GRANULES
INDIA LIMITED

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GRANULES
INDIA LIMITED

STRATEGY FOR SUCCESS

Annual Report 2007-08

Vision

To become a large-scale consumer healthcare-focused service provider with a global presence and infrastructure to support strong partnerships with industry leaders.

Contents

Disclaimer

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions.
We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', '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. Readers should bear this in mind.

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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Strong rupee. Financial upheaval. Uncertain business sentiment. Delayed commercialisation of facilities. Staggered benefits from our Ibuprofen facility in China.

A combination of these business realities translated into a challenging 2007-08 for Granules India Limited.

Despite this daunting environment, Granules India Limited grew its topline by 15.31% and EBIDTA by 2.40%, reflecting its competitive industry position.

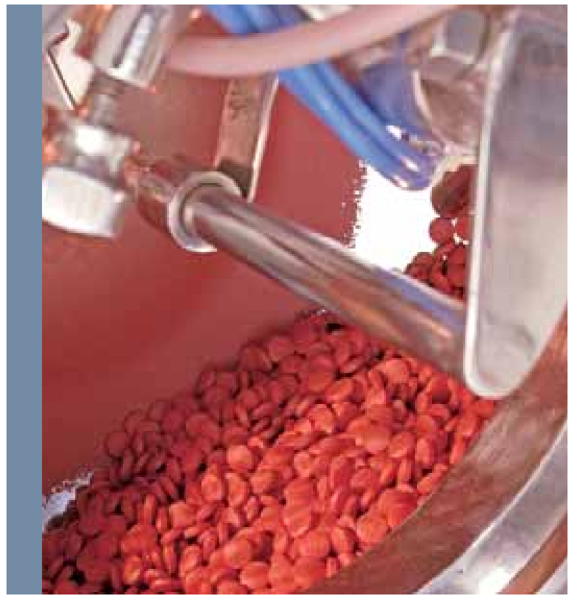
Consolidate capacities

At Granules, we have consistently invested in our business across more than two decades of our existence. These investments have been made in scale, spread and sophistication, with the singular objective of strengthening our competitive industry position.

In the last five years, we invested in scale across the entire pharmaceutical value chain – from active pharmaceutical ingredients at one end to pharmaceutical formulation intermediates and finished dosages at the other – with the primary objective to graduate Granules from a product supplier into a solutions provider; from a vendor into a partner.

More specifically, these investments in people, technology, processes and infrastructure were made to address the large generics opportunity coming out of the global regulated markets. These investments have had the desired result. There has been a growing respect for our brand, translating into growing customer accretion on the one hand and enduring customer relationships on the other.

The time has now arrived for Granules to leverage the full benefit of its investments and graduate into a higher industry league. While the Company's API and PFI businesses have grown in terms of volume and customer quality, the FD business shows an attractive potential of growing rapidly from its nascent position.



1985
Dedicated Acetaminophen facility at Bonthapally as Triton Laboratories

1990
Multi-active facility at Jeedimetla

1993
Small volume PFI facility at Jeedimetla

2003
High-volume 7,200 TPA PFI facility at Gagillapur

2005
New greenfield Acetaminophen facility at Bonthapally of 8,000 MTPA, demolishing the old plant

2006
Joint venture with Hubei Biocause, China

2007
Finished dosage facility at Gagillapur

Growing API and PFI businesses

	Production	Revenues	Capacity utilisation
PFI	Increased from 3,838 MT in 2004-05 to 4,730 MT in 2006-07 to 5,378 MT in 2007-08	Increased from Rs. 83.07 crore in 2004-05 to Rs. 114.60 crore in 2006-07 to Rs. 129.79 crore during the year under review	At Gagillapur facility increased from 42% in 2004-05 to 60% in 2006-07 to 65% in 2007-08
API	Increased from 3,848 TPA in 2004-05 to 5,966 TPA in 2006-07 to 7,116 MT in 2007-08	Increased from Rs. 50.93 crores in 2004-05 to Rs. 70.02 crores in 2006-07 to Rs. 84.32 crores during the year under review	Total capacity utilisation at 83% in 2004-05 (when installed capacity was 4,241.60 TPA); at 45% in 2006-07 (when installed capacity was 13,351 TPA); increased to 73% in 2007-08 (when installed capacity was 9,751 TPA)

