) **Revenue Recognition**

Sales are recognised on despatch of goods from the factory/ warehouse. Sales are net of returns, discounts and inter-division transfers. Service income is recognised as per contractual terms. In respect of composite contracts involving development and other activities, income is recognised on the basis of contractual terms after considering the quantum of work completed.

h) **Retirement Benefits**

Retirement Benefits are accounted on accrual basis. The company's liability towards the gratuity of employees is covered by a group gratuity policy with LIC and ICICI Prudential Life Insurance Company Ltd and the contribution to the fund is based on actuarial valuation carried out yearly as at 31st March. Provision for Leave Encashment has been made based on actuarial valuation as at the year end.

i) **Translation of Foreign Currency items**

1) Foreign currency liabilities including liabilities on swap transactions, in respect of fixed assets, which have been acquired from a country outside India, have been restated in rupee terms at the exchange rates prevailing at the date of the Balance Sheet and the increase or decrease arising out of it is adjusted to the cost of fixed assets.

2) Other foreign currency assets and liabilities are recognised at the rates applicable on the date of the Balance Sheet and the difference is charged to the Profit & Loss account.

3) All inter related transactions are recognised at common rates.

4) Exchange difference between the rates applicable at the date of the transaction and the rate actually realised (except in cases of inter-related transactions as stated above) has been shown as exchange gain/loss.

5) Transactions covered by forward contracts/options are stated at forward rates and the difference between forward rate and exchange rate at the date of the transaction has been recognised as income or expense over the life of the contract.

j) **Subsidy on Fixed Assets**

Subsidy received on fixed assets is credited to the cost of respective fixed assets.

2. Sales tax recoverable has been recorded on the basis of the claims submitted or in the process of being submitted, as per rules relating to EOU and which in the opinion of the Company are recoverable.

(Rs. Lakhs)

	As at 31.03.2007	As at 31.03.2006
3. Estimated amounts of contracts remaining to be executed on capital account (net of advances) and not provided for.	7767.90	9016.84
4. Other monies for which company is contingently liable:		
– Bills Discounted	20278.58	15126.75
– Unexpired Letters of Credit	10086.47	13447.77
– Bank Guarantees outstanding	276.99	1018.48
– Claims against the company not acknowledged as debts		
Cess on electricity generation pending before High Court of Chennai	294.13	214.55
Excise demands under dispute pending before Excise authorities	381.71	283.48
Service Tax dispute pending before High Court of Chennai	42.26	186.51

5. The Company has filed an appeal against the demand made by the Income Tax department amounting to Rs. 111.92 Lakhs (Previous year Rs. 103.78 Lakhs). No provision has been made as the company is confident of winning the appeal. No provision has also been made for demand of interest amounting to Rs. 68.88 Lakhs (Previous year Rs. 68.88 Lakhs) as petition has already been filed for waiver of interest.

Schedules to the Accounts

Schedule "O" - Notes on Accounts (Contd.)

6. Committment to subscribe to the capital of Subsidiary Companies as at the date of Balance Sheet is Rs. Nil (Previous year Rs. 3226.98 Lakhs).

7. **Foreign Currency Convertible Bond (FCCB)**

a) The Company raised FCCB during the current year aggregating to USD 175 million (Rs. 77358.75 Lakhs) with an option to the investor to convert the FCCBs into equity shares of the Company at an initial conversion price of Rs. 348.335 per share at a fixed rate of exchange on conversion Rs. 43.93 = USD 1, at any time after April 9, 2007 and prior to February 18, 2012. Further the Company has an option of early redemption of these FCCBs in whole at any time on or after February 28, 2010 and prior to February 21, 2012, subject to certain conditions. Unless previously converted, redeemed or repurchased and cancelled, the FCCBs will be redeemed on February 28, 2012 at 142.77 % of their principal amount.

b) The Company raised FCCB during the year 2005-06 aggregating to USD 42.50 million (Rs. 19284.50 Lakhs) including a green shoe option of USD 5 million (Rs. 2289.50 Lakhs) with an option to the investor to convert the FCCBs into equity shares or global depository receipts at an initial conversion price of Rs. 243.80 per share at a fixed rate of exchange on conversion Rs. 44.94 = USD 1. Out of the above, FCCBs amounting to US$ 22.79 million (Rs.10241.83 Lakhs) (including US$ 6.25 million (Rs. 2808.75 Lakhs) during the current year 2006-07) have been so far converted.

Further, the Company has an option of early redemption of these FCCBs at any time after November 03,2006 subject to certain conditions. Unless previously converted, redeemed or repurchased and cancelled, the FCCBs will be redeemed on November 03, 2010 at 147.1688% of their principal amount.

The current status of above FCCB conversion into equity is as follows:

Particulars	FCCB Value USD Million	Number of Shares in Lakhs	Increase in Equity Rs. Lakhs	Increase in Security Premium Rs. Lakhs
Conversion effected up to March 31, 2007	22.79	42.00	420.09	9821.71
	22.79	42.00	420.09	9821.71

c) Provision has been made for the entire premium payable on redemption of FCCBs amounting to Rs. 36371.36 Lakhs (Net of Rs. 458.68 Lakhs provided in 2005-06 on pro-rata basis)by debiting the Securities Premium account (SPA). In the event that the conversion option is exercised by the holder of FCCBs in the future, the amount of premium charged to SPA will be suitably adjusted in the respective years.

The debit to share premium account for premium on FCCBs and for issue expenses have been made on the gross value without adjusting any tax impact. Tax benefits accruing to the company on account of claiming such expenses will be credited to the premium account in the year in which the benefit is enjoyed by the company.

d) Even though the Company has provided for the premium on redemption of FCCBs as per note (c) above, the Company has also made provision for dividend in the books of account on the equity shares to be allotted upon conversion of FCCBs outstanding as at March 31, 2007, since the Company is obliged, as per SEBI guidelines, to pay dividend to those FCCB holders who convert their FCCB into equity after adoption of the financial statements and upto the book closure date.

(Rs. Lakhs)

	31.03.2007	31.03.2006
e) Usage of funds raised through FCCBs		
Opening Balance	7.47	–
Funds received	77358.75	37325.70
Add: Interest received	164.14	31.15
Less: Expenses of Issue/Exchange Fluctuations	2208.56	1626.02
	75321.80	35730.83
Repayment of Loans	60811.67	26990.57
Capital Expenditure/ Advances/ ANDA filings	4392.92	8732.79
Balance	10117.21	7.47

Schedules to the Accounts

Schedule "Q" Notes on Accounts (Contd.)

(Rs. Lakhs)

	31.03.2007	31.03.2006
8. Assets acquired pending for registration in favour of the company.		
Freehold Land	59.09	129.39
9. Fixed Assets include assets on Hire Purchase (Gross Block)	313.61	160.00
10. Loans and Advances include Convertible portion of Loans to joint venture company	–	238.90
11. Share application money pending allotment represents amount received from employees in terms of options exercised under "ORCHID–ESOP 99" scheme and pending allotment.	0.96	–
	2006-07	**2005-06**
12. Auditors' remuneration include the following:*		
Audit fee	39.33	39.28
Tax Audit fee	8.42	8.42
For certification & other matters	9.43	12.83
	57.18	60.53
* Excluding Rs.44.90 Lakhs (Previous year – Rs. 38.57 Lakhs) for services rendered in connection with GDR/FCCB issue.		
13. Directors' Remuneration (including Managing Director's Remuneration)		
– Salaries	138.00	114.00
– Contribution to funds	16.56	13.68
– Other Perquisites	97.17	76.98
– Commission	375.00	300.00
	626.73	504.66
Net Profit for Computation of Managing Director's Commission		
Profit for the year before taxation as per Profit & Loss Account	11059.18	9061.17
Add: Directors' Remuneration	626.73	504.66
Loss on sale of Fixed Assets	47.24	16.64
Provision for Doubtful debts / Advances	491.10	–
Provision for Diminution in value of investment	1297.05	152.35
	13521.30	9734.82
Less: Profit on sale of Fixed Assets	9.75	57.07
Net Profit	13511.55	9677.75
14. a) Other Interest and Finance Charges is after crediting interest receipts	41.90	29.12
TDS on interest receipts	9.64	8.69
b) Amount of interest capitalised	2581.71	1585.32
15. a) Factory Maintenance includes		
– Repairs & Maintenance – Plant & Machinery	528.43	333.92
– Repairs & Maintenance – Building	115.19	71.37
b) Consumption of Stores, Spares and Chemicals include Stores & Spares issued for maintenance	586.85	620.19

Schedules to the Accounts

Schedule 'Q' - Notes on Accounts

(Rs. Lakhs)

		2006-07	2005-06
16. Balance as at the end of the year and maximum amount outstanding at any time during the year with banks other than Scheduled Banks.			
Bank of America, New York	Balance as at March 31	–	2.12
	Maximum amount outstanding	2.12	18.56
ABN Amro Bank, Moscow	Balance as at March 31	–	0.43
	Maximum amount outstanding	28.99	136.92
Citibank NA, New York	Balance as at March 31	6.26	7.47
	Maximum amount outstanding	7.47	7827.19
JSC Vneshtorgbank, Moscow	Balance as at March 31	9.29	–
	Maximum amount outstanding	47.34	–
Bank of India, New Jersey	Balance as at March 31	10110.95	–
	Maximum amount outstanding	75422.15	–

17. a. The names of small scale industrial undertakings to whom dues are outstanding for more than 30 days (as certified by the management)

AARCO Engineering Products Pvt Ltd, Abasi Engineering Works, Aditya better containers Pvt Ltd, Arvind Pipes & Fitting industries, Awanti Clinic & Nursing Home, Contec Airflow (E) Pvt Ltd, Doshi Engineering Works, GP Fitwell Systems P ltd, Grand Polycoats Company P Ltd, Hyderabad Ammonia & Chemicals, Industrial Fabrics Madras, Leeds kem, Mysore Ammonia P Ltd, Nandu Chemical Pvt Ltd, Redhex Corrosion management co, R.Shatl (P) Ltd, Shital Chemical Industries, Shree Electrical Industries, Southern Gasket products, Vasu Chemical Industries,

b. Amounts Due to Micro, Small and Medium Enterprises

The identification of Micro, Small and Medium Enterprises suppliers as defined under "The Micro Small and Medium Enterprises Development Act 2006" is based on the information available with the management. As certified by the Management, the amounts overdue as on 31st March 2007 to Micro, Small and Medium Enterprises on account of principal amount together with interest aggregates to Rs. Nil (Previous year Nil).

18. Derivative Instruments and unhedged Foreign currency Exposure:

(Rs. Lakhs)

			2006-07		2005-06
a) Derivative instruments that are outstanding			Nil		Nil
b) The purpose for which the instruments have been acquired is for hedging the foreign currency exposures					
c) The Foreign Currency Exposures that are not hedged by a derivative instrument or otherwise					
	Currency	Foreign Currency	Rs in Lakhs	Foreign Currency	Rs in Lakhs
i) Receivables Outstanding					
	USD	100029089	43159.59	72150463	32108.68
	EURO	42717	24.55	88542	47.49
ii) Payables Outstanding	USD	5741317	2518.14	9495904	4276.96
	EUR	1230717	751.27	760262	414.34
	JPY	28339587	105.92	78563316	301.60
	Others	–	160.30	–	5.30
iii) FCCB	USD	194710000	85224.57	25960000	11669.02

19. Excise duty on finished goods has been accounted on removal of goods from factory,wherever applicable. Finished goods at factory have been valued at cost exclusive of excise duty and no provision has been made for excise duty on such goods. The above treatment has no impact on Profit & Loss account.

20. Insurance claim against material damage and claim against loss of profit as accepted by insurance company have been adjusted in the respective accounts as below:

	Rs. In Lakhs	Rs. In Lakhs
Fixed Assets	–	105.54
Manufacturing, Selling & Administrative Expenses	547.52	631.99

The amount of claims accounted represents conservative amount which in the opinion of the company is minimum realisable.

Schedules to the Accounts

Schedule "O" - Notes on Accounts (Contd.)

21.a) Related Party Transactions

In accordance with Accounting Standard 18, the disclosure required is given below: *(Rs. Lakhs)*

Nature of Transaction	Subsidiary	Joint venture	Key Management Personnel	Relatives of Key Management Personnel/ Companies in which they exercise significant influence
Finance – Equity Contribution	3044.16 (2849.47)	– (–)	– (–)	– (–)
– Loans & Advances	1352.26 (100.51)	– (39.23)	– (–)	– (–)
– Shares allotted	– (–)	– (–)	– (–)	– (424.37)
– Warrants allotted	– (–)	– (–)	(–) (–)	496.50 (797.61)
Sale of goods	404.88 (–)	3240.03 (687.31)	– (–)	– (–)
Rendering of Services / Interest income/rent	120.36 (894.90)	48.69 (297.87)	– (–)	– (–)
Transfer of IPR	– (560.00)	– (–)	– (–)	– (–)
Availment of Services/Rent	262.48 (–)	– (–)	– (–)	376.32 (251.73)
– Remuneration	–	–	Ref Note 13	–
Amounts due at the end of the year – Debit	1465.57 (256.75)	243.11 (763.64)	– (–)	17.50 (7.50)
Amounts due at the end of the year – Credit	– (16.06)	– (–)	– (–)	1005.81 (797.61)

(Figures in brackets are for previous year)

Names of the related parties and description of relationship.

1.	Subsidiary	Orchid Europe Limited, UK (Previously known as Orchid Nutricare Limited)
		Ogna Farma, Brazil
		Gene Arrays Inc., USA
		Orchid Pharmaceuticals Inc., USA
		Orgenus Pharma Inc., USA (Subsidiary of Orchid Pharmaceuticals Inc., USA)
		Orchid Research Laboratories Ltd., India
		Orchid Pharmaceuticals SA (Properitary) Limited, South Africa
		Bexel Pharmaceuticals Inc., USA
2.	Joint Venture	NCPC Orchid Pharmaceuticals Company Limited, China
		BChD Biotechnological Chemical Development Limited, UK
3.	Key Management Personnel	Mr K Raghavendra Rao, Managing Director
		Dr C Bhaktavatsala Rao, Deputy Managing Director
4.	Relatives of Key Management Personnel	Mrs R Vijayalakshmi (wife of Mr K Raghavendra Rao)
5.	Companies in which relatives of Key Management personnel exercise significant influence.	Spectrasoft Technologies Limited, India.

All whole time directors have been considered as Key Management Personnel as they are involved in planning, directing and controlling the activities of the reporting enterprise.

Schedules to the Accounts

Schedule 'Q' – Notes on Accounts

(Rs. Lakhs)

b) Information on Loans & Advances as per clause 32 of the listing Agreement	Balance as on 31-03-2007	Maximum amount outstanding during the year
Subsidiary – Orchid Europe Limited, UK (Previously known as Orchid Nutricare Limited)	242.26	242.26
Bexel Pharmaceuticals Inc., USA	720.20	720.20
Orchid Research Laboratories Ltd.	503.11	503.11
Joint Venture – BChD Biotechnological Chemical Development Limited, UK	–	546.20
NCPC Orchid Pharmaceuticals Company Limited, China	243.11	243.11

22. In terms of the resolution passed by the company at the EGM dated October 21,1999 Employee Stock Option Scheme was extended to the employees of the company. Accordingly options totalling 15,00,000 Nos were given to the employees as per the scheme formulated under "ORCHID-ESOP 99" scheme by the compensation committee of the Board of Directors. Each option is convertible into one equity share of Rs. 10/- each at a price of Rs. 243.35 including premium for 6,00,000 Nos, Rs. 252 including premium for 3,07,925 Nos, Rs. 300.65 including premium for 2,92,075 nos and Rs. 339.25 options for 3,00,000 nos. No entries were passed in the books as the options were given at the market price prevailing on the date of issuance of options.

A fair and reasonable adjustment in share price/ the number of options outstanding was made by the Company in respect of the Employee Stock Options granted but not exercised by the Employees due to the corporate actions of issue of bonus shares during October 2005. The total number of options outstanding and the price was adjusted so that the total value and options available to each option holder remained the same.

Consequently the revised and adjusted prices per share are Rs. 162.24 (Rs.243.35), Rs. 168.00 (Rs. 252.00) and Rs. 200.44 (Rs. 300.65) respectively for 600000 Nos, 307925 Nos and 292075 Nos of options granted by the company.

For the 300,000 options granted during April 2006 at a price of Rs. 339.25, the Compensation Committee of the Board of Directors considered repricing of the options in the interest of the employees, due to the fall in the price of the shares of the Company and accordingly approved a repricing of the options from Rs. 339.25 to Rs. 193.25 as per the closing price of Orchid at National Stock Exchange on August 11, 2006, subject to the obtaining of the approval from the shareholders.

Pursuant to the exercise of options by employees the Allotment Committee of the Board at its meeting held on April 28, 2006, May 31, 2006, October 19, 2006 and January 19, 2007 allotted 3475, 3015, 4000 and 550 equity shares respectively to the employees. 1493632 Options were outstanding as at March 31, 2007 including the additional number of options adjusted, due to the bonus issue.

In terms of the resolution passed by the company at the AGM dated July 18,2005, 610,000 options were given to the eligible directors and employees as per the scheme formulated under "ORCHID-ESOP 2005" by the compensation committee of the Board of Directors held on August 12, 2006. Each option is convertible into one equity share of Rs. 10/- each at a price of Rs. 193.25 per share including premium.

23. a) In terms of the resolution passed by the Company on July 18, 2005, 25,00,000 warrants were allotted to the Promoter/Promoter Group(s) on August 02, 2005. These warrants were eligible for conversion at the option of the Warrants holders, into equity shares of the company at a price of Rs. 339.41 per share within a period of 18 months of the date of allotment.

b) The Promoters have not exercised 35,60,000 (which includes the adjustment of warrants an account of the bonus issue) warrants into equity Shares within the stipulated period and hence the warrants stands cancelled. Hence on February 2, 2007 the 10% advance paid by them amounting to Rs. 805.54 Lakhs on the unexercised warrants stands forfeited and credited to capital reserve.

c) In terms of the resolution passed by the Company at the EGM held on February 14, 2007, 50,00,000 warrants were allotted

Schedules to the Accounts

Schedule "O" - Notes on Accounts (Contd.)

to the Promoter / Promoter Group(s), the relative(s) of the Promoter on March 01, 2007. These warrants are eligible for conversion at the option of the Warrants holders, into equity shares of the company at a price of Rs. 202.58 per share within a period of 18 months of the date of allotment.

d) Other liabilities include Rs. 1,012.90 Lakhs (Previous year 813.45 Lakhs) being the amount received as advance against the warrants issued to the promoter group, including Rs. 7.09 Lakhs (Previous year Rs. 15.84 Lakhs) from a Director.

24. Provision for Deferred tax for the year Rs. 1230 Lakhs (Previous year Rs. 590 Lakhs)

(Rs. Lakhs)

	As at 31.03.2007	As at 31.03.2006
Deferred Tax liability represents the following		
Timing Difference on account of Depreciation	16645.36	15236.31
Timing Difference on account of Losses	(6941.96)	(6681.58)
Timing Difference on account of provisions	(467.40)	(548.73)

In accordance with clause 29 of Accounting Standard (AS22) Deferred tax Assets and Deferred tax Liabilities have been set off. Deferred tax assets in respect of unabsorbed depreciation and losses under tax laws have been recognised in view of the continued and consistant profitability of the Company.

25. Segmental Reporting

The Company was disclosing segment information classifying the business as Bulk drugs and Formulation till the financial year 2004-05. However in view of integration of bulk actives and formulation business, with the commissioning of Generics formulation facilities in 2005-06, the Company considers the business as one interrelated and integrated business of "Pharmaceutical products" and hence no separate segmental reporting is provided.

26. Additional information pursuant to the provisions of Paragraph 3, 4C & 4D of Part II of Schedule VI of the Companies Act, 1956.

A) Licensed & Installed Capacity (as certified by the management)

Class of Goods		Regd/ Licensed 2006-07	Installed 2006-07	Regd/ Licensed 2005-06	Installed 2005-06
Bulk Drugs and Intermediates					
Oral & Sterile	MT	900	800	900	800
Formulations	Nos Millions	748	748	748	748

Installed Capacities are calculated based on the product mix.

B) Value of Raw Materials, Spare Parts and components consumed during the year

	Year ended March 31, 2007		Year ended March 31, 2006	
	Percentage	Amount Rs Lakhs	Percentage	Amount Rs Lakhs
Raw Materials				
Imported	78.50	31451.40	88.65	30500.37
Indigenous	21.50	8613.53	11.35	3904.71
	100.00	40064.93	100.00	34405.08
Spare Parts Consumables & Packing Material				
Imported	55.67	3037.16	59.09	2367.58
Indigenous	44.33	2418.67	40.91	1639.20
	100.00	5455.83	100.00	4006.78

Schedules to the Accounts

Schedule 20 – Notes on Accounts

C) Earnings in Foreign Exchange during the year *(Rs. Lakhs)*

	2006-07	2005-06
F.O.B. Value of Exports	70108.35	62101.36
Export of Services (net of withholding tax)	2937.96	4329.09
D) C.I.F Value of Imports (on cash basis)		
Raw Materials	31428.70	32280.59
Capital Goods	5272.42	3347.28
Spare Parts Components, Consumables & Packing materials	6671.20	3594.55
E) Expenditure in Foreign Currency (on cash basis)		
Travelling Expenses	136.34	101.91
Interest & Bank Charges	1098.24	755.48
Consultancy Fees	525.11	191.87
Others	5537.98	2847.86
F) Dividend Remittances in Foreign Currency during the year		
Year to which dividend relates	2005-06 Final	2004-05 Final
No of Non Resident Share Holders	3	4
No of Shares held by Non Resident Share Holders	14189367	11988869
Gross Dividend (Rs. Lakhs)	425.68	479.55
Net Dividend (Rs. Lakhs)	425.68	479.55

27. Reconciliation of Basic and Diluted shares used in computing Earnings per share (Equity shares of Rs.10/- each fully paid-up)

(Rs. Lakhs)

		For the year ended 31.03.2007	For the year ended 31.03.2006
Profit After Tax	Rs.	9663.18	8290.17
No. of Shares Outstanding	Nos.	65816291	64618182
Weighted Average Number of shares	Nos.	65733282	55814393
Earning per Share – Basic	Rs.	14.70	14.85
No of warrants & options allotted		32201732	8139778
Total No. of Equity shares to compute diluted EPS	Nos.	73061369	60784877
Earning per Share – Diluted	Rs.	13.23	13.64

Schedules to the Accounts

Schedule 'Q' – Notes on Accounts (Contd.)

28. Disclosure as per requirements of Accounting Standard 26

		As at 31.03.2007	As at 31.03.2006
ACQUIRED			
– Brands & Trademarks			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs. Lakhs)	Opening	772.56	1210.00
	Additions	575.56	2.60
	Amortisation	459.71	440.04
	Closing	888.41	772.56
INTERNALLY GENERATED			
– DMF & ANDA (Refer Note 1 (b) (iv) of Schedule Q)			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs. Lakhs)	Opening	3110.49	1843.98
	Additions	1599.79	2276.17
	Amortisation	244.31	1009.66
	Closing	4465.97	3110.49

29. a) Details of Group Companies

Name of Subsidiary / Joint venture	Country	Type of holding	Percentage of Holding	Nature of realtionship	Nature of Business
Orchid Europe Limited (Previously known as Orchid Nutricare Limited)	UK	Equity	100%	Subsidiary	Marketing
Ogna Farma	Brazil	Common stock	98.5%	Subsidiary	Marketing
NCPC Orchid Pharmaceuticals Company Limited	China	Equity	50%	Joint Venture	Manufacturing
BChD Biotechnological Chemical Development Limited #	UK	Equity	50%	Joint Venture	Research & Manufacturing
Bexel Pharmaceuticals Inc.*	USA	Convertible Preferred stock with equal voting rights as Common stock and Common stock.	@68.48%	Subsidiary	Research
Gene Arrays Inc. * #	USA	Convertible Preferred stock with equal voting rights as Common stock	66.7%	Subsidiary	Research
Orchid Pharmaceuticals Inc.	USA	Common stock	100%	Subsidiary	Marketing
Orgenus Pharma Inc.	USA			Subsidiary of Orchid Pharmaceuticals Inc., USA	
Orchid Research Laboratories Ltd.	India	Equity	100%	Subsidiary	Research
Orchid Pharmaceuticals SA (proprietary) Limited	South Africa	Equity	100%	Subsidiary	Marketing

* Preferred stock has been considered as common stock for the purpose of calculating the percentage of holding since Preferred stock has the same voting rights as common stock.

@ excluding 31.52% held through a wholly owned subsidiary

Companies under liquidation

Schedules to the Accounts

Schedule "O" – Notes on Accounts

b.) The Company's share of interest in Assets, Liabilities, Income and expenses of Joint venture companies *(Rs. Lakhs)*

	31.03.2007	31.03.2006
Fixed Assets	3047.81	3135.78
Current Assets	3212.43	3522.02
Current Liabilities	2507.13	2761.44
Loans	1689.00	1671.00
Income	6828.80	8256.00
Expenses	7007.57	7860.78

30. Research and Development Expenses include

Power and Fuel	131.24	282.13
Conversion Charges	0.04	0.11
Consumption of Stores, Spares & Chemicals	803.05	530.71
Salaries,Wages and Bonus	914.78	914.24
Contribution to Provident & other funds	99.24	109.76
Staff Welfare	95.54	53.94
Rates & Taxes	5.20	3.91
Insurance	25.15	28.22
Postage, Telephone & Telex	11.96	9.07
Printing & Stationery	25.19	36.48
Vehicle Maintenance	4.91	5.52
Recruitment expenses	10.41	11.11
Travelling and Conveyance	43.26	44.35
Testing Charges	1242.31	335.52
Consultancy & Professional Fees	75.15	37.51
Others	475.70	259.52
	3963.13	2662.10

31. In view of deferment of date of implementation of revised AS15 by ICAI, the new AS15 will be implemented from the financial year 2007-08. Accordingly the provision made in the first three quarters during the current year have not been considered.

32. The Central Government by an order under section 211(4) of the Companies Act, 1956 dt. 29.03.2007 has exempted the Company from the disclosure of quantitative details in compliance of para 3(i)(a), 3(ii)(a), 3(ii)(b) and 3(ii)(d) of part II of Schedule VI of the Companies Act, 1956 for the financial year ending 31-03-2007.

33. Previous year's figures have been re-grouped wherever necessary to conform to current year's classification.

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

S Lakshmanan
Partner

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No. 22994 State Code 18

Balance Sheet Date 31 03 2007
Date Month Year

II. Capital Raised during the year *(Amount in Rs. Thousands)*

Public Issue	11521	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	4600

III. Position of Mobilisation and Deployment of Funds *(Amount in Rs. Thousands)*

Total Liabilities	5552499	Total Assets	5552499

Sources of Funds

Paid-up Capital	658163	Reserves & Surplus	4354353
Secured Loans	886676	Unsecured Loans	942457
Deferred Tax Liability	923600		

Application of Funds

Net Fixed Assets	3286776	Investments	1570800
Net Current Assets	769493	Misc. Expenditure	NIL
Accumulated Losses	NIL		

IV. Performance of Company *(Amount in Rs. Thousands)*

Turnover	2917178	Total Expenditure	3838558
Other Income	15598		
Profit/Loss before Tax	1059118	Profit/Loss after Tax	966318
Earnings Per Share in Rs.	14.70	Dividend	30%

V. Generic Names of Three Principal Products / Services of Company

Item Code No. (ITC Code)	Product Description
2941.10	CEPHALOSPORINS
2941.90	OTHER CEPHALOSPORINS
2942.00	OTHER BULK DRUGS

On behalf of the Board

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Cash Flow Statement for the year ended March 31, 2007

(Rs. Lakhs)

	31.03.2007	31.03.2006
A. Cash Flow from Operating Activities		
Net Profit before taxation and extraordinary item	11059.18	9061.17
Adjustment for		
Depreciation	8246.73	8297.57
Dividend Income	(14.94)	(10.26)
Value of services converted in to shares	–	(894.90)
Provision for diminution in value of investments	1297.05	152.35
Loss / (profit) on sale of Fixed Assets	37.49	(40.43)
Foreign Exchange Rate Fluctuations – Unrealised	234.49	242.40
Interest Expense	9830.65	8701.32
Provision for doubtful debts	491.11	–
Operating Profit before Working Capital Changes	31181.74	25509.22
Adjustments for		
Trade and other Receivables	(8652.55)	(14778.55)
Inventories	(16419.51)	(4454.16)
Trade Payables	4967.39	(5685.83)
Cash generated from Operations	11077.04	590.68
Income Taxes Paid	(220.81)	(296.00)
Cash Flow before extraordinary item	10856.26	294.68
Net Cash from Operating Activities	10856.26	294.68
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(46205.59)	(17970.61)
Proceeds from Sale / Deletion of Fixed Assets	59.50	114.14
Investments in Subsidiaries	(3044.16)	(1954.57)
Dividends received	14.94	10.26
Net cash used in Investing Activities	(49175.31)	(19800.78)
C. Cash Flow from Financing Activities		
Proceeds from issuance of Share Capital (net of expenses)	100.24	7996.90
Proceeds of advance received against share warrants	1012.90	805.54
Proceeds from issue of Global Depository Receipts	–	18041.20
Proceeds from / (Repayment)Working Capital Borrowings	(722.92)	6164.12
Proceeds from Long Term Borrowings	93626.42	28883.28
Repayment of Long Term Borrowings	(106709.19)	(34543.61)
Proceeds from issue of Foreign Currency Convertible Bonds (net of expenses)	75146.60	11778.65
Proceeds from / (Repayment of) Short Term Borrowings	500.00	(8000.00)
Proceeds from HP Finance	98.45	(10.33)
Interest paid	(12417.60)	(10292.40)
Dividend paid including dividend distribution tax	(2251.26)	(1556.76)
Net cash from Financing Activities	48383.64	19266.59
D. Net Increase in Cash and Cash equivalents	10064.59	(239.51)
Cash and Cash equivalents at the beginning of period	490.94	730.45
Cash and Cash equivalents at the end of period	10555.53	490.94
Reconciliation Statement		
Cash and bank balances as per Balance Sheet	11225.76	1129.59
Less: Margin Money Deposit	618.62	589.44
Unclaimed Dividend	51.61	49.21
Cash and Cash Equivalents as per Cash Flow	10555.53	490.94

Note: The above cash flow statement has been prepared under the 'Indirect Method' set out in Accounting Standard 3 issued by the Institute of Chartered Accountants of India.

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

S Lakshmanan
Partner

Place: Chennai
Date: May 3, 2007

R Narayanan
Chairman

Dr C Bhaktavatsala Rao
Deputy Managing Director

D S Bhaskara Raju
Chief Financial Officer

Dr M R Girinath
Director

K Raghavendra Rao
Managing Director

Dr I Seetharam Naidu
Director

L Chandrasekar
VP – Internal Audit & Secretary

Consolidated Auditors' Report

Auditors' Report on Consolidated Financial Statements of Orchid Chemicals & Pharmaceuticals Limited and its Subsidiaries, and Joint Ventures

To The Board of Directors
Orchid Chemicals & Pharmaceuticals Limited

1. We have audited the attached Consolidated Balance Sheet of Orchid Chemicals & Pharmaceuticals Limited (the "Company") and its subsidiaries and joint ventures (together the "Group"), as at 31st March 2007 and the Consolidated Profit and Loss Account and the Consolidated Cash Flow statement for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 estimate made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. a) The financial statements of a subsidiary which represents as at 31st March 2007, total liabilities (net) of Rs. 251.64 lakhs and total revenue for the year ended of Rs. 95.12 lakhs has been audited by other auditors and we have relied upon such audited financial statements for the purpose of our audit of the consolidated Financial Statements and our opinion, insofar as it relates to the amounts included in respect of such subsidiary is based solely on the report of the other auditors.

   b) The audited financial statements for the year ended 31st March 2007 were not available in respect of five subsidiaries and two joint ventures of the company. Consequently, such subsidiaries and joint ventures have been accounted for in the Consolidated Financial Statements, on the basis of unaudited financial statements provided by the management of such subsidiaries and joint ventures.

   The total assets (net) of Rs.1414.76 lakhs as at 31st March 2007 (Previous year Rs. 2086.04 lakhs) and total revenue for the year then ended of Rs. 7032.22 lakhs (Previous year Rs. 8390.55 lakhs) in respect of such subsidiaries and joint ventures are included in the consolidated Financial Statements.

   Our opinion, in so far as it relates to the amounts included in respect of such subsidiaries and joint ventures, is based solely on the accounts as approved by the management of such subsidiaries and joint ventures.

4. Subject to our remark in Para 3 above:

   a) We report that the Consolidated Financial Statements for the year ended 31st March 2007 is in accordance with the requirements of Accounting Standard 21 "Consolidated Financial Statements" and Accounting standard 27 "Financial Reporting of Interests in Joint Ventures", issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and a subsidiary and management approved accounts of subsidiaries, and joint ventures included in the Consolidated Financial Statements.

   b) In our opinion, on the basis stated in paragraph (2) above, and on the consideration of separate audit reports on and management approved accounts of individual financial statements of the company, its aforesaid subsidiaries and joint ventures, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

      i) In the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Group as at 31st March 2007;

      ii) In the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Group for the year ended on that date; and

      iii) In the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Group for the year ended on that date.

5. Attention is drawn to the remarks of the Auditors of a Subsidiary company given in Note No. 8 of the Notes to the Consolidated financial statements.

For SNB Associates
Chartered Accountants

S Lakshmanan
Partner
Membership No. 20045

Place: Chennai
Date: May 3, 2007

Consolidated Balance Sheet as at March 31, 2007

(Rs. Lakhs)

	Schedule		31.03.2007		31.03.2006
I. SOURCES OF FUNDS					
A. Shareholders' Funds					
Share Capital	A		6581.63		6461.82
Share application money pending allotment (Refer Note 13)			0.96		–
Reserves and Surplus	B		41927.63		71096.88
B. Loan Funds					
Secured Loans	C		70655.77		84326.86
Unsecured Loans					
From Banks			9000.00		8500.00
Foreign Currency Convertible Bonds (Refer Note 9)			85224.57		11669.02
C. Deferred Tax Liability (Refer Note 22)			9236.00		8006.00
Total			222626.56		190060.58
II. APPLICATION OF FUNDS					
D. Fixed Assets	D				
Gross Block		156337.91		136416.63	
LESS Depreciation		45797.56		37373.04	
Net block		110540.35		99043.59	
Capital Work in Progress		45705.90		21668.50	
Advance for capital items		9598.39	165844.64	5343.05	126055.14
E. Investments			8.37		8.37
F. Current Assets, Loans and Advances					
Inventories	E	61161.33		44814.95	
Sundry Debtors	F	38316.45		34857.48	
Cash and Bank Balances	G	11892.47		1625.91	
Other Current Assets	H	14.93		31.37	
Loans and advances	I	11863.13		9459.94	
		123248.31		90789.65	
G. Less Current Liabilities and Provisions	J	66474.76		26792.58	
			56773.55		63997.07
Total			222626.56		190060.58
Notes on accounts	P				

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

S Lakshmanan
Partner

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Consolidated Profit and Loss Account for the year ended March 31, 2007

(Rs. Lakhs)

	Schedule		31.03.2007		31.03.2006
I. INCOME					
Sales & Operating Income	K	98508.07		95193.99	
Less: Excise Duty		2125.77	96382.30	1530.93	93663.06
Other Income	L		35.62		121.90
			96417.92		93784.96
II. EXPENDITURE					
Material Cost	M		35363.72		42841.09
Manufacturing Selling & Other Expenses	N		33360.47		27076.63
Interest and Finance charges	O		9929.15		8784.48
Depreciation / Amortisation			8508.92		8581.76
			87162.26		87283.96
III. Profit					
Profit for the year before tax			9255.66		6501.00
Less: Provision for tax					
Current Taxes		–		–	
Fringe Benefit Tax		170.78		181.00	
Deferred Taxes (Refer Note 22)		1230.00	1400.78	590.00	771.00
Profit for the year after tax			7854.88		5730.00
Balance brought forward			216.61		1005.96
Balance available for appropriation			8071.49		6735.96
IV. Appropriations					
Excess provision of dividend & tax thereon of earlier years written back			(268.09)		–
Proposed Dividend		2940.54		2209.47	
Tax on proposed dividend		499.74	3440.28	309.88	2519.35
Transfer to General Reserve			7000.00		4000.00
Balance carried to Balance Sheet			(2100.70)		216.61
V. Earnings Per Share (Equity shares of Rs. 10/- each fully paid up)					
Basic			11.95		10.27
Diluted			10.75		9.43
Notes on Accounts	P				

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

S Lakshmanan
Partner

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

Place: Chennai
Date: May 3, 2007

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Schedules to the Consolidated Accounts as at March 31, 2007

(Rs. Lakhs)

		31.03.2007		31.03.2006
Schedule 'A' – Share Capital				
Authorised				
10,00,00,000 (Previous year – 9,00,00,000) Equity Shares of Rs. 10/- each		10000.00		9000.00
Issued, Subscribed and Paid-Up				
6,58,16,291(Previous year – 6,46,18,182) equity Shares of Rs. 10/- each fully paid		6581.63		6461.82
Of the above				
1,73,76,940 equity shares of Rs. 10/- each are allotted as fully paid up by way of bonus shares by capitalisation of reserves.				
Schedule 'B' – Reserves & Surplus				
Capital Reserve				
– Opening Balance				
– Additions during the year (Refer Note 21(b))	805.54	805.54	–	–
Securities Premium Account				
– Opening Balance	57430.05		34874.36	
– Additions during the year	2788.21		26016.11	
	60218.26		60890.47	
Deductions during the year				
– Issue of Bonus shares	–		1737.69	
– Provision for premium on redemption of FCCB (Refer Note 9(c))	36371.36		458.68	
– GDR / FCCB issue expenses adjustment	2211.52	21635.38	1264.05	57430.05
General Reserve				
– Opening Balance	9670.51		5670.51	
– Add: Transfers during the year	7000.00	16670.51	4000.00	9670.51
Foreign Currency Fluctuation Reserve				
– Opening Balance	(133.63)		(107.13)	
Adjustments	4.75	(128.88)	(26.50)	(133.63)
Surplus in Profit & Loss Account	(2100.70)		216.61	
Adjustment on consolidation	5045.78	2945.08	3913.34	4129.95
		41927.63		71096.88
Schedule 'C' – Secured Loans				
From Banks				
Rupee Term Loans	38890.64		46067.15	
Rupee & Foreign Currency Packing Credit & Advance against Bills	29865.47		30588.39	
		68756.11		76655.54
From Financial Institutions				
Rupee Term Loans	–		5906.25	
Foreign Currency				
Term Loans	1689.00		1392.50	
Working Capital Loans	–	1689.00	278.50	7577.25
Hire Purchase Finance		210.66		94.07
		70655.77		84346.86

Term loan from Bank of Baroda for NPNC project is secured on the assets of NPNC project at Aurangabad and Irungattukottai. All other Rupee Term Loans and Foreign Currency Term Loans from Banks & Financial Institutions are secured by Pari Passu charge by way of joint mortgage on immovable and movable assets situated at Factory premises at SIDCO Industrial Area, Alathur, MIDC Industrial Area, Aurangabad,SIPCOT Industrial Park, Irrungattukottai and R&D premises at Sholinganallur and current assets, subject to prior charges created/ to be created on current assets in favour of bankers and financial institutions for securing working capital borrowings. Total term loans aggregating Rs. 20000 Lakhs are additionally secured by personal guarantees of Shri K Raghavendra Rao, Managing Director of the Company.

Packing Credit and Advances against bills from Banks and Working Capital Loans from Banks and financial institutions are secured by first charge on all current assets namely, Stocks of Raw materials, Semi-finished & Finished Goods, Stores and Spares not relating to Plant & Machinery (Consumable Stores and Spares), Bills Receivable, Book Debts & all other movable property both present and future excluding such movables as may be permitted by the banks/ financial institutions from time to time and by second charge on immovable properties after charges created/ to be created on immovable assets in favour of Financial Institutions/Banks for securing Term Loans. The borrowings from banks are additionally secured by personal guarantee of Shri. K Raghavendra Rao, Managing Director of the Company. Hirepurchase Loans are secured by the assets acquired through such loans.

Schedules to the Consolidated Accounts as at March 31, 2007

(Rs. Lakhs)

Sl. No.	Asset Description	Gross Block (At Cost)				Depreciation/Amortisation				Written Down Value	
		As at 1.4.2006	Additions/ Adjustments during the year	Deletions/ Adjustments during the year	As at 31.3.2007	Up to 31.3.2006	For the year @	On Deletions	Up to 31.3.2007	As at 31.3.2007	As at 31.3.2006
1.	Goodwill on Consolidation*	7287.39	2194.93	-	9482.32	-	-	-	-	9482.32	7287.39
2.	Freehold Land & Site Development	1302.09	302.16	11.96	1592.29	-	-	-	-	1592.29	1302.09
3.	Leasehold Land	643.05	181.10	-	824.15	-	39.04	-	39.04	785.11	643.05
4.	Buildings	15719.87	1068.19	-	16788.06	1910.78	503.17	-	2413.95	14374.11	13809.09
5.	Plant & Machinery	94351.55	12589.65	63.18	106878.02	30086.47	6525.63	32.80	36579.30	70298.72	64265.08
6.	Factory Equipment	953.00	154.48	-	1107.48	430.42	101.60	-	532.02	575.46	522.58
7.	Laboratory Equipment	6337.72	911.87	3.90	7245.69	1152.44	340.11	2.27	1490.28	5755.41	5185.28
8.	Office Equipment	1574.09	362.55	0.57	1936.07	791.25	162.84	0.27	953.82	982.25	782.84
9.	Furniture & Fittings	1282.34	55.42	1.94	1335.82	397.38	77.37	0.84	473.91	861.91	884.96
10.	Vehicles	502.25	243.56	102.80	643.01	164.60	55.14	48.22	171.52	471.49	337.65
11.	Intangible Assets Acquired Brands & Trademarkes **	2202.60	575.56	-	2778.16	1430.04	459.71	-	1889.75	888.41	772.56
	Patents & Registrations	140.53	0.59	134.22	6.90	-	-	-	-	6.90	140.53
	Internally Generated DMF & ANDA ***	4120.15	1599.79	-	5719.94	1009.66	244.31	-	1253.97	4465.97	3110.49
	Total	136416.63	20239.85	318.57	156337.91	37373.04	8508.92	84.40	45797.56	110540.35	99043.59
	Previous Year Figures	105567.20	32124.43	1274.99	136416.63	28821.47	8630.25	78.68	37373.04	99043.59	

*Refer Note 2 (e) of Schedule – P

** Represents value of registrations and value of applications filed pending registration

*** Refer Note 2 (b) (v) of Schedule - P

@ Depreciation for the year includes Rs.Nil (Previous year Rs. 48.49 Lakhs) being accumulated depreciation of Bexel Pharmaceuticals Inc. as on March 31, 2005 which has become subsidiary during the year 2005-06 and was consolidated as a Joint Venture in prior to 2005-06.

Schedules to the Consolidated Accounts as at March 31, 2007

(Rs. Lakhs)

	31.03.2007	31.03.2006
Schedule 'E' – Inventories (Refer Note 2(o), Schedule 'P')		
Raw materials	11465.58	9687.20
Stores and Spare parts	2072.55	1867.09
Chemicals and Consumables	1177.18	796.06
Packing Materials	1255.91	982.49
Intermediates & WIP	37166.24	26348.73
Finished Goods	7433.33	4504.91
Traded Goods	590.54	628.47
	61161.33	44814.95
Schedule 'F' – Sundry Debtors		
Debts more than 6 months (Unsecured)		
Considered Good	25408.30	19902.34
Considered Doubtful	1661.81	1670.49
Other Debts (Considered Good)		
Secured	1021.54	62.86
Unsecured	11886.61	14892.28
	39978.26	36527.97
Less: Provision for Doubtful Debts	1661.81	1670.49
	38316.45	34857.48
Schedule 'G' – Cash and Bank Balances		
Cash in Hand	10.27	9.16
Balances with Scheduled Banks on		
Current account	844.01	800.09
Term Deposit account	0.58	0.55
Margin money deposit	859.50	756.88
Share Application money and Dividend account	51.61	49.21
Balance with other Banks on		
Current account	10126.50	10.02
	11892.47	1625.91
Schedule 'H' – Other Current Assets		
Interest accrued on deposits and advances	14.93	31.37
	14.93	31.37
Schedule 'I' – Loans and Advances (Unsecured)		
Considered Good		
Share Application Money Pending Allotment	30.00	–
Advances recoverable in cash or kind or for value to be received	10256.69	8357.75
Advance Payment of Tax	918.31	863.50
Deposits		
– With Government authorities	291.83	165.89
– Others	366.30	72.80
Considered Doubtful		
– Others	491.11	–
	12354.24	9459.94
Less: Provision for Doubtful Advances	491.11	–
	11863.13	9459.94

Schedules to the Consolidated Accounts as at March 31, 2007

(Rs. Lakhs)

		31.03.2007		31.03.2006
Schedule "L" – Current Liabilities and Provisions				
Acceptances		1125.31		1313.28
Sundry creditors (other than SSI) for				
– Capital Items		4973.34		1577.57
– Other supplies		13604.27		15013.49
– Expenses [Includes due to Directors – Rs. 375 Lakhs (Previous year – Rs. 300 Lakhs)]		3599.43		3332.89
Dues to Small Scale industrial undertakings (SSI) for				
– Other supplies		434.57		324.84
Investor Education and Protection Fund shall be credited by the following amounts namely:*				
– Unclaimed Dividend		51.61		49.21
– Share Application Money Refundable		5.42		5.42
Interest Accrued but not due		218.28		5.24
Premium payable on redemption of FCCBs (Ref Note 9(c))		36830.03		-
Other liabilities [Refer Note 21(d)]		1746.77		2205.84
Provisions				
– For Taxation		445.45		445.45
– Proposed Dividend		2940.54		2209.47
– Tax on Proposed Dividend		499.74		309.88
		66474.76		26792.58

* Represents balances in those accounts as of 31st March. Actual amount to be transferred to the Investor Education and Protection Fund will be determined on due dates.

Schedules to the Consolidated Accounts for the year ended March 31, 2007

Schedule "K" – Sales & Operating Income				
Sales	94741.68		91548.04	
Less : Excise Duty	2093.63	92648.05	1488.56	90059.48
Operating Income				
Income from services rendered				
– Technical & Consultancy Fees (TDS – Rs. Nil (Previous year – Rs. 7.45 Lakhs))		2.88		57.28
Contract Research & Development		509.88		105.34
Sale of Other Materials	414.06		293.85	
Less: Excise Duty	32.14	381.92	42.37	251.48
Development Fee		2434.56		446.21
Licence Fee		328.75		2479.50
Other Operating Income		76.26		263.77
		96382.30		93663.06
Schedule "L" – Other Income				
Interest on Advances		–		10.76
Income from Investments				
Dividend – Non Trade		14.94		10.25
Profit on sale of fixed assets		9.75		57.07
Miscellaneous Income		10.93		43.82
		35.62		121.90
Schedule "M" – Materials Cost				
Raw Materials Consumed	44051.68		40914.42	
Cost of Traded Goods	2205.68	46257.36	2034.14	42948.56
Less: (Accretion) / Depletion to Stocks				
Closing Stock of Intermediates WIP & Finished Goods	44599.57		30853.64	
Opening Stock of Intermediates WIP & Finished Goods	30853.64	(13745.93)	28804.81	(2048.83)
Consumption of Packing Materials		2852.29		1941.36
		35363.72		42841.09

Schedules to the Consolidated Accounts for the year ended March 31, 2007

(Rs. Lakhs)

	31.03.2007	31.03.2006
Schedule "N" – Manufacturing, Selling and Other Expenses		
Power and Fuel	5511.75	4445.09
Conversion Charges	1337.97	1721.31
Consumption of Stores, Spares & Chemicals	2860.75	2173.50
Factory Maintenance	1819.77	1296.09
Salaries and Wages	7530.10	5781.02
Contribution to Provident & other funds	884.87	519.47
Staff Welfare	829.67	663.40
Rent	82.47	41.32
Rates & Taxes	100.27	172.55
Insurance	1377.09	1064.32
Postage, Telephone & Telex	161.20	155.05
Printing & Stationery	204.90	172.84
Vehicle Maintenance	48.85	45.72
Research & Development (Refer Note 26)	4417.65	3656.25
Advertisement	25.82	42.03
Recruitement expenses	88.12	45.28
Auditors' Remuneration		
Statutory Auditors [Refer Note 14]	73.47	74.98
Cost Auditors	12.79	10.12
Travelling and Conveyance	964.28	774.68
Directors' Remuneration & perquisites	626.73	504.66
Directors' Travelling		
Inland	10.79	9.68
Overseas	80.20	40.93
Directors' sitting fees	18.20	19.80
Loss on sale of fixed assets	47.24	16.63
Freight outward	1625.57	1514.69
Commission on Sales	1125.95	1174.51
Lease Rentals	35.75	–
Business Promotion and Selling Expenses	1138.17	558.97
Consultancy & Professional Fees	1114.46	727.82
Exchange Rate Loss / (Gain)	(2218.28)	(878.44)
Provision for doubtful debts & advances (Net of Rs.8.67 Lakhs for doubtful debts written back)	482.43	14.79
Bad debts and advances written off	38.23	–
Miscellaneous expenses	1450.76	1149.56
	33907.99	27708.62
Less: Loss of profit – Insurance claim	547.52	631.99
	33360.47	27076.63
Schedule "O" – Interest and Finance Charges (Refer Note 15)		
Interest on Term Loans	5014.64	4106.39
Other Interest & Finance Charges	4914.51	4678.09
	9929.15	8784.48

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

S Lakshmanan
Partner

Place: Chennai
Date: May 3, 2007

R Narayanan
Chairman

Dr C Bhaktavatsala Rao
Deputy Managing Director

D S Bhaskara Raju
Chief Financial Officer

Dr M R Girinath
Director

K Raghavendra Rao
Managing Director

Dr I Seetharam Naidu
Director

L Chandrasekar
VP – Internal Audit & Secretary

Schedules to the Consolidated Accounts

Schedule "J" - Notes to the Consolidated Financial Statement

1. a) The Company and description of business

Orchid Chemicals & Pharmaceuticals Limited was incorporated in India in July 1992 and started commercial production in February 1994. The Company manufactures active pharmaceutical ingredients as 100% export oriented unit, and manufactures and sells finished dosage forms (formulations) in domestic and export markets. The company also has a fullfledged R & D facility. The Company has invested in the following companies:

a) Orchid Europe Limited (previously known as Orchid Nutricare Limited), a company formed in the United Kingdom to market nutraceuticals through mail order/ direct marketing in the United Kingdom and Europe.

b) Ogna Farma Distribuicao, Importacao, Exportacao e Assessoria Ltda., a Company formed in the Brazilian Republic to market bulk and formulations.

c) NCPC Orchid Pharmaceuticals Company Limited incorporated in China, engaged in the business of manufacture and sale of bulk drugs & formulations.

d) BChD Biotechnological Chemical Development Limited, UK engaged in pharmaceutical research and manufacturing.

e) Bexel Pharmaceuticals Inc., USA engaged in pharmaceutical research and development.

f) Orchid Pharmaceuticals Inc., USA to market bulk and formulations in USA. It has a whollyowned subsidiary "Orgenus Pharmaceuticals Inc., USA which markets formulations.

g) Gene Arrays Inc., USA engaged in pharmaceutical research and development.

h) Orchid Research Laboratories Limited, India engaged in pharmaceutical research and development.

i) Orchid Pharmaceuticals SA (Proprietary) Limited, South Africa to market formulations in South Africa. The Company, its Subsidiaries and its Joint Ventures are collectively referred as "the Group".

b) Consolidation

The Company's consolidated financial statement has been prepared on the following basis.

Name of Subsidiary/Joint venture	Country	Type of holding	Percentage of Holding	Nature of Realtionship	Accounting Standard of "ICAI" adopted for consolidation of accounts
Orchid Europe Limited (Previously known as Orchid Nutricare Limited)	UK	Equity	100%	Subsidiary	AS 21*
Ogna Farma	Brazil	Equity	98.5%	Subsidiary	AS 21**
Orchid Pharmaceuticals Inc.	USA	Common stock	100%	Subsidiary	AS 21**
Orgenus Pharma Inc.	USA			Subsidiary of Orchid Pharmaceuticals Inc.	
Gene Arrays Inc.*** #	USA	Convertible Preferred stock with equal voting rights as Common stock.	66.67%	Subsidiary	AS 21**
Orchid Research Laboratories Ltd.	India	Equity	100%	Subsidiary	AS 21*
Orchid Pharmaceuticals SA (Proprietary) Limited	South Africa	Equity	100%	Subsidiary	AS 21**
NCPC Orchid Pharmaceuticals Company Limited	China	Equity	50%	Joint Venture	AS 27**
BChD Biotechnological Chemical Development Limited #	UK	Equity	50%	Joint Venture	AS 27**
Bexel Pharmaceuticals Inc.***	USA	Convertible Preferred stock with equal voting rights as Common stock and Common stock	@68.48%	Subsidiary	AS 21**

"ICAI" refers to the Institute of Chartered Accountants of India.

* based on the Audited accounts

** based on the Management approved accounts

Schedules to the Consolidated Accounts

Schedule "P" – Notes to the Consolidated Financial Statement (Contd.)

*** Preferred stock has been considered as common stock for the purpose of calculating the percentage of holding since Preferred stock has the same voting rights as common stock.

@ Excluding 31.52% held through a wholly owned subsidiary.

Companies under liquidation

c) Convenience Translation

The accounts of the subsidiary companies and joint venture companies have been prepared in their respective currencies. For the purpose of convenience the balances are translated into Indian currency, being the reporting currency in the consolidated financial statements, at the closing rate as at March 31.

2. Group Significant Accounting Policies

a) Accounting Convention

The Financial Statements are prepared under historical cost convention. Revenues are recognised and expenses are accounted on their accrual with necessary provisions for all known liabilities and losses.

b) Fixed Assets

i) Fixed Assets are stated at the original cost inclusive of inward freight, incidental expenses related to acquisition and related pre-operational expenses and technical know-how fees where applicable.

ii) Machinery spares which can be used only in connection with specific fixed assets and the use of which are irregular, are charged over the period of the life of such fixed asset, in accordance with Accounting Standard (AS 10).

iii) Brands represent brands acquired by the company and includes IPR & Licences purchased for a consolidated consideration. The cost of brands, patents and trademarks are amortised over a period of 60 months from the month of acquisition.

iv) The cost of patents / registrations acquired by subsidiaries / joint ventures are amortised over their useful life after they are put to use.

v) Internally Generated Intangible Assets – DMF & ANDA

DMF and ANDA cost represents expenses incurred on development of processes and compliance with regulatory procedures of the US FDA, in filing Drug Master Files ("DMF") and Abbreviated New Drug Applications ("ANDA"), in respect of products for which commercial value has been established by virtue of third party agreements/arrangements. This is in accordance with the requirements of Accounting Standard 26 issued by the Institute of Chartered Accountants of India.

The cost of each DMF/ANDA is amortised to the extent of recovery of developmental costs applicable as per terms of agreement or over a period of five years from the date on which the product covered by DMF/ANDA is commercially marketed, whichever is earlier.

vi) Assets are depreciated on straight line basis at the rates specified in Schedule XIV of the Companies Act, 1956 except in respect of the following assets, where the useful lives reckoned in computing the depreciation for the year are different from those derived from the rates specified in Schedule XIV of the Companies Act, 1956. The revised useful life of the assets have been determined by the Management based on technical assessment. Depreciation in the books of Subsidiaries/Joint Ventures have not been restated, since the differences are not material.

Asset Categories	Useful life
Reactors, Pipes, Pipe fittings, Valves, Motors, Pumps, Nitrogen Plant, Gear Boxes, Cables and Centrifuges, Evaporator (indigenous), Jet aeration system (indigenous), Ventilation & Exhaust system, HCL column, ETP (indigenous), scrubber, incenarator (indigenous).	9 years

vii) Leasehold assets cost is amortised over the period of the lease.

viii) Depreciation on assets added/disposed off during the year is provided on pro-rata basis from the month of addition or up to the month of disposal, as applicable.

Schedules to the Consolidated Accounts

Schedule "P" - Notes to the Consolidated Financial Statement (Contd.)

ix) Impairment of assets
Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the assets and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above.

c) Borrowing Costs
Interest cost on qualifying asset being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, is capitalised at the weighted average rate of the funds borrowed and utilised for acquisition of such assets.

d) Treatment of expenditure during construction period.
Expenditure during construction period is included under capital work-in-progress and the same is allocated to the respective fixed assets on the completion of construction.

e) The excess of cost to the Company of its interest in subsidiaries / joint ventures over its share of net assets of such subsidiaries/ joint ventures at the date of acquisition of interest is recognised as goodwill on consolidation. Goodwill arising on consolidation is not amortised.

f) Investments
Investments considered long term are shown at cost. Diminution in the value of investments other than temporary are provided for.

g) Inventories

i)	Stores & Spares	– At weighted average cost.
ii)	Raw Materials	– At annual weighted average cost
iii)	Finished Goods @	– At lower of cost & net realisable value
iv)	Work in Progress & Intermediates @	– At lower of cost & net realisable value

@ After adjustment of unrealised profits on inter division transfer.

h) Revenue Recognition
Sales are recognised on despatch of goods from the factory / warehouse. Sales are net of returns, discounts and inter-division transfers. Service income is recognised as per contractual terms. In respect of composite contracts involving development and other activities, income is recognised on the basis of contractual terms after considering the quantum of work completed.

i) Retirement Benefits
Retirement Benefits are accounted on accrual basis. The company's liability towards the gratuity of employees are covered by a group gratuity policy with LIC. Contribution to the fund is based on actuarial valuation carried out yearly as at 31st March. As on March 31, 2007 it is covered by a policy with ICICI Prudential Life Insurance Company Ltd. and the contribution to the fund is based on actuarial valuation carried out as at March 31. The Provision for Leave Encashment has been made based on actuarial valuation as at the year end.

j) Translation of Foreign Currency items

1) Foreign currency liabilities including liabilities on swap transactions, in respect of fixed assets, which have been acquired from a country outside India, have been restated in rupee terms at the exchange rates prevailing at the date of the Balance Sheet and the increase or decrease arising out of it is adjusted to the cost of fixed assets.

2) Other foreign currency assets and liabilities are recognised at the rates applicable on the date of the Balance Sheet and the difference is charged to the Profit & Loss Account.

3) All Inter related transactions are recognised at common rates.

4) Exchange difference between the rates applicable at the date of the transaction and the rate actually realised (except in cases of inter-related transactions as stated above) has been shown as exchange gain/loss.

5) Transactions covered by forward contracts/options are stated at forward rates and the difference between forward rate and exchange rate at the date of the transaction has been recognised as income or expense over the life of the contract.

Schedules to the Consolidated Accounts

Schedule "P" – Notes to the Consolidated Financial Statement (contd.)

k) Subsidy on Fixed Assets

Subsidy received on fixed assets is credited to the cost of respective fixed assets.

3. Sales tax recoverable have been recorded on the basis of the claims submitted or in the process of being submitted, as per rules relating to EOU and which in the opinion of the company are recoverable.

(Rs. Lakhs)

	As at 31.03.2007	As at 31.03.2006
4. Estimated amounts of contracts remaining to be executed on capital account (net of advances) and not provided for	7767.90	9016.84
5. Other monies for which company is contingently liable		
– Bills Discounted	20278.58	15126.75
– Unexpired Letters of Credit	10086.47	13447.77
– Bank Guarantees outstanding	276.99	1018.48
– Claims against the company not acknowledged as debts		
Cess on electricity generation pending before High Court of Chennai	294.13	214.55
Excise demands under dispute pending before Excise authorities	381.71	283.48
Service Tax dispute pending before High Court of Chennai	42.26	186.51

6. The Company has filed an appeal against the demand made by the Income Tax department amounting to Rs. 111.92 Lakhs (Previous year Rs.103.78 Lakhs). No provision has been made as the company is confident of winning the appeal. No provision has also been made for demand of interest amounting to Rs. 68.88 Lakhs (Previous year Rs. 68.88 Lakhs) as petition has already been filed for waiver of interest.

7. Committment to subscribe to the capital of the Subsidiary Companies as at the date of balance sheet is Rs. Nil (previous year Rs. 3226.98 Lakhs).

8. In the financial statements for the year ended 31st December 2006 of Bexel, prepared as a Development Stage Enterprise, the auditors of the company have referred to Note 2 to the financial statements and expressed an opinion that the successful completion of the Company's development program and ultimately the attainment of profitable operations is dependant upon future events, including maintaining adequate financing to fulfil its development activities and achieving a level of revenues adequate to support the Company's cost structure. The text of Note 2 referred to is reproduced below.

"The financial statements of the Company have been prepared in conformity with Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises, and assume the Company will continue as a going concern. As a development stage company, with no commercial operating history, the Company is subject to all of the risks and expenses inherent in the establishment of a new business enterprise. To address these risks and expenses, the Company must, among other things, respond to competitive developments, attract, retain and motivate qualified personnel and support the expense of marketing new products based on innovative technology. To date, the Company has incurred expenses in research and development activities without generating sufficient revenues to offset those expenses. As a result the Company has incurred losses and negative cash flow from operating activities, and as of December 31, 2006, the Company had accumulated net losses of US$ 17,790,412. There can be no assurance that management will achieve the intended results".

9. **Foreign Currency Convertible Bond (FCCB)**

a) The Company raised FCCB during the current year aggregating to USD 175 million (Rs. 77358.75 Lakhs) with an option to the investor to convert the FCCBs into equity shares of the Company at an initial conversion price of Rs. 348.34 per share at a fixed rate of exchange on conversion Rs. 43.93 = USD 1, at any time after April 9, 2007 and prior to February 18, 2012. Further the Company has an option of early redemption of these FCCBs in whole at any time on or after February 28, 2010

Schedules to the Consolidated Accounts

Schedule "P" - Notes to the Consolidated Financial Statement (Contd)

and prior to February 21,2012, subject to certain conditions. Unless previously converted, redeemed or repurchased and cancelled, the FCCBs will be redeemed on February 28, 2012 at 142.77 % of their principal amount.

b) The Company raised FCCB during the year 2005-06 aggregating to USD 42.50 million (Rs. 19284.50 Lakhs) including a green shoe option of USD 5 million (Rs. 2289.50 Lakhs) with an option to the investor to convert the FCCBs into equity shares or global depository receipts at an initial conversion price of Rs. 243.80 per share at a fixed rate of exchange on conversion Rs. 44.94 = USD 1. Out of the above, FCCBs amounting to US$ 22.79 million (Rs. 10241.83 Lakhs) (including US$ 6.25 million (Rs. 2808.75 Lakhs) during the current year 2006-07) have been so far converted.

Further, the Company has an option of early redemption of these FCCBs in while at any time after November 03,2006 subject to certain conditions. Unless previously converted, redeemed or repurchased and cancelled, the FCCBs will be redeemed on November 03,2010 at 147.1688% of their principal amount.

The current status of above FCCB conversion into equity is as follows:

Particulars	FCCB Value USD Million	Number of Shares in Lakhs	Increase in Equity Rs. Lakhs	Increase in Security Premium Rs. Lakhs
Conversion effected up to March 31 2007	22.79	42.00	420.09	9821.71
	22.79	42.00	420.09	9821.71

c) Provision has been made for the entire premium payable on redemption of FCCBs amounting to Rs.3,6371.36 Lakhs (Net of Rs.458.68 Lakhs provided in 2005-06 on pro-rata basis) by debiting the Securities Premium account (SPA). In the event that the conversion option is exercised by the holder of FCCBs in the future, the amount of premium charged to SPA will be suitably adjusted in the respective years.

The debit to share premium account for premium on FCCBs and for issue expenses have been made on the gross value without adjusting any tax impact. Tax benefits accruing to the company on account of claiming such expenses will be credited to the premium account in the year in which the benefit is enjoyed by the company.

d) Even though the Company has provided for the premium on redemption of FCCBs as per note [c] above, the Company has also made provision for dividend in the books of account on the equity shares to be allotted upon conversion of FCCBs outstanding as at March 31, 2007, since the Company is obliged, as per SEBI guidelines, to pay dividend to those FCCB holders who convert their FCCB into equity after adoption of the financial statements and upto the book closure date.

(Rs. Lakhs)

	As at 31.03.2007	As at 31.03.2006
e) Usage of funds raised through FCCBs		
Opening Balance	7.47	–
Funds received	77358.75	37325.70
Add: Interest received	164.14	31.15
Less: Expenses of Issue / Exchange fluctuations	2208.56	1626.02
	75321.80	35730.83
Repayment of Loans	60811.67	26990.57
Capital Expenditure / Advances / ANDA filings	4392.92	8732.79
Balance	10117.20	7.47

Schedules to the Consolidated Accounts

Schedule "P" - Notes to the Consolidated Financial Statement (Contd.)

10. a) Assets acquired pending for registration in favour of the company		
Freehold Land	59.09	129.39
b) Fixed Assets include assets on hire purchase (Gross Block)	313.61	160.00
11. Loans and Advances include Convertible portion of Loans to joint venture Company	–	119.45
12. Value of Assets on Lease	–	–
Future Commitments towards Lease Rentals	–	–
13. Share application money pending allotment represents amount received from employees in terms of options exercised under "ORCHID–ESOP 99" scheme and pending allotment	0.96	–
	2006-07	2005-06
14. Auditors' remuneration include the following: *		
Audit fee	55.30	53.73
Tax Audit fee	8.54	8.42
For certification & other matters	9.64	12.83
	73.47	74.98
* Excluding Rs.44.90 Lakhs (Previous year - Rs.38.57 Lakhs) for services rendered in connection with GDR/FCCB issue		
15. a) Other Interest and Finance Charges is after crediting interest receipts:	41.90	29.12
TDS on interest receipts	9.64	8.69
b) Amount of interest capitalised	2581.71	1585.32

16. Balance as at the end of the year and maximum amount outstanding at any time during the year with banks other than Scheduled Banks.

(Rs. Lakhs)

		2006-07	2005-06
Bank of America, New York	Balance as at March 31	–	2.12
	Maximum amount outstanding	2.12	18.56
ABN Amro Bank, Moscow	Balance as at March 31	–	0.43
	Maximum amount outstanding	28.99	136.92
Citibank NA, New York	Balance as at March 31	6.26	7.47
	Maximum amount outstanding	7.47	7827.19
JSC Vneshtorgbank, Moscow	Balance as at March 31	9.29	–
	Maximum amount outstanding	47.34	–
Bank of India, New Jersey	Balance as at March 31	10110.95	–
	Maximum amount outstanding	75422.15	–

17. Excise duty on finished goods has been accounted on removal of goods from factory,wherever applicable. Finished goods at factory have been valued at cost exclusive of excise duty and no provision has been made for excise duty on such goods. The above treatment has no impact on Profit & Loss account.

18. Insurance claim against material damage and claim against loss of profit as accepted by insurance company have been adjusted in the respective accounts as below:

	Rs. in Lakhs	Rs. in Lakhs
Fixed Assets	–	105.54
Manufacturing, Selling & Administrative Expenses	547.52	631.99

The amount of claims accounted represents conservative amount which in the opinion of the Company is minimum realisable.

Schedules to the Consolidated Accounts

Schedule 17 - Notes to the Consolidated Financial Statement (Contd.)

19. Related Party Transactions

In accordance with Accounting Standard 18, the disclosure required is given below:

(Rs. Lakhs)

Nature of Transaction	Subsidiary	Joint venture	Key Management Personnel	Relatives of Key Management Personnel/ Companies in which they exercise significant influence
– Share Application money pending allotment	– (–)	– (–)	– (–)	– (–)
– Loans (including Interest accrued)	– (–)	– (–)	– (–)	– (–)
– Shares allotted	– (–)	– (–)	– (–)	– (424.37)
– Warrants allotted	– (–)	– (–)	– (–)	496.50 (797.61)
Sale of goods	– (–)	1620.02 (343.66)	– (–)	– (–)
Rendering of Services / Royalty / Interest income	– (–)	24.35 (148.93)	– (–)	– (–)
Services Received / Rent Paid	– (–)	– (–)	– (–)	376.32 (251.73)
– Remuneration	– (–)	– (–)	626.73 (504.66)	– (–)
Availment of services	– (–)	– (–)	– (–)	– (–)
Amounts Due at the end of the year – Debit	– (–)	121.55 (381.82)	– (–)	17.50 (7.50)
Amounts Due at the end of the year – Credit	– (–)	– (–)	– (–)	1005.81 (–)

Figures in brackets are for previous year

Names of the related parties and description of relationship.

1.	Subsidiary	Orchid Europe Limited, UK (Previously known as Orchid Nutricare Limited)
		Ogna Farma, Brazil
		Gene Arrays Inc., USA
		Orchid Pharmaceuticals Inc., USA
		Orgenus Pharmaceuticals Inc., USA (Subsidiary of Orchid Pharmaceuticals Inc., USA)
		Orchid Research Laboratories Ltd. India
		Orchid Pharmaceuticals SA (Properitary)Limited,South Africa
		Bexel Pharmaceuticals Inc., USA
2.	Joint Venture	NCPC Orchid Pharmaceuticals Company Limited, China
		BChD Biotechnological Chemical Development Limited, UK
3.	Key Management Personnel	Mr K Raghavendra Rao, Managing Director
		Dr C Bhaktavatsala Rao, Deputy Managing Director
4.	Relatives of Key Management Personnel	Mrs R Vijayalakshmi (wife of Mr K Raghavendra Rao)
5.	Companies in which relatives of Key Management Personnel exercise significant influence.	Spectrasoft Technologies Limited

All whole time directors have been considered as Key Management Personnel as they are involved in planning, directing & controlling the activities of the reporting enterprise.

Schedules to the Consolidated Accounts

Schedule "R" - Notes to the Consolidated Financial Statement (Contd.)

(Rs. Lakhs)

b) Information on Loans & Advances as per clause 32 of the listing Agreement

	Balance as on 31-03-2007	Maximum amount outstanding during the year
Joint Venture – BChD Biotechnological Chemical Development Limited, UK	–	253.73
– NCPC Orchid Pharmaceuticals Company Limited, China	121.55	121.55

20. In terms of the resolution passed by the company at the EGM dated October 21,1999 Employee Stock Option Scheme was extended to the employees of the company. Accordingly options totalling 15,00,000 Nos were given to the employees as per the scheme formulated under "ORCHID-ESOP 99" scheme by the compersation committee of the Board of Directors. Each option is convertible into one equity share of Rs. 10/- each at a price of Rs. 243.35 including premium for 6,00,000 Nos, Rs. 252 including premium for 3,07,925 Nos, Rs. 300.65 including premium for 2,92,075 nos and Rs. 339.25 options for 3,00,000 nos. No entries were passed in the books as the options were given at the market price prevailing on the date of issuance of options.

A fair and reasonable adjustment in share price/ the number of options outstanding was made by the Company in respect of the Employee Stock Options granted but not exercised by the Employees due to the corporate actions of issue of bonus shares during October 2005. The total number of options outstanding and the price was adjusted so that the total value and options available to each option holder remained the same.

Consequently the revised and adjusted prices per share are Rs. 162.24 (Rs. 243.35), Rs. 168.00 (Rs. 252.00) and Rs. 200.44 (Rs. 300.65) respectively for 600000 Nos, 307925 Nos and 292075 Nos of options granted by the company.

For the 300,000 options granted during April 2006 at a price of Rs. 339.25, the Compensation Committee of the Board of Directors considered repricing of the options in the interest of the employees, due to the fall in the price of the shares of the Company and accordingly approved a repricing of the options from Rs. 339.25 to Rs. 193.25 as per the closing price of Orchid at National Stock Exchange on August 11, 2006, subject to the obtaining of the approval from the shareholders.

Pursuant to the exercise of options by employees the Allotment Committee of the Board at its meeting held on April 28, 2006, May 31, 2006, October 19, 2006 and January 19, 2007 allotted 3475, 3015, 4000 and 550 equity shares respectively to the employees. 1493632 Options were outstanding as at March 31, 2007 including the additional number of options adjusted, due to the bonus issue.

In terms of the resolution passed by the company at the AGM dated July 18,2005, 610,000 options were given to the eligible directors and employees as per the scheme formulated under "ORCHID-ESOP 2005" by the compensation committee of the Board of Directors held on August 12, 2006. Each option is convertible into one equity share of Rs. 10/- each at a price of Rs 193.25 per share including premium

21.a) In terms of the resolution passed by the Company on July 18,2005 25,00,000 warrants were allotted to the Promoter/ Promoter Group(s) on August 02,2005. These warrants were eligible for conversion at the option of the Warrants holders, into equity shares of the Company at a price of Rs. 339.41 per share within a period of 18 months of the date of allotment.

b) The promoters have not exercised 35,60,000 (which includes the adjustment of warrants on account of bonus issue) warrants into equity shares within the stipulated period and hence the warrants stand cancelled. Hence on February 02, 2007, the 10% advance paid by them amounting to Rs. 805.54 Lakhs on the unexercised warrants stands forfeited and credited to capital reserve.

c) In terms of the resolution passed by the Company at the EGM held on February 14, 2007, 50,00,000 warrants were allotted to the Promoter / Promoter Group(s), the relative(s) of the Promoter on March 01, 2007. These warrants are eligible for conversion at the option of the Warrants holders, into equity shares of the company at a price of Rs. 202.58 per share within a period of 18 months of the date of allotment.

d) Other liabilities include Rs. 1,012.90 Lakhs (Previous year 813.45 Lakhs) being the amount received as advance against the warrants issued to the promoter group, including Rs. 7.09 Lakhs (Previous year Rs. 15.84 Lakhs) from a Director.

Schedules to the Consolidated Accounts

Schedule 'P' - Notes to the Consolidated Financial Statement (Contd.)

22. Provision for Deferred tax for the year Rs. 1230 Lakhs (Previous year including reversals Rs. 590 Lakhs)

(Rs. Lakhs)

Deferred Tax liability represents the following	As at 31.03.2007	As at 31.03.2006
Timing Difference on account of Depreciation	16645.36	15236.31
Timing Difference on account of Losses	(6941.96)	(6681.58)
Timing Difference on account of provisions	(467.40)	(548.73)

In accordance with clause 29 of Accounting Standard (AS22) Deferred tax Assets and Deferred tax Liabilities have been set off. Deferred tax assets in respect of unabsorbed depreciation and losses under tax laws have been recognised in view of the continued and consistant profitability of the Company.

23. Segmental Reporting

The Company was disclosing segment information classifying the business as Bulk drugs and Formulation till the financial year 2004-05. However in view of integration of bulk actives and formulation business, with the commissioning of Generics formulation facilities in 2005-06, the Company considers the business as one interrelated and integrated business of "Pharmaceutical products" and hence no separate segmental reporting is provided.

24. Reconciliation of Basic and Diluted shares used in computing Earnings per share
(Equity shares of Rs. 10/- each fully paid-up)

		Year Ended 31.03.2007	Year Ended 31.03.2006
Profit After Tax	Rs. In Lakhs	7854.84	5730.00
No of Shares Outstanding	Nos.	65816291	64618182
Weighted Average Number of shares	Nos.	65733282	55814393
Earning per Share – Basic	Rs.	11.95	10.27
No of warrants & options allotted	Nos.	32201732	8139778
Total No of Equity shares to compute diluted EPS	Nos.	73061369	60784877
Earning per Share – Diluted	Rs.	10.75	9.43

25. Disclosure as per requirements of Accounting Standard 26

		As at 31.03.2007	As at 31.03.2006
ACQUIRED			
– Brands, Patents & Trademarks			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs. in Lakhs)	Opening	913.09	1358.37
	Additions / Adjustments	441.92	(5.24)
	Amortisation	459.71	440.04
	Closing	895.31	913.09
INTERNALLY GENERATED			
– DMF & ANDA (Refer Note 2(b)(iv) of Schedule P)			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs. in Lakhs)	Opening	3110.49	1843.98
	Additions / Adjustments	1599.79	2276.17
	Amortisation	244.31	1009.66
	Closing	4465.97	3110.49

Schedules to the Consolidated Accounts

Schedule 'P' : Notes to the Consolidated Financial Statement (Contd.)

26. Research and Development Expenses includes

(Rs. Lakhs)

	Year ended 31.03.2007	Year ended 31.03.2006
Power and Fuel	131.24	282.13
Conversion Charges	0.04	0.11
Consumption of Stores, Spares & Chemicals	1250.02	655.12
Salaries, Wages and Bonus	914.78	1418.07
Contribution to Provident & other funds	99.24	109.76
Staff Welfare	95.54	55.03
Rates & Taxes	5.20	58.52
Insurance	25.15	62.60
Postage, Telephone & Telex	11.96	16.07
Printing & Stationery	25.19	42.85
Vehicle Maintenance	4.91	5.52
Recruitment expenses	10.41	11.11
Travelling and Conveyance	43.26	103.08
Testing Charges	1242.31	335.52
Consultancy & Professional Fees	75.15	164.81
Others	483.26	335.95
	4417.65	3656.25

27. The Board of Directors of Gene Arrays Inc. and BChD Biotechnological Chemical Development Ltd. have decided to close the operations of the respective companies and filed application with the appropriate authorities for liquidation of those companies. Accordingly the accounts of these companies have not been prepared on going concern basis. The consolidated accounts also have been prepared accordingly.

28. Previous year's figures have been re-grouped wherever necessary to conform to current year's classification.

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

S Lakshmanan
Partner

Place: Chennai
Date: May 3, 2007

R Narayanan
Chairman

K Raghavendra Rao
Managing Director

Dr C Bhaktavatsala Rao
Deputy Managing Director

Dr M R Girinath
Director

Dr I Seetharam Naidu
Director

D S Bhaskara Raju
Chief Financial Officer

L Chandrasekar
VP – Internal Audit & Secretary

Consolidated Cash Flow Statement for the year ended March 31, 2007

(Rs. Lakhs)

	31.03.2007	31.03.2006
A. Cash Flow from Operating Activities		
Net Profit before taxation and extraordinary item	9255.66	6501.03
Adjustment for		
Depreciation	8508.93	8581.74
Dividend Income	(14.94)	(10.25)
Loss / (Profit) on sale of Fixed Assets	37.49	(40.43)
Foreign Exchange Rate Fluctuations – Unrealised	(42.31)	242.68
Interest Expense	9929.14	8784.48
Provision for doubtful debts	482.43	14.79
Operating Profit before Working Capital Changes	28156.37	24074.04
Adjustments for		
Trade and other Receivables	(7827.93)	(15495.65)
Inventories	(16346.39)	(4758.59)
Trade Payables	5495.06	(4503.31)
Cash generated from Operations	9477.11	(683.51)
Income Taxes Paid	(115.98)	(296.00)
Cash Flow before extraordinary item	9361.13	(979.51)
Net Cash from Operating Activities	9361.13	(979.51)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(47795.45)	(18411.64)
Proceeds from Sale / Deletion of Fixed Assets	59.50	114.15
Investment in Subsidiaries/Joint Ventures	–	1.50
Dividends received	14.94	10.25
Net cash used in Investing Activities	(47721.01)	(18285.74)
C. Cash Flow from Financing Activities		
Proceeds from issuance of Share Capital (net of expenses)	100.24	7996.90
Proceeds from advances received against share warrants	1012.90	805.54
Proceeds from issue of Global Depository Receipts	–	18041.20
Proceeds from Working Capital Borrowings	(722.92)	6164.12
Proceeds from Long Term Borrowings	93644.42	29230.03
Repayment of Long Term Borrowings	(106709.19)	(34543.61)
Proceeds from issue of Foreign Currency Convertible Bonds (net of expenses)	75146.60	11778.65
Proceeds from / (Repayment of) Short Term Borrowings	500.00	(8529.70)
Proceeds from HP Finance	98.45	(10.33)
Interest paid	(12297.81)	(10375.56)
Dividend paid	(2251.26)	(1556.76)
Net cash from Financing Activities	48521.43	19000.48
D. Net Increase in Cash and Cash equivalents	10161.55	(264.77)
Cash and Cash equivalents at the beginning of period	819.81	1084.58
Cash and Cash equivalents at the end of period	10981.36	819.81
Reconciliation Statement		
Cash and bank balances as per Balance Sheet	11892.97	1625.91
Less: Margin Money Deposit	859.50	756.88
Unclaimed Dividend	51.61	49.21
Cash and Cash Equivalents as per Cash Flow	10981.36	819.81

Note: The above cash flow statement has been prepared under the 'Indirect Method' set out in Accounting Standard 3 issued by the Institute of Chartered Accountants of India.

On behalf of the Board

As per our report of even date
For SNB Associates
Chartered Accountants

S Lakshmanan
Partner

Place: Chennai
Date: May 3, 2007

R Narayanan
Chairman

Dr C Bhaktavatsala Rao
Deputy Managing Director

D S Bhaskara Raju
Chief Financial Officer

Dr M R Girinath
Director

K Raghavendra Rao
Managing Director

Dr I Seetharam Naidu
Director

L Chandrasekar
VP – Internal Audit & Secretary

Economic Value Added Statement (EVA)

Rs. Crores

S. No.	Particulars	2006-07
	Step-1: Calculation of Cost of Funds Deployed	
1.	Average Debt	1022.68
2.	Average Shareholder's Networth #	731.64
3.	Total Funds Deployed	1754.32
4.	Cost of Debt (Post Tax) – %	10.59
5.	Cost of Equity – %.*	14.22
6.	Weighted Average Cost of Funding – %	12.10
7.	Cost of Funds Deployed	212.32
	Step-2: Calculation of Net Operating Profit after Taxes (NOPAT)	
1.	Profit After Tax	96.63
2.	Add adjusted interest **	124.12
3.	NOPAT @	220.76
	Step-3: Calculation of EVA	
1.	EVA	8.44
2.	EVA as a percentage of Funds Deployed – %	0.48

* Basis of EVA Calculations are as under:

i) Risk Free Rate of Return is taken at 6.0%

ii) Beta Factor taken as 1.37 (Basis is slope of S&P CNX Nifty Index vs OCPL's Average Share Price on a daily price movement basis).

iii) Market Risk Premium taken at 6.0% for FY 2006-07

** Includes pre-operative interest costs.

@ NOPAT = PBIT minus all taxes.

Shareholder's Networth and debt calculations has been annualized based on the daywise deployment of funds.

Cash Value Added Statement (CVA)

Rs. Crores

S. No.	Particulars	2006-07
	Step-1: Calculation of Cost of Funds Deployed	
1.	Average Debt	1022.68
2.	Average Shareholder's Networth #	731.64
3.	Total Funds Deployed	1754.32
4.	Cost of Debt (Post Tax) – %	10.59

Rs. Crores

S. No.	Particulars	2006-07
5.	Cost of Equity – %.*	14.22
6.	Weighted Average Cost of Funding – %.	12.10
7.	Cost of Funds Deployed	212.32
	Step-2: Calculation of Cash Operating Profit after Taxes (COPAT)	
1.	Profit After Tax	96.63
2.	Add adjusted interest **	124.12
3.	Depreciation, Ammortization & Provisions	82.47
4.	COPAT @+Depreciation, Ammortization & Provisions	303.22
	Step-3 : Calculation of CVA	
1.	CVA	90.90
2.	CVA as a percentage of Funds Deployed – %	5.18

* Basis of CVA Calculations are as under:

i) Risk Free Rate of Return is taken at 6.0%

ii) Beta Factor taken as 1.37 (Basis is slope of S&P CNX Nifty Index vs OCPL's Average Share Price on a daily price movement basis).

iii) Market Risk Premium taken at 6.0% for FY 2006-07

** Includes pre-operative Interest costs.

@ COPAT = PBIT minus all taxes+Depreciation & Amortization

Shareholder's Networth and debt calculations has been annualized based on the daywise deployment of funds.

Value Added Statement

S.No.	Particulars	2006-07	
		Amount Rs lakhs	Percentage Break-up on V.A.
1.	Total Income	91448	
	Less		
2.	Raw Material Expenses	31056	
3.	Other Manufacturing and Selling Expenses (excluding Employee Costs)	22856	
4.	Total Expenses	53912	
5.	Net Value Added	37536	
	Allocated to meet		

S.No.	Particulars	2006-07	
		Amount Rs lakhs	Percentage Break-up on V.A.
6.	Employee Costs	8399	22
7.	Lenders	9831	26
8.	Government (Corporate Tax Outflows including Dividend Tax)	666	2
9.	Shareholders (Cash Dividends)	2941	8
10.	Balance amount ploughed back to the Business (Net Earnings+ Depreciation+Amortization+ Provisions+Deferred Tax Liability)	15700	42
	Total Allocation	37536	100
11.	No. of Employees	3263	
12.	Value Added per Employee (Rs. lakhs)	11.50	

Key Financial Parameters and Ratios at a Glance

Rs. Lakhs

S.No	Particulars	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
A)	Financial Results Summary										
1.	Total Sales & Operating Income	93418	88877	68929	71341	54141	42552	37125	35955	33435	24243
2.	Other Income	156	133	82	123	111	75	131	377	150	167
3.	Total Income	93574	89009	69012	71464	54253	42628	37256	36332	33585	24410
4.	EBIDTA	29137	26060	16311	15049	10963	9772	10165	11086	8470	6475
5.	Profit after Tax (PAT)	9663	8290	3101	3103	1954	631	3576	3859	3554	3407
6.	Paid-up Equity Share Capital	6582	6462	3413	3238	3238	2800	2800	2800	1735	1735
7.	Shareholder's Net worth #	59361	86509	54568	49690	48049	37017	39765	37423	16982	14198
B)	Key Ratios & Parameters										
I	Profitability related Ratios & Parameters										
1.	EBIDTA Margin – %	31.14	29.28	23.64	21.06	20.21	22.92	27.28	30.51	25.22	26.53
2.	Net Profit Margin – %	10.33	9.31	4.49	4.34	3.60	1.48	9.60	10.62	10.58	13.96
II	Share holder related Ratios & Parameters										
1.	EPS – Rs. / Share	14.70	14.85	9.55	9.58	6.61	2.25	12.77	18.67	20.49	19.64
2.	Book Value – Rs. / Share	90.19	133.88	159.87	153.45	148.38	132.21	142.02	133.66	97.90	81.85
III	Growth related Ratios & Parameters										
1.	Growth in Total Income – %	5.13	28.98	-3.43	31.72	27.27	14.42	2.54	8.18	37.59	25.35
2	Growth in EBIDTA – %	11.81	59.77	8.39	37.27	12.19	-3.87	-8.30	26.78	30.41	19.96
3.	Growth in PAT – %	16.56	167.33	-0.06	58.79	209.87	-82.37	-7.34	8.58	4.30	11.18

: Ratio calculated as (Free Reserves & Surplus + Deferred Tax Liability) over Equity Share Capital

A TRISYS PRODUCT
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PRINT@PRAGATI.COM

Orchid Chemicals & Pharmaceuticals Ltd.
Shaping A Dream

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Tel: (91)-44-28211000 Fax (91)-44-28211002 • e-mail: corporate@orchidpharma.com
Website: www.orchidpharma.com • Health portal: www.healthorchid.com

EXHIBIT 4

CERTIFICATE OF INCORPORATION

OF

ORCHID PHARMACEUTICALS INC.

THE UNDERSIGNED, for the purpose of incorporating and organizing a corporation under the General Corporation Law of the State of Delaware, does hereby execute this Certificate of Incorporation and does hereby certify as follows:

FIRST: The name of the Corporation is:

ORCHID PHARMACEUTICALS INC.

SECOND: The address of its registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of capital stock that the Corporation shall have the authority to issue is Three Thousand (3,000) Common Stock Shares, with no par value.

FIFTH: The name and mailing address of the sole incorporator is as follows:

George Vanarthos
Alston & Bird LLP
90 Park Avenue
New York, NY 10016

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:37 AM 10/06/2004
FILED 11:16 AM 10/06/2004
SRV 040721979 - 3864231 FILE

SIXTH: The personal liability of the Directors of the Corporation to the Corporation or its stockholders for monetary damages is hereby eliminated to the fullest extent permitted under Section 102(b)(7) of the General Corporation Law of the State of Delaware.

SEVENTH: The Corporation's Board of Directors shall have the power to adopt, amend or repeal the Corporation's By-Laws by majority vote at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors, if notice thereof is contained in the notice of such special meeting, or by written consent as provided by Section 141(f) of the General Corporation Law of the State of Delaware.

EIGHTH: The Corporation is to have perpetual existence.

NINTH: The Corporation, to the fullest extent permitted by the provisions of Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, shall indemnify its officers and directors from and against any and all of the expenses, liabilities or other matters referred to in or covered by said Section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

TENTH: From time to time any of the provisions of this certificate of incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the

manner and at the time prescribed by said laws and all rights at any time conferred upon the stockholders of the corporation by this certificate of incorporation are granted subject to the provisions of this Article TENTH.

ELEVENTH: Election of Directors need not be by written ballot.

IN WITNESS WHEREOF, the undersigned, being the sole incorporator herein before named, has executed this Certificate of Incorporation this day of October 5, 2004.

George Vanarthos
Sole Incorporator

NYC01/1743787v1

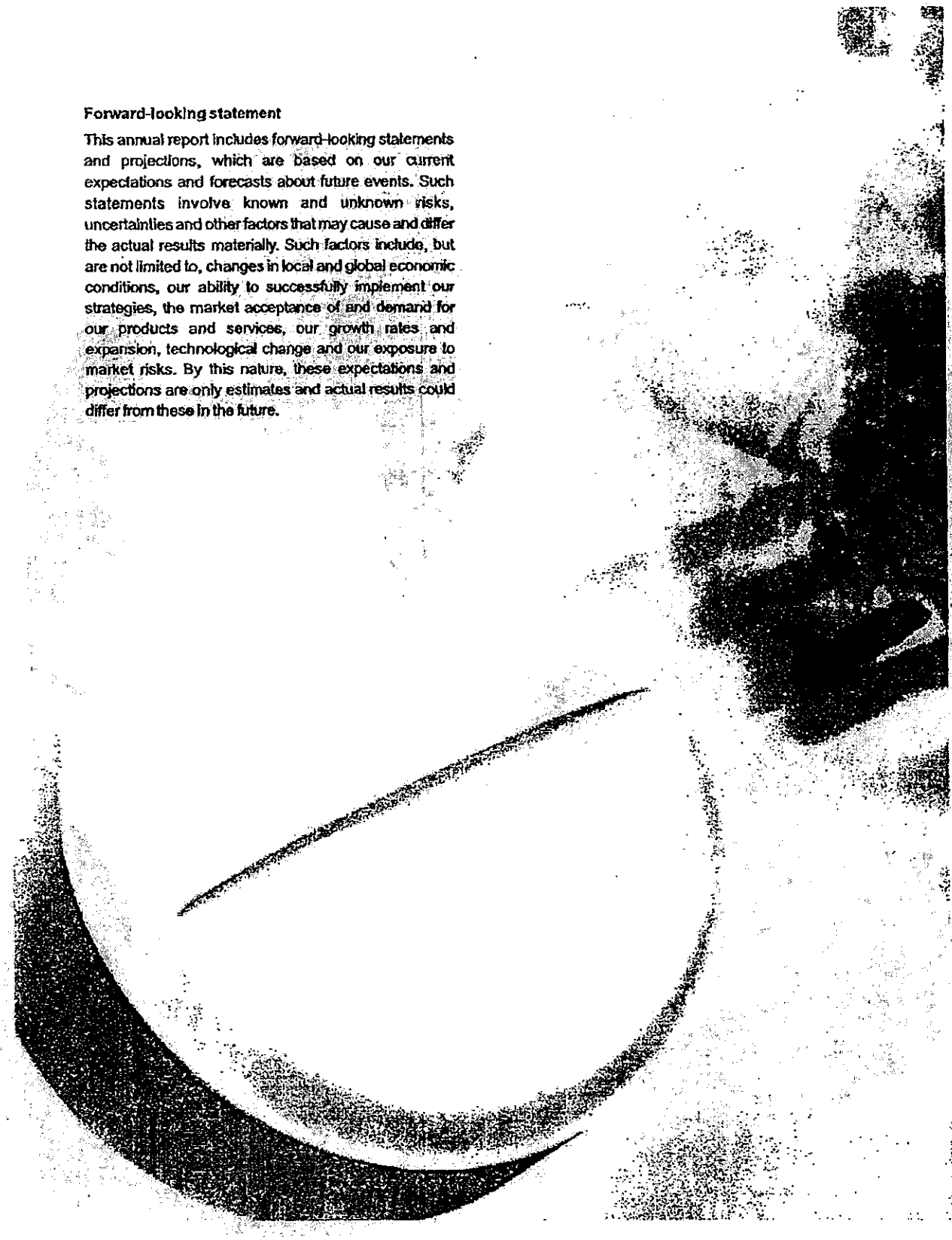
EXHIBIT 5



DEPOSITION EXHIBIT
ORCHID 10
6/13/08 LG
PENGAD 800-631-6989

Forward-looking statement

This annual report includes forward-looking statements and projections, which are based on our current expectations and forecasts about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause and differ the actual results materially. Such factors include, but are not limited to, changes in local and global economic conditions, our ability to successfully implement our strategies, the market acceptance of and demand for our products and services, our growth rates and expansion, technological change and our exposure to market risks. By this nature, these expectations and projections are only estimates and actual results could differ from these in the future.



Vision

Become a composite and meaningfully integrated pharmaceutical corporation competing in differentiated arenas where greater, more sustainable value can be created.