At Granules, we expect our growth to accelerate for an important reason. The 6-billion tablet capacity of our FD facility with a potential to double to 12-billion tablets annually was commercialised in September 2008. This expansion has the potential to add considerably to our topline and bottomline beginning 2008-09, with full benefits expected from 2009-10 onwards.

The FD facility has been inspected and approved by Eu GMP, preparing it to cater to the growing demands of the European market. Two of our FD products – ibuprofen and metformin – received approvals from TPD (Canada) in 2008. Products for the US market are being developed; the Company filed ANDAs for two products which, once approved, will facilitate a US entry within the formulations segment.

As these FD developments translate into growing revenues, we expect to enhance attractive value for our customers and shareholders.

Enhance market presence

Even as Granules is an Indian pharmaceutical company (headquartered in Hyderabad), it enjoys a dispersed global presence.

Three of the Company's manufacturing facilities are located in and around Hyderabad; it extended its manufacturing presence to China in 2007 through a joint venture with Hubei Biocause Heilen Pharmaceutical Co. Ltd., the world's fourth largest ibuprofen manufacturer and exporter. In doing so, Granules extended its presence to one of the most competitive API manufacturing geographies in the world.

Having invested significantly in capacity creation over the last five years, the Company is finding new markets through proactive business development. The result is a presence across 55 countries and over 300 customers. In 2007-08, exports contributed 74% to revenues. Nearly 67% of revenues were derived from the key markets of the US, Europe and Latin America, a 209-bps increase over the previous year.

Granules is strengthening its geographic presence through an entry into new markets on the one hand, and penetrating deeper into the existing ones on the other. The Company's strategy is to extend its presence from non-regulated markets to the regulated ones and strengthen its portfolio quality through an enhanced contribution from branded customers. The Company's investment in China will enhance competitiveness and facilitate a faster access to the high-margin regulated US and European markets.

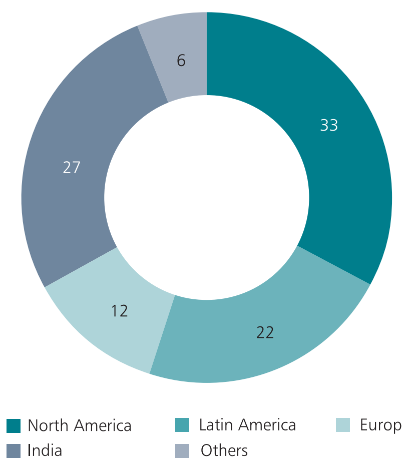
Granules focused on customer proximity through a proactive US marketing infrastructure created as early as 2003. The Company is now leveraging this infrastructure and a five-member experienced team to enhance North American penetration, especially Canada and the US. In 2007-08, the North American market at Rs. 71.92 crore accounted for almost 33% of the Company's overall revenues (37% in 2006-07).