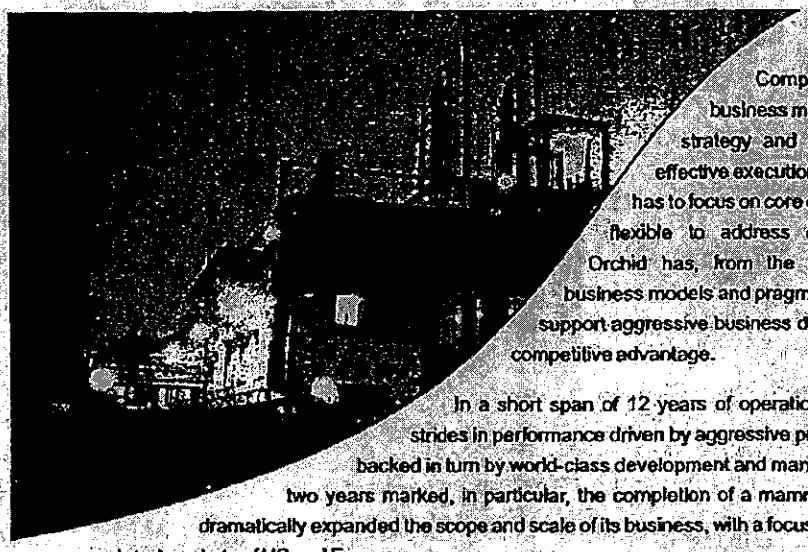
A HIGHER GROWTH TRAJECTORY

The fiscal year 2005-06 saw Orchid achieve a higher trajectory of growth with revenues and profits posting significant increases. Entry into the US generics market with premium cephalosporin finished dosage forms was a key growth driver. Orchid's niche product mix, world-class facilities, stringent regulatory and compliance standards, end-to-end connected supply chain and robust distribution alliances helped secure a leading market position for the key products in the very first year of launch in the US.

With continuous additions to the pipeline of Abbreviated New Drug Applications (ANDAs) and Drug Master Files (DMFs) and progressive product approvals, Orchid is set to maintain the growth momentum in 2006-07 and beyond. The niche generics strategy would be further reinforced with a well-calibrated entry into additional value building therapeutic groups, involving niche product offerings. Ongoing drug discovery initiatives would offer potential for collaboration with global pharmacos, building sustainable value for the long term. The twin strategy of niche generics and drug discovery would position Orchid as a pharmaceutical corporation of global scale and repute.

STRATEGIC REVIEW

Orchid Chemicals & Pharmaceuticals Ltd.



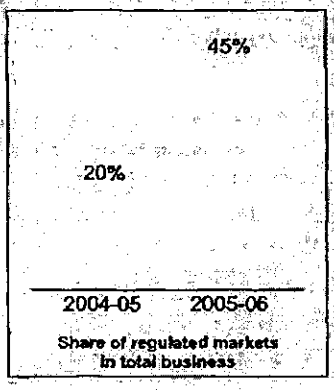
Competitive strategy

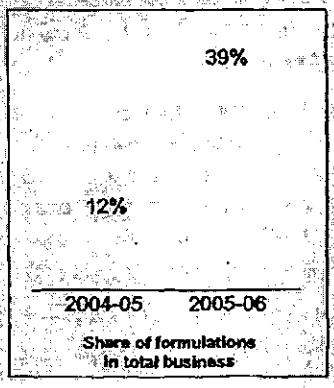
Competitive advantage stems from a business model which aligns the vision, goals, strategy and structure of a firm in terms of effective execution. Successful competitive strategy has to focus on core competencies but needs also to be flexible to address changing environmental needs. Orchid has, from the inception, focused on adaptive business models and pragmatic strategic templates that could support aggressive business development based on sustainable competitive advantage.

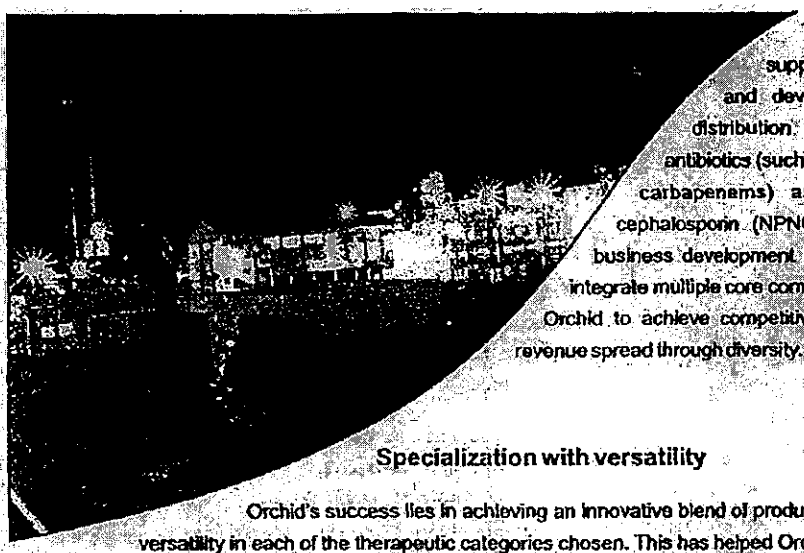
In a short span of 12 years of operations, Orchid registered impressive strides in performance driven by aggressive product-market expansion, which is backed in turn by world-class development and manufacturing competencies. The last two years marked, in particular, the completion of a mammoth strategic transformation that dramatically expanded the scope and scale of its business, with a focus on finished dosage forms and the regulated markets of US and Europe.

Product differentiation and manufacturing integration have been the bedrock of Orchid's competitive strategy. Over the years, Orchid has mastered the development and manufacture of highly complex products with challenging chemistry in a cost competitive manner, in full compliance of global quality and regulatory standards. This, coupled with a sustained capability to discover and patent innovative non-infringing processes, has helped Orchid achieve a premium position in the global pharma space as a niche generic player, with significant potential as an innovation driven firm.

Over the years, Orchid established world-class facilities for development and manufacture of Active Pharmaceutical Ingredients (APIs) and finished dosage forms which cover a full spectrum of cephalosporin products. Integrating and leveraging the infrastructure in the cephalosporin field, Orchid has made a successful entry into the lucrative and relatively exclusive US generics market for this class of drugs in 2005-06. In the very first nine months of launch ending March 31, 2006, Orchid's cephalosporin generics play has helped increase the share of regulated markets as well as that of formulations in Orchid's total business to impressive levels.







The cephalosporins foray is now supplemented by additional facilities and development schedules as well as distribution alliances covering other niche antibiotics (such as betalactams, monobactams and carbapenams) as well as non-penicillin, non-cephalosporin (NPNC) products. At the core of this business development lies the ability of the Company to integrate multiple core competencies. This strategy has helped Orchid to achieve competitiveness through specialization and revenue spread through diversity.

Specialization with versatility

Orchid's success lies in achieving an innovative blend of product specialization and manufacturing versatility in each of the therapeutic categories chosen. This has helped Orchid reinforce its core competencies and eventually leverage them to explore newer frontiers of business growth and development on a continuous basis.

Orchid has been the only player to offer on a global basis a complete portfolio of all the cephalosporins, first in API form and more recently in finished dosage forms spanning sterile injections, tablets, capsules and oral suspensions. In particular, Orchid has built an unmatched core competence in manufacturing injectable products, both in API and finished dosage forms. The aseptic manufacture covers crystalline as well as lyophilized forms. This has naturally translated into a leadership position for Orchid in the global injectable antibiotics space.

This core competence will power continued business development through other niche antibiotic groups such as betalactam, monobactam and carbapenem products in the years to come. As Orchid's antibiotics range expands as planned, Orchid would be one of the most dominant producers of life-saving antibiotics globally, providing an unmatched spectrum of products under one corporate platform.

Orchid has also been quick to recognize the importance of life style medicines covering other critical disease segments such as cardio-vascular, diabetes, osteoporosis, central nervous system, migraine and gastro-intestinal conditions. These medications are becoming essential to improve quality of life as well as extend life expectancy. Orchid has, therefore, been simultaneously working on diversification of its therapeutic coverage with focus on high-growth, high-value segments such as cholesterol reducers, anti-ulcerants, anti-depressants, anti-psychotics, platelet aggregation inhibitors and anti-diabetes medicines. These also happen to be the leading therapy classes in dollar terms globally, each group ranging in turnover from USD 10 to 33 billion.

The diversifying product mix and unrelenting emphasis on leveraging core competence for each therapeutic group position Orchid as a provider of varied pharmaceuticals for the regulated markets with requisite scale and scope. The product group

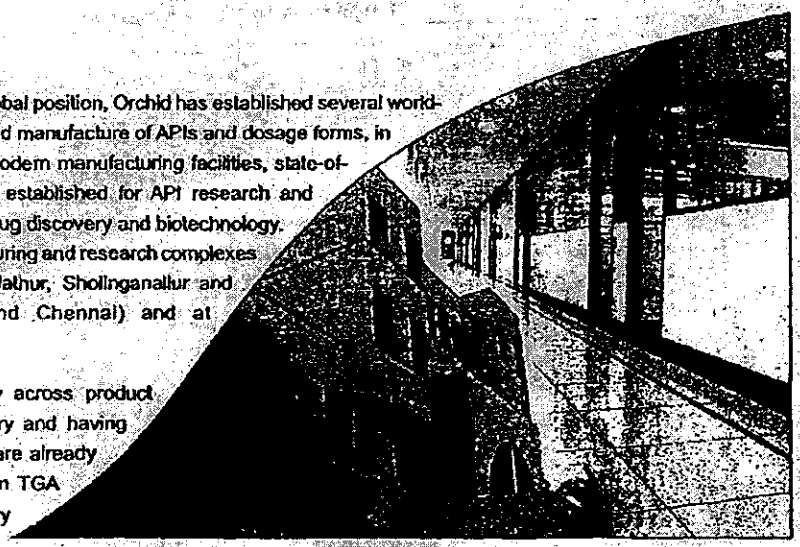
diversification has been carefully calibrated in a manner that each product group is rolled out sequentially with progressive increases in product count in each therapeutic group, year over year.

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Cephalosporins						
Betalactams						
Carbapenems						
Non-antibiotics						

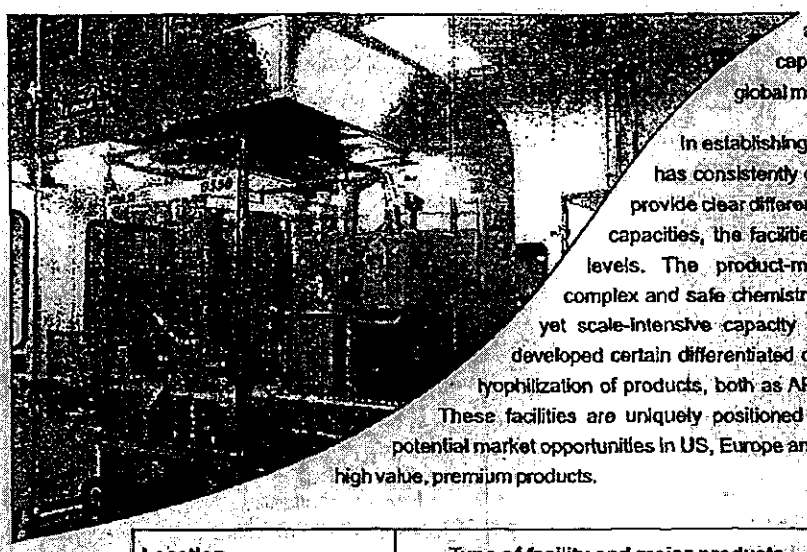
The cephalosporin generics foray which has already rolled out from July 2005 would see the introduction of additional generic products in the block-buster and niche drug category during 2006, 2007 and 2008. In parallel, plans are underway to introduce betalactam sterile dosage forms from 2006-07 and NPNC oral solid dosage forms from 2007-08 while the futuristic carbapenem dosage forms will be on offer from 2008-09. By 2010, Orchid expects to have a portfolio of atleast 100 generic products in about 150 dosage forms, covering the above important therapeutic groups. A product strategy as niche and versatile as Orchid's could be conceptualized and implemented only on the strength of a world-class facility strategy that provides manufacturing competitiveness and versatility.

World-class asset base

As a key enabler for securing a global position, Orchid has established several world-class facilities for development and manufacture of APIs and dosage forms, in oral and sterile forms. Besides modern manufacturing facilities, state-of-the-art R&D centres have been established for API research and formulations research, besides drug discovery and biotechnology. Orchid has today seven manufacturing and research complexes spread over four locations at Alathur, Sholinganallur and Irungattukottai (in and around Chennai) and at Aurangabad.



With an end-to-end connectivity across product groups from discovery to delivery and having several facilities / products that are already approved by US FDA, Australian TGA and other international regulatory



agencies, Orchid has robust capability to service a full spectrum of global market needs.

In establishing the manufacturing facilities, Orchid has consistently chosen technological platforms that provide clear differentiation. In terms of asset quality and capacities, the facilities reflect global scales and quality levels. The product-manufacturing portfolio integrates complex and safe chemistry, aseptic manufacture and flexible yet scale-intensive capacity modules. In addition, Orchid has developed certain differentiated capabilities as in the case of sterile lyophilization of products, both as APIs and finished dosage form vials. These facilities are uniquely positioned to address certain lucrative, high potential market opportunities in US, Europe and other regulated markets for select high value, premium products.

Location	Type of facility and major products
Alathur, Tamil Nadu	Cephalosporin APIs
Aurangabad, Maharashtra	Betalactam APIs Monobactam APIs Carbapenem APIs Non-penicillin, Non-cephalosporin APIs
Irungattukottai, Tamil Nadu	Generics for regulated markets Cephalosporins (dry powder injections, tablets, capsules and oral suspensions) Betalactams (lyophilized injections) Non-penicillin, Non-cephalosporins (tablets, capsules)
Alathur, Tamil Nadu	Cephalosporin formulations for emerging markets (tablets, capsules and oral suspensions)
Alathur, Tamil Nadu	Non-cephalosporin formulations for emerging markets (tablets and capsules)
Sholinganallur, Tamil Nadu	Process Research Drug Discovery Pre-clinical Development Biotechnology
Irungattukottai, Tamil Nadu	Formulations Research

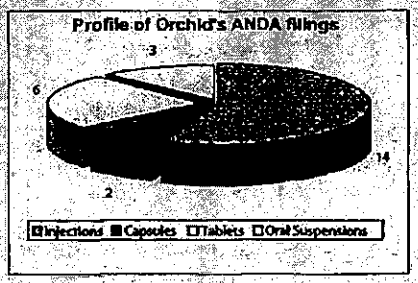
Orchid's strategy of creating technology, scale and investment intensive facilities has secured a pre-eminent position in a market space that poses formidable entry barriers.

Orchid Chemicals & Pharmaceuticals Ltd.

Regulatory and compliance

Orchid has accorded considerable importance to ensuring high regulatory and compliance standards as a critical pre-requisite to successful entry into and sustainable growth in the regulated markets. All Orchid's facilities are engineered and established with stringent international regulatory compliance in view. Discrete groups from regulatory affairs, quality assurance, validation, analytical and compliance reinforce the systems-driven product development, manufacture and quality control ensuring top-of-the-class performance on the regulatory front. Over 40 discrete groups with specialized functional activities are integrated as part of API and formulation development methodology to result in state-of-the-art product development and regulatory filings with compressed, cost-effective and compliant schedules.

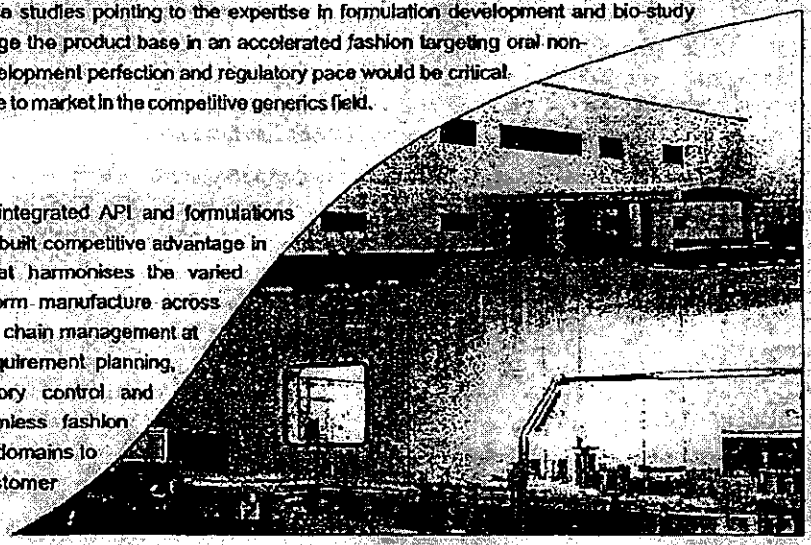
On the regulatory front, Orchid's regulatory filing momentum has resulted in a count of 30 DMFs and 25 ANDAs submitted to the US FDA. These include 5 DMFs and 2 ANDAs in the relatively recent NPNC space. The regulatory filings in the NPNC space are set to accelerate from the current fiscal year. Orchid's count of 25 DMFs and 23 ANDAs in the antibiotics domain represents the largest antibiotic regulatory filing portfolio in the country, and among the largest globally.

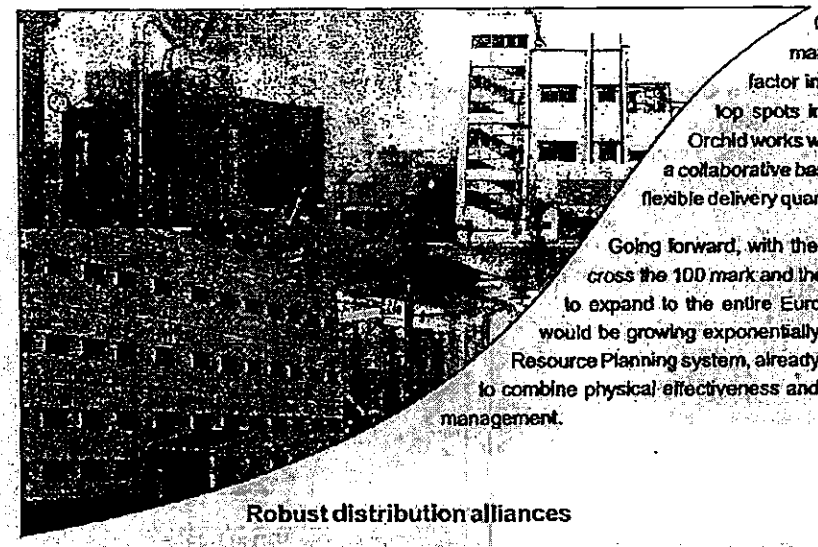


Reflecting the focus on regulatory detailing and compliance procedures which are institutionalized from the very inception at Orchid, the lead time between ANDA filing and ANDA approval has been one of the shortest in the industry for Orchid. Similarly, in the critical aspect of pivotal bio-equivalence studies, Orchid has had an enviable record of first-time-right pivotal bio-equivalence studies pointing to the expertise in formulation development and bio-study design. As Orchid aims to enlarge the product base in an accelerated fashion targeting oral non-antibiotic dosage forms, the development perfection and regulatory pace would be critical enablers of achieving shorter time to market in the competitive generics field.

Integrated supply chain

As an end-to-end connected, integrated API and formulations manufacturer, Orchid has an in-built competitive advantage in supply chain management that harmonises the varied features of API and dosage form manufacture across different product groups. Supply chain management at Orchid integrates materials requirement planning, production scheduling, inventory control and batch manufacture in a seamless fashion across the API and formulation domains to be able to respond to customer requirements effectively.





Orchid's proactive supply chain management has been a contributory factor in the distribution alliances securing top spots in the respective generic launches. Orchid works with a number of qualified vendors on a collaborative basis to achieve shorter lead times and flexible delivery quantities.

Going forward, with the number of product offerings set to cross the 100 mark and the coverage of regulated markets set to expand to the entire European region, the number of SKUs would be growing exponentially. Orchid is upgrading its Enterprise Resource Planning system, already on SAP R3 4.6 c to mySAP ECC 5.0 to combine physical effectiveness and financial efficiency in supply chain management.

Robust distribution alliances

Nearly ninety percent of the global pharmaceutical market of USD 602 billion (estimated 2005 sale by IMS Health) resides in the regulated markets of the US, Europe and Japan. The global generics industry valued at around USD 75 billion has been gaining ground over the years. Here again, the regulated markets of US, Europe and Japan represent a major segment (over 70 per cent) of the generics market. Generics are expected to experience double-digit growth rates compared to the single digit growth rates of 5 to 8 percent likely to be experienced by the total pharmaceutical markets, over the next five years.

Orchid has attached considerable importance to forging win-win partnerships to seek a major presence in the generic markets. Orchid has pursued a well-calibrated strategy for sequential entry into these markets through premium generic products and progressive diversification of therapeutic offerings to build competitive advantage. This strategy has been of relevance to the distribution partners equally keen to expand their therapeutic and product coverage.

Orchid has consciously followed a strategy of focusing on product development and manufacture, leaving front-end marketing to be fulfilled through distribution alliances. Orchid has secured tie-ups with global distribution majors such as Apotex Inc, Apotex Corp, Par Pharmaceuticals Inc, Actavis, Stada, IVX and Mayne for distributing 41 products in US, Europe and other regulated / contiguous markets. These cover 21 antibiotics and 20 NPNC products.

Of the above, during the first year of regulated generic operations, 5 cephalosporin products in 11 dosage forms and 29 dosage strengths in total have been launched in the US as detailed.

Product	Dosage Form	Distribution Partner	Launch
Ceftriaxone	Injections	Apotex	August 2005
Cefazolin	Injections	Apotex	October 2005
Cefoxitin	Injections	Apotex	February 2006
Cephalexin	Capsules	Par	July 2005
Cefprozil	Tablets	Par	December 2005
Cefprozil	Oral Suspension	Par	January 2006

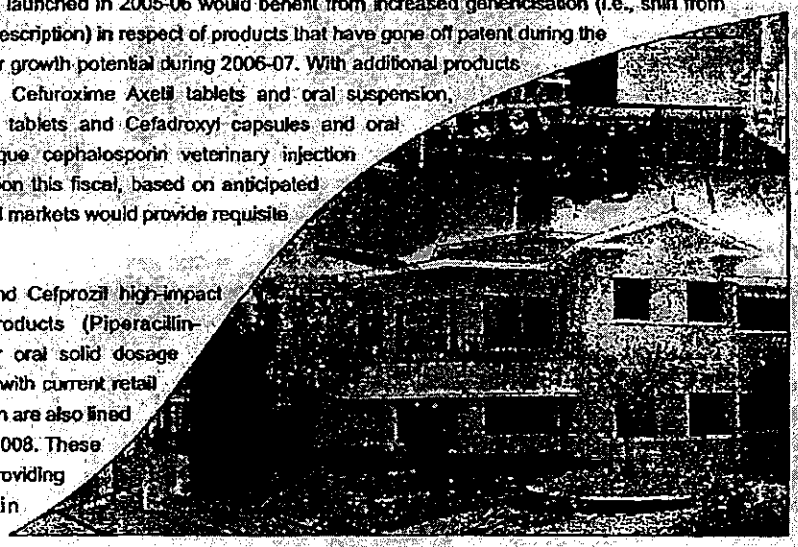
Orchid Chemicals & Pharmaceuticals Ltd.

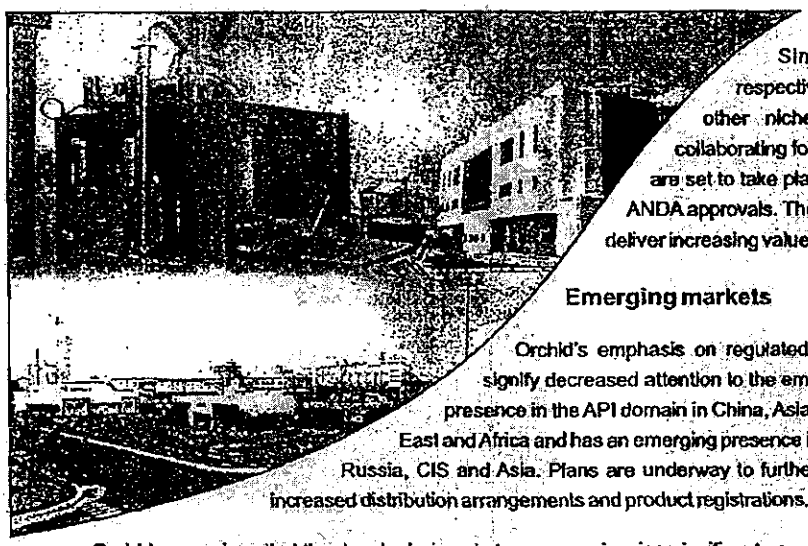
Of these, Ceftriaxone and Cefprozil represent premium products which accounted for annual retail market size of USD 525 million and USD 250 million respectively in the dosage forms offered by Orchid, prior to patent expiry.



The five cephalosporin products launched in 2005-06 would benefit from increased genericisation (i.e., shift from brand prescriptions to generic prescription) in respect of products that have gone off patent during the year as well as from the full year growth potential during 2006-07. With additional products such as Cefotaxime injections, Cefuroxime Axetil tablets and oral suspension, Cephalexin capsules, Cefixime tablets and Cefadroxyl capsules and oral suspension as well as a unique cephalosporin veterinary injection (Ceftiofur) lined up for introduction this fiscal, based on anticipated US FDA approvals, the regulated markets would provide requisite increases in turnover.

On the lines of Ceftriaxone and Cefprozil high-impact launches, three premium products (Piperacillin-Tazobactam injections, Cefdinir oral solid dosage forms and Cefepime injections) with current retail market turnover of USD 2.2 billion are also lined up for introduction in 2007 and 2008. These niche products are capable of providing step-function increases in





performance in 2007-08. Simultaneously, Orchid and the respective alliance partners in the NPNC and other niche antibiotics space are actively collaborating for the planned product roll-outs which are set to take place from 2007, based on anticipated ANDA approvals. These distribution arrangements would deliver increasing value, in line with expanding portfolios.

Emerging markets

Orchid's emphasis on regulated markets does not in any manner signify decreased attention to the emerging markets. Orchid has a robust presence in the API domain in China, Asia, Russia, CIS, Latin America, Middle East and Africa and has an emerging presence in the finished formulations domain in Russia, CIS and Asia. Plans are underway to further strengthen these businesses with increased distribution arrangements and product registrations.

Orchid recognizes that the developing markets are experiencing significant economic growth which helps strengthen social and healthcare infrastructure. With increasing patient access, it is conceivable that the emerging economies would record higher growth rates in pharmaceutical sales even compared to the advanced regulated markets.

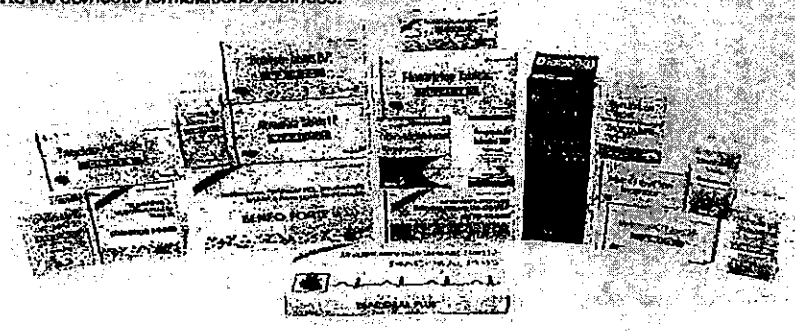
In China, which is one of the largest healthcare markets, Orchid has a major position in cephalosporin APIs through direct exports of products as well as through the joint venture in China, NCPC Orchid Pharmaceuticals Company. During 2005-06, the second full year of its operations, NCPC-Orchid achieved a turnover of USD 37 million, representing a significant 85 percent increase over the previous fiscal. With continued introduction of premium sterile APIs based on technical inputs from Orchid, the joint venture which has already secured the largest market share in its class in China is set to consolidate its position further.

In Russia & CIS countries as well as in Asia-Pacific region, export of formulations has recorded an increase of 70%, albeit on a lower base. With increased number of product registrations, Orchid anticipates that the emerging markets would contribute in greater measure to the overall business in future.

Similarly, despite the increasing scope of internationalization, the domestic branded business currently aggregating to Rs 58 crore continues to receive significant attention. The domestic branded business is now organized in terms of four compact divisions catering to anti-infective, anti-diabetes, cardio-vascular and neuropsychiatry products. A field force of 500 marketing executives services over 65,000 doctors on an all-India basis.

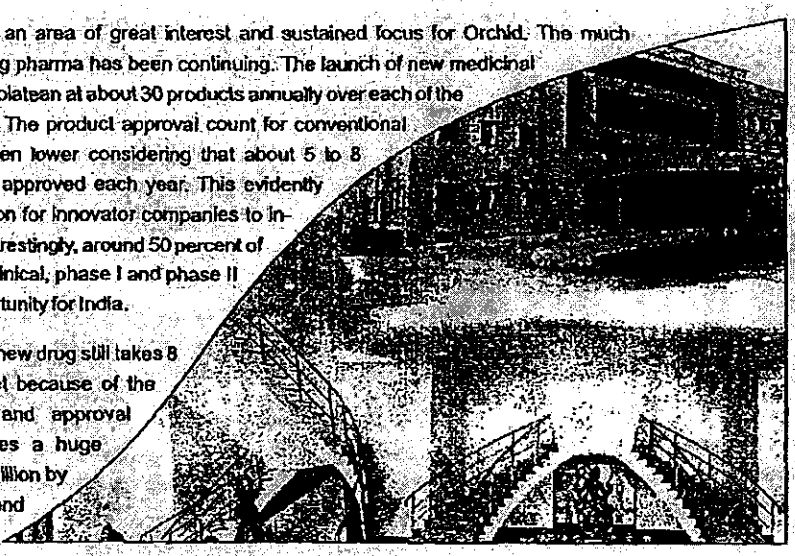
The domestic business is based on a mix of in-house and outsourced production. There have been structural changes in the production system that caters to the domestic pharmaceutical markets due to the availability of duty/tax free production environment in a few states/territories. This has resulted in the formation of new out-sourcing clusters and a consequent shift of production to more competitive production bases. Orchid has also responded to the situation by appropriate sourcing adjustments whose impact is likely to be felt during the current year.

In terms of new product introductions, the domestic business continues to innovate despite the lack of new product opportunities consequent to the globally harmonized product patent regime. In the antibiotics division, Orchid's Meropenem, a pioneer product introduced by Orchid has been a success and is much sought after for co-marketing arrangements. A new combination of Cefotaxime and Sulbactam injection is also expected to do well. In the chronic therapy segments of anti-diabetes, cardio-vascular and psychiatry, new products such as Miglitol and Pregabalin are planned. Also on the anvil are new introductions involving key molecules such as Pioglitazone, Glimiperide, Glibenclamade and Metformin in the anti-diabetes therapy, Atorvastatin, Ezetimibe and Fenofibrate in the cardiovascular division and Duloxetene in the psychiatry, some of them as efficacious combinations as compared to stand alone drugs. These new products are expected to provide a significant boost to the domestic formulations business.

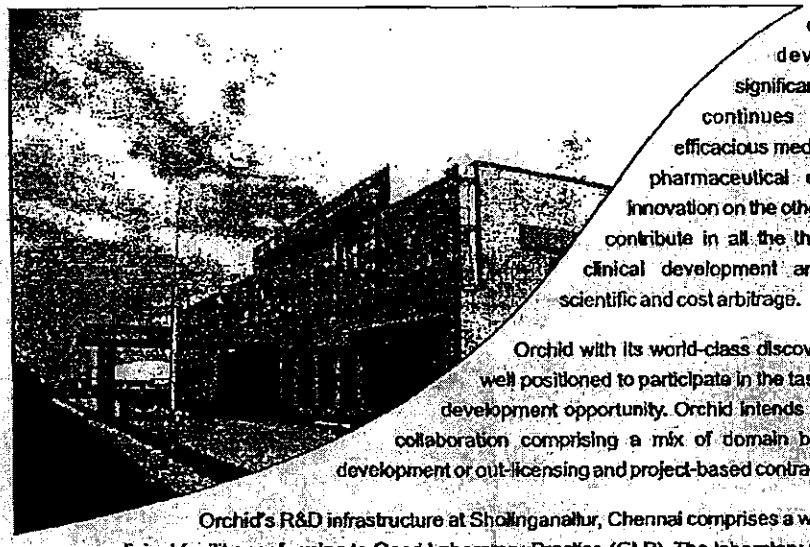


Drug discovery

Drug discovery continues to be an area of great interest and sustained focus for Orchid. The much discussed 'pipeline drought' of big pharma has been continuing. The launch of new medicinal substances globally continues to plateau at about 30 products annually over each of the last three years (2003 to 2005). The product approval count for conventional pharmaceutical molecules is even lower considering that about 5 to 8 biopharmaceutical products are approved each year. This evidently constitutes a significant motivation for innovator companies to in-license new drug candidates. Interestingly, around 50 percent of such in-licensing occurs in pre-clinical, phase I and phase II stages providing significant opportunity for India.



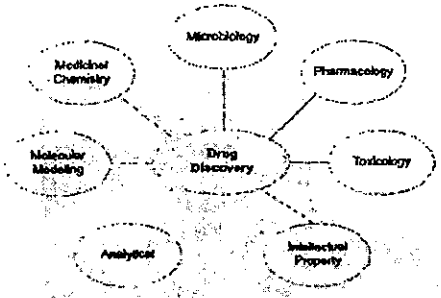
Equally relevant is the fact that a new drug still takes 8 to 15 years to reach the market because of the arduously long development and approval cycles. Each drug also requires a huge investment in excess of USD 1 billion by the big pharma to develop and commercialize. Both pre-clinical

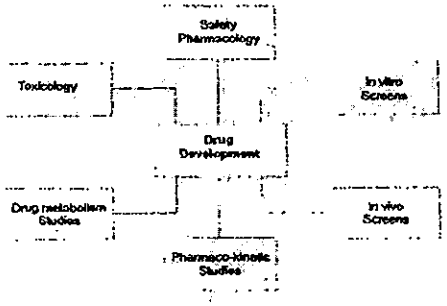


development and clinical development phases contribute significantly to this enormous lead time that continues to distance the patients from efficacious medications on one hand and the global pharmaceutical companies from commercializing innovation on the other. Here again, India can significantly contribute in all the three vital phases of discovery, pre-clinical development and clinical development, through scientific and cost arbitrage.

Orchid with its world-class discovery and pre-clinical infrastructure is well positioned to participate in the task of expanding global discovery and development opportunity. Orchid intends to adopt flexible models of strategic collaboration comprising a mix of domain based cooperation, lead based co-development or out-licensing and project-based contract R&D services.

Orchid's R&D infrastructure at Sholinganallur, Chennai comprises a world-class drug discovery centre and pre-clinical facility conforming to Good Laboratory Practice (GLP). The laboratory facilities and scientific competencies span a number of disciplines and specializations as brought out in the graphic below.





In addition, Orchid's drug discovery subsidiary in the US, Bexel Pharmaceuticals Inc (Bexel) is engaged in exploratory chemistry and leading edge biology as well as managing clinical development, with a special focus on metabolic diseases. Together, Orchid-Bexel infrastructure and skill-sets in the discovery space provide a wide range of partnership options for global pharmacos in terms of therapeutic diversity and development capability.

The following graphic summarises the therapeutic focus of the Orchid-Bexel programmes, which essentially pertain to orally active small molecules and cover diabetes, obesity, inflammation, oncology and infectious diseases. These therapeutic areas offer major opportunities for development of new drugs.

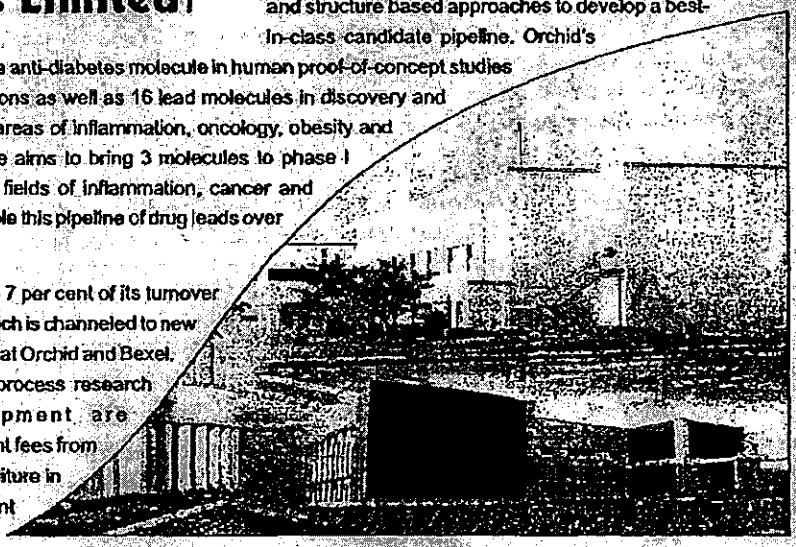
Orchid Chemicals & Pharmaceuticals Ltd.

Diabetes	Type II diabetes Diabetic dyslipidemia
Obesity	Adipose tissue modulators
Inflammation	TNF α inhibitors IL 6 / IL 12 inhibitors
Oncology	Non-cytotoxic drug candidates HDAC / STAT 3 inhibitors Cytokine inhibitors
Infections	Extended spectrum antibiotics

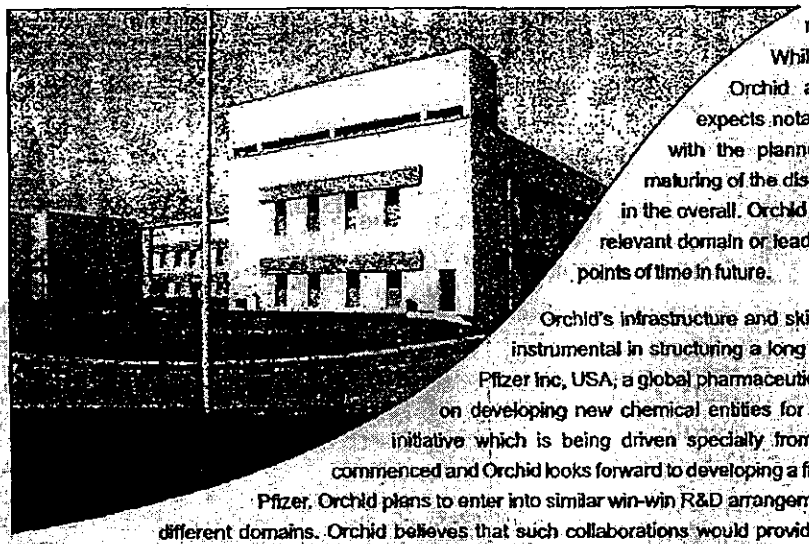
In order to provide a sharper focus for drug discovery, Orchid has constituted a wholly-owned subsidiary, Orchid Research Laboratories Limited (ORLL), which now has the full complement of Orchid's scientific personnel dedicated to drug discovery and drug development. ORLL owns the discovery related intellectual property and patent portfolio of Orchid. It also owns, together with the parent company, 71% equity of Bexel as of date.

Orchid Research Laboratories Limited

Orchid, through ORLL, and in association with Bexel, is committed to contribute to the development of safer and more efficacious drugs in a cost-effective and time-efficient manner. Orchid and Bexel adopt an integrated drug discovery paradigm combining the target based approaches and structure based approaches to develop a best-in-class candidate pipeline. Orchid's pipeline comprises BLX-1002, the anti-diabetes molecule in human proof-of-concept studies and under out-licensing discussions as well as 16 lead molecules in discovery and pre-clinical stages covering the areas of inflammation, oncology, obesity and infectives. Orchid-Bexel combine aims to bring 3 molecules to phase I clinicals this fiscal covering the fields of inflammation, cancer and obesity. Orchid also plans to double this pipeline of drug leads over the next three years.



Orchid has been committing 6 to 7 per cent of its turnover on R&D, a significant share of which is channeled to new drug discovery and development at Orchid and Bexel. While the R&D expenditure in process research and DMF/ANDA development are compensated by the development fees from the alliance partners, the expenditure in drug discovery and development



represents investment for the future. While the discovery R&D investments at Orchid and Bexel are significant, Orchid expects notable value generation going forward, with the planned accretion to lead pipeline and maturing of the discovery and development capabilities in the overall. Orchid would strive to unlock value through relevant domain or lead-specific partnerships at appropriate points of time in future.

Orchid's infrastructure and skill-sets in the R&D space have been instrumental in structuring a long term Master R&D collaboration with Pfizer Inc, USA, a global pharmaceutical leader. This agreement is focused on developing new chemical entities for Pfizer's animal health business, an initiative which is being driven specially from India. The first project has since commenced and Orchid looks forward to developing a fruitful and expanding partnership with Pfizer. Orchid plans to enter into similar win-win R&D arrangements with select global pharmacos in different domains. Orchid believes that such collaborations would provide exceptional opportunities to travel through the entire R&D value chain, from discovery to delivery in partnership with innovator firms with exciting commercial possibilities in the long term.

Innovation-led transformation

At Orchid, strategy is a dynamic, iterative process of adding products and markets, creating competencies and leveraging them for continuous growth. More significantly, consolidating and expanding the core competencies in APIs, dosage forms and sterile injectables, Orchid is set to cover newer therapeutic groups and offer wider product range in its quest for becoming a diversified yet well-integrated global pharmaceutical company.

Orchid is committed to the path of innovation with a passion and respect for intellectual property. The total number of patent applications filed with various international and national patent offices, including US PTO stands at 360. Of these 42 patents have been granted, 221 have been published and the balance are under examination. Over 27 percent of all the patent applications filed relate to new drug discovery, novel drug delivery systems and biotechnology, reflecting the strength of fundamental innovation at Orchid going forward.

Orchid's niche generics strategy could be effectively operationalized because of its innovative capabilities in terms of developing non-infringing processes and formulations. At the other end of the spectrum, Orchid's commitment to drug discovery, as an entirely innovation led play is targeted to position Orchid as a partner of choice in the global discovery space.

The transformation from a predominantly API and emerging market play to an integrated dosage form regulated play has gained considerable traction. Orchid's sights are now set on expanding the niche generics pipeline further and unlocking the value of innovation through drug discovery to generate even higher levels of value in the years to come.

Orchid Chemicals & Pharmaceuticals Ltd.

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BOARD OF DIRECTORS

CHAIRMAN	Shri R Narayanan
MANAGING DIRECTOR	Shri K Raghavendra Rao
DEPUTY MANAGING DIRECTOR	Dr C Bhaktavatsala Rao
DIRECTORS	
Dr M R Girinath	Dr I Seetharam Naidu
Shri Deepak Vaidya	Shri Subramanian Andi (IDBI Nominee)
Dr Anzaghi Piergiorgio	Shri Anil Thadani
Dr Bishwajit Nag	Dr Francis Pinto

MANAGEMENT TEAM

Shri D S Bhaskara Raju	President – Finance & Business Planning
Dr Gautam Kumar Das	President – Active Pharmaceutical Ingredients
Dr Sumant Baukhandi	President – Regulatory Affairs & Quality Assurance
Ms Edna Braganza	Senior Vice President – International Marketing & Procurement
Shri Kalidindi V Raju	Senior Vice President – Manufacturing
Shri S Mani	Senior Vice President – Manufacturing
Shri Ashutosh Ojha	Country Head (Domestic Formulations)
Shri L Chandrasekar	Vice President – Internal Audit & Co. Secretary
Shri P N Deshpande	Vice President – Production & Technical
Shri C R Dwarakanath	Vice President – Corporate Safety, Health & Environment
Shri Imtiyaz Basade	Vice President – Regulatory Affairs
Shri S Krishnan	Vice President – Finance
Dr S Mahender Rao	Vice President – Chemical Development
Shri Makarand M Deshpande	Vice President – International Marketing
Shri S Nammalvar	Vice President – Projects & Engineering Services
Shri K C Pathak	Vice President – PPIC & Outsourcing
Dr Praveen Reddy	Vice President – Pharma Research
Shri K Ramesh	Vice President – Analytical Development
Shri M S Rangesh	Vice President – Human Resources
Shri Satish Haribhau Joshi	Vice President – Quality Assurance
Dr U P Senthil Kumar	Vice President – Chemical Development
Shri Umesh D Kapre	Vice President – Manufacturing

REGISTERED OFFICE
'Orchid Towers'
313, Valluvar Kottam High Road
Nungambakkam, Chennai 600 034
Tamil Nadu, India

PLANTS IN INDIA
Plot No.476/14
Old Mahabalipuram Road
Sholinganallur, Chennai 600 119
Tamil Nadu, India

Plot Nos.B21 – B23 & B31 – B33
SIPCOT Industrial Park
Irungattukottai, Sriperumbudur (Tk.)
Pin 602 105, Kancheepuram District
Tamil Nadu, India

BANKERS
Allahabad Bank
Bank of Baroda
Bank of India
Canara Bank
Federal Bank
ICICI Bank Ltd
IDBI Limited
Indian Bank
Punjab National Bank
State Bank of India
State Bank of Indore
Syndicate Bank
Union Bank of India
UTI Bank Limited

API FACILITIES
ALATHUR WORKS
Plot Nos.85-87, 98-100, 126-131,
138-151 and 159-164
SIDCO Industrial Estate
Alathur, Kancheepuram District
Pin 603 110, Tamil Nadu, India

AURANGABAD UNITS
L-8 & L-9 MIDC Industrial Area
Waluj, Aurangabad District
Pin 431 136 Maharashtra, India

FORMULATIONS FACILITIES
A10/A11, SIDCO Industrial Estate
Alathur, Kancheepuram District
Pin 603 110, Tamil Nadu, India

B-77, SIDCO Pharmaceutical Complex
Alathur, Kancheepuram District
Pin 603 110, Tamil Nadu, India

Plot Nos.B3 – B6, B11– B14 and B15 – B18
SIPCOT Industrial Park, Irungattukottai
Sriperumbudur (Tk.) Pin 602 105
Tamil Nadu, India

AUDITORS
STATUTORY AUDITORS
SNB Associates
Chartered Accountants
No.12, 3rd Floor
Gemini Parsn Complex
121, Anna Salai
Chennai 600 006
Tamil Nadu, India

COST AUDITORS
Shri V Kalyanaraman
Cost Accountant
No.4 (Old No.12)
Second Street
North Gopalapuram
Chennai 600 086
Tamil Nadu, India

Orchid Chemicals & Pharmaceuticals Ltd.

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Fourteenth Annual Report of your Company along with the audited Statement of Accounts for the financial year ended March 31, 2006. The Report also includes the Management Discussion and Analysis Report in accordance with the Guidelines on Corporate Governance and Consolidated Financial Statements.

The highlights of the financial results for the year 2005 - 2006 are as below:

Rs lakhs

Particulars	Year Ended 31.03.2006	Year Ended 31.03.2005
Sales & Operating Income	88876.64	68929.44
Other Income	132.73	82.23
Total Expenditure	62949.31	52700.68
Gross Profit	26060.06	16310.99
Interest & Finance Charges	8701.32	7231.00
Gross Profit after Interest but before Depreciation and Taxation	17358.74	9079.99
Depreciation	8297.57	6189.19
Profit Before Tax	9061.17	2890.80
Provision for Taxation:		
– Current Tax	–	194.60
– Deferred Tax	590.00	(404.93)
– Fringe Benefit Tax	181.00	
Profit after Tax	8290.17	3101.13
Add : Surplus brought forward	2748.36	2203.99
Surplus available	11038.53	5305.12
Appropriations :		
– Transfer to General Reserve	4000.00	1000.00
– Dividend	2209.47	1365.28
– Tax on distributed profits	309.88	191.48
Balance carried to Balance Sheet	4519.18	2748.36

Performance

During the year under review your Company achieved a turnover and operating income of Rs 888.77 crore compared to Rs 689.29 crore in the previous fiscal year 2004-05, registering an increase of 29%. Gross profit before interest, depreciation and taxes in 2005-06 was substantially higher at Rs 260.60 crore compared to Rs 163.11 crore in the previous fiscal.

After providing for interest of Rs 87.01 crore (Rs 72.31 crore previous fiscal) and depreciation of Rs 82.98 crore (Rs 61.89 crore previous fiscal), the profit before tax of the Company was Rs 90.61 crore as against the previous year's profit before tax of Rs 28.91 crore. Net profit after tax stood at Rs 82.90 crore, as against Rs 31.01 crore in the previous fiscal, registering an increase of 167%.

During the year under review, the Company scaled new heights in revenue and profitability. The buoyancy in performance was triggered to a major extent by the successful entry of your Company into the US generics market.

Active Pharmaceutical Ingredients (API)

During the fiscal year under review, Orchid continued to maintain its strong position in the global cephalosporin markets. The Company has also been able to garner a major business opportunity in US for a lyophilized product based on its unique US FDA approved supply position. The net sale of all bulk actives during the year 2005-06 was Rs 499 crore compared to Rs 559 crore in 2004-05. Sale



of oral bulk actives accounted for Rs 338 crore (Rs 421 crore previous fiscal) and sterile bulk actives brought in revenues of Rs 161 crore (Rs 138 crore previous fiscal year). The Company sold 713 MT of bulk actives and intermediates during the year under review compared to 824 MT previous fiscal. During the year, significant quantity of API has gone into development of formulations for the US business as a forward integration activity.

Formulations Business

The turnover of the formulations business was Rs 323 crore during the fiscal, compared to Rs 79 crore last fiscal. The higher performance trajectory of the formulations business has been propelled by our entry into the US generics markets with 5 products, of which Ceftriaxone injection and Cefprozil tablets and suspension have been the key introductions made upon expiry of respective patents. With more products getting approved by the US FDA and launched progressively, your Company anticipates continued growth. In each of the products, your Company enjoys a relatively exclusive position and limited competition as a result of the niche nature of the products requiring challenging technical development and stringent regulatory compliance. Simultaneously, efforts are being made to consolidate and expand the formulations business in less regulated markets.

The domestic formulations business, which decelerated over the last few quarters of fiscal 2004-05 due to trade resistance and VAT, started recouping. The Company has been working on diversified growth opportunities in four consolidated therapeutic areas to reinforce growth. The performance of the antibiotics division in specific has shown a notable improvement during the year 2005-06.

Dividend

Your Directors recommend a dividend payment of 30% (Rs 3 per equity share of Rs 10 each) for the year ended 31st March 2006 subject to the approval of shareholders in the ensuing Annual General Meeting. Under the Income Tax Act, 1961, the receipt of dividend is tax-free in the hands of the shareholders.

Regulatory Approvals

Your Company achieved significant progress in the filing of DMFs (Drug Master Files) and ANDAs (Abbreviated New Drug Applications). In the cephalosporin product space, the Company filed 10 DMFs and 6 ANDAs during the year under review. Importantly, your Company commenced its regulatory journey in the non-penicillin, non-cephalosporin (NPNC) product space by filing its first Drug Master File. Your Company plans to accelerate these filings in the quarters to come.

Your Company has till date filed 30 USDMFs and 25 ANDAs to support its US generics thrust. With 11 ANDAs already approved, the Company has the highest approval record in the antibiotics space. Several more DMFs and ANDAs are planned for filing, with an increasing share of NPNC products.

Marketing Alliances

During the year under review, your Company entered into an exclusive distribution alliance with Mayne Pharma, the injectable specialty pharmaceuticals Company of the Mayne Group Limited (Mayne) for marketing Orchid's select life-saving injectable antibiotic formulations in identified regulated markets. This alliance will cover the US, Canada, European and Australasian geographies. Under this agreement, Orchid will develop and manufacture a range of injectable antibiotic formulations in specific dosage forms and strengths for distribution and marketing by Mayne. These products have a current market size of over USD 1 billion in the selected markets.

Orchid has thus six major exclusive marketing and distribution alliances with global generic majors Apotex, Par, Actavis, Stada, IVX and Mayne. These cover 21 antibiotic and 20 non-antibiotic products and represent a consolidated current annual retail market opportunity of over USD 33 billion. Orchid anticipates a step-function increase in revenues from these alliances targeted at the regulated markets resulting in enhanced margins and profitability going forward.

Research & Development

During the year, Orchid's R&D made significant progress covering new drug discovery, process research and biotechnology. To achieve sustained long-term growth, your Company is increasing its focus on the development of non-infringing manufacturing processes, discovery of new drugs and novel drug delivery systems.

Orchid has created facilities and joint ventures to support drug discovery and development capabilities. Orchid's drug discovery efforts will help the Company achieve a niche presence based on innovation in such markets.

In order to provide effective focus and impetus to drug discovery activities, Orchid Research Laboratories Limited has been established in March 2005. Effective January 2006, all the scientific employees of Orchid engaged in drug discovery and development have been transferred to Orchid Research Laboratories. Orchid's drug discovery IPR has also been transferred to the new venture.

Intellectual Property

During the year, Orchid continued to accelerate the IPR work on a number of products. 22 patents (4 from USPTO; 1 from EP; 17 from Indian patent office) were received during the year (22 in API) taking the total patent count to 41. The total number of patent applications filed by Orchid in various international patent offices during the financial year 2005-06 was 71 (process+biotech+nanotech+NCE), taking the cumulative count to 328.

Bonus Issue

Your Company made a maiden issue of bonus shares during the year, in the ratio of 1:2 (one bonus share of Rs 10/- each for every two equity shares of Rs 10/- each), which was approved by the shareholders at the Extraordinary General Meeting, held on August 18, 2005. The record date was fixed as September 17, 2005 in consultation with the Stock Exchanges where the Company's equity shares are listed. The bonus shares were allotted by the Allotment Committee of the Board on September 21, 2005. The credit of Bonus shares into the individual shareholder's demat account were given through the Depositories on October 26, 2005.

The odd lot shares aggregating 2035 shares were allotted by the Board in the name of two individual trustees in physical form. The trustees were entrusted with job of selling the fractional shares in the market in the best interests of the shareholders. The trustees subsequently dematerialized and sold the total odd lot shares in the open market on various dates, and credited the sale proceeds to the Company. An amount of Rs 4,74,494 arrived after deducting certain expenses incurred for the dematerialization and sale of shares, were distributed to 4070 shareholders in February 2006.

Projects

Your Company has completed the projects required to take its cephalosporin and betalactam products to the regulated markets of US and Europe. New facilities for high-end betalactam and non-penicillin, non-cephalosporin products (both API and formulations at Aurangabad and Irungattukottai respectively) have been completed and are being utilized for ANDA filings from this fiscal 2005-06. The formulations R&D activity has also been expanded and relocated contiguous to the generics complex for better connectivity with operations. Work is now apace to build larger commercial scale NPNC API and formulation facilities and also to build sterile API and dosage form facilities in the futuristic carbapenem area in the respective locations. These new projects will be completed this fiscal.

Long Term Resources

GDR-FCCBs

During the year under review, your Company successfully raised USD 82.6 million from the international market through the issue of 9,250,000 GDRs aggregating USD 40.1 million and USD 42.5 million through the issue of Foreign Currency Convertible Bonds (FCCB) including a green shoe option of USD 2.6 million on GDRs and US$ 5 million on FCCBs. The zero-coupon FCCBs have a tenor of five years and are convertible into equity shares at a premium of 25% on the issue price. The GDRs and the FCCBs are listed on the Luxembourg Stock Exchange. Citigroup acted as the sole book-runner and lead manager to this transaction. The proceeds of the issue have been utilized for repayment of debt in part as well as to accelerate your Company's efforts to grow its business into regulated markets.

As of March 31, 2006, US$ 16.54 million FCCBs have been converted into equity shares. 3,048,834 equity shares of the Company have been issued upon conversion of the FCCBs. Pursuant to the conversions, as of March 31, 2006, US$ 25.96 million FCCBs are outstanding. Out of the 9,250,000 GDRs issued and listed, 8,138,520 GDRs have been converted into equity shares of the Company, by the GDR holders. The balance 1,111,480 GDRs are outstanding as of March 31, 2006.

Your Board is further considering other options for securing of long-term funds in order to strengthen the Balance Sheet, by way of further issues in the international market or placement of shares on private placement basis.

Issue of Warrants

Your Company had allotted 25,00,000 (twenty five lakh only) Warrants to the Promoter /Promoter Group(s) on August 02, 2005, pursuant to the approval granted by the members of the Company at the Annual General Meeting held on July 18, 2005.

On account of the intervening Bonus issue, the Company has in terms of the Meeting of the Allotment Committee of the Board of Directors held on October 13, 2005 approved for the adjustment in price/unexercised warrants consequent to the bonus issue. The balance number of adjusted warrants yet to be converted is 35,95,000.

In terms of the resolution passed by the Company on April 10, 2004, 20,00,000 Warrants were allotted to the Promoter /Promoter Group(s) on April 23, 2004 and the entire warrants have been subscribed by them.

Employees Stock Option Plan

The Company has granted options to the employees in four tranches i.e. on November 22, 1999, January 20, 2004, April 27, 2005 and April 28, 2006, 6,00,000, 3,07,925, 2,92,075 and 3,00,000 options respectively all aggregating to 15,00,000 options, each option being convertible into one equity share of nominal value of Rs 10/- each, under the ORCHID-ESOP 99 scheme. Pursuant to the exercise of options by employees the Allotment Committee of the Board at its meetings held on April 27, 2005, August 02, 2005, August 31, 2005 allotted 11,800, 59,485, 3,00,676 equity shares respectively to employees.

On account of the Bonus issue completed by the Company during October 2005, the Company have in terms of the Meeting of the Compensation Committee of the Board of Directors held on October 13, 2005 approved for the adjustment in price/unexercised options in respect of the Employee Stock Options granted but not exercised by the Employees as of that date.

Further some of the employees have exercised the options granted to them and the Allotment Committee of the Board at its meetings held on December 23, 2005, March 31, 2006 and April 28, 2006 have allotted 19,649, 13,879 and 3,475 shares respectively. The details of the options granted to employees and the status of such options as on March 31, 2006 are given in Annexure VI to this report.

Listing of Equity Shares

Your Company's equity shares are presently listed on the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE) and the Madras Stock Exchange Limited (MSE). The Company has got listing approval from the above stock exchanges for the listing of 2,80,18,707 equity shares issued during the year. The Company has applied / is in the process of applying for listing of the newly issued 36,23,100 equity shares to the Stock Exchanges where the Company's shares are listed. The GDRs and the FCCBs are listed on the Luxembourg Stock Exchange.

Overseas Joint Ventures

NCPC Orchid Pharmaceuticals Company Limited - China: Your Company's 50:50 joint venture in China, NCPC Orchid Pharmaceuticals established for manufacture of sterile cephalosporin APIs has been progressing well. The Company has been commercialising new sterile APIs based on technology inputs provided by Orchid. The response from the market has been good and the JV Company's product range has the largest share in the Chinese market. The JV is planning to enhance the market share further in the current year. During the year under review, NCPC-Orchid recorded a turnover of USD 36.82 million.

Biotechnological Chemical Development Limited - United Kingdom: The joint venture was set up as a limited time horizon project to develop and assimilate select peptide technologies. Your Company feels that it would be beneficial to carry on further development work in India at its facilites, as the technological platform has been developed and demonstrated. Your Company is in the process of transferring the IP and assets of the JV to India.

Subsidiaries

Orchid Research Laboratories Limited - India : Orchid Research Laboratories Limited is a public limited company promoted mainly with the object of conducting new drug discovery, research and development in pharmaceuticals and perform contract research. It became Orchid's wholly owned subsidiary during April 2005.

Bexel Pharmaceuticals Inc. - USA : The US discovery subsidiary which has been working on a novel anti-diabetic

molecule (BLX-1002), among others, has initiated discussions for out-licensing the molecule with select MNCs who have shown interest in the molecule. In view of the positive impact of BLX-1002 on triglycerides and blood pressure besides glucose lowering, an additional clinical study on specific patient population with high lipid profile has been planned. The subsidiary is also conducting pre-clinical studies on its anti-obesity and anti-inflammatory molecules. Your Company along with its subsidiary Orchid Research Laboratories Limited holds around 71% of the share capital of Bexel as of 31st March 2006.

Orchid Europe Limited - United Kingdom : Your Company's wholly owned subsidiary Orchid Nutricare limited has been renamed as Orchid Europe Limited considering the future course of business activities. The future business of Orchid Europe would be in terms of pharmaceutical generics and your Company proposes to utilise this entity for generics registrations to start with.

Ogna Farma - Brazil : Brazil is a large and fast growing market for Cephalosporins. In order to tap this opportunity, your Company has established a subsidiary in Brazil to cater to the product registration and marketing requirements. Applications are being submitted by your Company for inspection of the injectable formulations facilities at Irungattukottai, by the Brazilian regulatory authorities.

Gene Arrays Inc.- USA : Orchid entered into a joint venture arrangement in USA to establish Gene Arrays Inc. as a company specializing in products and services based on molecular biology. The Company is headquartered in Maryland, USA. As the skill-sets and market opportunities for this sunrise kind of activity are concentrated in the US, the JV was set up as an exploratory venture to familiarise your Company with the technologies and developments. Upon the development of the three cDNA libraries, the libraries and certain equipment bought with the funding provided by Orchid are being transferred to Orchid's R&D. A termination agreement has also been signed to enable closing of the venture and transfer of work to Orchid.

Orchid Pharmaceuticals Inc. - USA : In order to cater to the more demanding requirements of business development and logistical coordination in the US, a separate entity was formed in the US. Accordingly, your Company promoted Orchid Pharmaceuticals Inc. in Delaware state of USA as a 100% subsidiary company. The Company or any of its entities would provide services to Orchid on a specific basis as may be found necessary.

Your Company has received an approval under Section 212 (8) of the Companies Act, 1956 from the Department of Company Affairs, Ministry of Finance vide letter No: 47/78/2006-CL-III dated 7th March 2006 exempting the Company from the provisions contained in sub-section (1) of Section 212 of the Companies Act, 1956. The statement as required under the said approval is given as part of this report. Further, the consolidated financial statements of Orchid including its subsidiary companies, duly audited are presented in this Report. The annual accounts of the subsidiary companies and the related detailed information shall be made available to the members seeking such information at any point of time. Further, the annual accounts of the subsidiary companies are kept at the Registered office of your Company and also at the respective registered offices of the subsidiaries for inspection.

Outlook for 2006-07 and beyond

Your Company expects to maintain the growth momentum in the year 2006-07 based on further ANDA approvals and ramp-up in the markets of various products in the US. With the diversification of product offerings to betalactam and later to carbapenem therapeutic groups, your Company would continue to retain its niche position in the antibiotics generics space. In addition, the planned entry into non-penicillin and non-cephalosporin products will provide a larger continued product line-up and business flow for the long term. In addition, potential antibiotics opportunities in the drug discovery space and select contract R&D projects for multinationals would serve as further value drivers.

Visit of the President

The Hon'ble President of India Dr A P J Abdul Kalam visited Orchid's state-of-the-art formulations manufacturing complex located in the SIPCOT Industrial Estate, Irungattukottai, near Sriperumbudur on December 1, 2005. Dr Kalam went round the new state-of-the-art dosage form facility established for manufacturing betalactam antibiotic formulations. The facility is unique for its technological sophistication and automation and its capability to

undertake in-situ lyophilisation of dry powder vials. In his address to the scientists and staff of the Company, Dr Kalam stressed on the convergence of technologies such as pharmaceuticals, biotechnology, information technology and the emerging nanotechnology and exhorted the scientists to discover and develop new drugs from the molecule stage. Referring to Orchid's leadership position in the global antibiotics space Dr Kalam expressed confidence that the Company would become a name to reckon with in the global pharma space, including discovery of new medicines for the world markets.

In July 2005, Director General of Council of Scientific & Industrial Research, Dr R A Mashelkar visited Orchid and inaugurated Orchid's state-of-the-art New Drug Discovery Research Centre at its Sholinganallur R&D campus. Terming it as among the best in India and comparable with world standards, Dr Mashelkar commended Orchid's vision in carving a niche in the global drug discovery space with its therapeutic programmes.

Fixed Deposits

The Company has not accepted any fixed deposits and as such, no amount of principal or interest was outstanding as of the Balance Sheet date.

Directors' Responsibility Statement

In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956, your Directors confirm:

- That in the preparation of the annual accounts for the year 2005-06, the applicable accounting standards have been followed by your Company along with proper explanation relating to material departures, if any.
- That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year (31st March 2006) and of the profit or loss of the Company for that period (2005-06).
- That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- That the Directors have prepared the annual accounts 2005-06 on a going concern basis.

Environment and Safety

Your Company continued to conform to high standards of environmental friendliness. Safety was accorded a high priority in all activities and at all locations throughout the year. To create safety awareness, training programmes were regularly conducted for the employees and contract workers with the help of faculty and experts in the field. In-built safety systems have been incorporated in all the projects. With the evolution into a multi-locational organisation, your Company has taken up further initiatives to further strengthen and harmonise safety, health and environment management systems at all locations within a corporate policy framework.

There was an incident of fire in a solvent recovery block situated in the Company's facility at Alathur, near Chennai. The fire that broke out at around 8.30 PM on November 3, 2005 was brought under control quickly using the Company's fire-fighting equipment and the onsite emergency management team. The affected solvent recovery facility, commissioned around a year ago, is fully computerized and has state-of-the-art operational and safety management systems. Your Board and the Company deeply regrets that despite the sophisticated safety equipment and stringent safety norms in place, the incident of fire occurred and two employees who were on duty in the affected block at the time of the accident lost their lives. Our sincere condolences go out to the kith and kin of the two employees. Monetary compensation and other benefits lawfully due to the employees were settled to the legal heirs immediately. The management, in addition, provided a significant solatium to the legal heirs.

A Safety Management Evaluation was thereafter entrusted to DuPont, the acknowledged global leader in industrial safety. This comprised DuPont Safety Management Evaluation (DSME), followed by DuPont Action planning workshop (APW) and DuPont Executive Leadership workshop (ELW). The evaluation helped in identifying the strengths as well as the opportunities /gaps for improvement. The investment in this will help to further upgrade the safety levels at Orchid.

Conservation of Energy

Your Company has always been striving hard in the field of energy conservation. Several measures to conserve energy and to reduce the costs associated with it have been taken. Particulars in respect of conservation of energy as required under section 217 (1)(e) of the Companies Act, 1956, are given in Annexure I to this report.

Foreign Collaboration

The particulars in respect of R&D / Technology absorption as required under Section 217 (1)(e) of the Companies Act, 1956, are given in Annexure II to this Report.

Foreign Exchange Earnings and Outgo

The particulars in respect of Foreign Exchange Earnings and Outgo as required under Section 217 (1)(e) of the Companies Act, 1956, are given in Annexure III to this Report.

Particulars of Employees

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 forms part of this Report and is given in Annexure IV to this Report.

Corporate Governance

Your Company has been according high importance for ensuring corporate governance and has also been following the code of corporate governance issued by the Stock Exchanges for listed companies. For the year 2005-06, the compliance report is provided in the Corporate Governance section in this report. The Auditor's Certificate on compliance with the mandatory requirements of Corporate Governance is given in Annexure V to this Report.

Directors

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the Company, Shri R Narayanan, Dr I Seetharam Naidu and Dr Bishwajit Nag retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

Auditors

The existing Statutory Auditors, M/s SNB Associates, Chartered Accountants retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

Cost Audit

The Central Government has prescribed that an audit of the cost accounts maintained by the Company in respect of bulk drugs and formulations be conducted under Section 233B of the Companies Act, 1956. Consequently, your Company has appointed Shri V Kalyanaraman, B.Sc., FICWA, as Cost Auditor for the year 2005-2006, with the consent of the Central Government, for the audit of cost accounts maintained by the Company in respect of both bulk drugs and formulations.

Acknowledgements

Your Directors are thankful to Bank of India, Industrial Development Bank of India Limited, State Bank of India, ICICI Bank Limited, Indian Bank, Union Bank of India, Allahabad Bank, Canara Bank, Punjab National Bank, Bank of Baroda and other public sector and private sector banks and institutions for meeting long term and working capital needs of the Company's expanding operations and also to the Convertible Bond holders for their support.

The Directors are grateful to the Central and State Governments and the Central DCGI and State FDAs for their continued support to the Company's expansion plans. Your Board places on record its appreciation of the support provided by the customers, suppliers and equipment vendors to the Company. Your Directors are also thankful to the vendors, distributors and agents for their continued support.

Your Directors are thankful to the esteemed shareholders and GDR holders for their support and encouragement, which has enabled the Company to venture into various projects successfully. The Directors acknowledge the commitment and contribution of all employees to the growth of the Company.

For and on behalf of the Board

Place: Chennai
Date : April 28, 2006

R NARAYANAN
Chairman

Annexure to the Directors' Report

A) Raising of Long Term Resources

The Board at its meeting held on May 04, 2006 considered raising of long term funds subject to the approval of the shareholders.

The shareholders have earlier approved the raising by the Company of funds in the overseas markets upto US$ 75 million by way of issue of Foreign Currency Convertible Bonds (FCCBs) and US$ 115 million by way of issue of Global Depository Receipts(GDRs) (together totally US$ 190 million, inclusive of green shoe options). These resolutions were considered and approved prior to the bonus issue in April 2004 and July 2005 respectively. Against the approvals, the Company had raised US$ 42.5 million (FCCBs) and US$ 40.1 million (GDRs) in October/November 2005 (together US$ 82.6 million inclusive of green shoe options) the options remains for the Company to raise the balance funding of US$ 107.4 million against the existing resolutions.

Orchid has completed all the projects required to take its cephalosporin and betalactam products to the regulated markets of US and Europe. The first phase of non-penicillin, non-cephalosporin facilities (both for APIs at Aurangabad and formulations at Irungattukottai) to file DMFs/ANDAs and to take the initial NPNC products to US are also operational.

Work is now apace to build larger commercial scale NPNC API and formulation facilities in the respective locations to cater to the further pipeline of NPNC products and handle larger commercial quantities. Projects to establish sterile API and dosage form facilities in the futuristic carbapenem area are also under execution. While Orchid has a unique position in terms of its niche generics for which competition is low and price erosion is less, the generics industry by its nature requires competitive manufacture. These additional facilities require a capital expenditure and there is also a need to de-leverage the Company and reduce the interest costs.

In order to meet the financial outlay on the above projects and to reduce the interest burden significantly and to provide capital structure correction, your Company, in supersession of the above option to raise the balance funding of US$ 107.4 million, has proposed to raise funds from overseas capital markets / domestic markets to the tune of US$ 200 million.

The funds would be utilized (a) for the repayment of debt, (b) to meet the capital expenditure requirement of projects for manufacture of new niche antibiotics and expansion of non-biotic production for regulated markets, (c) to meet the working capital requirements, (d) to meet proposed issue expenditure and (e) for any other business purposes as may be required with necessary consents as may be necessary.

The said resolutions are placed before the members for approval in the ensuing Annual General Meeting and the notice for the same is enclosed with the Report.

B) Listing of Equity Shares

In the Directors report, your Directors stated that your Company has applied/is in the process of applying for listing of the newly issued 36,23,100 equity shares to the Stock Exchanges where the Company's shares are listed. Pursuant to the application made by your Company to the Stock Exchanges, your Company has received final approval for the listing of 17,51,146 equity shares from National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

Approval from Madras Stock Exchange Limited is awaited for the 17,51,146 equity shares and your Company is in the process of applying for listing of the newly issued 18,71,954 equity shares to the Stock Exchanges where the Company's shares are listed.

C) Increase of Authorised Share Capital

Your Company keeping in view, the impending issue of securities, as given in (A) above, proposes to increase the Authorised Share Capital of the Company to Rs 100,00,00,000 (Rupees one hundred crore only) comprising 10,00,00,000 equity shares of Rs 10/- each.

For and on behalf of the Board

R NARAYANAN
Chairman

Place : Chennai
Date : May 4, 2006

Orchid Chemicals & Pharmaceuticals Ltd.

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies

Rs lakhs

	Name of the Subsidiary Company	Orchid Europe Limited (formerly Orchid Nutrisure Limited) United Kingdom	Ogna Farma Distribuidora Importadora, Exportadora e Assessoria Ltda. Brazil	Gana Arrys Inc., United States of America	Orchid Pharmaceuticals Inc. United States of America	Basal Pharmaceuticals Inc. United States of America	Orchid Research Laboratories Ltd. India
2	The financial year of the subsidiary Company ended on	31-Mar-08	31-Dec-05	31-Mar-08	31-Dec-05	31-Dec-05	31-Mar-08
3	Holding Company's interest	100% in equity shares	88.3% in Common Stock	88.67% Preferred Stock with equal voting rights as Common Stock	100% in Common Stock	35.99% Preferred Stock with equal voting rights as Common Stock (excluding 33.64% held through a wholly owned subsidiary).	100% in equity shares
4	Shares held by the holding Company in the subsidiary	10,000 equity shares of 1 GBP each	-	200,000 Preferred Stock of US$ 0.001 each	100,100 Common Stock of US$ 1 each	11,800,000 Preferred Stock of US$ 0.001 each	6,330,000 equity shares of Rs 10 each
5	The net aggregate of profit/(loss) for the current period of the Subsidiary so far as it concerns the members of the holding Company						
	a) Dealt with or provided for in the accounts of the holding Company;	(2.38)	(36.34)	(30.27)	(0.14)	(2149.43)	(112.14)
	b) Not dealt with or provided for in the accounts of the holding Company;	Nil	Nil	Nil	Nil	Nil	Nil
6	The net aggregate of profit/(loss) for previous financial years of the Subsidiary so far as it concerns the members of the holding Company						
	a) Dealt with or provided for in the accounts of the holding Company	(1.90)	(25.18)	(91.85)	Nil	NA	NA
	b) Not dealt with or provided for in the accounts of the holding Company.	Nil	Nil	Nil	NA	NA	NA

** As per the Brazilian law, issue of Share Certificate towards equity contribution is not in practice. Hence, the holding company's interest can be taken as the shares held by the holding company in the subsidiary.

On behalf of the Board

K RAGHAVENDRA RAO
Managing Director

DR. I. SEETHARAM NAIDU
Director

L CHANDRASEKAR
VP - Internal Audit & Secretary

K NARAYANAN
Chairman

DR C BHAKTAVATSALA RAO
Deputy Managing Director

D S BHASKARA RAJU
President - Finance & Business Planning

Place: Chennai
Date : April 28, 2008

S. No	Particulars	Orchid Europe Limited (formerly Orchid Nutricare Limited), United Kingdom		Ogna Farma Distribuicao Importacao, Exportacao e Assessoria Ltda, Brazil		Gene Arrays Inc., United States of America		Orchid Pharmaceuticals Inc., United States of America		Bexel Pharmaceuticals Inc., United States of America		Orchid Research Laboratories Ltd., India	
	For the year ended on	31-03-2006		31-12-2005		31-03-2006		31-03-2006		31-12-2005		31-03-2006	
		£	Rs lakhs	Brazilian Reias R$	Rs lakhs	$	Rs lakhs	$	Rs lakhs	$	Rs lakhs	Rs	Rs lakhs
1	Capital	10000	7.73	466353	94.87	300	0.13	-	-	32802	14.60	65500000	655.00
2	Reserves	(135088)	(104.48)	(432117)	(87.72)	(77762)	(34.62)	99765	44.41	(538384)	(239.63)	(11338811)	(113.39)
3	Total Assets	(125088)	(96.74)	53887	10.94	(77462)	(34.49)	99765	44.41	(326327)	(145.25)	54161189	541.61
4	Total Liabilities	(125088)	(96.74)	53887	10.94	(77462)	(34.49)	99765	44.41	(326327)	(145.25)	54161189	541.61
5	Details of Investment	-	-	-	-	-	-	-	-	-	-	59906750	599.09
6	Turnover	-	-	-	-	300400	133.71	-	-	-	-	-	-
7	Profit/(Loss) before Taxation	(3071)	(2.38)	(179014)	(36.34)	(68011)	(30.27)	(315)	(0.14)	(4829100)	(2149.43)	(11213764)	(112.14)
8	Provision for Taxation	-	-	-	-	-	-	-	-	-	-	-	-
9	Profit/(Loss) after Taxation	(3071)	(2.38)	(179014)	(36.34)	(68011)	(30.27)	(315)	(0.14)	(4829100)	(2149.43)	(11213764)	(112.14)
10	Proposed Dividend	-	-	-	-	-	-	-	-	-	-	-	-

Indian equivalent of figures have been arrived at by applying the year end rate 1£ = Rs 77.34, 1 Brazilian Reia = Rs 20.30 and 1US$ = Rs 44.51 and do not form part of the reports of Orchid Europe Limited, Ogna Farma Distribuicao Importacao Exportacao e Assessoria Ltda, Gene Arrays Inc., Orchid Pharmaceuticals Inc., and Bexel Pharmaceuticals Inc.

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAM NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Place : Chennai
Date : April 28, 2006

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Orchid Chemicals & Pharmaceuticals Ltd.

ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2006.

ANNEXURE I – CONSERVATION OF ENERGY

a) Energy conservation measures taken

Following energy conservation measures were taken in the manufacturing plants.

- Vapour absorption system was replaced by water-cooled centrifugal vapour compression system.
- Waste heat recovery boilers are being operated at low pressure steam as a result of which stack loss has been reduced. The low pressure steam generated is used in multi purpose solvent recovery plants.
- Chilled water circulation systems were modified to reduce the power consumption.
- Cooling tower water systems were modified to reduce electrical energy consumption.
- De-super heater was provided in the refrigerant line to reduce the power consumption in –40°C refrigeration system.
- Leak check audit was carried out for entire plant air and nitrogen system to reduce nitrogen losses.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy

Some of the proposals that are considered / being implemented for saving energy consumption are :

- Using the heat energy from HT circuits of captive power plants in a hot water fired VAS to produce 400 TR refrigeration (chilling) effect.
- Replacement of reciprocating refrigeration compressor by screw compressor.
- Shifting the part of the heat load from air cooled vapour compressor refrigeration to water cooled refrigeration system to save power.
- Provision of economizer for -10°C, -25°C refrigeration system.

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods

Due to the energy conservation measures adopted by the Company during the year under review, around 7702 kw of electricity consumption and 18740 kw of thermal energy per day could be achieved by the Company, leading to a saving of around Rs 188 lakhs per annum.

d) Total Energy Consumption and energy consumption per unit of production

	Year ended March 31, 2006	Year ended March 31, 2005
A. POWER AND FUEL CONSUMPTION		
1. Electricity		
a) Purchased :		
Units	7029788	6640944
Total amount (Rs lakhs)	249.90	232.68
Rate per unit (Rupees)	3.55	3.50
b) Own generation :		
i) Through Diesel generator		
Units	4217065	1696866
Units per litre of diesel oil	3.46	3.55
Cost per unit (Rupees)	5.64	5.80

	Year ended March 31, 2006	Year ended March 31, 2005
ii) Through Furnace Oil generator :		
Units	69322750	70104521
Units per litre of fuel oil	4.29	4.29
Cost per unit (Rupees)	2.99	2.64
2. Coal		
Quantity (tonnes)	Nil	Nil
Total Cost	Nil	Nil
Average rate	Nil	Nil
3. Furnace oil		
Quantity (K litres)	26728.76	28656.75
Total cost (Rs lakhs)	3431.32	2681.33
Average rate (Rs per KL)	12837.55	9356.72
4. Others/internal generation		
Details : Windmills		
Quantity (in units)	2419815	2498713
Rate per unit (Rs)	2.70	2.70
B. CONSUMPTION PER UNIT OF PRODUCTION		
Products with details :		
Bulk Drugs & Intermediates		
Oral & Sterile (in MT)	720	753
Electricity (Rs lakhs per MT)	3.21	2.59
Furnace Oil (Rs lakhs per MT)	4.78	3.56
Coal	Nil	Nil
Others	Nil	Nil

ANNEXURE II - TECHNOLOGY ABSORPTION

RESEARCH AND DEVELOPMENT

1. Specific areas in which research and development activities have been carried out by the Company during the year.

The Research & Development activities of the Company progressed both at Orchid and Bexel, US to further develop new drug candidates.

New Drug Discovery (NDD) at Orchid is focused on anti-inflammatory, anti-infective and anti-cancer therapeutic areas. Multi-screening approach is being adopted to enlarge the basket and promising hits are being identified. Attempts also are being made in formulation to achieve improved bio-availability of relatives insoluble but efficacious molecules.

Your Company's R&D has entered into a tri-partite collaborative agreement with Sharsmugha Arts, Science, Technology and Research Academy (SASTRA) and the Department of Science and Technology (DST) for development of a novel herbal formulation on modern scientific principles for the prevention and management of Coronary Heart Disease (CHD).

In terms of process research, a number of non-infringing processes were developed to support the generics programme. A number of molecules across several therapeutic groups were developed for filing DMFs and for formulation development.

At Bexel, progress was achieved in terms of further clinical analysis and mechanism studies on BLX-1002, which is under discussion for a possible out licensing deal. Bexel is also working on anti-inflammatory and anti-obesity molecules which are in various stages of the clinical evaluation.

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

As a result of the continuous efforts by your Company's R&D 30 DMFs and 25 ANDAs were filed by the Company for regulated market entry.

The R&D efforts also led to several international and national filings in all facets of R&D, taking the total patent filings count to 74, for the year 2005-06. Ten patents were granted during the financial year 2005-06.

Your Company successfully transferred technologies to its joint venture in China for the products namely, Cefuroxime Sodium, Cefepime and Cefonicid.

Orchid's method to analyse SAMe has been accepted by the Association of Analytical Chemists (AOAC) as a base method, which will be used for various intra-laboratory studies and the data generated will be submitted to USP for inclusion in the USP monograph of SAMe.

Three potential collaborations and opportunities are being pursued as corporate business development programmes. These involve a generics company, a specialist discovery company and an MNC.

A Master Research and Development Agreement (MRD) and a Master Quality Agreement (MQA) have been signed with Pfizer Inc, USA for providing R&D services in the field of developing new chemical entities for its Animal Health Business. Orchid is awaiting project details and work orders.

3. Future plan of action.

Your Company is driving growth through a twin strategy of catering to the expanding global generics market and fulfilling the need for enhanced new drug pipeline. In the process, your Company plans to accelerate product development work for regulated market, in diverse therapeutic groups. Also, working closely with the drug discovery joint venture in the US, your Company would accelerate drug development in the therapeutic areas of anti-diabetes, anti-inflammatory, anti-cancer, anti-obesity and anti-infective drugs.

4. Expenditure on R&D

The R&D outlay is as follows :

(Rs lakhs)

		Year ended 31-3-2006	Year ended 31-3-2005
a)	Capital	3474.15	3262.56
b)	Recurring	2662.10	1958.12
c)	Total	6136.25	5220.68
d)	Total R&D expenditure as a percentage of the total turnover & operating income	6.90%	7.57%

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

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

During the year, continuous efforts were made to innovate patentable new processes and products. The R&D center is also equipped with analytical instrumentation to support diverse kinds of research and the Company also established a modern pre-clinical facility with an animal house which can undertake a spectrum of in-vitro and in-vivo microbiological, pharmacological and safety toxicology studies.

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

The above facilities and activities have helped the Company to conduct pre-clinical testing of our new drugs and novel drug delivery systems. These also helped develop products in time-efficient and cost-effective ways to support generic business.

R&D efforts led to initiated research in various therapeutic areas. Initiatives have been taken up for increasing the product line by adding new molecules in the non-penicillin, non-cephalosporin group. Filing of various DMFs & ANDAs in a short span of time and filing of IPRs mentioned above were also a result of the efforts of your Company's R&D.



3. Imported technology (imported during the last 5 years reckoned from the beginning of the financial year) :

a)	Technology	No new technology has been imported by Orchid during the year.
b)	Year of import	Not applicable.
c)	Has this technology been fully absorbed	Not applicable.
d)	If not fully absorbed, areas where this has not taken place, reasons thereof and future plans of action.	Not applicable.

[illegible] FOREIGN EXCHANGE EARNINGS & OUTGO

a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, and export plans.

- Focus on the regulated generic drugs markets: To improve market share, the Company is focusing on the sale and distribution of APIs and generics in regulated markets including the United States, Canada, Europe, Japan and Australia, as applicable.
- Accelerate our research programs on new drug discovery: To achieve sustained long-term growth, we are increasing our focus on the discovery and development of new drug candidates.

b) TOTAL FOREIGN EXCHANGE EARNINGS & OUTGO

(Rs lakhs)

		Year ended 31-3-2006	Year ended 31-3-2005
1.	Earnings in Foreign Exchange during the year		
	F.O.B. value of Exports	62101.36	52004.32
	Export of Services (net of TDS)	107.10	140.30
2.	C.I.F. Value of Imports (on cash basis)		
	Raw Materials	21338.73	23634.83
	Capital Goods	1298.75	2715.73
	Spare Parts, Components and Consumables	3232.50	2043.08
3.	Expenditure in Foreign Currency during the year (on cash basis)		
	Travelling Expenses	101.91	39.02
	Interest and Bank Charges	755.48	1012.62
	Technical Know-how fees	–	–
	Consultancy fees	191.87	262.89
	Others	2847.86	2996.85
4.	Dividend Remittances in Foreign Currency during the year		
	Net Dividend	479.55	463.33
5.	Total Foreign Exchange used (2+3+4)	30246.55	34079.25

Orchid Chemicals & Pharmaceuticals Ltd.

A. Employed throughout the year and in receipt of remuneration aggregating Rs 24,00,000 or more per annum.

Name	Age (Yrs)	Designation	Gross Remuneration (Rs lakhs)	Qualification	Experience in years	Date of Joining	Previous Employer & Position held
Ashutosh Ojha	49	Country Head (Domestic Formulations)	32.80	B.Pharm, MBA	25	15-Jan-06	Allen Laboratories Limited, President - Corp. Strategy & Business Development
Dr Bhaktavatsala Rao C *	55	Deputy Managing Director	58.32	B.E., M.Tech, Ph.D	32	19-Aug-98	Ashok Leyland Limited, Dy. General Manager-Corporate Planning
Bhaskara Raju D.S	45	President - Finance & Business Planning	28.18	B.Com, ACA	23	01-Jul-02	Oman Chemicals & Pharmaceuticals Ltd, LLC Subsidiary of Oman, Finance Manager
Chandrasekharan A.R	53	President-Corporate Finance	37.18	B.Com (Hons.), LL.B, ACA, ACS, CAIIB	31	19-Jan-05	Sterlite Industries India Limited - V.P. (Finance)
Chandrasekar L	48	Vice President - Internal Audit & Company Secretary	23.40	B.Sc., FCA, FCS, DISA, DIBA	24	09-Jul-03	Air Command India Limited - DGM, Finance & Secretary
Dwarakanath C.R	52	Vice President - Corporate SHEE	28.18	B.Tech, DME	30	06-Aug-98	Arvind Mills Limited - General Manager - Industrials
Edna Braganza	44	Sr.Vice President - International Marketing & Procurement	28.84	B.Com	23	01-Nov-00	Al Bunaian Group, Subsidiary of Oman - Commercial Manager
Dr Gautam Kumar Das	51	President - API	44.32	M.Sc., Ph.D	27	01-Apr-05	Lupin Laboratories Limited, Sr. Manager - Process Development
Dr Om Reddy G	55	President & Chief Scientific Officer	48.30	M.Sc, Ph.D	29	04-Dec-03	Dr Reddy's Laboratories Limited, Senior Vice President
Mukkamala Dakshayani	48	Vice President - Biomedical Marketing	24.75	B.Sc	22	01-Oct-04	Godfrey Heath Dairy Limited, GM-Exports
Nair S	48	Sr.Vice President - Manufacturing	28.48	B.E. (Madrasular)	23	01-Jul-02	Bharat Heavy Electricals Limited - Dy.Manager - Projects Management
Raghavendra Rao K *	47	Managing Director	187.20	B.Com, PGDM,PhD, ACS, ACMA	27	13-Jul-92	Al Busaidi Group, Subsidiary of Oman, Director
Rangaiah N.S	48	Vice President - Human Resources	27.70	B.Sc, PGDPM&IR, BGL	25	01-Dec-04	Mukhesh Group of Companies, Uganda (Africa), Group General Manager - HR
Ravikumar S ** Dr Sumant Bhalchandra	37 51	Regional Head - CIS & Eastern Europe President - Regulatory Affairs & Quality Assurance	48.57 33.22	B.Pharm (Hons) M.Sc., Ph.D	16 28	15-Oct-04 04-Mar-05	Ranbaxy Laboratories Limited, Country Head - Russia Ranbaxy Laboratories Limited - G.M. (Quality Operations & GLP's Training)
Umesh D Kapre	48	Vice President - Manufacturing	36.46	B.Tech	25	19-Jul-04	Ranbaxy Laboratories Limited, Senior Manager

B. Employed for part of the year and/in receipt of remuneration aggregating Rs 2,00,000 or more per month.

Name	Age (Yrs)	Designation	Gross Remuneration (Rs lakhs)	Qualification	Experience in years	Date of Joining	Previous Employer & Position Held
Indyaz Basade	40	Vice President - Regulatory Affairs	7.22	M. Pharm	17	02-Jan-06	Wockhardt Limited, Vice President - Global Scientific & Regulatory Affairs
Nanmalwar S	51	Vice President - Projects & Engineering Services	2.58	M.E (Chem), PGDBM	28	23-Feb-06	Wockhardt Limited, Associate Vice President
Prasad R.S	57	Executive Director & Chief Executive Officer	73.07	M.Pharm	31	08-Sep-97	Dr Reddy's Laboratories Limited, Executive Vice President - Generics
Dr Praveen Reddy	44	Vice President - Pharma Research	16.89	M. Pharm., Ph.D	18	06-Aug-04	Dr Reddy's Laboratories Limited, Director - R&D
Pravir Choubey	39	Vice President - Regulatory Affairs	30.98	M. Pharm, PG Dip IPR, PG Dip M.M	12	17-Jan-04	Ranbaxy Laboratories Limited, Associate Director
Sabir Srinivasan **	37	Regional Director - North America	18.61	B. Pharm, M.S	11	28-Sep-04	
Dr.Sriram Rajagopal	50	Senior Vice President - Biology	32.88	M.Sc., Ph.D	25	21-Jun-04	Dr Reddy's Laboratories Limited, Research Director
Vijayaraghavan S	57	Sr. Vice President - Sales & Marketing	8.17	B.Sc., Pharm., DBM	34	27-Apr-01	Yakult India Limited, Marketing Director
Vasudevan S	52	President - Manufacturing	28.82	M.Tech	28	15-Jul-04	Ranbaxy Laboratories Limited, Director - Manufacturing

NOTES :
1. Gross Remuneration includes salary, house rent, bonus/incentive and other perks like medical reimbursement, leave travel assistance, Company's contribution towards provident fund etc.
2. All appointments are in terms of respective letters of appointment and applicable Company's rules and regulations except in the case marked* whose appointments are contractual.
3. None of the employees mentioned in the list is a relative of any Director of the Company.
4. Employee working overseas (Remuneration paid converted into Indian Rupees).

CORPORATE GOVERNANCE

ANNEXURE V TO THE DIRECTORS' REPORT

1. Company's Philosophy on Code of Corporate Governance

Orchid, right from its inception has been committed to the highest standards of corporate governance practices. The Company believes that a strong corporate governance policy is indispensable to healthy business growth and resilient and vibrant capital markets, besides being an important instrument of investor protection. Good corporate governance provides an appropriate framework for the Board and the Management to carry out the objectives that are in the interests of the Company and the shareholders. Orchid complies with the Corporate Governance code enshrined in Clause 49 of the Listing Agreement.

2. Board of Directors

The Chairman of the Board is a non-executive, independent Director. The Board has a composition of two executive Directors and nine non-executive Directors. Four out of eleven directors are independent directors.

Composition and category of Directors as of March 31, 2006 is as follows :

S No	Name(s) of Director(s)	Category	Number of Directorships held in other Indian companies	Number of Board Committee memberships held in other companies
1	Shri R Narayanan	Non-Executive – Independent	10	6
2	Shri K Raghavendra Rao	Promoter & Executive Director	2	3
3	Dr C Bhaktavatsala Rao	Executive Director	1	3
4	Dr M R Girinath	Non-Executive – Independent	None	None
5	Dr I Seetharam Naidu	Non-Executive – Independent	None	None
6	Shri Subramanian Andi (IDBI Nominee)	Non-Executive – Independent	None	None
7	Shri Deepak Vaidya	Non-Executive	9	3
8	Dr Bishwajit Nag	Non-Executive	1	None
9	Dr Anzeghi Piergiorgio	Non-Executive	None	None
10	Shri Anil Thadani	Non-Executive	2	None
11	Shri Raj Rajkumar Alternate Director to Shri Anil Thadani	Non-Executive	5	2
12	Dr Francis Pinto	Non-Executive	1	1

3. Attendance Record of the Directors

Five Board Meetings were held during the year from April 01, 2005 to March 31, 2006. The dates on which the meetings were held are as follows: April 27, June 15, July 18, October 13 in 2005 and January 19 in 2006. The attendance records of all Directors are as under :

Name(s) of Director(s)	No. of Board Meetings		Last AGM Attendance
	Held	Attended	(Yes/No)
Shri R Narayanan	5	4	Yes
Shri K Raghavendra Rao	5	5	Yes
Dr C Bhaktavatsala Rao	5	5	Yes
Dr M R Girinath	5	4	Yes
Dr I Seetharam Naidu	5	5	Yes

Name(s) of Director(s)	No. of Board Meetings		Last AGM attendance (Yes/No)
	Held	Attended	
Shri Deepak Vaidya	5	3	No
Dr Anzaghi Piergiorgio	5	1	No
Dr Bishwajit Nag	5	4	Yes
Dr Francis Pinto	5	1	Yes
Shri Mahendra Kumar Chouhan [1]	1	1	NA
Shri Subramanian Andi [1]	4	4	Yes
Shri Sanjay K Sehgal [2]	1	1	NA
Shri Anil Thadani [3] / Shri Raj Rajkumar [4]	4	2	Yes

NA – Not Applicable

1 Industrial Development Bank of India Limited (IDBI) withdrew the nomination of Shri Mahendra Kumar Chouhan and appointed Shri Subramanian Andi, as its nominee on the Board with effect from May 19, 2005.

2 Resigned from the Board with effect from May 18, 2005.

3 Appointed by the Board to fill the casual vacancy caused by the resignation of Shri Sanjay K Sehgal, on June 15, 2005.

4 Appointed by the Board as an alternate Director to Shri Anil Thadani on July 18, 2005.

5. Audit Committee

The Company constituted an Audit Committee consisting of non-executive Directors during 1998.