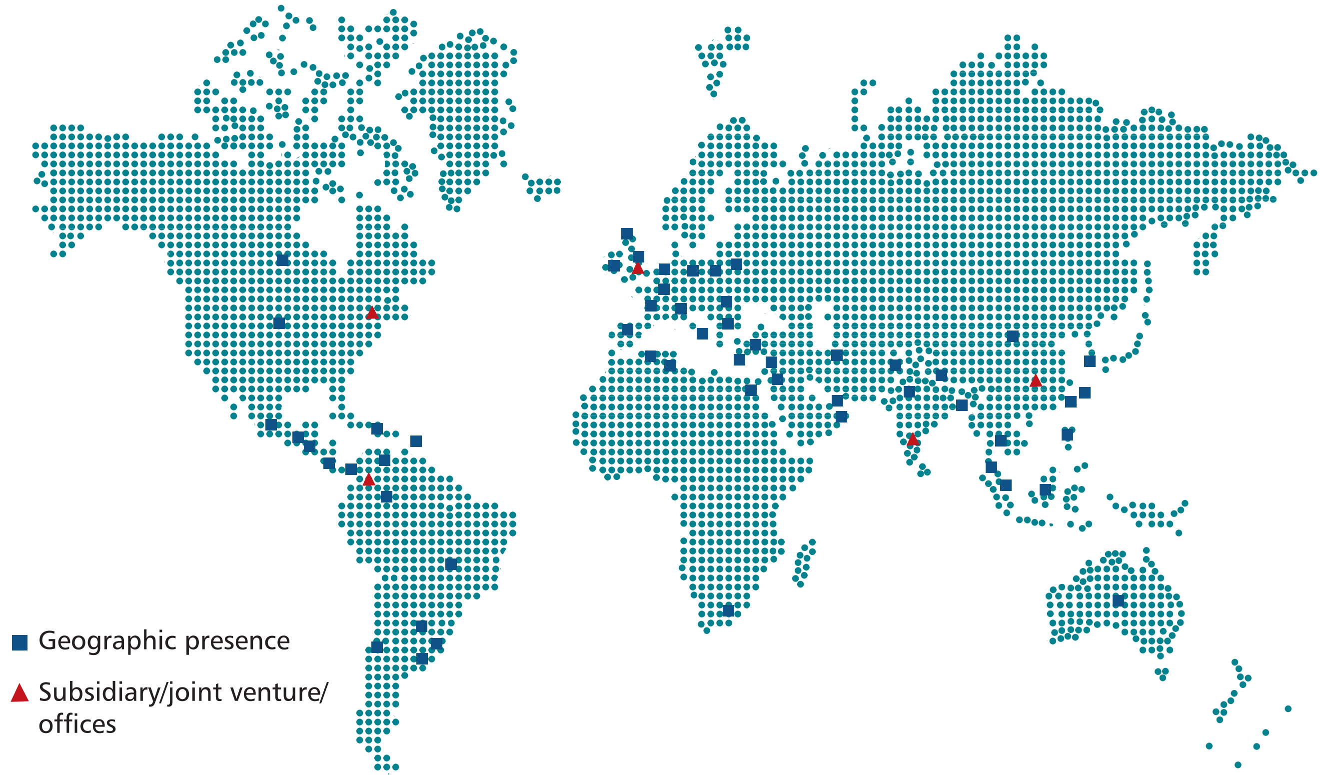
Correspondingly, Granules also created a marketing infrastructure in the UK and Colombia, with the objective to penetrate the regulated markets of Europe and the high-growth markets of Latin America. The latter opportunity is particularly attractive for the following reasons:

- The Latin American pharmaceutical market is estimated at US$50 billion and is rapidly growing.
- The eight key pharmaceutical markets of Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru and Venezuela will represent a value of US$80 billion at 2013 retail realisations.
- These eight countries represent a market of 474 million individuals, aggregating a GDP of US$3.4 trillion (2008) with unfulfilled demand driving public drug expenditure.
- Revenues from Latin America at Rs. 48.74 crore contributed 22% to total revenues compared with 23% in the previous year.

Revenue contribution from Europe increased from 5.33% in 2006-07 to 12.48% in 2007-08. The year under review saw Granules successfully complete six site transfer projects for the European markets, which, when commercialised, will significantly increase revenues from the continent.