Terms of Reference

The terms of reference of this Committee are wide enough to cover the matters specified for audit committees under Clause 49 of the Listing Agreements as well in Section 292A of the Companies Act, 1956, and are as follows:

a) to review the results announcement and the report and accounts/review at the end of a quarter, half year and the full year before submission to the Board, focusing particulary on:
   (i) any changes in accounting policies and practices
   (ii) major judgemental areas
   (iii) significant adjustments resulting from the audit
   (iv) the going concern assumption
   (v) compliance with the stock exchange and other legal requirements
   (vi) compliance with accepted accounting standards

b) to consider the appointment of the statutory auditors, the audit fee, and any matters of resignation or dismissal;

c) to discuss with the statutory auditor before the audit commences, the nature and scope of the audit;

d) to discuss problems and reservations arising from the statutory audit, and any matters the statutory auditor may wish to discuss.

e) to review the statutory auditors' audit reports and presentations and management's response;

f) to review the effectiveness of the system of internal financial control and discuss the same periodically with the statutory auditors, prior to the Board making its statement thereon;

g) to review the internal audit programme, and to request internal audit to undertake specific audit projects, having informed management of their intentions;

h) to consider the major findings of internal investigations and management's response;

i) to consider other topics, as defined by the Board.

Four meetings were held during the year from April 01, 2005 to March 31, 2006. The said meetings were held on April 27, July 18, October 13 in 2005 and January 19 in 2006.

The Constitution of the Committee and the attendance of each member of the Committee as on March 31, 2006 are given below:

Name	Category	No. of Meetings	
		Held	Attended
Shri R Narayanan, Chairman	Non-Executive – Independent	4	3
Dr M R Girinath	Non-Executive – Independent	4	4
Dr I Seetharam Naidu	Non-Executive – Independent	4	4
Shri Deepak Vaidya	Non-Executive	4	2
Shri Mahendra Kumar Chouhan [1]	Non-Executive – Independent	1	1
Shri Subramanian Andi [1]	Non-Executive – Independent	3	3
Shri Sanjay K Sehgal [2]	Non-Executive	1	1

[1] Industrial Development Bank of India Limited (IDBI) withdrew the nomination of Shri Mahendra Kumar Chouhan and appointed Shri Subramanian Andi, as its nominee on the Board with effect from May 19, 2005.

[2] Resigned from the Board with effect from May 18, 2005.

The Managing Director, President - Finance & Business Planning, the Statutory Auditors and the Head of Internal Audit are invitees to the meeting.

The Chairman of the Audit Committee, Shri R Narayanan was present at the Annual General Meeting of the Company held on July 18, 2005.

The Company Secretary is the Secretary of the Audit Committee.

[illegible]

The Remuneration Committee determines and recommends to the Board of Directors, the remuneration payable to the Executive Directors. The Board of Directors approves the remuneration to the Executive Directors on the basis of their performance as well as Company's performance, subject to consents as may be required.

The Non-Executive Directors are not paid any remuneration except for the sitting fees for attending the Board Meetings/ Committee Meetings.

The resolutions for the appointment and remuneration payable to the Executive Directors including commission to Managing Director are approved by the shareholders of the Company.

The remuneration to the Executive Directors consists of a fixed salary and other perquisites. The Leave Travel allowance is paid as per the Company rules. Provident Fund and superannuation are provided for as per the Company's policy. Wherever applicable the perquisites are considered as part of remuneration and taxed as per Income Tax laws. The commission recommended by the Remuneration Committee to the Board is paid to the Managing Director in accordance with the provisions of the Companies Act, 1956.

The Remuneration Committee comprises Shri R Narayanan, Dr M R Girinath, Dr I Seetharam Naidu, Shri Deepak Vaidya and Shri Subramanian Andi all Non-Executive Directors. The Committee deals with all elements of remuneration package, stock options, service contracts, etc., of all whole-time executive Directors. One meeting of Remuneration Committee was held during the year 2005-06 on April 27, 2005 and all the Directors except Shri Deepak Vaidya attended the meeting.

Details of remuneration paid to Directors are given below : -

Rs lakhs

Name(s) of Director(s)	Remuneration paid during the Year 2005-06			
	Salary	Commission / Bonus/Incentive	Sitting fees	Total
Shri R Narayanan	—	—	5.00	5.00
Shri K Raghavendra Rao	129.80	300.10[2]	—	429.90
Dr C Bhaktavatsala Rao	59.72	0.10	—	59.82
Dr M R Girinath	—	—	4.20	4.20
Dr I Seetharam Naidu	—	—	4.40	4.40
Shri Deepak Vaidya	—	—	1.00	1.00
Shri Mahendra Kumar Chouhan [1]	—	—	1.00	1.00
Shri Subramanian Andi [1]	—	—	*	*
Dr Anzaghi Piergiorgio	—	—	0.20	0.20
Dr Bishwajit Nag	—	—	0.80	0.80
Dr Francis Pinto	—	—	0.20	0.20
Shri Sanjay K Sehgal [2]	—	—	1.00	1.00
Shri Anil Thadani [3] / Shri Raj Rajkumar [4]	—	—	0.40	0.40

* Sitting Fees of Rs 1.60 lakhs directly paid by the Company to IDBI Limited.

[2] Includes commission of Rs 300 lakhs approved by the Board at its meeting held on April 28, 2006 and yet to be paid.

[1] Industrial Development Bank of India Limited (IDBI) withdrew the nomination of Shri Mahendra Kumar Chouhan and appointed Shri Subramanian Andi, as its nominee on the Board with effect from May 19, 2005.

[2] Resigned from the Board with effect from May 18, 2005.

[3] Appointed by the Board to fill the casual vacancy caused by the resignation of Shri Sanjay K Sehgal, on June 15, 2005.

[4] Appointed by the Board as an alternate Director to Shri Anil Thadani on July 18, 2005.

The Company has granted Employee Stock Options under "ORCHID-ESOP 99" Scheme to the following directors at a price of Rs 300.65 which got adjusted to Rs 200.44 due to corporate action i.e. issue of bonus shares. The options are convertible into equity shares on or before April 26, 2008.

Name(s) of Director(s)	Number of options granted (Includes options adjusted due to Bonus issue)
Shri R Narayanan	15000
Dr C Bhaktavatsala Rao	12938
Dr Anzaghi Piergiorgio	15000
Dr Bishwajit Nag	15000

The number of shares held by the non-executive Directors as on March 31, 2006 are given below :

Name(s) of Director(s)	Number of Shares
Shri R Narayanan	15567
Dr M R Girinath	452934
Dr I Seetharam Naidu	375430
Shri Deepak Vaidya	NIL
Shri Subramanian Andi	NIL
Dr Anzaghi Piergiorgio	NIL



Name(s) of Director(s)	Number of Shares
Dr Bishwajit Nag	NIL
Dr Francis Pinto	NIL
Shri Anil Thadani	NIL
Shri Raj Rajkumar	40,000

5. Share Transfer and Investors Grievance Committee

The Company's shares are compulsorily traded in dematerialised form. The Committee has met once a month considering the volume of transfers in the physical segment. During the year 2005-06 the Committee met 12 times on April 27, May 27, June 27, July 15, August 20, September 18, November 02, November 25, December 23 in 2005 and January 19, February 24, March 29 in 2006.

Name(s) of Director(s)	No of Meetings	
	Held	Attended
Shri R Narayanan, Chairman	12	9
Shri K Raghavendra Rao, MD	12	12
Dr C Bhaktavatsala Rao, DMD	12	12

The Board has designated Shri L Chandrasekar, Company Secretary as Compliance Officer.

The following table shows the nature of complaints received from shareholders during 2005-2006 and 2004-2005, all of which have been resolved within one month.

S No	Nature of Complaints	Received & Answered	
		2005-2006	2004-2005
1.	Correspondence regarding loss of Shares/issue of duplicate certificates	115	62
2.	Non-receipt of Share Certificates sent for transfer/Bonus shares	61	8
3.	Non-receipt of dividend warrants	27	51
4.	Revalidation of dividend warrants	71	410
5.	Complaints from SEBI, Stock Exchanges & Govt. Departments	4	9
	TOTAL	278	540

6. Details of Annual / Extraordinary General Meetings

Location and time of General Meetings held in past 3 years

Year	AGM/EGM	Location	Date	Time
2005	EGM	Kasturi Srinivasan Hall The Music Academy Old No.306, New No.168, TTK Road Royapettah, Chennai – 600 014	18/08/2005	10.30 AM
2005	AGM	Kamaraj Memorial Hall New No.492, Old No.573, 574-A Anna Salai, Chennai 600 006.	16/07/2005	10.30 AM
2004	AGM	The Music Academy Main Hall, Old No.306, New No.168 T T K Road, Chennai 600 014.	28/07/2004	10.30 AM
2004	EGM	Sathguru Gnanananda Hall (Narada Gana Sabha), No.314 (Old No.254), TTK Road, Chennai 600 018.	10/04/2004	10.30 AM
2003	AGM	Kamaraj Memorial Hall New No.492, Old No.573, 574-A Anna Salai, Chennai 600 006.	25/07/2003	10.00 AM

All the resolutions including the special resolutions set out in the respective Notices were passed by the Shareholders.

None of the resolutions passed at the above meetings were required to be passed through postal ballot.

5. Disclosures

— No transaction of material nature has been entered into by the Company with related parties i.e. Directors or Management, their subsidiaries or relatives conflicting with the Company's interest.

— Transactions with the related parties are disclosed in Note 23 of Schedule R to the financial statements in the Annual Report.

— There were no instances of non-compliance by the Company on any matter related to capital markets during the last three years. Hence, there has been no penalties, strictures imposed by SEBI/Stock Exchange or any other statutory authorities against the Company.

6. Means of Communication

— Financial Results are published by the Company in Economic Times and Dinamani/Dinamalar

— The results are also displayed in URL namely www.orchidpharma.com. Any official news releases are also updated in the site.

— One presentation was made during December 2005. The presentation materials are available in the Company's website at www.orchidpharma.com.

7. General Shareholder Information & Management Discussion and Analysis

Appended to this Report.

8. Compliance Certification

As required under Clause 49 of the Listing Agreement a Certificate duly signed by Shri K Raghvendra Rao, Managing Director (CEO) and Shri DS Bhaskara Raju, President - Finance & Business Planning (CFO) was placed at the meeting of the Board of Directors held on April 28, 2006.

9. Auditors' certificate on corporate governance

Certificate from the Auditors is enclosed along with this report.

NON-MANDATORY REQUIREMENTS

1. The Chairman of the Board

The Company maintains a office for the Chairman at its Registered Office at 'Orchid Towers', 313, Valluvar Kottam High Road, Nungambakkam, Chennai – 600 034, Tamil Nadu, India and also reimburses the expenses incurred in performance of his duties.

2. Remuneration Committee

The Company has constituted a Remuneration Committee. Terms of Reference of the Committee have been described in Serial No.4 herein above.

3. Shareholder Rights

The Quarterly financial results are published in the newspapers as mentioned in Serial No.8 above. The results are also displayed on the web site of the Company and are not separately circulated to the shareholders.



CEO's Declaration

The Board of Orchid Chemicals & Pharmaceuticals Limited has laid down a code of conduct for all the Board members and the Senior Management. The code of conduct has been posted in Uniform Resource Locator (URL) namely www.orchidpharma.com

All the Board members and the Senior Management personnel have affirmed compliance of the code.

Place : Chennai
Date : April 28, 2006

K.RAGHAVENDRA RAO
Managing Director

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To

The Members of

Orchid Chemicals & Pharmaceuticals Limited

We have examined the compliance of conditions of Corporate Governance by Orchid Chemicals & Pharmaceuticals Limited (the Company), for the year ended on 31st March 2006, as stipulated in Clause 49 of the Listing Agreement of the said company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company to ensure the compliance with the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned listing agreement.

We state that in respect of investor grievances received during the year ended 31st March 2006, no investor grievances are pending against the Company for more than one month as per the records maintained by the Company and presented to Investors Grievances/Share Transfer Committee.

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

For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner
Membership No.20045

Place : Chennai
Date : April 29, 2006

Orchid Chemicals & Pharmaceuticals Ltd.

ANNEXURE II

Details of Options granted to employees under the [illegible] time.

◆ Options granted	◆ During 2005-2006, 292,075 options were granted ◆ In the year 2003-2004, 307,925 options were granted ◆ In the year 1999-2000, 600,000 options were granted. The above Options are convertible into equity share of Rs.10/- each.
◆ The pricing formula	◆ 2005-2006 - Rs 300.65 ◆ 2003-2004 - Rs 252.00 ◆ 1999-2000 - Rs 243.35 The price being the closing price of shares of Orchid on the date on which the options were granted by the Compensation Committee of the Board of Directors. Subsequent to the Bonus issue, the number of options outstanding and the price were adjusted by the Board. Accordingly, the revised price applicable for the options allotted in various years have been revised as follows : ◆ 2005-2006 - Rs 200.44 ◆ 2003-2004 - Rs 168.00 ◆ 1999-2000 - Rs 162.24
◆ Options Vested during the year	NIL
◆ Options exercised during the year	395,364 options (including the adjusted options that were exercised by the employees, subsequent to the Bonus issue)
◆ Total no. of shares arising out of Exercise of options	395,364 shares
◆ Options lapsed	402,754 options (371,825 options have lapsed out of the original 1,200,000 options granted and 30,929 options have lapsed out of the options arising out of the adjustment due to Bonus issue)
◆ Variations of terms of Options	On account of the Bonus issue completed by the Company during October 2005, the Company have in terms of the Meeting of the Compensation Committee of the Board of Directors held on October 13, 2005 approved for the adjustment in price/unexercised options in respect of the Employee Stock Options granted but not exercised by the Employees as of that date.
◆ Total no. of options in force	650,475 options (433,098 options out of the original 1,200,000 options and 217,377 options out of the options adjusted due to the Bonus issue are in force)



<table>
<tr>
<td>• Employee wise details of options granted to
i) Senior Managerial Personnel</td>
<td>Details of options granted to Senior Managerial Personnel during the year
<table>
<tr><th>S No</th><th>Name</th><th>No. options granted *</th></tr>
<tr><td>1</td><td>Shri R Narayanan</td><td>15000</td></tr>
<tr><td>2</td><td>Dr Anzaghi Piergiorgio</td><td>15000</td></tr>
<tr><td>3</td><td>Dr Bishwajit Nag</td><td>15000</td></tr>
<tr><td>4</td><td>Dr C Bhaktavatsala Rao</td><td>12938</td></tr>
<tr><td>5</td><td>Dr Gautam Kumar Das</td><td>12750</td></tr>
<tr><td>6</td><td>Mr D S Bhaskara Raju</td><td>12750</td></tr>
<tr><td>7</td><td>Ms Edna Braganza</td><td>12750</td></tr>
<tr><td>8</td><td>Mr S Mani</td><td>12750</td></tr>
<tr><td>9</td><td>Mr L Chandrasekar</td><td>12750</td></tr>
<tr><td>10</td><td>Mr C R Dwarakanath</td><td>6000</td></tr>
<tr><td>11</td><td>Mr P N Deshpande</td><td>6000</td></tr>
<tr><td>12</td><td>Mr K C Pathak</td><td>6000</td></tr>
<tr><td>13</td><td>Dr Sumant Baukhandi</td><td>6000</td></tr>
<tr><td>14</td><td>Mr S Krishnan</td><td>6000</td></tr>
<tr><td>15</td><td>Mr K Ramesh</td><td>6000</td></tr>
<tr><td>16</td><td>Dr U P Senthil Kumar</td><td>3750</td></tr>
</table>
* (includes the options that were adjusted due to bonus)</td>
</tr>
<tr><td>ii) Employees holding 5% or more of the total number of options granted during the year</td><td>NIL</td></tr>
<tr><td>iii) Employees who were issued shares equal to or exceeding 1% of the issued capital</td><td>NIL</td></tr>
<tr><td>• Consideration received against the number of shares issued</td><td>Rs 971.61 lakhs</td></tr>
<tr><td>• Earnings per share (Diluted)</td><td>Rs 13.64</td></tr>
<tr><td>• Where the Company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed.</td><td>The Company has granted the options to the employees on the closing price of shares of Orchid on November 22, 1999, January 20, 2004 and April 27, 2005 and not on the Intrinsic value. Hence, the difference between the employee compensation and the employee compensation cost that shall have been recognized if it had used the fair value of the options, may not be applicable.</td></tr>
<tr><td>• Weighted - average exercise price</td><td>The weighted average exercise price (26 weeks preceding the date of grant) was Rs 183.42 for the options granted on November 22, 1999, Rs 199.31 for the options granted on January 20, 2004 and Rs 299.30 for the options granted on April 27, 2005.</td></tr>
</table>

GENERAL SHAREHOLDERS' INFORMATION

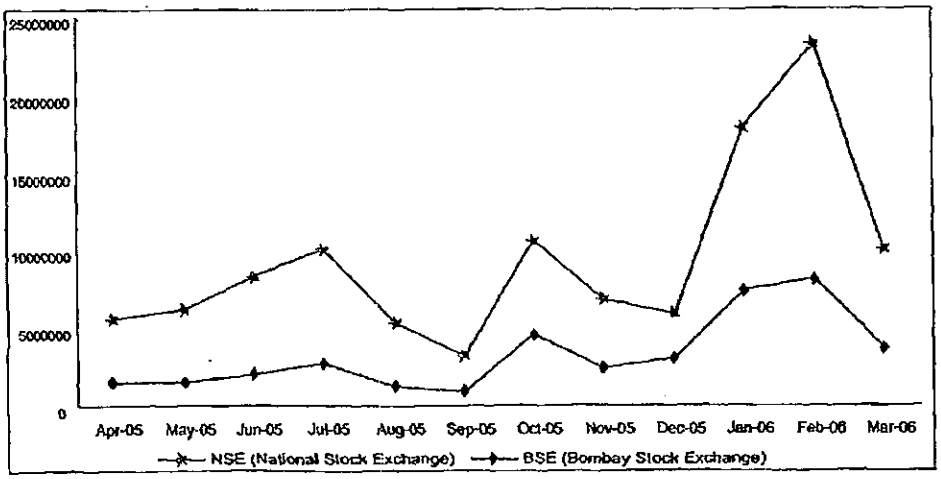
1	Dates of book closure	:	June 01, 2006 to June 02, 2006 (both days inclusive)
2	Venue of the Annual General Meeting (AGM)	:	Kamaraj Memorial Hall, New No. 492, Old No. 573, 574-A, Anna Salai, Chennai 600 006, Tamil Nadu, India.
3	Time and Date of AGM	:	10.00 A.M. on Friday, June 02, 2006
4	Financial Calendar		
	Financial reporting for		
	Quarter ending June 30, 2006	:	End of July 2006
	Quarter ending September 30, 2006	:	End of October 2006
	Quarter ending December 31, 2006	:	End of January 2007
	Year ending March 31, 2007	:	End of April 2007
5	Dividend Payment Date	:	Second week of June 2006
6	The equity shares of Rs 10/- each are listed at	:	Madras Stock Exchange Limited Exchange Building, Post Box No.183 New No.30 (Old No.11), Second Line Beach Chennai - 600 001, Tamil Nadu, India Tel : 91-44-25228951, Fax : 91-44-25244897 National Stock Exchange of India Limited Regd Office : "Exchange Plaza", Bandra-Kurla Complex Bandra (East), Mumbai - 400 051, Maharashtra, India Tel : 91-22-26598100, 56418100, Fax : 91-22-26598237/38, 26598120 Bombay Stock Exchange Limited New Trading Ring, Rotunda Building Phiroze Jeejeebhoy Towers, Dalal Street, Fort Mumbai - 400 001, Maharashtra, India Tel : 91-22-22721233, 22721234, Fax : 91-22-22723677, 22722082 / 3132
7	Global Depository Receipts (GDR) and Foreign Currency Convertible Bonds (FCCBs) listed at	:	Luxembourg Stock Exchange Bourse de Luxembourg BP 165, L-2011 Luxembourg Siège social 11, avenue de la Porte-Neuve
8	Listing Fees	:	Paid for all the above Stock Exchanges for 2005-2006 and 2006-2007
9	Registered Office	:	'Orchid Towers', 313, Valluvar Kottam High Road, Nungambakkam, Chennai - 600 034, Tamil Nadu, India.
10	Stock Exchange Security Code and other related information		
	Madras Stock Exchange Limited	:	OCL
	Bombay Stock Exchange Limited	:	524372
	National Stock Exchange of India Limited	:	ORCHIDCHEM
	Luxembourg Stock Exchange	:	US68572Y2090
	Depository ISIN No.	:	INE191A01019
	Corporate Identification Number (CIN)	:	L24222TN1992PLC022994

11 Stock Market data

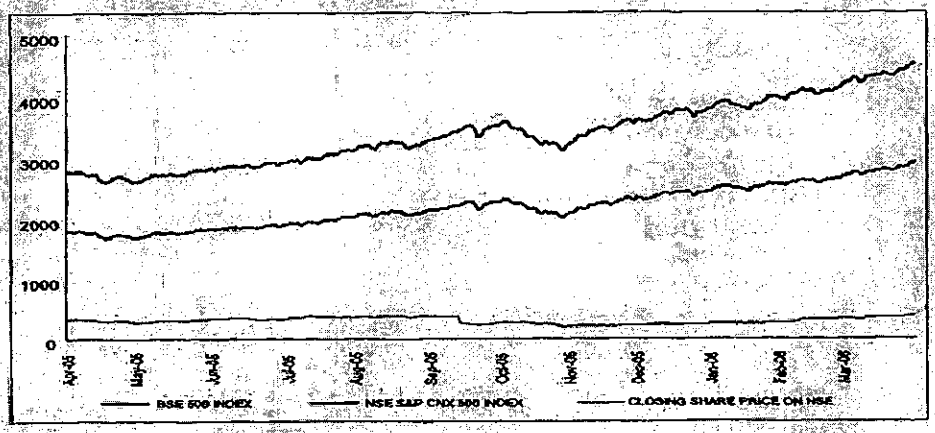
a) Monthly high and low quotations along with the volume of shares traded at NSE and BSE for 2005-2006 are:

Month	NSE			BSE		
	High (Rs)	Low (Rs)	Volume (Nos)	High (Rs)	Low (Rs)	Volume (Nos)
Apr-05	340.05	284.50	5588080	340.15	285.60	1480672
May-05	321.15	274.50	6178011	321.70	274.15	1513271
Jun-05	347.90	321.35	8336945	347.70	321.00	2013194
Jul-05	376.10	333.30	10091342	376.10	333.30	2714723
Aug-05	375.25	353.70	5329323	375.30	353.70	1217157
Sep-05	370.80	228.55	3198908	370.55	229.50	901063
Oct-05	280.45	190.70	10642906	280.65	191.35	4597271
Nov-05	225.05	196.95	6834545	224.85	197.15	2398284
Dec-05	241.45	220.75	5864320	241.20	220.70	3033175
Jan-06	264.15	247.55	17989134	263.95	247.40	7387903
Feb-06	327.10	261.90	23288038	326.70	261.80	8118648
Mar-06	371.35	320.15	9942455	372.05	320.15	3636071
TOTAL			113284007			39011432

b) Graphical representation of Volume of Shares traded of Orchid during April 2005 - March 2006



c) Comparison of broad based indices with share price of Orchid



12 Distribution of Shareholding as on :

No of equity shares held	31st March 2006			31st March 2005		
	No. of shares	No. of Shareholders	% of Shareholders	No. of shares	No. of Shareholders	% of Shareholders
1-500	4358756	34177	90.94	3566402	28959	92.70
501-1000	1378281	1879	5.00	1001377	1242	3.98
1001-2000	1195657	837	2.23	782039	506	1.62
2001-3000	610252	236	0.63	483270	185	0.59
3001-4000	375024	106	0.28	266043	74	0.24
4001-5000	310244	67	0.18	307234	64	0.20
5001-10000	821377	113	0.30	734936	100	0.32
10001 & above	55568591	164	0.44	26990618	109	0.35
TOTAL	64618182	37579	100.00	34131919	31239	100.00

13 Dematerialization of Shares

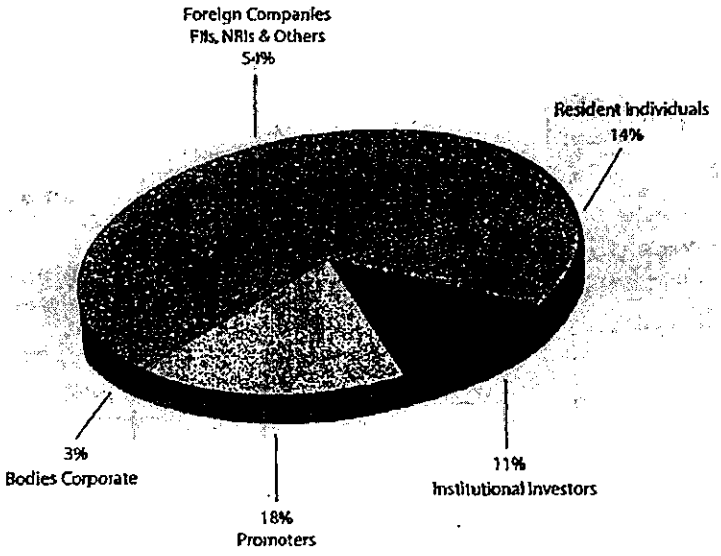
The shares of the Company are in compulsory demat segment and are available for trading in the depository systems of both the National Securities Depository Limited and Central Depository Services (India) Limited. Shares dematerialised upto 31-03-2006 are :

No. of Shares	% of Shares	No. of Shareholders	% of Shareholders
63782992	98.71	34253	91.15

14 Shareholding Pattern as on March 31, 2006:

CATEGORY	NO. OF SHARES HELD	PERCENTAGE OF SHAREHOLDING
A PROMOTERS' HOLDING		
1 Promoters		
– Indian Promoters	11494173	17.79
– Foreign Promoters	Nil	Nil
2 Persons acting in concert	Nil	Nil
Sub-Total (1+2)	11494173	17.79
B NON-PROMOTERS' HOLDING		
3 Institutional Investors		
a) Mutual Funds and UTI	2932878	4.54
b) Banks, Financial Institutions, Insurance Companies (Central / State Govt. Institutions / Non-government Institutions)	4326731	6.70
c) Foreign Institutional Investors	15275218	23.64
Sub-Total (3)	22534827	34.88
4 Others		
a) Private Corporate Bodies	2229992	3.45
b) Resident Individuals	9101064	14.08
c) NRIs	360309	0.56
d) OCBs	1350	0.00
e) Foreign Companies	18881467	29.22
f) Foreign Collaborators	15000	0.02
Sub Total (4)	30589182	47.33
GRAND TOTAL (1+2+3+4)	64618182	100.00

SHAREHOLDING PATTERN



15 Outstanding GDRs/FCCBs/Warrants - conversion date

Name of the Instrument	Total Issued	Converted as on 31-03-2006	Outstanding as on 31-03-2006	Likely Conversion Date
a) Global Depository Receipts (GDRs)	92,50,000 nos.	81,38,520 nos.	11,11,480 nos.	At the option of the GDR holder
b) Warrants issued during 2005	25,00,000 nos.	1,20,000 nos.	35,95,000 nos.*	On or before February 1, 2007
c) Foreign Currency Convertible Bonds (FCCBs)	USD 4,25,00,000	USD 1,65,40,000	USD 2,59,60,000	At the option of the FCCB holder on or before October 24, 2010

* Consequent to the issue of Bonus Shares, the outstanding warrants and the price of each warrant has been adjusted.

16 Legal Proceedings

There are a few pending cases relating to the disputes on the title of the shares. The Company has been made a party to the disputes but these, however, are not material in nature.

17 Share Transfer System

M/s Integrated Enterprises (India) Limited is the Registrar and Share Transfer Agents for servicing activities relating to both Physical and Electronic segments. The share transfer committee met 12 times during the year 2005-2006.

18 Unclaimed Dividends

Pursuant to Section 205 A of the Companies Act, 1956, unclaimed dividends up to and including dividends for the financial year 1997-98 have been transferred to the general revenue account of the Central Government/Investor Education and Protection Fund.

The dividends for the years from 1998-99 onwards, which remain unclaimed for seven years will be transferred to Investor Education and Protection Fund established by the Central Government under Section 205 C of the Companies Act, 1956. Shareholders who have not encashed their dividend warrants are requested to contact the Company immediately.

19 ECS Mandate

To service its investors better, the Company requests all shareholders who hold shares in dematerialised form to update their bank particulars with their respective depositories immediately. Shareholders holding shares in physical form may kindly forward the bank particulars to our Registrars to the address as below.

20 The Company's Registrars are:

Integrated Enterprises (India) Limited
2nd Floor, Kences Towers, No.1 Ramakrishna Street
North Usman Road, T. Nagar, Chennai - 600 017, Tamil Nadu, India
Tel : 91-44-28140801 - 03, Fax : 91-44-28142479, E-Mail : yesbalu@iepindia.com



Introduction

Orchid is an emerging global pharmaceutical Company with established research, manufacturing and marketing capabilities. Orchid is vertically integrated with a presence across the pharmaceutical value chain. Orchid produces active pharmaceutical ingredients (or APIs, also called bulk drugs or bulk actives) as well as finished dosage forms (or formulations) and distributes them in various markets around the world. Orchid has a strong market presence in the less regulated markets such as India, China, Latin America, Russia and the Commonwealth of Independent States (the "CIS countries"), Far East Asia, Africa and the Middle East, and is increasingly focusing on the regulated markets such as the United States, Canada, Europe, Australia and Japan. In the US cephalosporin generics market, Orchid has been able to secure a leading presence during fiscal 2007, the very first year of entry into that market. Orchid also conducts novel drug research in-house and through the joint venture and subsidiary in the United States. Orchid's strategy is to discover new molecules and license them out to multinational pharmaceutical companies for commercialization.

The principal products that Orchid manufactures are cephalosporins, which are the primary active ingredients in many antibiotic drugs, high-end betalactams (which like cephalosporins are active ingredients in a different class of antibiotic drugs) and nutraceuticals. Orchid manufactures these products as APIs and finished dosage forms or formulations. As part of the generics strategy, Orchid is diversifying the therapeutic product groups to cover groups such as cardiovascular, central nervous system and diabetes categories.

Orchid presently has two API manufacturing infrastructure facilities and three formulations manufacturing facilities in India as well as one API manufacturing plant in China. Orchid has a strong market presence in the less regulated markets like India, China, Latin America, Russia, the CIS countries and the Middle East. Orchid is increasingly focusing on developing the business in the regulated markets like the United States, Europe and Japan through generics or non-branded versions based on non-infringing processes after certain products go off-patents. Orchid also sells its APIs in these regulated markets, based on regulatory approvals for certain specific products. Orchid's vertical integration across the value chain provides unique capabilities in serving the diverse requirements of the global markets.

Orchid conducts new drug discovery research in-house and through its wholly owned subsidiary in India, Orchid Research Laboratories Limited and through the joint venture and subsidiary company in the United States, Bexel Pharmaceuticals Inc.

To assist the product-market expansion and entry into the regulated generic markets, Orchid made several significant investments since fiscal 2001. These investments included the acquisition and upgrading of the bulk drugs plant at Aurangabad near Mumbai, which enabled the Company to enter into the high-end betalactam segment and establishment of new manufacturing facilities with US FDA approvals at Alathur and Irungattukottai, near Chennai for cephalosporin APIs and formulations respectively, covering both sterile and oral ranges of products. These investments have enabled Orchid to sell a larger volume of products, both APIs and formulations, into the regulated markets, achieving higher performance levels from fiscal 2006. Orchid has also set up exclusive facilities for high-end betalactam manufacture at Aurangabad for APIs and at Irungattukottai for lyophilized sterile dosage forms, with US FDA standards. This would help service the US generics markets for a high value injectable product upon ANDA approval and product patent expiry. Orchid has also invested in upgrading other existing facilities. In addition, Orchid has set up facilities for the manufacture of niche nutraceuticals, both API and formulations, to be marketed as dietary supplements, which are being sold in the US, among other regulated markets.

Orchid acquired the brands, the formulations business and assets of Mano Pharmaceuticals Private Limited (and its affiliate Sali Healthcare Private Limited) in 2003, which enabled Orchid to enter various chronic therapy areas and to enhance the domestic market reach. Orchid also formed a joint venture in China to manufacture sterile cephalosporin APIs for the Chinese market. To establish and expand the drug discovery programmes, Orchid invested in the building of new medicinal chemistry and drug screening laboratories and a modern pre-clinical centre with an animal house at its R&D campus in Sholinganallur, near Chennai and also formed research joint ventures in the United States and Europe. Orchid also invested in setting up a company-wide ERP system and to further develop the IT network.

More recently, Orchid has pressed ahead with non-penicillin, non-cephalosporin (NPNC) business plan because of its vital importance to power growth from fiscal 2008. As part of this, new NPNC R&D laboratory infrastructure has been created at Sholinganallur and a new NPNC API facility was established at Aurangabad. A pilot scale formulations facility has been established at Irungattukottai to file ANDAs for this product range. Additional commercial-scale API and formulation facilities for NPNC products are being established in these locations, which will be completed by mid-fiscal 2007.

To provide further impetus to R&D, pharma R&D has been re-located at Irungattukottai as a larger Pharma R&D centre, while a New Drug Discovery Facility has been established at the Sholinganallur complex. A new process validation laboratory would be operational this fiscal.

With these investments and infrastructure, Orchid has made a remarkable foray into the US generics market during fiscal 2006 achieving substantial incremental business during fiscal 2006. Orchid is poised to achieve further significant increases in performance from the current fiscal onwards through regulated market entry in the cephalosporin field and through diversification of business in terms of multiple therapeutic groups. The generics exports to the regulated markets would be stepped up and further expanded through the addition of products from cephalosporin and other anti-infective categories progressively thereafter and from multiple therapeutic groups from fiscal 2008 onwards.

Key Factors affecting Operations

The main factors which have significant impact on our results of operation, financial condition and cash flows include the global pharmaceutical demand and supply situation, the emerging potential for drug discovery and development, our capital expenditure and our operating expenses. Our sales volumes are influenced by the global demand and supply situation for pharmaceuticals. As the entry barriers for sales to regulated market are stringent, companies operating in these markets face lower competition and enjoy higher margins on sales as compared to companies operating in less regulated markets. Orchid's business strategy is aimed at a significant increase in sales of our products to regulated markets in the following years. Orchid has been consciously adopting a strategy of enhancing capabilities, increasing capacities and upgrading technology with the objective of consolidating and growing in non-regulated markets as well as entering the lucrative regulated generics and drug discovery markets.

Orchid registered a turnover and operating income of Rs 888.77 crore for the fiscal year ended March 31, 2006 compared to the previous year's revenues of Rs 689.29 crore. Gross profit before interest, depreciation and taxes was Rs 260.50 crore compared to Rs 163.11 crore last fiscal. After providing for interest of Rs 87.01 crore (Rs 72.31 crore last fiscal) and depreciation of Rs 82.98 crore (Rs 61.89 crore last fiscal) the profit before tax of the Company was Rs 90.61 crore as against the previous year's profit before tax of Rs 28.91 crore. Net profit after tax was maintained at Rs 82.90 crore as against Rs 31.01 crore for the last fiscal. The EPS of the Company stood at Rs 14.85 compared to Rs 6.36 last fiscal.

A few highlights of the Company's performance during the year under review include :

- Sales and operating income of Rs 888.77 crore (Rs 689.29 crore) – Growth of 29%
- Net profit of Rs 82.90 crore (Rs 31.01 crore) – Increase by 167%
- EPS of Rs 14.85 (Rs 6.36)
- Five generic products launched in the US (Cephalexin, Cefazolin, Ceftriaxone, Cefprozil & Cefoxitin) in partnership with Apotex and Par Pharma
- Leading generic market share achieved for Ceftriaxone injection in the US
- Exclusive broad-based distribution alliance with Mayne Pharma for marketing Orchid's select life-saving injectable antibiotic formulations in identified regulated markets
- GLP(Good Laboratory Practices) certification for Orchid's state-of-the-art Research & Development (R&D) centre located in Chennai
- Long-term master research & development agreement with Pfizer for new animal health products
- Bonus issue in the ratio of 1 bonus share to 2 shares held (1:2)
- Successful GDR cum FCCB issue for USD 75 million with green-shoe of USD 2.6 million GDRs and USD 5 million FCCBs - Debt pared down by USD 59 million

Arising from various alliances, 41 generic products comprising 21 antibiotic generic products (15 cephalosporins and 6



betalactam and carbapenem products) and 20 non-cephalosporin, non-penicillin generic products have been tied up for distribution in US, while a few of these will be distributed additionally in Europe as well.

This fiscal 2006 thus saw the Company cross several milestones related to establishment of high-technology projects, successful US FDA inspection, diversification of product and manufacturing base into finished dosage forms of diverse therapeutic groups and marketing alliances with top-ranking generic firms in US and Europe. The progress achieved in all key-operating segments has strongly positioned Orchid, as an integrated pharmaceutical Company spanning markets across the world.

Supported by the improvements in physical output and product-market mix, we have been able to enhance our margins considerably this fiscal. This has led to increased profitability at the net level.

Active Pharmaceutical Ingredients Segment

APIs are the principal ingredients for formulations. Orchid produces several APIs for use in pharmaceuticals. The main APIs are in the therapeutic category of antibiotics and primarily include cephalosporins and high-end betalactams. Cephalosporins are broadly categorised into four "generations" ranging from the first to fourth, depending on the molecular structure that is used in their manufacture.

The Company manufactures all four generations of cephalosporins and other APIs including the non-cephalosporin range of products, which comprises of non-cephalosporin betalactam products, penicillin and non-penicillin based products and nutraceuticals.

The API business amounted to 60.71% of the total revenues for fiscal 2006 and cephalosporins amounted to 91.55% of the Company's total API revenues. The following table sets forth revenues of our key APIs for each of fiscal 2005 and 2006 :

	2005-06		2004-05	
	Rs lakhs	%	Rs lakhs	%
Cephalosporins	45658	91.55	51874	92.77
Non-cephalosporins, Betalactam and Nutraceuticals	4214	8.45	4040	7.23
Total	49872	100.00	55914	100.00

While the dominant share of cephalosporins in the API business was sustained, there has been a notable increase in the sale of betalactams and non-cephalosporin, non-penicillin products, which would be reflected more significantly in the ensuing fiscal.

The Company sells APIs in India and exports them to regulated as well as less regulated markets worldwide. In addition, Orchid also supplies APIs to its formulations segment and the principal markets to date in this business segment thus include China, Europe, the Middle East, India and Asia Pacific, which together amounted to 80.92% of the segment's revenues. The following table sets forth our API revenues excluding operating income by geographic area for each of fiscal 2005 and 2006.

	2005-06		2004-05	
	Rs lakhs	%	Rs lakhs	%
India	8970	17.99	6204	11.10
Asia Pacific*	8444	16.93	7746	13.85
China and Hong Kong	8841	17.73	17441	31.19
Japan	165	0.33	209	0.37
Europe	7947	15.93	9861	17.64
Middle East	6152	12.34	7775	13.91
South/Central America	3478	6.97	3402	6.08
USA and Canada	4482	8.99	1272	2.27
Russia and CIS Countries	1080	2.16	1758	3.14
Rest of the world	313	0.63	246	0.45
Grand Total	49872	100.00	55914	100.00

* other than India, China, Japan, Australia, New Zealand and Hong Kong

The share of USA, Canada and Europe, the principal regulated markets has gone up from 19.91% in 2004-05 to 24.92% in 2005-06, accompanied by a continued diversification of share in other markets.

Formulations Segment

Formulations, also referred to as finished dosages, are finished pharmaceutical products ready for consumption by the patient. Branded formulations are those, which are sold under Orchid's brand name. The Company's branded formulations in India and other less regulated markets accounted for 9.54% of the total revenue in fiscal 2006.

The Company has consolidated the sale of formulations in India during the year under review, in terms of critical care (antibiotics), cardiovascular, neuro-psychiatry and anti-diabetes divisions. Orchid also markets several niche nutraceuticals along with the above therapies/products. The Company thus has a mix of acute therapy as well as chronic therapy products.

The Company's revenues from sale of formulations in India were 17.37% of the total formulations sales in fiscal 2006. Orchid expects performance in the current fiscal to be better.

Orchid exports its formulations to over 28 countries worldwide and the major export markets for such formulation products are the United States, Russia and CIS countries, Latin America, Africa, the Middle East and Far East Asia. Nutraceutical formulations are largely exported to the United States. The following table sets forth Orchid's revenues (without operating income) from formulations by geographic area for each of the fiscal 2005 and 2006.

	2005-06		2004-05	
	Rs lakhs	%	Rs lakhs	%
India	5606	17.37	5025	63.41
Asia Pacific (other than India, China, Japan, Australia, New Zealand and Hong Kong)	775	2.40	410	5.17
China and Hong Kong	46	0.14		
Europe	167	0.52	360	4.54
Middle East	29	0.09	42	0.53
South/Central America			18	0.23
North America	24238	75.09	1150	14.51
Russia and CIS Countries	1161	3.60	685	8.64
Rest of the world	256	0.80	235	2.97
Total	32277	100.00	7925	100.00

In line with the strategy of focussing on high value markets, initiatives have been taken for increased presence in Russia and CIS countries, which have been reflected in a higher sale. Export of formulations to North America comprise SAMe dietary supplement with a steady level of sale. The fiscal 2006 saw the export of generic pharmaceutical products to US in a significant way.

The total number of product registrations at the end of fiscal 2006 was approximately 305, which cover Cephalosporins, Antibiotics and Non-Cephalosporin products in 36 countries (USA, African, Asian Republic, CIS). During fiscal 2006, the company has filed product dossiers in various countries around the world which covers 35 products in 35 countries. The new markets we entered during fiscal 2006 were Malaysia, Brazil, Sudan, UAE and GCC countries.

US Generics

Orchid has an end-to-end connected business model, which positions the Company well in the US generics market in its product class. Integrating and leveraging its infrastructure in the API and formulations businesses with its competencies in developing non-infringing API processes and formulations and making world-class regulatory filings, Orchid is poised to attain a superior position in the generics markets for its cephalosporin and other products. During the fiscal under review, Orchid achieved significant progress in its US Generics foray. At the second year of its ANDA activity, Orchid's cumulative ANDAs count stood at 25, with an approval record of 11 ANDAs covering injections, tablets, capsules and dry syrups. During 2005-06, Orchid continued the regulatory momentum in broader product segments.

Orchid has exclusive marketing alliances with global generic majors, Apotex and Par Pharmaceutical, for distribution of its identified cephalosporin generic formulations in the US and with Alpharma (since acquired by Actavis), Stada and Par for distribution of select products of diverse therapeutic groups in the US and Europe. During the fiscal, Orchid also entered into an exclusive development, manufacture and marketing agreement with Mayne Pharma of Australia (part of Mayne Group Limited of Australia) to develop and manufacture select niche antibiotic injectable products, to be marketed by Mayne in the United States, Canada, Europe, Australia and New Zealand.

Strategy

Orchid's strategy is to strengthen its position in the APIs, formulations and drug discovery segments. Orchid's goal is to continue to diversify and strengthen its reach in the regulated generics drug market, expand the operations in less regulated markets and accelerate the drug discovery programs to be able to achieve long-term sustainable growth and increase shareholder value. Orchid's strategy, and a summary of the initiatives undertaken to implement it, is described below:

- To improve Orchid's market share we are focusing on the sale and distribution of generics in regulated markets including the United States, Canada, Europe, Japan, and Australia. To achieve this objective, we have undertaken the following initiatives:

— *Established world-class infrastructure:* We have manufacturing facilities to produce sterile, non-sterile and oral cephalosporin APIs, high-end betalactam APIs, and sterile and oral cephalosporin formulations. We have received approvals from the United States Food and Drug Administration (the "US FDA") and the Australian



Therapeutic Group Authority ("Australian TGA") in respect of these facilities. The Medicines Health Regulatory Authority of UK ("MHRA") has also inspected our API and formulation facilities during the last quarter and an approval is awaited in due course.

— *Filed non-infringing process, or NIP, patent applications and DMFs/ANDAs:* To date we have filed 184 process patent applications including Orchid's key cephalosporin products in the United States, Europe and India World Trade Organization (the "WTO") patent offices to support Orchid's ANDAs and product dossiers and entry into the regulated markets. We have been granted 17 patents by the United States Patent Treaty Office ("US PTO") and 97 of Orchid's patents have been published. We have also filed 30 United States DMFs for Orchid's APIs and expect to file additional DMFs during fiscal 2007. In addition to our DMFs, we have also filed 25 ANDAs as at the end of fiscal 2006 and expect to file additional ANDAs in the current fiscal year. We have also filed 3 dossiers with MHRA for obtaining Markets Authorisations. Further European submissions are under way.

— *Secured regulatory approvals for our products:* We have received approvals from the US FDA for Orchid's oral API, Cephalexin, and our sterile API, Cefazolin. We have also received US FDA approvals for our ANDAs for Cefazolin Sodium, Ceftriaxone Sodium and Cefoxitin injections and for Cephalexin capsules and Cefprozil tablets and dry suspension. The total number of ANDA approvals covering different dosage forms of the above 5 molecules is 11. We expect further approvals for our API and formulation products from the US FDA. In Europe, nine of our products (Cephalexin, Ceftriaxone, Cefuroxime Axetil, Cefixime, Cefadroxil Monohydrate, Cefotaxime, Cefazolin, Cephradine and Cefuroxime Sodium) have received certificates of suitability ("CoS") from the European Directorate of Quality Medicines ("EDQM"). We expect our betalactam and NPNC facilities, API and dosage forms facilities at Aurangabad and Irungattukottai to be inspected by US FDA this fiscal, leading to further product approvals.

— *Entered diverse therapeutic groups:* To diversify Orchid's product range, we are focusing on developing and manufacturing NPNC products. To achieve this objective, we have established two new plants at Aurangabad, India to manufacture NPNC products in API form and at Irungattukottai to manufacture generic NPNC formulation products. We have commenced filing of DMFs and ANDAs for our NPNC products. We are also building new API and dosage form facilities for larger NPNC production and for entry into carbapenem product group. All these facilities will also be US FDA compliant.

— *Entered into marketing arrangements:* In June 2003, we entered into a long-term exclusive arrangement with Apotex Corporation to market our sterile antibiotic formulations in the United States. In May 2004, we entered into a similar agreement with Apotex Inc. for marketing the same product range in Canada. In May 2004, we entered into a long-term exclusive arrangement with Par Pharmaceuticals Inc. ("Par Pharma") to market our oral cephalosporin formulations in the United States. In December 2004, we entered into a development-supply agreement with IVX Animal Health ("IVX", formerly known as Phoenix Scientific Inc.) for distributing a veterinary injectable product, Ceftiofur Sodium Injection, in the United States, Canada and Mexico (IVX is now part of Teva). In fiscal 2005, we entered into agreements with generic pharmaceutical companies, Purepac Pharmaceutical Co. ("Alpharma"), since acquired by Actavis, for the marketing of ten NPNC products in United States and Europe and with STADA Pharmaceutical Inc. ("STADA") for six NPNC products in the United States. We entered into an exclusive development, manufacturing and marketing arrangement with Mayne Pharma of Australia to develop and market niche antibiotic injectable products in the United States, Canada, Europe, Australia and New Zealand. We are also entering into alliances in Europe, which are country specific, and product specific. All Orchid's distribution alliances have beneficial commercial terms (development fee and revenue share payable to us) as well as retain ownership of ANDAs by us. In all the arrangements we have flexibility of supply of API to third parties. We have tied up 41 molecules under the above distribution arrangements.

— *Launched our first generic products in the United States:* Progressing from July 2005, we commenced sales of our cephalosporin generic products, Ceftriaxone, Cefazolin and Cefoxitin Injections to Apotex and Cephalexin capsules and Cefprozil tablets and dry suspension to Par Pharma, in the United States. Orchid's

key generic products Ceftriaxone (branded product name: Rocephin by Roche) and Cefprozil (branded product name: Cefzil by BMS) are, being sold by Apotex and Par respectively with robust market share positions, month over month. We have also launched Cefprozil tablets and dry powder suspension (branded product name: Cefzil by BMS) in partnership with Par and Cefoxitin (branded product name: Mefoxin by Merck) which is also doing well in the market. A total of 11 product dosage forms relating to the above 5 products have been introduced in the US generics market by us. Orchid proposes to launch additional generic products based on progressive approvals for Orchid's ANDAs from US FDA. Upon MHRA approvals of the facility and dossiers, which will lead to European Marketing Authorizations, we will be in a position to launch Orchid's generic products in Europe as well.

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To achieve sustained long-term growth, we are increasing our focus on the development of non-infringing manufacturing processes, discovery of new drugs and novel drug delivery systems. To achieve this objective, we have undertaken the following initiatives:

— *Established an R&D center, a pre-clinical center with an animal house and a new drug discovery center:* We have established an R&D center in Sholinganallur, near Chennai, India with divisions for process research, pharmaceutical research, novel drug delivery systems research, new drug discovery and biotechnology as early as in 1996. The R&D center is equipped with analytical instrumentation to support diverse kinds of research. We have also established a modern pre-clinical facility with an animal house, which can undertake a spectrum of *in-vitro* and *in-vivo* microbiological, pharmacological and safety toxicology studies. This is expected to help us conduct pre-clinical testing of our new drugs and novel drug delivery systems. To further expand and reinforce our new drug discovery capability and NPNC product development capability, we have established a new drug discovery center at our R&D campus in Sholinganallur, near Chennai, India. We have also relocated our pharmaceutical research centre at Irungattukottai in an expanded campus with additional laboratories, which will support, among others, formulation research for new drug discovery and novel drug delivery.

— *Entered into joint venture arrangements:* We have entered into joint ventures and invested in companies in the United States and Europe with partners having strong research skills to expand and accelerate our drug discovery and applied research programs, respectively. The technological program of the European research joint venture has been completed and know-how transferred and absorbed in our R&D at Sholinganallur.

— *Discover and out-license molecules:* We plan to enter into collaboration agreements with multinational pharmaceutical companies to out-license new molecules discovered by us for commercialization. We have also recently signed a Master R&D Agreement with Pfizer, a globally leading pharmaceutical MNC for rendering R&D services to develop new drugs for its Animal Health Business.

— *Generated intellectual property:* We have filed over 96 patent applications for NCE, biotech and novel drug delivery systems in international patent offices including the United States, Europe, Patent Cooperation Treaty and India WTO.

— *GLP accreditation:* We have received Good Laboratory Practices, or GLP, accreditation for our R&D center in Sholinganallur, near Chennai, India from the National GLP Compliance Monitoring Authority of the Government's Department of Science & Technology.

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We have an established position in less regulated markets (including India) in the field of cephalosporin APIs and an emerging position in formulations, and we intend to further expand our operations in these less regulated markets. To achieve this objective, we have undertaken the following initiatives :

— *Established a joint venture in China:* We have entered into a joint venture with North China Pharmaceutical Corporation, which is the largest Chinese pharmaceutical company for the manufacturing and marketing of sterile cephalosporin APIs in China. Now in the second full year of operation, the Company has made significant strides and achieved a notable position in the Chinese market for its products.



— *Optimized Orchid's product mix and increased product reach:* We have been developing new API products to enhance market penetration and price realization. During fiscal 2004, 2005 and 2006, we entered new markets such as South Africa, Oman, Lithuania and Slovakia for APIs and Cyprus, Germany, Namibia, the Philippines and Yemen for formulations and further expanded Orchid's reach in existing markets.

— *Enhanced domestic reach:* In January 2003, by acquiring the formulations businesses of Mano Pharmaceuticals Private Limited and its affiliate, Sali Healthcare, both formulation companies in India which focus on cardiovascular, neuro-psychiatric, anti-diabetic and nutraceutical products (operated as our Mano Pharma division), we enhanced our product range and market reach in the domestic formulations segments.

The compelitive environment in less regulated markets including India is changing significantly with most countries having already moved towards a product patent recognition regime. This has the effect of shrinking the window of opportunity in terms of reverse engineering to achieve new product launches in such markets.

In addition, multi-national pharmaceutical corporations are becoming increasingly open to in licensing validated new drug compounds for strengthening their new drugs pipeline for their markets. A large unmet need for enhancing new drug pipeline thus gives us a major opportunity.

Proactively, Orchid has created facilities and joint ventures to support drug discovery and development capabilities. Orchid's drug discovery efforts will help the Company achieve a niche presence based on innovation in such markets. However, the Company needs to incur the required expenses on drug discovery and development before it can have a commercialization opportunity.

Orchid's R&D expenses comprise both capital and revenue items, which consist of regular operating expenses, project expenses and expenses for operation of research and infrastructure programmes. While R&D revenue expenditures are expensed when incurred, the R&D capital expenditures are added to assets and depreciated. Total R&D expenses constituted 7.6% and 8.9% of our total revenues for fiscal 2005 and fiscal 2006 respectively. The increase in the R&D expense is attributable to increased development of non-infringing processes, increased R&D activities for regulated markets and investments and expenses for drug discovery including investments in our drug discovery in US, Bexel Pharmaceuticals Inc.

Our research operations in India, United States and Europe are engaged in advanced drug discovery and higher order applied chemistry work. Drug discovery operations typically take a few years to yield results. Orchid's consolidated revenues therefore bear the impact of our investments and contributions of in-house R&D and drug discovery programmes.

Orchid incorporated Orchid Research Laboratories Ltd. as a wholly owned subsidiary in India to further facilitate Orchid's research and development programs. Orchid has to date invested approximately Rs 65.5 million (US$ 1.47 million) in this subsidiary. All the drug discovery and drug development scientists of Orchid have been transferred to Orchid Research Laboratories Limited effective January 2006.

Key parameters of financial performance in 2005-06 as compared to 2004-05 are summarized below.

Rs lakhs

S No.	Particulars	2005-06	2004-05	Growth (%)
1	Total Sales & Operating Income	88877	68929	28.93
2	EBIDTA	26060	16311	59.78
3	PBIT	17763	10122	75.48
4	PBT	9061	2891	213.43
5	PAT	8250	3101	167.34
6	EBIDTA Margin (%)	29.32	23.63	23.92
7	PBIT Margin (%)	19.99	14.68	36.17
8	PBT Margin (%)	10.20	4.19	143.44
9	EPS- Annualised (Rs per Share) – Basic	14.85	6.36	133.49
10	Value Added per employee (Rs Lakhs)	11.61	7.46	55.63

Despite increases in the material, employee, power and fuel costs and in our other operating expenses, consequent to higher level of operations and other specific contributory factors (which include strengthening of the Rupee against the US$ and expenses to enable entry into specific markets), EBIDTA increased by 60% to Rs 260.60 crores as compared to Rs 163.11 crore for the previous fiscal.

The total EBIDTA margin as a percentage of our total income grew to 29.32% from 23.66%, thus registering 23.92% growth. Optimisation of product market mix and cost management has contributed to the enhanced operating margins. The PBIT stood at Rs 177.63 crores compared to Rs 101.22 crores for the previous fiscal, thereby registering a growth of 75%. Total PBIT margin as a percentage of our total income grew to 19.99% from 14.68% thus registering 36.17% growth. The PBT was higher at Rs 90.61 crore compared to Rs 28.91 crore. The PAT was higher at Rs 82.90 crore compared to Rs 31.01 crore in the previous fiscal.

Risk Management

Like all businesses, the pharmaceutical industry has its risks. The risks that the Company faces may be classified as risks relating to the business, the currency and capital markets. The Company has appropriate policies and strategies to manage the risks. The strategies relating to key business risks are detailed herein.

Concentrated Products

The Company currently derives a significant portion of its revenue from limited therapeutic areas, which include cephalosporins, high-end betalactam and nutraceuticals. The Company currently also derives a significant portion of its revenues from less regulated markets. The Company is implementing strategies to diversify its product range and enter into regulated markets. However, any material adverse developments in such product-market strategies could have an adverse material effect on the revenues and profitability. An increase in the intensity of competition in any of its products and markets could also have a material adverse impact on the performance of the Company.

Supplier

The Company depends on its suppliers for its key raw materials intermediates and other packaging materials. As the Company enters regulated markets, some of these inputs need to be sourced from US FDA approved suppliers as well. While the Company has contractual arrangements in place with the existing suppliers and also has alternative suppliers to cater to supply deficiencies, the possibility of any supply constraints affecting the Company's performance cannot be ruled out.

Intellectual Property

While the Company's business has traditionally focused on non-patented products, its regulated market strategy is based on introducing generic versions after the products go off patent, based on non-infringing processes. The Company also files and seeks to obtain patents for new drugs and novel drug delivery systems under development. Patents are therefore likely to become more significant to the Company in the future. The success of the Company depends, in part, on its ability to protect trade secrets and other proprietary information and obtain patents and operate without infringing on the proprietary rights of others. The Company's competitors may have filed patent applications, or hold issued patents, relating to products or processes that compete with those the Company itself is developing or seeking to protect, or their patents or their litigation may impair the ability of the Company to do business in a particular geographic area.

The Company takes all reasonable steps to ensure that its products, including the generic products manufactured and sold by it, do not infringe valid third-party intellectual property rights. Nevertheless, innovators and other companies try to assert patent and other intellectual property rights in order to delay or prevent generic competition. As a result, the Company can become involved in extensive litigation regarding its products. Such events could adversely affect the financial position, results of operations or liquidity of the Company.

Historically, the Company has relied on trade secrets, know-how and other proprietary information as well as requiring its principal employees, vendors and suppliers to sign confidentiality agreements. However, these confidentiality agreements may be breached and the Company may not have adequate remedies for any breach. Third parties may otherwise gain access to its proprietary information or may independently develop substantially equivalent proprietary information.

Governmental Regulation

Governmental authorities including the US FDA, heavily regulate the manufacture of pharmaceutical products. These relate, among others, to approvals to manufacture and market pharmaceutical products, controls on marketing, pricing and promotion of pharmaceutical products, environmental, safety and health regulations and post-approval changes. If the Company or its third party suppliers fail to receive government approvals or fail to comply fully with such regulations, there



could be a government-enforced shut-down of such production facilities, which in turn could lead to product shortages. Although the Company seeks to take necessary precautions to avoid the above risks and it has in place appropriate systems, procedures and operating practices to mitigate such risks, its operations may be materially adversely affected if such events were to occur.

Fire and other natural calamities

The Company uses flammable materials and solvents in its manufacturing processes and is therefore subject to the risk of loss arising from fires. Although the Company has implemented industry acceptable risk management controls at its manufacturing locations and continuously seeks to upgrade them, the risk of fire associated with these materials cannot be completely eliminated. In addition to fire, natural calamities such as floods and earthquakes could have a harmful impact on the Company's operations. While the Company's insurance coverage for damages to its properties and disruption of its business due to these events is adequate, it may not be certain that it would be sufficient to cover all of its potential losses. If any of its manufacturing facilities were to be damaged as a result of fire or other natural calamities, it would temporarily reduce manufacturing capacity and harm the Company.

Product patent regime

As India did not, prior to January 1, 2005, grant or recognise pharmaceutical product patents, the Company was able to develop and sell its products in less regulated markets, which did not similarly recognise product patents, while those products continue to remain on patent in regulated markets. The Company will not henceforth be able to sell in India or elsewhere pharmaceutical products whose patents are recognised in India, unless and until these patents expire or are invalidated. While this is addressed by the strategy of the Company to increasingly focus on generic products in regulated markets, the reduced opportunity to reverse-engineer patented products could affect potential growth in less regulated markets.

Regulated markets

Commencing in July 2005, the Company has entered a number of markets, which in the pharmaceutical industry are considered to be heavily regulated, including the United States, for the sale and distribution of generics formulations and APIs. The Company has made substantial investments for establishing and upgrading its manufacturing facilities so that they comply with the standards set by the US FDA and other regulatory authorities. The Company has demonstrated its capabilities by aggressively filing DMFs and ANDAs and securing US FDA approvals. However, any delays in filing future DMFs and ANDAs, or in the inspection and approval of the Company's facilities and products by the US FDA or other applicable regulatory authorities, could adversely affect this strategy and the timing thereof, which in turn could adversely affect the results of operations and prospects of the Company.

The costs involved in entering the regulated markets may be higher than expected and the Company may face significant competition in these regions. Unanticipated price erosion could adversely reduce its sales revenue and profit potential. As a result of these and other changes in the business environment of the Company, it cannot be certain that its business model will continue to be as successful as anticipated

Product liability claims

Like all pharmaceutical companies, the Company faces the risk of loss resulting from, and the adverse publicity associated with, product liability lawsuits, whether or not such claims are valid. It is likely the Company cannot avoid such claims. Even unsuccessful product liability claims could require the Company to spend money on litigation, divert management's time, damage its reputation and impair the marketability of its products. In addition, although the Company has adequate product liability insurance coverage, it cannot be certain that its insurance will, in fact, be sufficient to cover such claims or its policy limits would be sufficient to cover such claims or that it will be able to maintain adequate insurance coverage in the future at acceptable costs. A successful product liability claim that is excluded from coverage or exceeds the Company's policy limits could require it to pay substantial sums. In addition, insurance coverage for product liability may become prohibitively expensive in the future.

Marketing arrangements

The Company will need to rely on its marketing arrangements and tie-ups with partners in regulated markets for the sale

and distribution of some of its generic products. The Company is exposed to the risk of its partners failing to adhere to the standards set for them in respect of minimum distribution and sales which in turn could affect the net sales and revenue of the Company. The Company's products are marketed in some countries through joint ventures, branch offices and subsidiaries and representative offices. The Company also markets and distributes its products through third parties by way of marketing and agency arrangements, and depends on third party distributors in all its export markets. As a result, many of the variables that may affect the revenue and net income of the Company are not exclusively within its control when it enters into arrangements like these.

Exchange rate fluctuations

The financial statements of the Company are prepared in Rupees. A substantial portion of the Company's net revenue and its operating expenses is incurred in foreign exchange and in particular US dollars. Although its exposure to exchange rate fluctuations is hedged in terms of imports of raw materials and the Company hedges a portion of the resulting net foreign exchange position through the use of forward exchange contracts or derivatives, the Company is still affected by fluctuations in exchange rates among the US dollar, the Rupee and other currencies. The Company is particularly affected by fluctuations in the exchange rate between the US dollar and the Rupee. Any significant fluctuation in exchange rates may harm the Company.

Internal Control systems & their adequacy

The Company has introduced Standard Operating Procedures (SOP) in all the important functions affecting the day-to-day operations of the Business. In order to avoid duplication of work, many of the SOPs are designed to meet the GMP/FDA/ ISO/Management or any other Statutory requirements. The Company continuously monitors compliance to the procedures and introduces new systems from time to time, wherever necessary. The introduction of an Integrated SAP ERP across the organization (for all the business areas and for all functions) has, to a great extent, set uniform practices.

The highlights of the internal control weaknesses and internal Audit reports are placed before each audit committee meeting along with the recommendations and responses of the Management. The members of the Board deliberate and advise the Management on improvements/compliance. Apart from above, the statutory auditors also present their concerns to the members for improvements or developments.

Human Resources

As at March 31, 2006, the Company had approximately 3000 team members, which included scientific and technical personnel and employees located at its several manufacturing and research facilities including its joint ventures and subsidiaries, corporate and managerial personnel and sales staff.

During the year, several learning and development inputs were provided to team members to equip them to meet the challenges of competitiveness.

A high point of the human resource initiatives of the Company involved developing and training of a new technical and manufacturing organisation at the US FDA compliant finished dosages forms complex at Irungattukottai in line with completion of facilities and ramping up of regulatory activity. Several novel development programmes were undertaken to institutionalise high levels of quality and regulatory compliance at the site. Similarly significant additions to scientific resource base were achieved in the R&D centre to support enhanced activity in process research, development of multiple therapeutic products and new drug discovery, among others.

During the year, the Company carried out a grade restructuring and banding exercise across the organisation to align the structure with the strategy and also to establish a rational basis for a proactive performance management system.

The year also saw an increased focus on employee welfare together with programmes reinforcing the team spirit and values of the employees in the organisation. The employees across the locations are intensively trained on GMP, SOP, safety, environment and health consciousness and also monitored for their continuous adherence to the practices.

Business Outlook and Developments

Orchid operates in the global pharmaceutical industry. Orchid's business model is focused on development, manufacturing



and marketing of active pharmaceutical ingredients and formulations for global markets. Orchid also undertakes drug discovery and development. Building on the successful foray into the US generics market, Orchid anticipates major growth from the regulated markets with generic finished dosage forms of a diversified product range. Participation in the global drug discovery space would provide further upside as new chemical entities (NCEs) are discovered and out licensed by Orchid upon necessary development and evaluation.

The size of the global pharmaceutical industry is estimated to be USD 602 billion in 2006 as per the latest IMS estimates. The industry has been growing at 5 to 8 percent over the last few years. North America is the largest and fast growing pharmaceutical market in the world with a retail sale of USD 265.7 billion (44%). European Union accounts for USD 169.5 billion (28%) while Japan accounts for USD 60.3 billion (10%). The premier regulated markets of the world i.e., US, EU and Japan account for USD 495.5 billion sales, constituting as much as 82% of the global retail sale.

Orchid has major market opportunities in the product segments chosen. The global infectives market is valued at around USD 35 to 40 billion. Cephalosporins and combinations, betalactams and peniems, which constitute the field of Orchid's core competencies account for close to USD 10 billion of sales. The advanced regulated markets constitute close to 67% of the market for anti-infectives. Specifically, the cephalosporin and betalactam product range for which Orchid has distribution alliances in the US account for a current retail market of close to USD 36 billion. Three products, which, would go off patent between 2006 and 2008 and one product, which is yet to be genericised in the US, constitute a sale of USD 2 billion within this space. The EU market for the products is estimated at an additional USD 1.6 billion. In the non-penicillin, non-cephalosporins area, the 20 products that are tied up cover high growth therapeutic areas such as cardio-vascular, central nervous system, diabetes, pain management and gastro-intestinals to state a few, representing a current market value of close to USD 33 billion. The larger list of such molecules identified by Orchid in such high potential therapeutic areas offer a continuous early market opportunity in addition.

Orchid entered the regulated generics space with its cephalosporins from July 2005 and would supplement it with other select high end anti-infective products as well as non-penicillin, non-betalactams from 2007-08. Significant additional and attractive markets would thus be opened up for Orchid. With the requisite investments having been made for the cephalosporin and betalactam products as well as the first wave of non-penicillin, non-cephalosporin products, the proposed regulated market foray into the US generics space, followed by the EU generics effort would trigger significant enhancements in performance, both in revenue and profits.

The growth of the generic markets has led to pressures on the global pharmaceutical corporations for increased new drug pipelines. With India recognizing product patents and enabling greater compliance with intellectual property regime, Orchid anticipates that drug discovery would offer a major scope. Global pharmaceutical firms are reported to spend over USD 60 billion per annum in R&D budgets. R&D outsourcing could therefore provide a major scientific and business opportunity for select Indian firms such as Orchid. The recent conclusion of master R&D services agreement with Pfizer for providing NCE services for its Animal Health business points to the capabilities of Orchid in the R&D space.

As in generics, Orchid has a unique end-to-end connected model in drug discovery as well. Orchid has capabilities to design drugs based on QSAR, synthesize novel pharmacophores, structures and analogues, screen them microbiologically and pharmacologically and validate the chosen hits and leads in animal models. Orchid's R&D infrastructure as well as pre-clinical facilities, which can perform world-class chemistry, regulatory, toxicology and other studies are GLP accredited in line with OECD principles by India's National GLP Monitoring Authority.

Simultaneous with the performance boosting generics and drug discovery initiatives in the advanced regulatory markets, Orchid is also consolidating and growing the base business in the less regulated and emerging markets by focusing on appropriate product-market diversification. In the overall, Orchid looks forward to exciting business opportunities and impressive performance growth.

Orchid Chemicals & Pharmaceuticals Ltd.

AUDITORS' REPORT

REPORT OF THE AUDITORS TO THE MEMBERS

1. We have audited the attached Balance Sheet of Orchid Chemicals & Pharmaceuticals Limited (the Company) as at 31st March, 2006 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we annexe hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:

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

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

c. The Balance Sheet, Profit and Loss Account and Cash flow statement dealt with by this report are in agreement with the books of account;

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

e. On the basis of written representations received from the directors, as on 31st March 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

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

   i. In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2006;

   ii. In the case of the Profit and Loss Account, of the profit for the year ended on that date; and

   iii. In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For SNB ASSOCIATES
Chartered Accountants

(S. LAKSHMANAN)
Partner
Membership No.20045

Place : Chennai
Date : April 28, 2006



ANNEXURE TO AUDITORS' REPORT

Referred to in Paragraph 3 of our Report of even date :

1. The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets. According to the information and explanations given to us, most of the fixed assets have been physically verified by the Management during the year. In our opinion, the frequency of such physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification as compared to the available records. There was no substantial disposal of fixed assets during the year.
2. Physical verification of Inventory has been conducted by the Management at reasonable intervals. The procedures for physical verification of stocks followed by the Management are reasonable and adequate in relation to the size of the company and nature of its business.

   The company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
3. As informed to us, the company has granted unsecured loan to two Joint Venture companies, which is covered in the register maintained under section 301 of the companies Act, 1956, amounting to Rs 507.80 lacs in terms of the Joint Venture agreement.

   The rate of interest and other terms and conditions of loans are as per the Joint Venture agreement, which are not *prima-facie* prejudicial to the interests of the company.

   The company has taken reasonable steps to recover overdue interest amounting to Rs 38.77 lacs due from the Joint Venture Company.

   The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the companies Act, 1956.
4. In our opinion and according to the information and explanation given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system.
5. In our opinion and according to the information and explanation given to us, the particulars of contracts or arrangements referred to in section 301 of the companies Act, 1956 have been entered in the register required to be maintained under that section.

   The transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices / Joint venture agreements at the relevant time.
6. The company has not accepted any deposits from the public.
7. In our opinion, the company has an internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed the books of account maintained by the Company, pursuant to the rules made by the Central Government for the maintenance of the Cost Records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained.
9. The company is regular in depositing undisputed Statutory Dues including Provident fund, Investor education and protection fund, Employees' state insurance, Income-Tax, Sales-Tax, Wealth-Tax, Service-Tax, Custom duty, Excise duty, Cess and any other statutory dues applicable to it with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of sales-tax, Income-Tax, Wealth Tax, Service Tax, Custom duty, Excise duty and Cess were outstanding at the year end for a period of more than six months from the date they became payable. According to the records of the company, there are no disputed amounts that have not been deposited with appropriate authorities on account of Income-Tax, Sales-tax, Wealth Tax, Service-Tax, Custom duty, Excise duty and Cess except the following:

Name of the Statute	Nature of the Dues	Period to which the amount relates	Amount Rs Lakhs	Forum where the dispute is pending
Central Excise Act, 1944	Excise Duty	1999-00 to 2000-01	111.94	Central Board of Excise and Customs, Chennai
		2000-01 & 2001-02	37.12	
		2004-05	125.31	
		2002-03 & 2003-04	2.85	Asst. Commissioner / Superintendent of Excise & Customs, Aurangabad
		2002-03 & 2003-04	1.91	Deputy Commissioner of Excise & Customs, Aurangabad
		2005-06	4.35	
Finance Act, 1994 (Chapter V)	Service-Tax	June 1997 to March 2001	42.26	Deputy Commissioner of Central Excise, Chennai
		2005-06	144.25	Honourable High court of Chennai
Tamil Nadu Tax on Consumption or sale of Electricity Act, 2003	Electricity Cess	2003-04	64.64	Honourable High court of Chennai
		2004-05	74.27	
		2005-06	75.64	
Income-Tax Act, 1961	Income-Tax	AY 1997-98	53.82	Income-Tax Appellate Tribunal, Chennai
Income-Tax Act, 1961	Interest on Income-Tax	AY 1997-98 and 1998-99	68.88	Commissioner of Income-Tax, Chennai
Income-Tax Act, 1961	Income-Tax	AY 2001-02 and 2002-03	11.58	Commissioner of Income-Tax-, Appeal , Chennai
Income-Tax Act, 1961	Income-Tax	AY 2005-06	38.38	Commissioner of Income-Tax-, Appeal, Chennai

10. The company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and in the immediately preceding financial year.
11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in payment of dues to financial institutions and banks. The company does not have any borrowings by way of debentures.
12. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion and according to the information and explanations given to us, the nature of activities of the company does not attract any special statute applicable to chit fund and nidhi / mutual benefit fund/societies.
14. Based on our examination of records and the information and explanations given to us, the company has not dealt / traded in any shares, securities, debentures and other investments during the year.
15. According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions.
16. The term loans obtained by the company were applied only for the purposes for which the loans were obtained.
17. According to the cash flow statement and other records examined by us and the information and explanations given to us on an over all basis, the funds raised on short-term basis, prima facie, have not been used during the year for long-term investment other than temporary deployment pending application.
18. The company has made preferential allotment of 2500000 warrants, to promoters covered in the register maintained under section 301 of the companies Act, 1956, each warrant convertible into one equity share of Rs 10 each within 18 months from the date of issue. The above issue of warrant is in accordance with SEBI guidelines.
19. The company did not have any outstanding debentures/bonds during the year for which creation of securities is required.
20. During the year the Company raised funds through issue of Global Depository Receipts/Foreign Currency Convertible Bonds amounting to Rs 37325.70 lakhs. The end use of the money raised has been disclosed and verified.
21. Based on the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the course of our audit.

For SNB ASSOCIATES
Chartered Accountants

(S.LAKSHMANAN)
Partner
Membership No.20045

Place : Chennai
Date : April 28, 2006



BALANCE SHEET AS AT MARCH ..., 2006

	SCHEDULE		AS AT 31ST MARCH 2006 Rs lakhs		AS AT 31ST MARCH 2005 Rs lakhs
I SOURCES OF FUNDS					
A. SHAREHOLDERS' FUNDS					
Share Capital	A		6461.82		3413.19
Share application money pending allotment (Refer Note : 13)			-		24.90
Reserves and Surplus	B		72040.71		43714.20
B. LOAN FUNDS					
Secured Loans	C		82655.85		82163.11
Unsecured Loans	D		20169.02		16500.00
C. DEFERRED TAX LIABILITY (Refer Note : 26)			8006.00		7416.00
TOTAL			189333.40		153231.40
II APPLICATION OF FUNDS					
D. FIXED ASSETS	E				
Gross Block		125764.20		98082.47	
LESS : Depreciation		36774.35		28555.46	
Net block		88989.85		69527.01	
Capital Work in Progress		21638.79		33018.61	
Advance for capital items		5278.61		1365.20	
			115907.25		103910.82
E. INVESTMENTS	F		9823.59		7126.56
F. CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	G	43807.72		39353.57	
Sundry Debtors	H	32881.53		19780.45	
Cash and Bank Balances	I	1129.59		2027.21	
Other Current Assets	J	50.74		54.90	
Loans and advances	K	9803.51		6675.09	
		87673.09		67891.22	
G. LESS CURRENT LIABILITIES AND PROVISIONS	L	24070.63		25697.20	
			63602.46		42194.02
TOTAL			189333.40		153231.40
Notes on accounts	R				

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAMI NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Orchid Chemicals & Pharmaceuticals Ltd.

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	SCHEDULE		FOR THE YEAR ENDED 31-03-2006 Rs lakhs		FOR THE YEAR ENDED 31-03-2005 Rs lakhs
I INCOME					
Sales & Operating Income	M	88876.64		68929.44	
Less: Excise Duty		1530.93	87345.71	1162.74	67766.70
Other Income	N		132.73		82.23
			87478.44		67848.93
II EXPENDITURE					
Material Cost	O		34526.51		29582.55
Manufacturing, Selling & Other Expenses	P		26891.87		21975.39
Interest and Finance charges	Q		8701.32		7231.00
Depreciation / Amortisation			8297.57		6189.19
			78417.27		64958.13
III PROFIT					
Profit for the year before tax			9061.17		2,890.80
Less : Provision for tax					
Current Taxes		—		194.60	
Fringe Benefit Tax		181.00		—	
Deferred Taxes (Refer Note : 26)		590.00	771.00	(404.93)	(210.33)
Profit for the year after tax			8290.17		3101.13
Balance brought forward			2748.36		2203.99
Balance Available for Appropriation			11038.53		5305.12
IV APPROPRIATIONS					
Transfer to General Reserve			4000.00		1000.00
Proposed Dividend		2209.47		1365.28	
Tax on proposed dividend		309.88	2519.35	191.48	1556.76
Balance carried to Balance Sheet			4519.18		2748.36
V EARNINGS PER SHARE					
(Equity shares of Rs10/- each fully paid up)					
Basic (Rs)			14.85		6.36
Diluted (Rs)			13.64		6.03
Notes on Accounts	R				

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAMI NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary



SCHEDULES TO THE ACCOUNTS

	AS AT 31ST MARCH 2006 Rs lakhs		AS AT 31ST MARCH 2005 Rs lakhs	
SCHEDULE "A" - SHARE CAPITAL				
AUTHORISED				
9,00,00,000 Equity Shares of Rs 10/- each (Previous year 4,50,00,000 Equity Shares of Rs 10/- each)	9000.00		4500.00	
ISSUED, SUBSCRIBED AND PAID-UP				
6,46,18,182 (Previous year - 3,41,31,919) equity Shares of Rs 10/- each fully paid	6461.82		3413.19	
Of the above:				
a. 4,05,489 Equity Shares of Rs 10/- each (1,34,307 shares at a premium of Rs 242.00, 2,37,654 shares at a premium of Rs 233.35, 26144 shares at a premium of Rs 152.24 and 7384 shares at a premium of Rs 158.00, per share) were allotted to the employees during the year under "ORCHID - ESOP 99" Scheme.				
b. 4,05,000 Equity shares of Rs 10/- each (1,80,000 shares at a premium of Rs 202.18, 1,05,000 shares at a premium of Rs 131.46, 70,000 shares at a premium of Rs 329.41, and 50,000 shares at a premium of Rs 216.28, per share) were allotted during the year against warrants allotted to the promoter group.				
c. 92,50,000 Global Depository Receipts each representing one Equity share of Rs 10/- each at a premium of Rs 185.04 per share were allotted during the year.				
d. 1,73,76,940 Equity shares of Rs 10/- each were allotted during the year as Bonus Shares to the members in the ratio of 2:1 by capitalisation of Reserves.				
e. 30,48,834 Equity shares of Rs 10/- each at a premium of Rs 233.80 per share were allotted during the year on exercise of the convertible option by Foreign Currency Convertible Bond holders holding FCCB issued during the year.				
SCHEDULE "B" - RESERVES & SURPLUS				
Securities Premium Account				
– Opening Balance	34874.35		31336.20	
– Additions during the year	26016.11		3538.15	
	60890.46		34874.35	
Deductions during the year				
– Issue of Bonus shares	1737.69		–	
– Provision for premium on redemption of FCCB (Refer Note : 7)	456.68		–	
– GDR/FCCB issue expenses adjustment	1264.05	57430.04	–	34874.35
General Reserve				
– Opening Balance	6091.49		5091.49	
– Add : Transfers during the year	4000.00	10091.49	1000.00	6091.49
Surplus in Profit & Loss Account		4519.18		2748.36
		72040.71		43714.20

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE ACCOUNTS

		AS AT 31ST MARCH 2006 Rs lakhs		AS AT 31ST MARCH 2005 Rs lakhs
SCHEDULE "C" - SECURED LOANS				
From Banks				
– Rupee Term Loans	45067.15		31913.72	
– Foreign Currency Term Loans	–		10180.36	
– Rupee & Foreign Currency Working Capital Loans	–		3881.86	
– Rupee & Foreign Currency Packing Credit & Advance against Bills	30588.39		24424.27	
		75655.54		70400.21
From Financial Institutions				
Rupee				
– Term Loans	5906.25		5406.25	
– Working Capital Loans	–		5000.00	
Foreign Currency				
– Term Loans	–		1251.55	
		5906.25		11657.80
Hire Purchase Finance		94.06		106.10
		82655.85		82163.11

Term loan from Bank of Baroda for NPNC project is secured on the assets of NPNC project at Aurangabad and Irungattukottai. All other Term Loans from Banks & Financial Institutions are secured by pari-passu charge by way of joint mortgage on immovable and movable assets situated at Factory premises at SIDCO Industrial Area, Alathur, MIDC Industrial Area, Aurangabad, SIPCOT Industrial Park, Irungattukottai and R&D premises at Sholinganallur and current assets of the Company, subject to prior charges created/to be created on current assets in favour of bankers and financial institutions for securing working capital borrowings. Total term loans aggregating Rs 33510.90 Lakhs are additionally secured by personal guarantee of Shri K Raghavendra Rao, Managing Director of the Company.

Packing Credit and Advances against bills from banks and Working Capital Loans from banks and financial institutions are secured by first charge on all current assets namely, Stocks of Raw materials, Semi-finished & Finished Goods, Stores and Spares not relating to Plant & Machinery (Consumable Stores and Spares), Bills Receivable, Book Debts & all other movable property both present and future excluding such movables as may be permitted by the banks/ financial institutions from time to time and by second charge on immovable properties after charges created/ to be created on immovable assets in favour of Financial Institutions/Banks for securing Term Loans. The borrowings from banks are additionally secured by personal guarantee of Shri K Raghavendra Rao, Managing Director of the Company.

Hire purchase Loans are secured by the assets acquired through such loans.

SCHEDULE "D" - UNSECURED LOANS		
From Banks	8500.00	16500.00
Foreign Currency Convertible Bonds (Refer Note : 7)	11669.02	–
	20169.02	16500.00

SCHEDULES TO THE ACCOUNTS

SCHEDULE "E" - FIXED ASSETS

Rs lakhs

Sl No	ASSET DESCRIPTION	GROSS BLOCK (AT COST)				DEPRECIATION/AMORTISATION				WRITTEN DOWN VALUE	
		AS AT 01-Apr-05	ADDITIONS DURING THE YEAR	DELETIONS DURING THE YEAR	AS AT 31-Mar-06	UPTO 31-Mar-05	FOR THE YEAR	ON DELETIONS	UPTO 31-Mar-06	AS AT 31-Mar-06	AS AT 31-Mar-05
1	FREEHOLD LAND & SITE DEVELOPMENT	1091.39	226.49	15.79	1302.09	–	–	–	–	1302.09	1091.39
2	LEASEHOLD LAND	643.05	–	–	643.05	–	–	–	–	643.05	643.05
3	BUILDINGS	9762.26	5411.02	32.06	15141.22	1387.00	498.52	0.89	1884.63	13276.59	8395.26
4	PLANT & MACHINERY	74034.54	19008.32	1105.15	91937.71	24015.84	5704.80	66.40	29654.24	62283.47	50018.70
5	FACTORY EQUIPMENT	733.68	219.32	–	953.00	333.84	96.58	–	430.42	522.58	399.84
6	LABORATORY EQUIPMENT	4721.14	1480.03	–	6211.17	791.27	287.30	–	1078.57	5132.60	3929.87
7	OFFICE EQUIPMENT	1502.18	31.67	1.71	1532.14	625.84	147.01	0.41	772.44	759.70	876.34
8	FURNITURE & FITTINGS	1057.40	161.41	–	1218.81	302.08	67.67	–	369.75	849.06	755.32
9	VEHICLES	492.85	62.65	53.24	502.26	129.59	45.99	10.98	164.60	337.66	363.26
10	INTANGIBLE ASSETS ACQUIRED										
	BRANDS & TRADEMARKS *	2200.00	2.60	–	2202.60	990.00	440.04	–	1430.04	772.56	1210.00
	INTERNALLY GENERATED										
	DMF & ANDA **	1843.98	2276.17	–	4120.15	–	1009.66	–	1009.66	3110.49	1843.98
	TOTAL	98082.47	28889.68	1207.95	125764.20	28555.46	8297.57	78.68	36774.35	88989.85	69527.01
	PREVIOUS YEAR'S FIGURES	92881.57	5795.04	394.14	98082.47	22460.09	6189.19	113.82	28555.46	69527.01	–

* Represents value of registrations and value of applications filed pending registration

** Refer Note 1 (b) (iv) of Schedule R

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Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE ACCOUNTS

	Nos	AS AT 31ST MARCH 2006 Rs lakhs	Nos	AS AT 31ST MARCH 2005 Rs lakhs
SCHEDULE "F" - INVESTMENTS				
(at cost)				
LONG TERM				
Trade, UnQuoted				
Subsidiary Companies				
Orchid Europe Limited, UK (previously known as Orchid Nutricare Limited)				
Common stock of GBP 1 each fully paid up	10000	6.42	10000	6.42
Less : Provision for diminution in value		(6.42)		(6.42)
		–		–
Ogna Farma, Brazil				
Common stock		87.89		54.07
Geno Arrays Inc., USA*				
Preferred stock with par value of US$ 0.001	200000	91.10	200000	91.10
Orchid Pharmaceuticals Inc., USA				
Common stock of US$ 1 each fully paid up	100100	44.72	100	0.04
Less : Provision for diminution in value		(40.21)		–
		4.51		0.04
Bexel Pharmaceutical Inc.** @				
9999990 Series A Convertible Preferred Stock and 3562500 Series B Convertible Preferred Stock, par value USD 0.001 per share and 10 Common Stock of par value USD 0.001 per share	13562500	6793.60	10000000	4585.71
Orchid Research Laboratories Ltd. @				
Fully paid up equity shares of Rs10/- each	6550000	655.00	20000	2.00
Less : Provision for diminution in value		(112.14)		–
		542.86		2.00
		7439.85		4732.92
Joint Venture Companies				
BChD Biotechnological Chemical Development Limited, UK				
Common stock of GBP 1 each fully paid up	31100	21.03	31100	21.03
NCPC Orchid Pharmaceuticals Company Ltd., China		2364.24		2364.24
Common stock representing 50% interest in the Company				
		2385.27		2,385.27
Non - Trade, Quoted				
Bank of India -				
Fully paid up equity shares of Rs 10/- each	18600	8.37	18600	8.37
		8.37		8.37
Total Value of Investments		9833.49		7126.56

Market Value for quoted investment is Rs 24.84 lakhs (Previous year Rs 19.27 lakhs)
Units bought and sold during the year:
Chola Mutual Fund 121517960 units valued at Rs 12175.00 lakhs
Standard Chartered Mutual Fund 24500000 units valued at Rs 2450.00 lakhs

* Each Preferred stock is convertible into One Common stock, at any time, at the option of the Company and will have voting rights equal to one common stock and has the same value as common stock.

** Each Series A and Series B Preferred stock is convertible into One Common stock, at any time, at the option of the Company and will have voting rights equal to one common stock and has the same value as common stock.

@ Became subsidiaries during the current year.



SCHEDULED TO THE ACCOUNTS

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
SCHEDULE "G" - INVENTORIES		
(Refer Note 5(i), Schedule "K")		
Raw materials	9480.13	8063.49
Stores and Spare parts	1867.09	1288.40
Chemicals and Consumables	736.06	518.19
Packing Materials	948.45	552.32
Intermediates & WIP	25914.43	23692.65
Finished Goods	4173.09	4482.16
Traded Goods	628.47	756.36
	43887.72	39353.57
SCHEDULE "H" - SUNDRY DEBTORS		
Debts more than 6 months (Unsecured)		
Considered Good	19869.07	16692.41
Considered Doubtful	1615.11	1615.11
Other Debts (Considered Good)		
Secured	62.86	81.43
Unsecured	12949.60	3006.61
	34496.64	21395.56
Less: Provision for Doubtful Debts	1615.11	1615.11
	32881.53	19780.45
SCHEDULE "I" - CASH AND BANK BALANCES		
CASH IN HAND	8.67	10.59
Balances with scheduled banks on :		
– Current Account	471.71	703.93
– Term Deposit Account	0.55	0.50
– Margin Money Deposit	589.43	1249.19
– Share Application Money and Dividend Account	49.21	48.11
Balance with other banks on :		
– Current Account	10.02	14.89
	1129.59	2027.21
SCHEDULE "J" - OTHER CURRENT ASSETS		
Interest Accrued on Deposits and Advances*	71.81	75.97
Less: Provision for Doubtful Interest	21.07	21.07
	50.74	54.90
*Includes dues from subsidiary Rs 21.07 lakhs (Previous Year Rs 21.07 lakhs)		
SCHEDULE "K" - LOANS AND ADVANCES (UNSECURED)		
Considered Good		
Advances recoverable in cash or kind or for value to be received *	8857.78	5703.62
Advance Payment of Tax	883.50	730.88
Loans to Subsidiaries	43.54	8.74

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE ACCOUNTS

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
Deposits		
– With Government Authorities	165.89	162.72
– Others	72.89	68.15
Considered Doubtful		
– Loan to Subsidiary	78.19	78.19
	9881.70	8753.28
Less: Provision for Doubtful Advances	78.19	78.19
	9803.51	8675.09

* Includes dues from subsidiary Rs 213.21 Lakhs (Previous year - Rs 154.68 lakhs)

SCHEDULE 'G' - CURRENT LIABILITIES AND PROVISIONS

CURRENT LIABILITIES		
Acceptances	617.62	929.34
Sundry creditors (other than SSI) for		
– Capital Items	1577.57	3444.91
– Other Supplies	13254.45	14916.46
– Expenses [Includes due to Directors - Rs 300 lakhs (Previous year - Rs 38.33 lakhs)]	3332.89	2714.91
Dues to Small Scale Industrial Undertakings (SSI) for		
– Capital Items	–	–
– Other supplies	324.84	637.80
Investor Education and Protection Fund shall be credited by the following amounts namely :*		
– Unclaimed Dividend	49.21	48.11
– Share Application Money Refundable	5.42	5.42
Interest Accrued but not due	5.24	10.99
Other Liabilities [Refer Note : 25]	1939.19	987.05
PROVISIONS		
– For Taxation	445.45	445.45
– Proposed Dividend	2209.47	1365.28
– Tax on Proposed Dividend	309.88	191.48
	24070.63	25697.20

* Represents balances in those accounts as of 31st March, 2006. Actual amount to be transferred to the Investor Education and Protection Fund will be determined on due dates.



SCHEDULES TO THE ACCOUNTS

		FOR THE YEAR ENDED 31-03-2006 Rs lakhs		FOR THE YEAR ENDED 31-03-2005 Rs lakhs
SCHEDULE "M" SALES & OPERATING INCOME				
Sales	83637.62		64978.55	
Less: Excise Duty	1488.56	82149.06	1138.70	63839.85
Operating Income				
Income from services rendered				
– Technical & Consultancy Fees		114.56		155.89
[TDS - Rs 7.45 lakhs (Previous year - Rs 18.83 lakhs)]				
– Contract Research & Development		1000.24		
Sale of Other Materials	293.85		170.57	
Less: Excise Duty	42.37	251.48	24.04	146.53
Development Fee		446.21		3098.44
Product Nomination Fee		–		438.05
Licence Fee		2479.58		–
Transfer of IPR		580.09		–
Other Operating Income		344.66		87.94
		87345.71		67766.70
SCHEDULE "N" OTHER INCOME				
Interest				
on Advances		21.52		11.11
on Income tax refund		–		6.82
Income from Investments				
Dividend - Non Trade		10.26		19.59
Profit on sale of Investments		–		0.24
Profit on Sale of Fixed Assets		57.07		22.16
Other Income		43.88		22.31
		132.73		82.23
SCHEDULE "O" MATERIAL COST				
Raw Materials Consumed	34405.08		37367.57	
Cost of Traded Goods	2034.14	36439.22	2032.93	39400.50
Less: (Accretion to) / Depletion in Stocks				
Closing Stock of Intermediates, WIP & Finished Goods	30087.52		28174.81	
Opening Stock of Intermediates, WIP & Finished Goods	28174.81	(1912.71)	18336.86	(9837.95)
		34526.51		29562.55
SCHEDULE "P" - MANUFACTURING, SELLING AND OTHER EXPENSES				
Power and Fuel		4321.94		3062.68
Conversion Charges		1721.31		556.37
Consumption of Stores, Spares & Chemicals		2126.26		1396.23
Consumption of Packing Materials		1880.52		662.99
Factory Maintenance		1130.93		989.29
Salaries and Wages		5361.22		4587.58
Contribution to Provident & Other Funds		515.29		414.45
Staff Welfare		644.87		436.05
Rent		17.67		21.87
Rates & Taxes		147.49		76.85
Insurance		1058.13		977.06

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE ACCOUNTS

	FOR THE YEAR ENDED 31-03-2006 Rs lakhs	FOR THE YEAR ENDED 31-03-2005 Rs lakhs
Postage, Telephone & Telex	153.68	154.90
Printing & Stationery	158.75	101.28
Vehicle Maintenance	45.63	30.37
Research & Development Expenses (Refer Note No : 32)	2682.10	1958.12
Advertisement	41.92	16.06
Recruitment Expenses	45.28	86.24
Auditors' Remuneration		
Statutory Auditors [Refer Note : 14]	60.53	38.57
Cost Auditors	10.12	9.90
Travelling and Conveyance	752.88	879.15
Directors' Remuneration & Perquisites (Refer Note No : 15)	504.66	229.62
Directors' Travelling		
– Inland	9.68	10.61
– Overseas	48.93	42.90
Directors' Sitting Fees	19.80	13.20
Loss on Sale of Fixed Asset	16.64	52.72
Freight Outward	1492.54	673.28
Commission on Sales	1108.75	1913.85
Loss on Sale of Investments	–	12.29
Lease Rentals	–	3.33
Business Promotion and Selling Expenses	537.36	1192.60
Consultancy & Professional Fees	617.68	393.76
Exchange Rate Loss/(Gain)	(865.96)	172.31
Loss/Provision for Diminution in value of Investments	152.35	–
Provision for Doubtful Debts	–	180.00
Miscellaneous Expenses	1022.13	628.93
	27523.88	21975.39
Less : Loss of profit - Insurance claim (Refer Note No : 22)	631.99	–
	26891.87	21975.39
SCHEDULE "Q" - INTEREST AND FINANCE CHARGES (Refer Note No : 17)		
Interest on Term Loans	4021.05	3581.76
Other Interest & Finance Charges	4689.27	3649.24
	8781.32	7231.00

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAMI NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary



SCHEDULES TO THE ACCOUNTS

SCHEDULE "R" NOTES ON ACCOUNTS

1 Significant Accounting Policies

a) Accounting Convention

The Financial Statements are prepared under historical cost convention. Revenues are recognised and expenses are accounted on their accrual with necessary provisions for all known liabilities and losses.

b) Fixed Assets

(i) Fixed Assets are stated at the original cost inclusive of inward freight, incidental expenses related to acquisition and related pre-operational expenses.