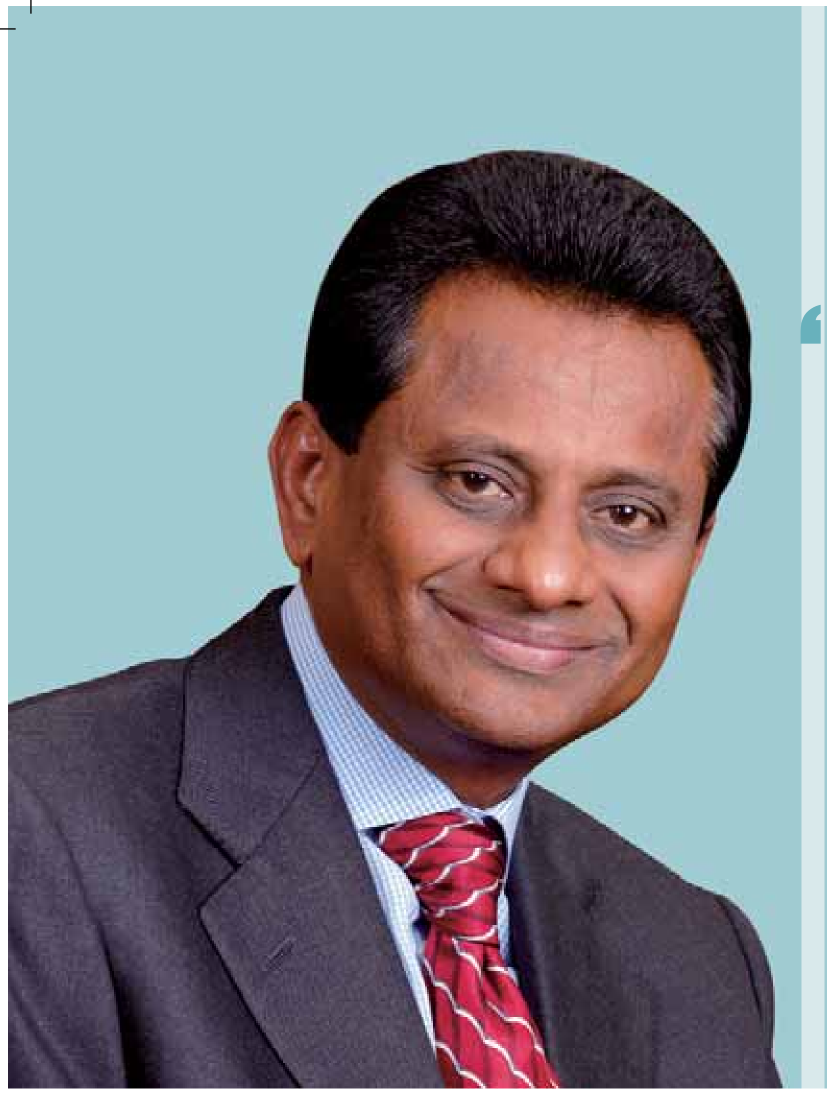
Geographic break-up of revenues from key markets in 2007-08 *(in %)*





Granules is also expanding its presence in Russia, the largest pharmaceutical market in Central and Eastern Europe with an estimated size of US$11.7 billion in final 2007 consumer prices, representing a 20% year-on-year growth *(Source: BMI)*. Around three quarters of the market is supplied by imports, as the domestic production of innovative pharmaceuticals is negligible and foreign manufacturers are more competently placed to meet the growing demand for expensive drugs.

The result is that over the next couple of years, the Company will enhance its presence in a relatively under-penetrated Eastern Europe and Russia and aggressively market products in North America, Latin America and Europe.



> "The next two years at Granules will be ones of investment consolidation, helping us reap the benefits of our expanded capacities across businesses and adding to shareholder value."

Mr. C. Krishna Prasad, Managing Director, analyses the Company's performance and focuses on the future.

Dear Shareholders,

It would be reasonable for every exporter to expect a reasonable return on employed capital.

The year 2007-08 was one that challenged this assumption for an important reason: an unprecedented appreciation in the Indian rupee by more than 10% eroded almost 7% of our topline, leaving us with a declining room to cover our fixed costs. In a business where we derived almost 74% of our revenues from international markets, we rightsized our product mix with speed. We selected to retain those products where we could generate reasonable margins or effect price increases. As it turned out, this conscious call to relinquish a major part of our PFI business protected our brand and return on employed capital.