(ii) Machinery spares which can be used only in connection with specific fixed assets and the use of which are irregular, are charged over the period of the life of such fixed asset, in accordance with Accounting Standard (AS 10).

(iii) Brands represent brands acquired by the Company and includes IPR & Licences purchased for a consolidated consideration.The cost of brands, patents and trademarks are amortised over a period of 60 months from the month of acquisition.

(iv) INTERNALLY GENERATED INTANGIBLE ASSETS - DMF & ANDA

DMF and ANDA costs represent expenses incurred on development of processes and compliance with regulatory procedures of the US FDA, in filing Drug Master Files ("DMF") and Abbreviated New Drug Applications ("ANDA"), in respect of products for which commercial value has been established by virtue of third party agreements/arrangements. This is in accordance with the requirements of Accounting Standard 26 of the Institute of Chartered Accountants of India. The cost of each DMF/ANDA is amortised to the extent of recovery of developmental costs on launch of such products or over a period of five years from the date on which the product covered by DMF/ANDA is commercially marketed, whichever is earlier.

(v) Assets are depreciated on straight line basis at the rates specified in Schedule XIV of the Companies Act 1956, except in respect of the following assets, where the useful lives reckoned in computing the depreciation for the year are different from those derived from the rates specified in Schedule XIV of the Companies Act, 1956. The revised useful life of the assets have been determined by the Management based on technical assessment.

Asset Categories	Useful life
Reactors, Pipes, Pipe fittings, Valves, Motors, Pumps, Nitrogen plant, Gear boxes, Cables and Centrifuges, Evaporator (Indigenous), Jet aeration system (indigenous), Ventilation & Exhaust system, HCL column, ETP (indegenous), Scrubber, Incenarator (indigenous).	9 years

(vi) Depreciation on assets added/disposed off during the year is provided on pro-rata basis from the month of addition or up to the month of disposal, as applicable.

(vii) Impairment of assets:

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the assets and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above.

c) Borrowing Costs

Interest cost on qualifying asset being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, is capitalised at the weighted average rate of the funds borrowed and utilised for acquisition of such assets.

d) Treatment of expenditure during construction period.

Expenditure during construction period is included under capital work-in-progress and the same is allocated to the respective fixed assets on the completion of construction.

e) Investments

Investments considered long term are shown at cost. Diminution in the value of investments other than temporary are provided for. Current investments are valued at lower of cost and market value.

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE ACCOUNTS

f) Inventories

(i) Stores & Spares	– At weighted average cost.
(ii) Raw Materials	– At annual weighted average cost.
(iii) Finished Goods @	– At lower of cost & net realisable value
(iv) Work in Progress & Intermediates @	– At lower of cost & net realisable value

@ After adjustment of unrealised profits on inter division transfer.

g) Revenue Recognition

Sales are recognised on despatch of goods from the factory/warehouse. Sales are net of returns, discounts and inter-division transfers. Service income is recognised as per contractual terms. In respect of composite contracts involving development and other activities, income is recognised on the basis of contractual terms after considering the quantum of work completed.

h) Retirement Benefits

Retirement Benefits are accounted on accrual basis. The Company's liability towards the gratuity of employees was covered by a group gratuity policy with LIC and contribution to the fund is based on actuarial valuation carried out yearly as at 31st December. As on March 31, 2006, it is covered by the policy with ICICI Prudential Life Insurance Company Ltd., and the Contribution to the fund is based on actuarial valuation carried out as at 31st March. Provision for Leave Encashment has been made based on actuarial valuation as at the year end.

i) Translation of Foreign Currency Items

1) Foreign currency liabilities including liabilities on swap transactions, in respect of fixed assets, which have been acquired from a country outside India, have been restated in rupee terms at the exchange rates prevailing at the date of the Balance Sheet and the increase or decrease arising out of it is adjusted to the cost of fixed assets.
2) Other foreign currency assets and liabilities are recognised at the rates applicable on the date of the Balance Sheet and the difference is charged to the Profit & Loss Account.
3) All inter related transactions are recognised at common rates.
4) Exchange difference between the rates applicable at the date of the transaction and the rate actually realised (except in cases of inter-related transactions as stated above) has been shown as exchange gain/loss.
5) Transactions covered by forward contracts are stated at forward rates and the difference between forward rate and exchange rate at the date of the transaction has been recognised as income or expense over the life of the contract.

j) Subsidy on Fixed Assets : Subsidy received on fixed assets is credited to the cost of respective fixed assets.

2 Sales tax recoverable have been recorded on the basis of the claims submitted or in the process of being submitted, as per rules relating to EOU and which in the opinion of the Company are recoverable.

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
3 Estimated amounts of contracts remaining to be executed on capital account (net of advances) and not provided for.	9016.84	2867.09
4 Other monies for which Company is contingently liable :		
– Bills Discounted	15126.75	17779.17
– Unexpired Letters of Credit	13447.77	15410.04
– Bank Guarantees outstanding	1018.48	1059.07
– Claims against the Company not acknowledged as debts		
Cess on electricity generation pending before High Court of Chennai	214.55	168.31

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
Excise demands under dispute pending before Excise authorities	283.48	196.08
Service tax dispute pending before High Court of Chennai	186.51	–

5 The Company has filed appeals against the demands made by the Income Tax department amounting to Rs 103.78 lakhs (Previous year Rs 53.82 lakhs). No provision has been made as the Company is confident of winning the appeals. No provision has also been made for demand of interest amounting to Rs 68.88 lakhs (Previous year Rs 68.88 lakhs) as petition has already been filed for waiver of interest.

6 The Company has further cash commitment to subscribe to the capital of Bexel Pharmaceuticals Inc. amounting to Rs 3226.98 lakhs (Previous year Rs 4383.00 lakhs) including premium payable on shares, subject to necessary regulatory approvals.

7. i) Foreign Currency Convertible Bond (FCCB)/Global Depository Receipts (GDR):

a) The Company raised FCCB during the current year aggregating to USD 42.50 million (Rs 19284.50 lakhs) including a green shoe option of USD 5 million (Rs 2289.50 lakhs) with an option to the investor to convert the FCCBs into equity shares or global depositary receipts at an initial conversion price of Rs 243.80 per share at a fixed rate of exchange on conversion Rs 44.94 = USD 1, at any time after December 13, 2005 and prior to October 24, 2010. Further, the Company has an option of early redemption of these FCCBs in whole at any time after November 03, 2006 subject to certain conditions. Unless previously converted, redeemed or repurchased and cancelled, the FCCBs will be redeemed on November 03, 2010 at 147.1688% of their principal amount

b) The current status of FCCB conversion into equity is as follows:

Particulars	FCCB Value USD Million	Number of shares in lakhs	Increase in Equity Rs lakhs	Increase in Security Premium Rs lakhs
Conversion effected upto March 31, 2006	16.54	30.49	304.88	7128.17
Conversion effected from April 01, 2006 to April 27, 2006	2.25	4.15	41.47	969.67
	18.79	34.64	346.35	8097.84

c) Provision has been made for the premium payable on redemption of FCCBs outstanding as on March 31, 2006 on pro-rata basis up to March 31, 2006 amounting to Rs 458.68 lakhs by debiting the Securities Premium Account (SPA). In the event that the conversion option is exercised by the holder of FCCBs in the future, the amount of premium charged to SPA will be suitably adjusted in the respective years.

d) Even though the Company has provided for the premium on redemption of FCCBs as per note (c) above, the Company has also made provision for dividend in the books of account on the equity shares to be allotted upon conversion of FCCBs outstanding as at March 31, 2006, since the Company is obliged, as per SEBI guidelines, to pay dividend to those FCCB holders who convert their FCCB into equity after adoption of the financial statements and upto the book closure date.

ii) Usage of funds raised through GDR/FCCBs

	Rs lakhs
Funds received	37325.70
Less: Expenses of Issue	1594.87
	35730.83
Repayment of Loans	26998.57
Capital Expenditure/Advances/ANDA filings	8732.79
Balance	7.47

SCHEDULES TO THE ACCOUNTS

		AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
8	Assets acquired pending for registration in favour of the Company.		
	Freehold Land	129.39	61.16
9	Fixed Assets include assets on Hire Purchase (Gross Block)	160.09	185.89
10	Loans and Advances include Convertible portion of Loans to joint venture company	238.90	238.90
11	Loans and Advances include Rs Nil (Previous year - Rs 143.22 lakhs) being expenses incurred towards proposed issue of Foreign Currency Convertible Bonds pending adjustment.		
12	Value of Assets on Lease	–	6.88
	Future Commitments towards Lease Rentals	–	0.28
13	Share application money pending allotment Rs Nil (Previous year Rs 24.90 lakhs) represents amount received from employees in terms of options exercised under "ORCHID-ESOP 99" scheme and pending allotment.		
14	Auditors' remuneration include the following:*	2005-06	2004-05
	Audit fee	39.28	27.56
	Tax Audit fee	8.42	5.51
	For certification & other matters	12.83	5.51
		60.53	38.57
	* Excluding Rs 38.57 lakhs (Previous year - Rs 27.55 lakhs) for services rendered in connection with GDR/FCCB issue, transferred to GDR/FCCB Issue expenses		
15	Directors' Remuneration (including Managing Director's Remuneration)		
	– Salaries	114.00	114.00
	– Contribution to funds	13.68	13.68
	– Other Perquisites	76.98	63.94
	– Commission	300.00	36.00
		504.66	229.62
	Net Profit for Computation of Managing Director's Commission		
	Profit for the year before taxation as per Profit & Loss Account	9981.17	2890.80
	Add : Directors' Remuneration	504.66	229.62
	Loss on sale of Investments	–	12.29
	Loss on sale of Fixed Assets	16.64	52.72
	Provision for Doubtful debts/Advances	–	180.00
	Provision for Dimunition in value of Investments	152.35	–
		9734.82	3365.43
	Less : Profit on sale of Investments	-	0.24
	Profit on sale of Fixed Assets	57.07	22.16
		57.07	22.40
	Net Profit	9677.75	3343.03
16	Foreign exchange Gain/(Loss) adjusted in Fixed Assets	-	80.34
17	a) Other Interest and Finance Charges is after crediting Interest receipts	29.13	74.70
	TDS on Interest receipts	8.69	14.64
	b) Amount of interest capitalised	1585.32	1090.69
18	a) Factory Maintenance includes		
	– Repairs & Maintenance - Plant & Machinery	333.92	332.93
	– Repairs & Maintenance - Building	71.37	68.50
	b) Consumption of Stores, Spares and Chemicals include Stores & Spares issued for maintenance	758.22	582.32



19 Balance as at the end of the year with and the maximum amount outstanding at any time during the year from banks other than Scheduled Banks.

		2005-06	2004-05
Bank of America, New York	Balance as at March 31	2.11	7.72
	Maximum amount outstanding	18.56	7.72
ABN Amro Bank, Moscow	Balance as at March 31	0.44	7.17
	Maximum amount outstanding	136.92	7.17
Citibank NA, New York	Balance as at March 31	7.47	–
	Maximum amount outstanding	7827.19	–

20 The names of small scale industrial undertakings to whom dues are outstanding for more than 30 days (as certified by the management)

Aarco Engineering Projects Pvt Ltd., Abasl Engineering Works, AG Filters, Akash Intruments India, Ammonia Marketing Company, Asian Engineering and Services, Atoz Pharmaceuticals Pvt Ltd., B.K. Equipments P Ltd., Biotrans Pharmeceuticals P Ltd., CD Instumentation Pvt Ltd., Ceekay Electricals, Chemtex, Contec Airflow (I) Pvt Ltd., Coro Synth services Pvt Ltd., Cryoscientific Systems (P) Ltd., D. Parikh Engineering Works, Doshi Engineering Works, Eller Instruments Pvt Ltd., Eureka Industrial Equipments, Fino Fab P Ltd, Fluoro Carbon Seals, Gordhandas Desai Pvt Ltd., Grand Polycoats Company Pvt Ltd., Harsiddh Industries, HI-Fab Engineers Pvt Ltd., Hyderabad Ammonia & Chemicals, Indien Hydraulics & Pneumatics, Industrial Fabrics (Madras), Industrial Instrumentation, Injecta Ampoules P Ltd., Jet Engineering Company, Joseph Leslie & Co., Joseph Leslie Drager Mfg. P Ltd., Key International Ltd., Kompress (India) Pvt Ltd., Machin Fabrik, Machine Tools Services centre, Maral Labs, Mayura Analytical Pvt Ltd., Micro Lab, Mihir Engineers Ltd., Millipore (India) Pvt Ltd., Mysore Ammonia Pvt Ltd., N. K. Joshi & Co., Nandu Chemicals Industries, Nandu Chemicals Pvt Ltd., Nimach Engineering Co., Pall India Pvt Ltd., Palyam Engineers Pvt Ltd, Paris Dekner Microspherules, Parishram Engineering Works, Pavitraa Graphics Ltd., Petals Innovative Machines P Ltd., Plastrulon Processors Ltd., Prabha Chem, Praidan Industries, Precision Industries, Process Pumps (I) Pvt Ltd., Profab Engineers P Ltd., R.Stahl P Ltd., Reagas Industries, Race Technologies P Ltd., Rajesh Pharmaceuticals, Redhex corrosion management co, Rockwin Flowmeter India P Ltd, S.B. Enterprises, S. N. Mettalluragical Services, Safex Fire Services Ltd, Sairam Boiler Engineers P Ltd., SCG EXD Tech Pvt Ltd., Shaguru Services, Shemrock Fountains P Ltd., Shital Chemical Industries, Shree Electrical Industries, Shree Tecs P Ltd., Silon Polymers P Ltd., Southern Gasket Products, Sri Sri Sai Ram Packing, Star Drugs & Research Labs Ltd., Superfab Engineers & Fabricators, Supreme Chemplast Piping Pvt Ltd., Unicare Emergency Equipment P Ltd., Uniflow, United Active Chars P Ltd., United Engineering Works, Universal Enterprises, Usha Fire safety equipments, Vega Conveyors & Automation Ltd., Velmeko Seals.

21 Excise Duty on finished goods has been accounted on removal of goods from factory, wherever applicable. Finished goods at factory have been valued at cost exclusive of excise duty and no provision has been made for excise duty on such goods. The above treatment has no impact on Profit & Loss Account.

22 Insurance claim against materiel damage and claim against loss of profit as accepted by Insurance company have been adjusted in the respective accounts as below :

	Rs lakhs
Fixed Assets	1055.54
Manufacturing, Selling & Administrative Expenses	631.99

The amount of claims accounted represents conservative amount which in the opinion of the Compay is minimum realisable.

SCHEDULES TO THE ACCOUNTS

23 a) Related Party Transactions
In accordance with Accounting Standard 18, the disclosure required is given below :

(Rs lakhs)

Nature of Transaction	Subsidiary	Joint Venture/ Associates	Key Management Personnel	Relatives of Key Management Personnel/Companies in which they exercise significant influence
Finance – Equity Contribution	2849.47	–	–	–
	(119.48)	(1776.12)*	(–)	(–)
– Loans & Advances	100.51	39.23	–	–
	(163.42)	(1.09)	(–)	(–)
– Shares allotted **	–	–	–	424.37
	(–)	(–)	(–)	(3713.15)
– Warrants allotted	–	–	–	797.61
	(–)	(–)	(–)	(42.44)
Sale of goods	–	687.31	–	–
	(–)	(1997.14)	(–)	(–)
Rendering of Services/ Interest Income	894.90	297.87	–	–
	(–)	(173.12)	(–)	(–)
Transfer of IPR	560.00	–	–	–
	(–)	(–)	(–)	(–)
Availment of Services/Rent	–	–	–	251.73
	(–)	(158.78)	(–)	(12.00)
– Remuneration	–	–	Ref Note 15	–
	(–)	(–)		(–)
Amounts due at the end of the year - Debit	256.75	763.64	–	7.50
	(163.42)	(538.34)	(–)	(7.50)
Amounts due at the end of the year - Credit	16.06	–	–	797.61
	(–)	(90.32)	(–)	(–)

(Figures in brackets are for previous year)

* Includes Rs Nil (Previous year Rs 2.00 lakhs) investment in associate.

** Includes Rs Nil (Previous year Rs 2121.80 lakhs being the value of shares allotted to a Company in which a key management personnel has significant influence).

Related party transactions does not include transactions prior to the date of the company becoming Joint Venture.

Names of the related parties and description of relationship.

1	Subsidiary	Orchid Europe Limited, UK (Previously known as Orchid Nutricare Limited)
		Ogna Farma, Brazil
		Gene Arrays Inc., USA
		Orchid Pharmaceuticals Inc., USA
		Orchid Research Laboratories Ltd., India
		Bexel Pharmaceuticals Inc., USA
2	Joint Venture	NCPC Orchid Pharmaceuticals Company Limited, China
		BChD Biotechnological Chemical Development Limited, UK
3	Key Management Personnel	Mr K Raghavendra Rao, Managing Director
		Dr C Bhaktavatsala Rao, Deputy Managing Director
4	Relatives of Key Management Personnel	Mrs Vijayalakshmi (wife of Mr K Raghavendra Rao)
5	Companies in which relatives of Key Management Personnel exercise significant influence	SpectraSoft Technologies Limited, India



All whole time directors have been considered as Key Management Personnel as they are involved in planning, directing and controlling the activities of the reporting enterprise.

b) Information on Loans & Advances as per clause 32 of the listing Agreement

Rs lakhs

		Balance as on 31-03-2006	Maximum amount outstanding during the year
Subsidiary -	Orchid Europe Limited, UK (Previously known as Orchid Nutricare Limited)	15.08	15.08
	Gene Arrays Inc., USA	175.96	175.96
	Orchid Research Laboratories Ltd., India	65.71	65.71
Joint Venture -	BChD Biotechnological Chemical Development Limited, UK	546.20	546.20
	NCPC Orchid Pharmaceuticals Co. Ltd.,	217.43	217.43

24 In terms of the resolution passed by the Company at the EGM dated October 21, 1999 Employee Stock Option Scheme was extended to the employees of the Company. Accordingly options totalling 12,00,000 Nos. were given to the employees as per the scheme formulated under "ORCHID - ESOP 99" Scheme by the Compensation Committee of the Board of Directors. Each option is convertible into one equity share of Rs10/- each at a price of Rs 243.35 including premium for 6,00,000 Nos, Rs 252.00 including premium for 3,07,925 Nos and Rs 300.65 including premium for 2,92,075 nos. No entries were passed in the books as the options were given at the market price prevailing on the date of issuance of options.

A fair and reasonable adjustment in share price/the number of options outstanding was made by the Company in respect of the Employee Stock Options granted but not exercised by the Employees due to the corporate actions of issue of bonus shares during October 2005. The total number of options outstanding and the price was adjusted so that the total value and options available to each option holder remained the same.

Consequently the revised and adjusted prices per share are Rs 162.24 (Rs 243.35), Rs 168.00 (Rs 252.00) and Rs 200.44 (Rs 300.65) respectively for 6,00,000 Nos, 3,07,925 Nos and 2,92,075 Nos of options granted by the Company.

Pursuant to the exercise of options by employees the Allotment Committee of the Board at its meetings held on April 27, 2005, August 02, 2005, August 31, 2005, December 23, 2005 and March 31, 2006 allotted 11800, 59485, 300676, 19648 and 13879 equity shares respectively to the employees. 650475 Options were outstanding as at March 31, 2006 including the additional number of options adjusted, due to the bonus issue.

25 In terms of the resolution passed by the Company on July 18, 2005, 25,00,000 warrants were allotted to the Promoter/ Promoter Group(s) on August 02, 2005. These warrants were eligible for conversion at the option of the Warrants holders, into equity shares of the Company at a price of Rs 339.41 per share within a period of 18 months of the date of allotment. The Allotment Committee of the Board at its meeting held on August 31, 2005 have allotted 70,000 shares on exercise of warrants.

In terms of the resolution passed by the Company on April 10, 2004 20,00,000 warrants were allotted to the Promoter/ Promoter Group (s) on April 23, 2004, convertible into equity shares of the Company at a Price of Rs 212.18 per share within a period of 18 months of the date of allotment. Subsequent to the allotment of 17,50,000 shares during 2004-05, 1,80,000 shares have been allotted on August 2, 2005 upon exercise of the warrants.

On account of the intervening Bonus issue, the Board approved for the adjustment in price/unexercised warrants consequent to the bonus issue. Pursuant to the exercise of the options by the warrant holder, 1,05,000 shares (70,000 warrants adjusted), out of the 2004 issue, were allotted on October 13, 2005. The balance out of the warrants issue made in 2005 got adjusted due to the corporate action. Pursuant to the exercise of the options by the warrant holder, 50,000 shares were issued in March 20, 2006.

Other liabilities include Rs 813.45 lakhs (Previous year Rs 53.05 lakhs) being the amount received as advance against the warrants issued to the promoter group, including Rs 15.84 lakhs (Previous year Rs 10.61 lakhs) from a Director.

SCHEDULES TO THE ACCOUNTS

26 Provision for deferred taxes for the year, Rs 590 lakhs (Previous year including reversals Rs (404.93) lakhs)

	AS AT 31ST MARCH, 2006 Rs lakhs	AS AT 31ST MARCH, 2005 Rs lakhs
Deferred Tax liability represents the following		
Timing Difference on account of Depreciation	15236.31	12839.96
Timing Difference on account of Losses	(6681.58)	(4926.42)
Timing Difference on account of provisions	(548.73)	(497.54)

In accordance with clause 29 of Accounting Standard (AS 22) Deferred tax Assets and Deferred tax Liabilities have been set off.

Deferred tax assets in respect of unabsorbed depreciation and losses under tax laws have been recognised in view of the continued and consistent profitability of the Company.

27 Segmental Reporting

Note on segmental information has been given in the consolidated financial statements in Note 25 of Schedule Q to the consolidated financial statements.

28 ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPH 3, 4C & 4D OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956.

A) Licensed & Installed Capacity
(as certified by the management)

Class of Goods		Regd/Licensed 2005-06	Installed 2005-06	Regd/Licensed 2004-05	Installed 2004-05
Bulk Drugs and Intermediates					
Oral & Sterile	MT	900	800	900	800
Formulations	Nos. Millions	748	748	220	220

Installed Capacities are calculated based on the product mix.

B) Value of Raw Materials, Spare Parts and components consumed during the year

	YEAR ENDED MARCH 31, 2006 PERCENTAGE	YEAR ENDED MARCH 31, 2006 AMOUNT Rs Lakhs	YEAR ENDED MARCH 31, 2005 PERCENTAGE	YEAR ENDED MARCH 31, 2005 AMOUNT Rs Lakhs
Raw Materials				
Imported	88.65	30500.37	77.91	29113.28
Indigenous	11.35	3904.71	22.09	8254.29
	100.00	34405.08	100.00	37367.57
Spare Parts, Consumables & Packing Material				
Imported	59.09	2387.58	42.72	879.68
Indigenous	40.91	1639.20	57.28	1179.54
	100.00	4006.78	100.00	2059.22



SCHEDULES TO THE ACCOUNTS

		2005-06	2004-05
C)	Earnings in Foreign Exchange during the year	Rs lakhs	Rs lakhs
	F.O.B. Value of Exports	62101.36	52004.32
	Export of Services (net of withholding tax)	107.10	140.30
D)	C.I.F Value of Imports (on cash basis)		
	Raw Materials	21338.73	23634.83
	Capital Goods	1298.75	2715.73
	Spare Parts, Components, Consumables & Packing materials	3232.56	2043.08
E)	Expenditure in Foreign Currency (on cash basis)		
	Travelling Expenses	101.91	39.02
	Interest & Bank Charges	755.48	1012.62
	Consultancy Fees	191.87	262.89
	Others	2847.86	2996.85
F)	Dividend Remittances in Foreign Currency during the year		
	Year to which dividend relates	2004-05 Final	2003-04 Final
	No. of Non Resident Share Holders	4	6
	No. of Shares held by Non Resident Share Holders	11988869	11583292
	Gross Dividend (Rs lakhs)	479.55	463.33
	Net Dividend (Rs lakhs)	479.55	463.33

29 Reconciliation of Basic and Diluted shares used in computing Earnings per share (Equity shares of Rs 10/- each fully paid-up)

		YEAR ENDED MARCH 31 2006 Rs lakhs	YEAR ENDED MARCH 31 2005 Rs lakhs
Profit After Tax	Rs	8290.17	3101.12
No of Shares Outstanding	Nos	64818182	34131919
Weighted Average Number of shares	Nos	55814393	48795824*
Earning per Share - Basic	Rs	14.85	6.36
No. of warrants & options allotted		8139778	260125
Total No. of Equity shares to compute diluted EPS	Nos	60784877	51411491*
Earning per Share - Diluted	Rs	13.64	6.03

*Number of shares adjusted for bonus issue during the current year

30 Disclosure as per requirements of Accounting Standard 26
ACQUIRED – Brands & Trademarks

		AS AT 31 ST MARCH 2006	AS AT 31 ST MARCH 2005
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs lakhs)	Opening	1210.00	1650.00
	Additions	2.58	–
	Amortisation	440.04	440.00
	Closing	772.58	1210.00

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE ACCOUNTS

		AS AT 31 ST MARCH 2006	AS AT 31 ST MARCH 2005
INTERNALLY GENERATED - DMF & ANDA (Refer Note 1(b) (iv) of Schedule R)			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs lakhs)	Opening	1843.98	771.97
	Additions	2276.17	1072.01
	Amortisation	1009.66	–
	Closing	3110.49	1843.98

31 (a.) Details of Group Companies

Name of Subsidiary/Joint venture	Country	Type of Holding	Percentage of holding	Nature of realtionship	Nature of Business
Orchid Europe Limited (Previously known as Orchid Nutricare Limited)	U.K	Equity	100%	Subsidiary	Marketing
Ogna Farma	Brazil	Equity	98.5%	Subsidiary	Marketing
NCPC Orchid Pharmaceuticals Company Limited	China	Equity	50%	Joint Venture	Manufacturing
BChD Biotechnological Chemical Development Limited	U.K	Equity	50%	Joint Venture	Research & Manufacturing
Bexel Pharmaceuticals Inc.*$	USA	Convertible Preferred stock with equal voting rights as Common stock and Common stock	39.24%	Subsidiary**	Research
Gene Arrays Inc.*	USA	Convertible Preferred stock with equal voting rights as Common stock	66.7%	Subsidiary	Research
Orchid Pharmaceuticals Inc.	USA	Common stock	100%	Subsidiary	Marketing
Orchid Research Laboratories Ltd.$	India	Equity	100%	Subsidiary	Research

* Preferred stock has been considered as common stock for the purpose of calculating the percentage of holding since Preferred stock has the same voting rights as common stock.

** Excluding 31.82% held through a wholly owned subsidiary.

$ Became subsidiaries during the current year.

(b) The Company's share of interest in Assets, Liabilities, Income and expenses of Joint venture companies:

	MARCH 31, 2006 Rs lakhs	MARCH 31, 2005 Rs lakhs
Fixed Assets	3135.78	3070.89
Current Assets	3522.02	2402.15
Current Liabilities	2761.44	1835.88
Loans	1671.00	1853.95
Income	8258.09	5581.24
Expenses	7860.78	6330.34



SCHEDULES TO THE ACCOUNTS

	YEAR ENDED MARCH 31, 2006 Rs lakhs	YEAR ENDED MARCH 31, 2005 Rs lakhs
32 Research and Development Expenses include :		
Power and Fuel (Net of refund for earlier year - Rs Nil (Previous year - Rs 69.26 lakhs))	282.13	102.90
Conversion Charges	0.11	0.11
Consumption of Stores, Spares & Chemicals	530.71	504.07
Salaries, Wages and Bonus	914.24	737.20
Contribution to Provident & other funds	109.76	80.84
Staff Welfare	53.94	36.00
Rates & Taxes	3.91	4.00
Insurance	28.22	19.60
Postage, Telephone & Telex	9.87	7.13
Printing & Stationery	36.48	54.15
Vehicle Maintenance	5.62	3.84
Recruitment expenses	11.11	8.12
Travelling and Conveyance	44.35	36.96
Testing Charges	335.52	198.32
Consultancy & Professional Fees	37.51	33.35
Others	259.52	131.52
	2662.18	1958.11

33 The Central Government by an order under Section 211(4) of the Companies Act,1956 dated 13.03.2006 has exempted the Company from the disclosure of quantitative details in compliance of para 3(i)(a), 3(ii)(a), 3(ii)(b) and 3(ii)(d) of part II of Schedule VI of the Companies Act,1956 for the financial year ending 31-03-2006.

34 Previous year's figures have been re-grouped wherever necessary to conform to current year's classification.

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAM NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Orchid Chemicals & Pharmaceuticals Ltd.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No: 22984 State Code: 18

Balance Sheet Date: 31 (DD) 03 (MM) 2006 (YYYY)

II. Capital Raised during the Year (Amount in Rs Thousands)

Public Issue: 122986

Rights Issue: NIL

Bonus Issue: 173789

Private Placement: 91055

III. Position of Mobilisation and Deployment of Funds (Amount in Rs Thousands)

Total Liabilities: 1893340

Total Assets: 1893340

Sources of Funds

Paid-up Capital: 64618

Reserves & Surplus: 720471

Secured Loans: 825595

Unsecured Loans: 201902

Deferred Tax Liability: 80606

Application of Funds

Net Fixed Assets: 1159725

Investments: 98239

Net Current Assets: 636046

Misc. Expenditure: NIL

Accumulated Losses: NIL

IV. Performance of Company (Amount in Rs Thousands)

Turnover: 973457

Other Income: 13273

Total Expenditure: 784727

Profit/Loss Before Tax: +- 90811

Profit / Loss After Tax: +- 82901

Earnings Per Share (Annualised) in Rs: 14.55

Dividend: 30%

V. Generic Names of Three Principal Products/Services of Company (as per monetary term)

Item Code No. (ITC Code): 29411010

Product Description: Bulk Cephalosporins

Item Code No. (ITC Code): 29417990

Product Description: Bulk Cephalosporins

Item Code No. (ITC Code): 30042011

Product Description: Formulation

On behalf of the Board

R NARAYANAN Chairman	K RAGHAVENDRA RAO Managing Director
DR C BHAKTAVATSALA RAO Deputy Managing Director	DR I SEETHARAM NAIDU Director
D S BHASKARA RAJU President – Finance & Business Planning	L CHANDRASEKAR VP - Internal Audit & Secretary

Place : Chennai
Date : April 28, 2006



CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	FOR THE YEAR ENDED 31-03-2006 Rs lakhs	FOR THE YEAR ENDED 31-03-2005 Rs lakhs
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before taxation and extraordinary item	9061.17	2890.80
Adjustment for		
Depreciation	8297.57	6189.19
Dividend Income	(10.26)	(19.59)
Value of services converted in to shares	(894.90)	–
Loss/(Profit) on sale of investments	–	12.05
Provision for diminution in value of investments	182.35	–
Loss/(Profit) on sale of Fixed Assets	(40.43)	30.57
Foreign Exchange Rate Fluctuations - Unrealised	242.40	626.80
Interest Expense	8781.32	7231.60
Provision for doubtful debts	–	180.00
Operating Profit before Working Capital Changes	25509.22	17140.82
Adjustments for:		
Trade and other Receivables	(14778.55)	(7127.07)
Inventories	(4454.18)	(11925.37)
Trade Payables	(4880.29)	11908.30
Cash generated from Operations	1396.22	9994.68
Income Taxes Paid	(296.00)	(236.20)
Cash Flow before extraordinary item	1100.22	9758.48
Extraordinary Item	–	–
Net Cash from Operating Activities	**1100.22**	**9758.48**
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(17970.61)	(25316.91)
Proceeds from Sale / Deletion of Fixed Assets	114.14	249.74
Proceeds from Purchase/Sale of Current Investments (net)	–	(12.05)
Purchase of Investments	(1954.57)	(1895.60)
Dividends received	10.26	19.59
Net cash used in Investing Activities	**(19800.78)**	**(26955.23)**
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Share Capital (net of expenses)	7896.90	3738.05
Proceeds from Issue of Global Depository Receipts	16041.26	–
Proceeds from Working Capital Borrowings	6184.12	504.75
Proceeds from Long Term Borrowings	28893.28	34580.92
Repayment of Long Term Borrowings	(34543.61)	(23485.48)
Proceeds from Issue of Foreign Currency Convertible Bonds (net of conversion)	11778.65	–
Proceeds from/(Repayment of) Short Term Borrowings	(5000.00)	11500.00
Proceeds from HP Finance	(19.33)	14.58
Interest paid	(10292.48)	(8362.56)
Dividend paid	(1656.76)	(1461.23)
Net cash from Financing Activities	**18451.05**	**17029.01**
D. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(239.51)	(167.74)
Cash and Cash equivalents at the beginning of period	738.44	898.18
Cash and Cash equivalents at the end of period	498.94	730.44

Note : The above cash flow statement has been prepared under the "Indirect Method" set out in Accounting Standard 3 issued by the Institute of Chartered Accountants of India.

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAMI NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Orchid Chemicals & Pharmaceuticals Ltd.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS OF ORCHID CHEMICALS & PHARMACEUTICALS LIMITED AND ITS SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

To The Board of Directors
Orchid Chemicals & Pharmaceuticals Limited

1. We have audited the attached Consolidated Balance Sheet of Orchid Chemicals & Pharmaceuticals (the "Company") and its subsidiaries companies and joint ventures (together the "Group"), as at 31st March 2006 and the Consolidated Profit and Loss Account and the Consolidated Cash Flow statement for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 estimate made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The audited financial statements for the year ended 31st March 2006 were not available in respect of certain subsidiaries, and joint ventures of the company. Consequently, such subsidiaries and joint ventures have been accounted for in the Consolidated Financial Statements, on the basis of unaudited financial statements provided by the management of such subsidiaries and joint ventures.

   The total assets (net) of Rs 2086.04 lakhs as at 31st March 2006 (Previous year Rs 1776.23 lakhs) and total revenue for the year then ended of Rs 8390.55 lakhs (Previous year Rs 5581.24 lakhs) in respect of such subsidiaries and joint ventures are included in the consolidated Financial Statements.

   Our opinion, in so far as it relates to the amounts included in respect of such subsidiaries and joint ventures, is based solely on the accounts as approved by the management of such subsidiaries and joint ventures.

4. Subject to our remark in Para 3 above:

   a) We report that the Consolidated Financial Statements for the year ended 31stMarch 2006 is in accordance with the requirements of Accounting Standard 21 "Consolidated Financial Statements" and Accounting standard 27 "Financial Reporting of Interests in Joint Ventures", issued by the Institute of Chartered Accountants of India and on the basis of the seperate audited financial statements of the Company and a subsidiary and management approved accounts of subsidiaries, and joint ventures included in the Consolidated Financial Statements.

   b) In our opinion, on the basis stated in paragraph (2) above, and on the consideration of separate audit reports on and management approved accounts of individual financial statements of the company, its aforesaid subsidiaries, associate and joint ventures, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

      i. In the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Group as at 31st March 2006;

      ii. In the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Group for the year ended on that date; and

      iii. In the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Group for the year ended 31st March 2006.

5. Attention is drawn to the remarks of the Auditors of a Subsidiary Company given in Note No. 8 of the Notes to the Consolidated financial statements.

For **SNB Associates**
Chartered Accountants

S Lakshmanan
Partner
Membership No.20045

Place : Chennai
Date : April 28, 2006



CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2006

	SCHEDULE		AS AT 31ST MARCH 2006 Rs lakhs		AS AT 31ST MARCH 2005 Rs lakhs
I SOURCES OF FUNDS					
A SHAREHOLDERS' FUNDS					
Share Capital	A		6461.82		3413.19
Share application money pending allotment (Refer Note : 14)			–		24.90
Reserves and Surplus	B		71096.88		42640.62
B. LOAN FUNDS					
Secured Loans	C		84326.86		83487.36
Unsecured Loans	D		20169.02		17029.70
C. DEFERRED TAX LIABILITY (Refer Note : 24)			8006.00		7416.00
D. MINORITY INTEREST			–		0.12
TOTAL			190060.58		154011.79
II APPLICATION OF FUNDS					
E FIXED ASSETS	E				
Gross Block		138418.63		105567.20	
Less Depreciation		37373.04		28821.47	
Net block		99043.59		76745.73	
Capital Work in Progress		21668.58		33101.19	
Advance for Capital Items		6343.05	126855.14	1365.20	111212.12
F INVESTMENTS			8.37		9.87
G CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	F	44814.95		40056.36	
Sundry Debtors	G	34857.48		20696.29	
Cash and Bank Balances	H	1625.91		2569.46	
Other Current Assets	I	31.37		112.20	
Loans and Advances	J	9459.94		6591.99	
		90789.65		70026.30	
H LESS CURRENT LIABILITIES AND PROVISIONS	K	26792.58	63997.07	27236.50	42789.80
TOTAL			190060.58		154011.79
Notes on Accounts	Q				

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAM NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Orchid Chemicals & Pharmaceuticals Ltd.

CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	SCHEDULE		FOR THE YEAR ENDED 31-03-2006 Rs lakhs		FOR THE YEAR ENDED 31-03-2005 Rs lakhs
I. INCOME					
Sales & Operating Income	L	95193.99		73396.58	
Less: Excise Duty		1530.93	93663.06	1162.74	72233.84
Other Income	M		121.90		86.80
			93784.96		72320.64
II. EXPENDITURE					
Material Cost	N		40899.73		33312.13
Manufacturing, Selling & Other Expenses	O		29017.98		23276.75
Interest and Finance Charges	P		8784.48		7354.58
Depreciation/Amortisation			8581.76		6378.13
Miscellaneous Expenditure Written Off			–		0.17
			87283.96		70321.76
III. PROFIT					
Profit for the year Before Tax			6501.00		1998.88
Less : Provision for Tax					
Current Taxes		–		194.60	
Fringe Benefit Tax		181.00		–	
Deferred Taxes (Refer Note : 24)		590.00	771.00	(404.93)	(210.33)
Profit for the year After Tax			5730.00		2209.21
Share of Profit/(Loss) in Associate			–		(0.50)
Balance Brought Forward			1005.96		1354.01
Balance Available for Appropriation			6735.96		3562.72
IV. APPROPRIATIONS					
Transfer to General Reserve			4000.00		1000.00
Proposed Dividend		2209.47		1365.28	
Tax on Proposed Dividend		309.88	2519.35	191.48	1556.76
Balance carried to Balance Sheet			216.61		1005.96
V. EARNINGS PER SHARE					
(Equity shares of Rs 10/- each fully paid-up)					
Basic			10.27		4.53
Diluted			9.43		4.30
Notes on Accounts	Q				

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
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Managing Director

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Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

		AS AT 31ST MARCH 2006 Rs lakhs		AS AT 31ST MARCH 2005 Rs lakhs
SCHEDULE "A" - SHARE CAPITAL				
AUTHORISED				
9,00,00,000 Equity Shares of Rs 10/- each (Previous year 4,50,00,000 Equity Shares of Rs 10/- each)		9000.00		4500.00
ISSUED, SUBSCRIBED AND PAID-UP				
6,46,18,182 (Previous year - 3,41,31,919) equity Shares of Rs 10/- each fully paid		6461.82		3413.19
Of the above:				
a. 4,05,489 Equity Shares of Rs 10 each (1,34,307 shares at a premium of Rs 242.00, 2,37,654 shares at a premium of Rs 233.35, 26144 shares at a premium of Rs 152.24 and 7,384 shares at a premium of Rs 158.00, per share) were allotted to the employees during the year under "ORCHID - ESOP 99" Scheme.				
b. 4,05,000 Equity Shares of Rs 10 each (1,80,000 shares at a premium of Rs 202.16, 105000 shares at a premium of Rs 131.46, 70,000 shares at a premium of Rs 329.41 and 50,000 shares at a premium of Rs 216.28, per share) allotted during the year against warrants allotted to the promoter group.				
c. 92,50,000 Global Depository Receipts each representing one equity share of Rs 10 each at a premium of Rs 185.04 per share were allotted during the year.				
d. 1,73,78,940 Equity Shares of Rs 10 each were allotted during the year as Bonus Shares to the members in the ratio of 2:1 by capitalisation of Reserves.				
e. 30,48,834 Equity Shares of Rs 10 each at a premium of Rs 233.80 per share were allotted during the year on exercise of the convertible option by Foreign Currency Convertible Bond holders holding FCCB issued during the year.				
SCHEDULE "B" - RESERVES & SURPLUS				
Securities Premium Account				
– Opening Balance	34874.36		31336.21	
– Additions during the year	26016.11		3538.15	
	60890.47		34874.36	
Deductions during the year				
– Issue of Bonus shares	1737.69		–	
– Provision for Premium on redemption of FCCB (Refer Note : 9)	458.68		–	
– GDR/FCCB issue expenses adjustment	1264.05	57430.05	–	34874.36
General Reserve				
– Opening Balance	5670.51		4832.77	
Adjustments	–		(162.26)	
– Add : Transfers during the year	4000.00	9670.51	1000.00	5670.51
Foreign Currency Fluctuation Reserve				
– Opening Balance	(107.13)		–	
Adjustments	(26.50)	(133.63)	(107.13)	(107.13)
Surplus in Profit & Loss Account	218.61		1005.96	
Adjustment on Consolidation	3913.34	4129.95	1196.82	2202.78
		71096.88		42640.52

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

		AS AT 31ST MARCH 2006 Rs lakhs		AS AT 31ST MARCH 2005 Rs lakhs
SCHEDULE "C" - SECURED LOANS				
From Banks				
– Rupee Term Loans	45067.15		31913.72	
– Foreign Currency Term Loans	–		11504.81	
– Rupee & Foreign Currency Working Capital Loans	–		3881.86	
– Rupee & Foreign Currency Packing Credit & Advance against Bills	30588.39		24424.27	
		75655.54		71724.46
From Financial Institutions				
Rupee				
– Term Loans	5908.25		5408.25	
– Working Capital Loans	–		5000.00	
Foreign Currency				
– Term Loans	1392.50		1251.55	
– Working Capital Loans	278.50	7577.25	–	11657.80
Hire Purchase Finance		94.07		105.10
		83326.86		83487.36

Term loan from Bank of Baroda for NPNC project is secured on the assets of NPNC project at Aurangabad and Irungattukottai. All other Term Loans from Banks & Financial Institutions are secured by Pari Passu charge by way of joint mortgage on immovable and movable assets situated at Factory premises at SIDCO Industrial Area, Alathur, MIDC Industrial Area, Aurangabad, SIPCOT Industrial Park, Irungattukottai and R&D premises at Sholinganallur and current assets of the Company, subject to prior charges created/to be created on current assets in favour of bankers and financial institutions for securing working capital borrowings. Total term loans aggregating Rs 33,510.90 lakhs are additionally secured by personal guarantee of Shri K. Raghavendra Rao, Managing Director of the Company. The loans of Joint Venture Company amounting to Rs 1671 lakhs included above are secured by corporate guarantee given by the other joint venture partner.

Packing Credit and Advances against bills from Banks and Working Capital Loans from Banks and financial institutions are secured by first charge on all current assets namely, Stocks of Raw materials, Semi-finished & Finished Goods, Stores and Spares not relating to Plant & Machinery (Consumable Stores and Spares), Bills Receivable, Book Debts & all other movable property both present and future excluding such movables as may be permitted by the banks/financial institutions from time to time and by second charge on immovable properties after charges created/to be created on immovable assets in favour of Financial Institutions/Banks for securing Term Loans. The borrowings from banks are additionally secured by personal guarantee of Shri K Raghavendra Rao, Managing Director of the Company.
Hire purchase Loans are secured by the assets acquired through such loans.

SCHEDULE "D" - UNSECURED LOANS			
From Banks	8500.00		17029.70
Foreign Currency Convertible Bonds (Refer Note : 5)	11669.02		–
	20169.02		17029.70

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

SCHEDULE 'Q' - FIXED ASSETS

Rs lakhs

Sl No	ASSET DESCRIPTION	GROSS BLOCK (AT COST)				DEPRECIATION/AMORTISATION				WRITTEN DOWN VALUE	
		AS AT 01-Apr-05	ADDITIONS ADJUSTMENTS DURING THE YEAR	DELETIONS/ ADJUSTMENTS DURING THE YEAR	AS AT 31-Mar-06	UPTO 31-Mar-05	FOR THE YEAR @	ON DELETIONS	UPTO 31-Mar-06	AS AT 31-Mar-06	AS AT 31-Mar-05
1	GOODWILL ON CONSOLIDATION*	4544.24	2743.15	–	7287.39	–	–	–	–	7287.39	4544.24
2	FREEHOLD LAND & SITE DEVELOPMENT	1091.39	226.49	15.79	1302.09	–	–	–	–	1302.09	1091.39
3	LEASEHOLD LAND	643.05	–	–	643.05	–	–	–	–	643.05	643.05
4	BUILDINGS	10252.87	5499.06	32.06	15719.87	1391.59	519.98	0.89	1910.75	13809.09	8861.18
5	PLANT & MACHINERY	76212.89	19301.09	1162.43	94351.55	24214.17	5938.70	66.40	30086.47	64265.08	51998.72
6	FACTORY EQUIPMENT	733.68	219.32	–	953.00	333.84	98.58	–	430.42	522.58	399.84
7	LABORATORY EQUIPMENT	4783.88	1553.84	–	6337.72	813.90	338.54	–	1152.44	5185.28	3969.98
8	OFFICE EQUIPMENT	1531.10	44.70	1.71	1574.09	834.80	157.06	0.41	791.25	782.84	896.50
9	FURNITURE & FITTINGS	1088.91	193.43	–	1282.34	313.68	83.70	–	397.38	884.96	775.23
10	VEHICLES	492.84	62.65	53.24	502.25	129.59	45.99	10.98	164.60	337.65	363.25
11	INTANGIBLE ASSETS										
	ACQUIRED										
	BRANDS & TRADEMARKS **	2200.00	2.60	–	2202.60	990.00	440.04	–	1430.04	772.56	1210.00
	PATENTS & REGISTRATIONS	148.37	1.92	9.76	140.53	–	–	–	–	140.53	148.37
	INTERNALLY GENERATED										
	DMF & ANDA ***	1843.98	2276.17	–	4120.15	–	1009.68	–	1009.68	3110.49	1843.98
	TOTAL	105587.20	32124.43	1274.99	136416.63	28821.47	8630.25	78.68	37373.04	99043.59	76745.73
	PREVIOUS YEAR'S FIGURES	97979.55	8059.74	472.09	105587.20	22557.18	6378.13	113.82	28821.47	76745.73	

* Refer Note 2 (e) of Schedule - Q

** Represents value of registrations and value of applications filed pending registration

*** Refer Note 2 (b) (v) of Schedule - Q

@ Depreciation for the year includes Rs 48.49 lakhs being accumulated depreciation of Bexal Pharmaceuticals Inc. as on March 31, 2005 which has become subsidiary during the current year and was consolidated as a Joint Venture in previous years.

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULE TO THE CONSOLIDATED ACCOUNTS

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
SCHEDULE "F" - INVENTORIES		
(Refer Note 2(g), Schedule "Q")		
Raw materials	9687.20	8134.07
Stores and Spare parts	1867.99	1288.40
Chemicals and Consumables	796.96	518.19
Packing Materials	982.49	554.53
Intermediates & WIP	26348.73	23960.99
Finished Goods	4504.91	4843.82
Traded Goods	626.47	756.36
	44814.95	40056.36
SCHEDULE "G" - SUNDRY DEBTORS		
Debts more than 6 months (Unsecured)		
– Considered Good	19002.34	16706.53
– Considered Doubtful	1670.49	1655.70
Other Debts (Considered Good)		
– Secured	82.86	81.43
– Unsecured	14892.28	3906.33
	35527.97	22351.99
Less: Provision for Doubtful Debts	1670.49	1655.70
	34857.48	20696.29
SCHEDULE "H" - CASH AND BANK BALANCES		
CASH IN HAND	9.16	13.16
BALANCES WITH SCHEDULED BANKS ON :		
– Current account	800.09	1055.51
– Term Deposit account	0.55	0.50
– Margin money deposit	756.88	1437.29
– Share Application money and Dividend account	49.21	48.11
BALANCE WITH OTHER BANKS ON :		
– Current account	10.02	14.89
	1625.91	2569.46
SCHEDULE "I" - OTHER CURRENT ASSETS		
Interest Accrued on Deposits and Advances	31.37	112.20
	31.37	112.20
SCHEDULE "J" - LOANS AND ADVANCES		
Unsecured and Considered Good		
Advances recoverable in cash or kind or for value to be received	8357.75	5844.34
Advance Payment of Tax	863.50	715.78
Deposits		
– With Government authorities	165.89	162.72
– Others	72.80	69.15
	9459.94	6791.99
SCHEDULE "K" - CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Acceptances	1313.28	1328.99
Sundry creditors (other than SSI) for		
– Capital Items	1577.57	3444.91
– Other supplies	15013.49	15991.53
– Expenses	3332.89	2688.90
[Includes due to Directors - Rs 300 lakhs (Previous year - Rs 38.33 lakhs)]		
Dues to Small Scale Industrial undertakings (SSI) for		
– Capital Items	–	–
– Other supplies	324.84	637.80



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
Investor Education and Protection Fund shall be credited by the following amounts namely :*		
– Unclaimed Dividend	49.21	48.11
– Share Application Money Refundable	5.42	5.42
Interest Accrued but not due	5.24	10.99
Other liabilities [Refer Note 23]	2205.84	1077.64
PROVISIONS		
– For Taxation	445.45	445.45
– Proposed Dividend	2209.47	1365.28
– Tax on Proposed Dividend	309.88	191.48
	26792.58	27236.50

* Represents balances in those accounts as of 31st March. Actual amount to be transferred to the Investor Education and Protection Fund will be determined on due dates.

		FOR THE YEAR ENDED 31-03-2006 Rs lakhs		FOR THE YEAR ENDED 31-03-2005 Rs lakhs
SCHEDULE "L" - SALES & OPERATING INCOME				
Sales	91548.04		69523.63	
Less: Excise Duty	1488.56	90059.48	1138.70	68384.93
Operating Income				
Income from services rendered				
– Technical & Consultancy Fees		57.28		77.94
[TDS - Rs 7.45 lakhs (Previous year - Rs 18.83 lakhs)]				
– Contract Research & Development		105.34		–
Sale of Other Materials	293.85		170.57	
Less: Excise Duty	42.37	251.48	24.04	146.53
Development Fee		446.21		3098.44
Product Nomination Fee		–		438.05
Licence Fee		2479.50		–
Other Operating Income		263.77		87.95
		93663.06		72233.84
SCHEDULE "M" - OTHER INCOME				
Interest				
on Advances		10.76		17.23
on Income tax refund		–		6.82
Income from Investments				
Dividend - Non Trade		10.25		19.59
Profit on sale of Investments		–		0.24
Profit on sale of fixed assets		57.07		22.16
Other Income		43.82		20.76
		121.90		86.80
SCHEDULE "N" - MATERIAL COST				
Raw Materials Consumed	40914.42		41747.15	
Cost of Traded Goods	2034.14	42948.56	2032.93	43780.08
Less: (Accretion to)/Depletion in Stocks				
Closing Stock of Intermediates, WIP & Finished Goods	30853.64		28804.81	
Opening Stock of Intermediates, WIP & Finished Goods	28804.81	(2048.83)	18336.88	(10467.95)
		40899.73		33312.13

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

	FOR THE YEAR ENDED 31-03-2006 Rs lakhs	FOR THE YEAR ENDED 31-03-2005 Rs lakhs
SCHEDULE 'O' - MANUFACTURING, SELLING AND OTHER EXPENSES		
Power and Fuel	4445.99	3218.20
Conversion Charges	1721.31	556.37
Consumption of Stores, Spares & Chemicals	2173.50	1398.46
Consumption of Packing Materials	1941.36	757.20
Factory Maintenance	1298.85	1049.14
Salaries and Wages	5781.92	4689.07
Contribution to Provident & other funds	519.47	414.45
Staff Welfare	663.48	445.07
Rent	41.32	21.87
Rates & Taxes	172.55	81.04
Insurance	1064.32	980.59
Postage, Telephone & Telex	155.95	154.90
Printing & Stationery	172.84	101.26
Vehicle Maintenance	45.72	30.37
Research & Development (Refer Note : 28)	3858.25	2628.47
Advertisement	42.93	16.14
Recruitment Expenses	45.28	86.24
Auditors' Remuneration		
Statutory Auditors (Refer Note : 15)	74.98	40.10
Cost Auditors	19.12	9.90
Travelling and Conveyance	774.68	882.38
Directors' Remuneration & Perquisites	504.66	229.62
Directors' Travelling		
Inland	9.68	10.61
Overseas	40.93	42.90
Directors' sitting fees	19.90	18.90
Loss on sale of fixed asset	18.63	52.72
Freight outward	1514.69	689.92
Commission on Sales	1174.51	1913.85
Loss on Sale of Investments	–	12.29
Lease Rentals	–	3.33
Business Promotion and Selling Expenses	558.97	1252.93
Consultancy & Professional Fees	727.82	396.91
Exchange Rate Loss/(Gain)	(878.44)	126.31
Provision for doubtful debts	14.79	220.59
Miscellaneous Expenses	1149.58	745.67
	29649.98	23276.75
Less : Loss of profit - Insurance claim (Refer Note 20)	631.99	–
	29017.99	23276.75
SCHEDULE 'P' - INTEREST AND FINANCE CHARGES (Refer Note : 17)		
Interest on Term Loans	4106.38	3705.82
Other Interest & Finance Charges	4678.08	3648.76
	8784.46	7354.58

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

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Deputy Managing Director

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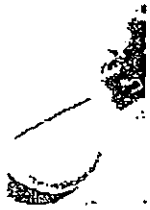


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

a) The Company and description of its business

Orchid Chemicals & Pharmaceuticals Limited was incorporated in India in July 1992 and started commercial production in February 1994. The Company has two divisions manufacturing active pharmaceuticals ingredients (Bulk Drugs) as a 100% export oriented unit, and manufacture and sale of finished dosage forms (formulations) for the domestic and export market with a 100% EOU commissioned during the current year. The bulk drug division primarily focuses on the Cephalosporin range of antibiotics. A substantial portion of business income for the current year is from the 100% export oriented bulk drug manufacturing unit.

The Company has invested in the following Companies :

a) Orchid Europe Limited (previously known as Orchid Nutricare Limited), a company formed in the United Kingdom to market nutraceuticals through mail order/direct marketing in the United Kingdom and Europe.
b) Ogna Farma Distribuicao, Importacao, Exportacao e Assessoria Ltda., a Company formed in the Brazilian Republic to market bulk and formulations.
c) NCPC Orchid Pharmaceuticals Company Limited incorporated in China, engaged in the business of manufacture and sale of bulk drugs & formulations.
d) BChD Biotechnological Chemical Development Limited, UK engaged in pharmaceutical research and manufacturing.
e) Bexel Pharmaceuticals Inc., USA engaged in Pharmaceutical research and development.
f) Orchid Pharmaceuticals Inc., USA to market bulk and formulations in USA.
g) Gene Arrays Inc., USA engaged in pharmaceutical research and development.
h) Orchid Research Laboratories Limited, India engaged in pharmaceutical research and development.

The Company, its Subsidiaries, its associates and its Joint Ventures are collectively referred as "the Group" .

b) Consolidation

The Company's consolidated financial statement has been prepared on the following basis.

Name of Subsidiary/Joint venture	Country	Type of Holding	Percentage of holding	Nature of relationship	Accounting Standard of "ICAI" adopted for consolidation of accounts
Orchid Europe Limited (Previously known as Orchid Nutricare Limited)	U.K	Equity	100%	Subsidiary	A S 21**
Ogna Farma	Brazil	Equity	98.5%	Subsidiary	A S 21**
Orchid Pharmaceuticals Inc.	USA	Common stock	100%	Subsidiary	A S 21**
Gene Arrays Inc.***	USA	Convertible Preferred stock with equal voting rights as Common stock.	68.67%	Subsidiary	A S 21**
Orchid Research Laboratories Ltd.*	India	Equity	100%	Subsidiary	A S 21*
NCPC Orchid Pharmaceuticals Company Limited	China	Equity	50%	Joint Venture	A S 27**
BChD Biotechnological Chemical Development Limited	U.K	Equity	50%	Joint Venture	A S 27**
Bexel Pharmaceuticals Inc.***	USA	Convertible Preferred stock with equal voting rights as Common stock and Common stock	39.24%	Subsidiary@	A S 21**

"ICAI" refers to the Institute of Chartered Accountants Of India.

* based on the Audited accounts

** based on the Management approved accounts

*** Preferred stock has been considered as common stock for the purpose of calculating the percentage of holding since Preferred stock has the same voting rights as common stock.

@ Excluding 31.82% held through a wholly owned subsidiary.

* Became subsidiaries during the current year.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

a) Convenience Translation

The accounts of the subsidiary companies and Joint Venture companies have been prepared in their respective currencies.. For the purpose of convenience the balances are translated into Indian currency, being the reporting currency in the consolidated financial statements, at the closing rate as at March 31, 2006.

3 Group Significant Accounting Policies

a) Accounting Convention

The Financial Statements are prepared under historical cost convention. Revenues are recognised and expenses are accounted on their accrual with necessary provisions for all known liabilities and losses.

b) Fixed Assets

(i) Fixed Assets are stated at the original cost inclusive of inward freight, incidental expenses related to acquisition and related pre-operational expenses and technical knowhow fees where applicable.

(ii) Machinery spares which can be used only in connection with specific fixed assets and the use of which are irregular, are charged over the period of the life of such fixed asset, in accordance with Accounting Standard (AS 10).

(iii) Brands represent brands acquired by the Company and includes IPR & Licences purchased for a consolidated consideration. The cost of brands, patents and trademarks are amortised over a period of 60 months from the month of acquisition.

(iv) The cost of patents/registerations acquired by subsidiaries/joint venture are amortised over their useful life after they are put to use.

(v) INTERNALLY GENERATED INTANGIBLE ASSETS - DMF & ANDA

DMF and ANDA costs represents expenses incurred on development of processes and compliance with regulatory procedures of the US FDA, in filing Drug Master Files ("DMF") and Abbreviated New Drug Applications ("ANDA"), in respect of products for which commercial value has been established by virtue of third party agreements/ arrangements. This is in accordance with the requirements of Accounting Standard 26 issued by the Institute of Chartered Accountants of India.

The cost of each DMF/ANDA is amortised to the extent of recovery of developmental costs on launch of such products or over a period of five years from the date on which the product covered by DMF/ANDA is commercially marketed.

(vi) Assets are depreciated on straight line basis at the rates specified in Schedule XIV of the Companies Act, except in respect of the following assets, where the useful lives reckoned in computing the depreciation for the year are different from those derived from the rates specified in Schedule XIV of the Companies Act, 1956. The revised useful life of the assets have been determined by the Management based on technical assessment. Depreciation in the books of Subsidiaries/Joint Ventures have not been restated, since the differences are not material.

Asset Categories	Useful life
Reactors, Pipes, Pipe fittings, Valves, Motors, Pumps, Nitrogen Plant, Gear Boxes, Cables and Centrifuges, Evaporator (Indigenous), Jet aeration system (indigenous), Ventilation & Exhaust system, HCL column, ETP(indigenous), scrubber, Incenarator (indigenous).	9 years

(vii) Depreciation on assets added/disposed off during the year is provided on pro-rata basis from the month of addition or up to the month of disposal, as applicable.

(viii) Impairment of assets:

Management periodically assesses using external and internal sources whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the assets and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above.



c) Borrowing Costs

Interest cost on qualifying asset being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, is capitalised at the weighted average rate of the funds borrowed and utilised for acquisition of such assets.

d) Treatment of expenditure during construction period

Expenditure during construction period is included under capital work-in-progress and the same is allocated to the respective fixed assets on the completion of construction.

e) The excess of cost to the Company of its interest in subsidiaries/joint ventures over its share of net assets of such subsidiaries/joint ventures at the date of acquisition of interest is recognised as goodwill on consolidation. Goodwill arising on consolidation is not amortised.

f) Investments

Investments considered long term are shown at cost. Diminution in the value of investments other than temporary are provided for.

g) Inventories

(i)	Stores & Spares	– At weighted average cost.
(ii)	Raw Materials	– At annual weighted average cost
(iii)	Finished Goods @	– At Lower of cost & net realisable value
(iv)	Work in Progress & Intermediates @	– At Lower of cost & net realisable value

@ After adjustment of unrealised profits on inter division transfer.

h) Revenue Recognition

Sales are recognised on despatch of goods from the factory/ warehouse. Sales are net of returns, discounts and inter-division transfers. Service income is recognised as per contractual terms. In respect of composite contracts involving development and other activities, income is recognised on the basis of contractual terms after considering the quantum of work completed.

i) Retirement Benefits

Retirement Benefits are accounted on accrual basis. The company's liability towards the gratuity of employees is covered by a group gratuity policy with LIC. Contribution to the fund is based on actuarial valuation carried out yearly as at 31st December. As on March 31, 2008 it is covered by a policy with ICICI Prudential Life Insurance Company Ltd. and the contribution to the fund is based on actuarial valuation carried out as at March 31. The Provision for Leave Encashment has been made based on actuarial valuation as at the year end.

j) Translation of Foreign Currency Items

1) Foreign currency liabilities including liabilities on swap transactions, in respect of fixed assets, which have been acquired from a country outside India, have been restated in rupee terms at the exchange rates prevailing at the date of the Balance Sheet and the increase or decrease arising out of it is adjusted to the cost of fixed assets.
2) Other foreign currency assets and liabilities are recognised at the rates applicable on the date of the Balance Sheet & the difference is charged to the Profit & Loss Account.
3) All inter related transactions are recognised at common rates.
4) Exchange difference between the rates applicable at the date of the transaction and the rate actually realised (except in cases of inter-related transactions as stated above) has been shown as exchange gain/loss.
5) Transactions covered by forward contracts are stated at forward rates and the difference between forward rate and exchange rate at the date of the transaction has been recognised as income or expense over the life of the contract.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

2) Subsidy on Fixed Assets

Subsidy received on fixed assets is credited to the cost of respective fixed assets.

3 Sales tax recoverable have been recorded on the basis of the claims submitted or in the process of being submitted, as per rules relating to ECU and which in the opinion of the Company are recoverable.

	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
4 Estimated amounts of contracts remaining to be executed on capital account (net of advances) and not provided for.	9016.84	2867.09
5 Other monies for which Company is contingently liable :		
– Bills Discounted	15126.75	17779.17
– Unexpired Letters of Credit	13447.77	15410.04
– Bank Guarantees outstanding	1018.48	1059.07
– Claims against the Company not acknowledged as debts		
Cess on electricity generation pending before High Court of Chennai	214.55	168.31
Excise demands under dispute pending before Excise authorities	283.49	196.06
Service Tax dispute pending befor High Court of Chennai	185.51	-

6 The Company has filed appeals against the demands made by the Income Tax department amounting to Rs 103.78 lakhs (Previous year Rs 53.82 lakhs). No provision has been made as the Company is confident of winning the appeals. No provision has also been made for demand of interest amounting to Rs 68.88 lakhs (Previous year Rs 68.88 lakhs) as petition has already been filed for waiver of interest.

7 The Company has further cash comitment to subscribe to the capital of Bexel Pharmaceuticals Inc. amounting to Rs 3226.98 lakhs (Previous year Rs 4383.00 lakhs) including premium payable on shares, subject to necessary regulatory approvals.

8 In the financial statements for the year ended 31st December, 2005 of Bexel, prepared as a Development Stage Enterprise, the auditors of the Company have referred to Note 2 to the financial statements and expressed an opinion that the successful completion of the Company's development program and ultimately the attainment of profitable operations is dependant upon future events, including maintaining adequate financing to fulfil its development activities and achieving a level of revenues adequate to support the Company's cost structure.

The text of Note 2 referred to is reproduced below.

"The financial statements of the Company have been prepared in conformity with Statement of Financial Accounting Standards ("SFAS") No. 7 Accounting and Reporting by Development Stage Enterprises and assume the Company will continue as a going concern. As a Development Stage company with no commercial operating history, the Company is subject to all of the risks and expenses inherent in the establishment of a new business enterprise. To address these risks and expenses, the Company must, among other things, respond to competitive developments, attracts, retain and motivate qualified personnel and support the expense of marketing new products based on innovative technology. To date, the Company has incurred expenses in research and development activities without generating sufficient revenues to offset those expenses. As a result the Company has incurred losses and negative cashflow from operating activities, and as of December 31, 2005 the Company had accumulated net losses of US$ 13,086,898. There can be no assurance that management will achieve the intended results".

9 i) Foreign Currency Convertible Bond (FCCB)/Global Depository Receipts (GDR) :

a) The Company raised FCCB during the current year aggregating to USD 42.50 million (Rs 19284.50 lakhs) including a green shoe option of USD 5 million (Rs 2269.50 lakhs) with an option to the investor to convert the FCCBs into equity shares or global depositary receipts at an initial conversion price of Rs 243.80 per share at a fixed rate of exchange on conversion Rs 44.94 = USD 1, at any time after December 13, 2005 and prior to October 24, 2010. Further, the Company has an option of early redemption of these FCCBs in whole at any time after November 03, 2006 subject to certain conditions. Unless previously converted, redeemed or repurchased and cancelled, the FCCBs will be redeemed on November 03, 2010 at 147.1688% of their principal amount.



b) The current status of FCCB conversion into equity is as follows:

Particulars	FCCB Value USD Million	Number of shares in lakhs	Increase in Equity Rs lakhs	Increase in Security Premium Rs lakhs
Conversion effected upto March 31, 2006	16.54	30.49	304.88	7128.17
Conversion effected from April 01, 2006 to April 27, 2006	2.25	4.15	41.47	969.67
	18.79	34.64	346.35	8097.84

c) Provision has been made for the premium payable on redemption of FCCBs outstanding as on March 31, 2006 on pro-rata basis up to March 31, 2006 amounting to Rs 458.68 lakhs by debiting the Securities Premium Account (SPA). In the event that the conversion option is exercised by the holder of FCCBs in the future, the amount of premium charged to SPA will be suitably adjusted in the respective years.

d) Even though the Company has provided for the premium on redemption of FCCBs as per note (c) above, the Company has also made provision for dividend in the books of account on the equity shares to be allotted upon conversion of FCCBs outstanding as at March 31, 2006, since the Company is obliged, as per SEBI guidelines, to pay dividend to those FCCB holders who convert their FCCB into equity after adoption of the financial statements and upto the book closure date.

II) Usage of funds raised through GDR/FCCBs	Rs lakhs
Funds received	37325.70
Less: Exponses of Issue	1594.87
	35730.83
Repayment of Loans	26990.57
Capital Expenditure/Advances/ANDA filings	8732.79
Balance	7.47

		AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
10	Assets acquired pending for registration in favour of the Company.		
	Freehold Land:	128.39	61.16
11	Loans and Advances include Convertible portion of Loans to joint venture company	119.45	119.45
12	Loans and Advances include Nil (Previous year - Rs 143.22 lakhs) being expenses incurred towards proposed issue of Foreign Currency Convertible Bonds pending adjustment.		
13	Value of Assets on Lease	–	8.88
	Future Commitments towards Lease Rentals	–	0.28
14	Share application money pending allotment Rs. Nil (Previous year Rs 24.90 lakhs) represents amount received from employees in terms of options exercised under "ORCHID-ESOP 99" scheme and pending allotment.		
15	Auditors' remuneration include the following: *	2005-06	2004-05
	Audit fee	53.73	29.08
	Tax Audit fee	8.42	5.51
	For certification & other matters	12.83	5.51
	* Excluding Rs 38.57 lakhs (Previous year Rs 27.55 lakhs) for services rendered in connection with GDR/FCCB issue transferred to GDR/FCCB issue expenses.	74.98	40.10
16	Foreign exchange Gain/(Loss) adjusted in Fixed Assets	–	80.34
17	a) Other Interest and Finance Charges is after crediting interest receipts	31.79	75.18
	TDS on interest receipts	8.69	14.64
	b) Amount of interest capitalised	1585.32	1090.69

NOTES TO THE CONSOLIDATED ACCOUNTS

18 Balance as at the end of the year with and the maximum amount outstanding at any time during the year from banks other than Scheduled Banks.

		2005-06	2004-05
Bank of America, New York	Balance as at March 31	2.11	7.72
	Maximum amount outstanding	18.56	7.72
ABN Amro Bank, Moscow	Balance as at March 31	0.44	7.17
	Maximum amount outstanding	138.92	7.17
Citibank NA, New York	Balance as at March 31	7.47	–
	Maximum amount outstanding	7827.19	–

19 Excise duty on finished goods has been accounted on removal of goods from factory, wherever applicable. Finished goods at factory have been valued at cost exclusive of excise duty and no provision has been made for excise duty on such goods. The above treatment has no impact on Profit & Loss Account.

20 Insurance claim against material damage and claim against loss of profit as accepted by insurance company have been adjusted in the respective accounts as below:

	Rs lakhs
Fixed Assets	1955.54
Manufacturing, Selling & Administrative Expenses	831.99

The amount of claims accounted represents conservative amount which in the opinion of the Company is minimum realisable.

21 a) Related Party Transactions

In accordance with Accounting Standard 18, the disclosure required is given below:

(Rs lakhs)

Nature of Transaction	Subsidiary	Joint venture/ Associates	Key Management Personnel	Relatives of Key Management Personnel/Companies in which they exercise significant influence
– Share Application money pending allotment	–	–	–	–
	(–)	(–)	(–)	(–)
– Loans (including interest accrued)	–	–	–	–
	(–)	(–)	(–)	(–)
– Shares allotted *	–	–	–	424.37
	(–)	(–)	(–)	(3713.15)
– Warrants allotted	–	–	–	797.61
	(–)	(–)	(–)	(42.44)
Sale of goods	–	343.68	–	–
	(–)	(998.57)	(–)	(–)
Rendering of Services / Royalty / Interest income	–	148.93	–	–
	(–)	(86.56)	(–)	(–)
Services Received / Rent Paid	–	–	–	251.73
	(–)	(79.39)	(–)	(12.00)
Remuneration	–	–	504.66	–
	(–)	(–)	(229.62)	(–)
Amounts due at the end of the year - Debit	–	381.82	–	7.50
	(–)	(258.09)	(–)	(7.50)
Amounts due at the end of the year - Credit	–	–	–	797.61
	(–)	(45.16)	(–)	(–)

(Figures in brackets are for previous year)

* Includes Rs Nil (Previous year - Rs 2121.80 lakhs) being the value of shares allotted to a Company in which a key management personnel has significant influence.

Related party transactions does not include transactions prior to the date of the Company becoming Joint Venture.



Names of the related parties and description of relationship.

1	Subsidiary	Orchid Europe Limited, UK (Previously known as Orchid Nutricare Limited) Ogne Farma, Brazil Gene Arrays Inc., USA Orchid Pharmaceuticals Inc., USA Orchid Research Laboratories Ltd., India Bexel Pharmaceuticals Inc., USA
2	Joint Venture	NCPC Orchid Pharmaceuticals Company Limited, China BChD Biotechnological Chemical Development Limited, UK
3	Key Management Personnel	Mr K Raghavendra Rao, Managing Director Dr C Bhaktavatsala Rao, Deputy Managing Director
4	Relatives of Key Management Personnel	Mrs Vijayalakshmi (wife of Mr K Raghavendra Rao)
	Companies in which relatives of Key Management Personnel exercise significant influence.	SpectraSoft Technologies Limited

All whole time directors have been considered as Key Management Personnel as they are involved in planning, directing & controlling the activities of the reporting enterprise.

b) **Information on Loans & Advances as per clause 32 of the Listing Agreement**

		Rs lakhs
	Balance as on 31-03-2006	**Maximum amount outstanding during the year**
Joint Venture - BChD Biotechnological Chemical Development Limited, UK	273.10	273.10

22 In terms of the resolution passed by the Company at the EGM dated October 21, 1999 Employee Stock Option Scheme was extended to the employees of the Company. Accordingly options totalling 12,00,000 Nos were given to the employees as per the scheme formulated under "ORCHID - ESOP 99" Scheme by the compensation committee of the Board of Directors. Each option is convertible into one equity share of Rs 10/- each at a price of Rs 243.35 including premium for 6,00,000 Nos, Rs 252.00 including premium for 3,07,925 Nos and Rs 300.65 including premium for 292075 nos. No entries were passed in the books as the options were given at the market price prevailing on the date of issuance of options.

A fair and reasonable adjustment in share price/the number of options outstanding was made by the Company in respect of the Employee Stock Options granted but not exercised by the Employees due to the corporate actions of issue of bonus shares during October 2005. The total number of options outstanding and the price was adjusted so that the total value and options available to each option holder remained the same.

Consequently the revised and adjusted prices per share are Rs 162.24 (Rs 243.35), Rs 168.00 (Rs 252.00) and Rs 200.44 (Rs 300.65) respectively for 600000 Nos, 307925 Nos and 292075 Nos of options granted by the Company. Pursuant to the exercise of options by employees the Allotment Committee of the Board at its meetings held on April 27, 2005, August 02, 2005, August 31, 2005, December 23, 2005 and March 31, 2006 alloted 11800, 59485, 300676, 19649 and 13879 equity shares respectively to the employees. 650475 Options were outstanding as at March 31,2006 including the additional number of options adjusted, due to the bonus issue.

23 In terms of the resolution passed by the Company on July 18, 2005, 25,00,000 warrants were allotted to the Promoter/ Promoter Group (s) on August 02, 2006. These warrants were eligible for conversion at the option of the Warrants holders, into equity shares of the Company at a price of Rs 339.41 per share within a period of 18 months of the date of allotment. The Allotment Committe of the Board at its meeting held on August 31, 2005 have allotted 70,000 shares upon conversion of 70,000 warrants.

Orchid Chemicals & Pharmaceuticals Ltd.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

In terms of the resolution passed by the Company on April 10, 2004 20,00,000 warrants were alloted to the Promoter/ Promoter Group(s) on April 23, 2004, convertible into equity shares of the Company at a price of Rs 212.18 per share within a period of 18 months of the date of allotment. Subsequent to the allotment of 17,50,000 shares during 2004-05, 1,60,000 shares have been allotted on August 2, 2005 upon exercise of the warrants.

On account of the intervening Bonus issue, the Board approved for the adjustment in price/unexercised warrants consequent to the bonus issue. Pursuant to the exercise of the options by the warrant holder, 1,05,000 shares (70,000 warrants adjusted), out of the 2004 issue, were allotted on October 13, 2005. The balance out of the warrants issue made in 2005 got adjusted due to the corporate action. Pursuant to the exercise of the options by the warrant holder, 50,000 shares were issued in March 20, 2006.

Other liabilities include Rs 813.45 lakhs (Previous year Rs 53.05 lakhs) being the amount received as advance against the warrants issued to the promoter group, including Rs 15.84 lakhs (Previous year Rs 10.61 lakhs) from a Director.

24 Provision for taxation for the year Rs 590.00 lakhs (Previous year including reversals Rs (404.93) lakhs)

Deferred Tax liability represents the following	AS AT 31ST MARCH 2006 Rs lakhs	AS AT 31ST MARCH 2005 Rs lakhs
Timing Difference on account of Depreciation	15236.31	12839.96
Timing Difference on account of Losses	(6681.58)	(4926.42)
Timing Difference on account of Provisions	(548.73)	(497.54)

In accordance with clause 29 of Accounting Standard (AS 22) Deferred tax Assets and Deferred tax Liabilities have been set off.

Deferred tax assets in respect of unabsorbed depreciation and losses under tax laws have been recognised in view of the continued and consistant profitability of the Company.

25 SEGMENTAL REPORTING

The Company was disclosing segment information classifying the business as bulk drugs and formulations till the financial year 2004-05. However, in view of integration of bulk actives and formulations business, with the commissioning of generics formulation facility in the current financial year, the Company considers the business as one interrelated and integrated business of "Pharmaceutical products" and hence no separate segmental reporting is provided.

26 Reconciliation of Basic and Diluted shares used in computing Earnings per share

(Equity shares of Rs 10/- each fully paid-up)

		YEAR ENDED MARCH 31 2006 Rs lakhs	YEAR ENDED MARCH 31 2005 Rs lakhs
Profit After Tax	Rs	5730.00	2209.21
No of Shares Outstanding	Nos	64815182	34131919
Weighted Average Number of Shares	Nos	55814393	48795824*
Earning per Share - Basic	Rs	10.27	4.53
No of warrants & options allotted	Nos	8139778	260125
Total No of Equity shares to compute diluted EPS	Nos	60784877	51411491*
Earning per Share - Diluted	Rs	9.43	4.30

* Number of shares adjusted for Bonus issue during the current year.



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

27 Disclosure as per requirements of Accounting Standard 26

		AS AT 31ST MARH 2006	AS AT 31ST MARH 2005
ACQUIRED – Brands, Patents & Trademarks			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs)	Opening	1358.37	1650.00
	Additions / Adjustments	(5.24)	148.37
	Amortisation	440.04	440.00
	Closing	913.09	1358.37
INTERNALLY GENERATED – DMF & ANDA			
(Refer Note 2(b)(v) of Schedule Q)			
Useful life		5 Years	5 Years
Gross Carrying Amount (Rs)	Opening	1843.98	771.97
	Additions	2276.17	1072.01
	Amortisation	1009.66	–
	Closing	3110.49	1843.98

28 Revenue and Investment Expenses [illegible]

	YEAR ENDED MARCH 31, 2006	YEAR ENDED MARCH 31, 2005
Power and Fuel (Net of refund for earlier year - Rs Nil (Previous year - Rs 69.26 lakhs))	282.13	102.90
Conversion Charges	0.11	0.11
Consumption of Stores, Spares & Chemicals	655.12	758.40
Salaries, Wages and Bonus	1418.07	1014.99
Contribution to Provident & other funds	109.76	80.84
Staff Welfare	55.03	36.00
Rates & Taxes	58.52	4.00
Insurance	62.60	41.12
Postage, Telephone & Telex	16.07	10.97
Printing & Stationery	42.85	56.93
Vehicle Maintenance	5.52	3.84
Recruitment expenses	11.11	8.12
Travelling and Conveyance	103.08	67.64
Testing charges	335.52	198.32
Consultancy & Professional Fees	164.81	82.74
Others	335.95	161.55
	3656.25	2628.47

29 Previous year's figures have been regrouped wherever necessary to conform to current year's classification.

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAM NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Orchid Chemicals & Pharmaceuticals Ltd.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

		FOR THE YEAR ENDED 31-03-2006 Rs lakhs	FOR THE YEAR ENDED 31-03-2005 Rs lakhs
A	CASH FLOW FROM OPERATING ACTIVITIES		
	Net Profit before taxation and extraordinary item	6591.02	1908.38
	Adjustment for		
	Depreciation	8581.74	8378.13
	Dividend Income	(10.25)	(19.59)
	Loss/(Profit) on sale of Investments	–	12.05
	Loss/ (Profit) on sale of Fixed Assets	(40.43)	30.58
	Foreign Exchange Rate Fluctuations - Unrealised	242.58	511.45
	Interest Expense	8784.49	7354.58
	Provision for doubtful debts	14.79	220.59
	Operating Profit before Working Capital Changes	24974.04	18486.15
	Adjustments for :		
	Trade and other Receivables	(18495.85)	(7514.50)
	Inventories	(4758.59)	(11307.74)
	Trade Payables	(3697.77)	11281.49
	Cash generated from Operations	122.03	8945.40
	Income Taxes Paid	(296.90)	(236.20)
	Cash Flow before extraordinary item	(173.87)	8709.20
	Extraordinary Item	–	–
	Net Cash from Operating Activities	(173.97)	8709.20
B	CASH FLOW FROM INVESTING ACTIVITIES		
	Purchase of Fixed Assets	(18411.63)	(26882.60)
	Proceeds from Sale / Deletion of Fixed Assets	114.14	327.69
	Proceeds from Purchase/Sale of Current Investments(net)	–	(12.05)
	Purchase / Sale of Investments	1.50	2.75
	Dividends received	10.25	19.59
	Net cash used in Investing Activities	(18285.74)	(26554.62)
C	CASH FLOW FROM FINANCING ACTIVITIES		
	Proceeds from Issuance of Share Capital (net of expenses)	7986.99	3738.04
	Proceeds from Issue of Global Depository Receipts	18941.20	–
	Proceeds from Working Capital Borrowings	6184.12	504.75
	Proceeds from Long Term Borrowings	25236.93	34837.17
	Repayment of Long Term Borrowings	(34543.61)	(23485.47)
	Proceeds from Issue of Foreign Currency Convertible Bonds (net of conversion)	11778.65	–
	Proceeds from / (Repayment of) Short Term Borrowings	(8529.70)	12028.70
	Proceeds from HP Finance	(10.33)	14.56
	Interest paid	(10375.56)	(8486.14)
	Dividend paid	(1565.76)	(1461.23)
	Net cash from Financing Activities	18194.94	17881.38
D	NET INCREASE IN CASH AND CASH EQUIVALENTS	(264.77)	(154.04)
	Cash and Cash equivalents at the beginning of period	1084.58	1238.62
	Cash and Cash equivalents at the end of period	819.81	1084.58

Note : The above cash flow statement has been prepared under the 'Indirect Method' set out in Accounting Standard 3 issued by the Institute of Chartered Accountants of India.

As per our report of even date
For SNB ASSOCIATES
Chartered Accountants

(S LAKSHMANAN)
Partner

Place : Chennai
Date : April 28, 2006

On behalf of the Board

R NARAYANAN
Chairman

K RAGHAVENDRA RAO
Managing Director

DR C BHAKTAVATSALA RAO
Deputy Managing Director

DR I SEETHARAM NAIDU
Director

D S BHASKARA RAJU
President - Finance & Business Planning

L CHANDRASEKAR
VP - Internal Audit & Secretary

Economic Value Added Statement (EVA)

EVA is a measure of evaluating financial performance. It is also an effective measure for evaluating the economic profit i.e., the excess of Net Operating Profit After Taxes (NOPAT) generated over the cost of funds deployed by the firm for any financial year. The EVA for the current financial year is given below:

Rs Crores

S No	PARTICULARS	2005-06
	Step-1 : Calculation of Cost of Funds Deployed	
1	Average Debt	1182.54
2	Average Shareholder's Networth #	655.30
3	Total Funds Deployed	1837.84
4	Cost of Debt (Post Tax) - %	8.31
5	Cost of Equity - %*	13.14
6	Weighted Average Cost of Funding - %	10.03
7	Cost of Funds Deployed	184.42
	Step-2 : Calculation of Net Operating Profit After Taxes (NOPAT)	
1	Profit After Tax	82.90
2	Add adjusted Interest **	102.87
3	NOPAT @ (1+2)	185.77
	Step-3 : Calculation of EVA	
1	EVA	1.35
2	EVA as a percentage of Funds Deployed	0.07

* Basis of EVA Calculations are as under :
(I) Risk Free Rate of Return is taken at 6.0% (Long- term yield on government bonds)
(II) Beta Factor taken as 1.19 (Basis is slope of S&P CNX Nifty Index vs OCPL's Average Share Price on a daily price movement basis)
(III) Market Risk Premium taken at 6.0% for current FY 2005-06
** Includes pre-operative interest costs
# Shareholder's networth and debt calculations has been annualised based on the daywise deployment of funds
@ NOPAT = PBIT minus all taxes

Cash Value Added Statement (CVA)

CVA is an expression for measuring the excess of Cash Operating Profit After Taxes (COPAT) over the cost of funds deployed by the firm for any financial year. The CVA for the current financial year is given below:

Rs Crores

S No	PARTICULARS	2005-06
	Step-1 : Calculation of Cost of Funds Deployed	
1	Average Debt	1182.54
2	Average Shareholder's Networth #	655.30
3	Total Funds Deployed	1837.84
4	Cost of Debt (Post Tax) - %	8.31
5	Cost of Equity - %*	13.14
6	Weighted Average Cost of Funding - %	10.03
7	Cost of Funds Deployed	184.42
	Step-2 : Calculation of Cash Operating Profit After Taxes (COPAT)	
1	Profit After Tax	82.90
2	Add adjusted Interest **	102.87
3	Depreciation, Ammortisation & Provisions	82.98
4	COPAT @@ (1+2+3)	268.74
	Step-3 : Calculation of CVA	
1	CVA	84.33
2	CVA as a percentage of Funds Deployed	4.59

* Basis of CVA Calculations are as under :
(I) Risk Free Rate of Return is taken at 6.0% (Long- term yield on government bonds)
(II) Beta Factor taken as 1.19 (Basis is slope of S&P CNX Nifty Index vs OCPL's Average Share Price on a daily price movement basis)
(III) Market Risk Premium taken at 6.0% for current FY 2005-06
** Includes pre-operative interest costs
# Shareholder's networth and debt calculations has been annualised based on the daywise deployment of funds.
@@ COPAT = PBIT minus all taxes+Depreciation & Amortisation

Orchid Chemicals & Pharmaceuticals Ltd.

VALUE ADDED STATEMENT

The Value Added Statement is a realignment of Profit & Loss Account statement to see how it affects the interests of various groups in the business viz., Shareholders, Lendors, Employees, Government and amount available for ploughing back to the business.

S No	Particulars	2005-06	
		Amount Rs lakhs	Percentage Break-up on V.A.
1	Total Income (Net of Excise Duty)	87478	
	Less		
2	Raw Material Expenses	34527	
3	Other Manufacturing and Selling Expenses (excluding Employee Costs)	19866	
4	Total Expenses	54393	
5	Net Value Added	33085	
	Allocated to meet		
6	Employee Costs	7028	21
7	Lenders	8701	27
8	Government (Corporate Tax Outflows including Dividend Tax)	491	1
9	Shareholders (Cash Dividends)	2209	7
10	Balance amount ploughed back to the Business (Net Earnings+Depreciation+Amortisation+Provisions+ Deferred Tax Liability)	14557	44
	Total Allocation	33885	100
11	No. of Employees	2850	
12	Value Added per Employee (Rs lakhs)	11.61	

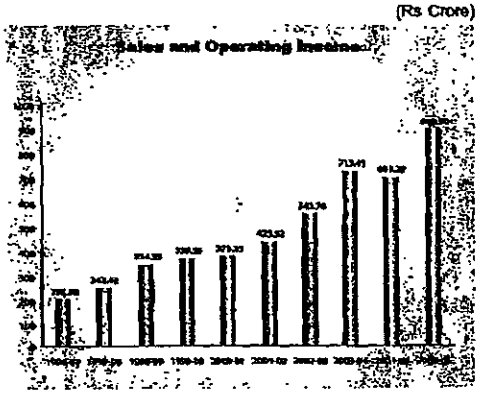
KEY FINANCIAL PARAMETERS AND RATIOS AT A GLANCE

Rs lakhs

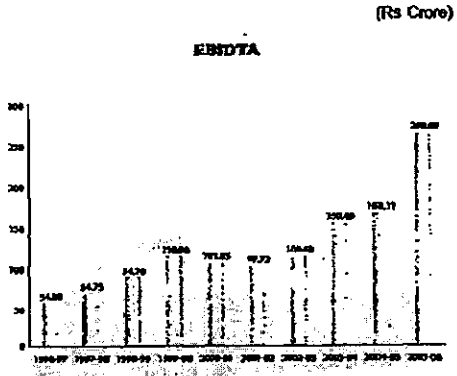
S No	Particulars	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97
A)	Financial Results Summary										
1	Total Sales & Operating Income	88677	68929	71341	54141	42552	37125	35955	33435	24243	19368
2	Other Income	133	83	123	111	75	131	377	150	167	105
3	Total Income	88810	69012	71464	54253	42628	37256	36332	33585	24410	19473
4	EBIDTA	26060	16311	15649	10963	9772	10165	11086	8470	6475	5400
5	Profit After Tax (PAT)	8290	3101	3103	1954	631	3576	3859	3554	3407	3065
6	Paid-up Equity Share Capital	6452	3413	3238	3238	2800	2800	2800	1736	1735	1735
7	Reserves & Surplus + Share Application + Deferred Tax Liability	80047	51155	46452	44811	34217	36985	34623	15247	12463	9818
8	Shareholder's Net worth	86509	54568	49690	48049	37017	39755	37423	16982	14198	11553
B)	Key Ratios & Parameters										
I	Profitability related										
1	EBIDTA Margin (%)	29.32	23.64	21.96	20.21	22.92	27.28	30.51	25.22	26.53	27.73
2	Net Profit Margin (%)	9.33	4.49	4.34	3.60	1.48	9.60	10.62	10.58	13.96	15.74
3	Free Reserves to Equity Ratio (Times) #	12.4	15.0	14.3	13.8	12.2	13.2	12.4	8.8	7.2	5.7
II	Shareholder related										
1	EPS - Rs/Share	14.86	9.53	9.58	6.81	2.25	12.77	18.57	20.49	19.64	17.67
2	Book Value - Rs/Share	133.66	159.87	153.46	148.38	132.21	142.02	133.86	97.90	81.85	66.60
III	Growth related										
1	Growth in Total Income (%)	28.94	-3.43	31.72	27.27	14.42	2.54	8.18	37.59	25.35	69.10
2	Growth in EBIDTA (%)	59.77	8.39	37.27	12.19	-3.87	-8.30	26.78	30.41	19.96	97.22
3	Growth in PAT (%)	167.33	-0.06	58.79	209.87	-82.37	-7.34	8.58	4.30	11.18	76.48

: Ratio calculated as (Free Reserves & Surplus + Deferred Tax Liability) over Equity Share Capital

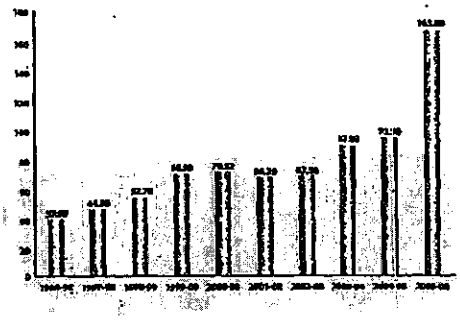
(Rs Crore)



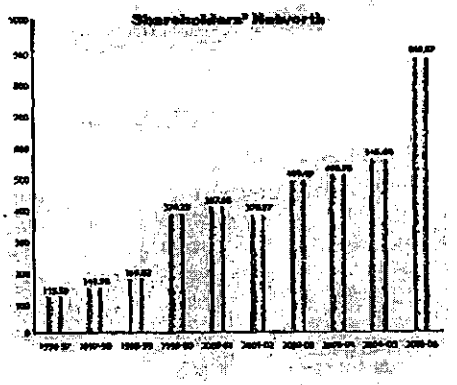
(Rs Crore)



(Rs Crore)

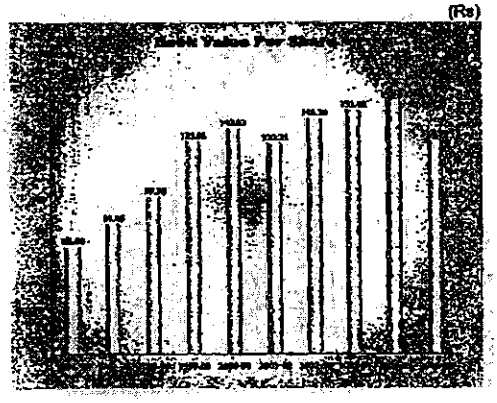


(Rs Crore)

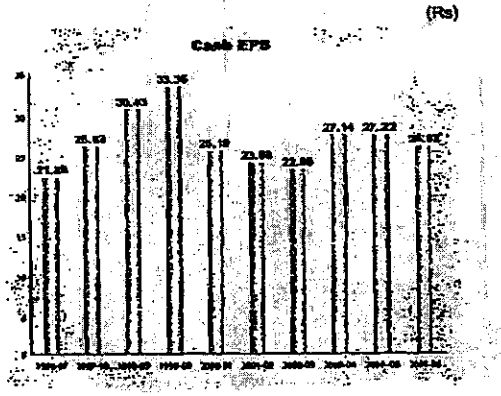


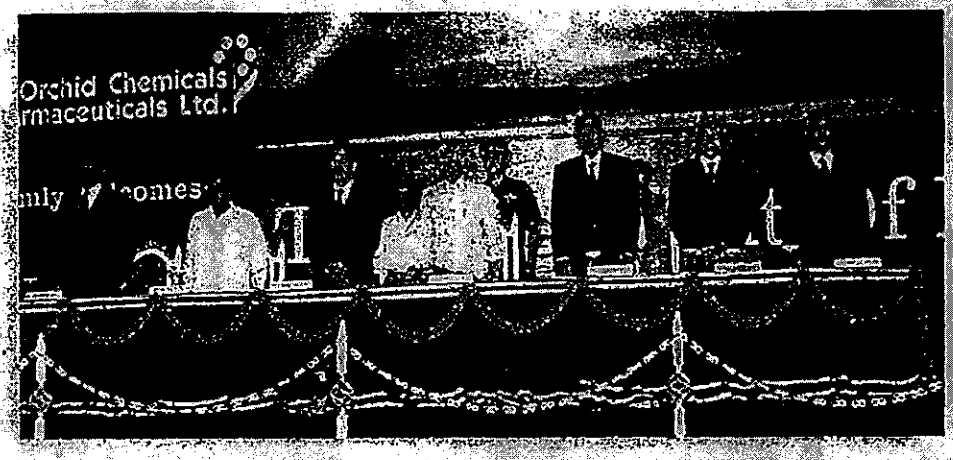
* Profit After Tax + Depreciation

(Rs)



(Rs)





The Hon'ble President of India Dr A P J Abdul Kalam's visit to our Formulations Manufacturing Complex in Chennai

Dr R A Mashelkar, Director General, CSIR inaugurating our New Drug Discovery facility in Chennai



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Shaping A Dream

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