Setbacks

There was another source of disappointment. A contract with one of our largest US customers for the purchase of OTC Monograph finished dosages from our new plant could not be completed due to issues at the customer end. The annulment of this contract, which could have resulted in 50% capacity utilisation and correspondingly positive financial implications, delayed the commercialisation of our formulations facility by almost 18 months and staggered our payback.

Besides, there were adverse industry developments in China, marked by a rising currency and withdrawal of subsidies, which translated into a lower-than-expected return from our ibuprofen plant in that country. A delay in the production stabilisation of our new paracetamol plant at Bonthapally delayed returns. As against the nameplate capacity of 8,000 MT annually, we were able to achieve a capacity of only 32% in 2007 and 72% in 2008.

The cumulative impact of these factors was an inability to achieve our targeted sales of Rs. 270 crore and a bottomline of Rs. 14.85 crore (PAT) for the year ended June 2007, and sales of Rs. 490 crore and a bottomline of Rs. 22 crore in 2007-08. Compounding this aberration was an unprecedented decline in the BSE Sensex by 48% between July 2007 and June 2008, and more than 75% between December 2007 and June 2008, affecting overall shareholder returns.

Despite the challenges, our revenues increased from Rs. 188.16 crore in 2006-07 to Rs. 214.83 crore, while our EBIDTA increased from Rs. 33.69 crore to Rs. 34.50 crore. However, there was a decline in our profits on account of depreciation provided on the new manufacturing plants as well as the adverse industry realities. Our net profit declined by 9.74% to Rs. 9.13 crore in 2007-08.

Competitive edge

Over the last five years, we have strengthened our business through consistent investments in scale and integration. The result is that we are now one of the most vertically integrated outsourcing partners within the pharmaceutical industry, with a comprehensive range of contract services from pre-formulations, analytical and formulations development, scale-up and high-volume commercial manufacturing as well as regulatory support and approvals. The result is that today, we can take a client's product from the earliest development stage all the way to the market.

Besides integration, we invested in scale with the objective to protect our margins at one end and offer unbeatable value (integrated services with low costs) through the following initiatives:

- Creation of the world's largest standalone 7,200-TPA PFI capacity, completely automated plant with the world's largest batch size of 6,000 kgs
- Creation of 8,000-TPA paracetamol API plant, helping us meet 8% of the 1,00,000-TPA global paracetamol market
- Creation of a multiple finished dosage facility with an installed capacity of 6 billion tablets annually (scalable to 12 billion tablets annually), making us one of the few in our industry with capabilities to meet the large volume requirements of global pharmaceutical majors.

Patience

Even as we invested in fresh capacity creation, our fresh investments needed a reasonable lead time before yielding results, usually longer than in most businesses, on account of extensive regulatory requirements. So while our API and PFI businesses matured and started yielding results, our formulations business was relatively new. The formulations facility was ready to be commissioned last year, but commercial operations began only in September 2008 on account of customer validations, site transfer approvals, regulatory inspections and approvals before the product could be marketed in the US, Canada and Europe.

During the year under review, our formulations plant was approved by Infarmed (EU), which will enable us to penetrate Europe with our finished dosage portfolio. We completed site transfer projects for key formulations product – paracetamol – from the European markets, which will now go into commercial supplies. Ibuprofen and metformin received site transfer approvals from TPD (Canada) for commercial supplies at our Gagillapur facility. Six different products targeted at the Canadian markets are under development, including combination and single products. We filed ANDAs for ibuprofen and metformin, which are at an advanced stage of review and, once approved, will be marketed in the US.

Over the last few years, we built an efficient US marketing and distribution infrastructure through our US subsidiary. I am pleased to state that the investment has started reaping benefits; the subsidiary turned profitable in the first quarter of the current year and, going ahead, we expect to enhance our market share in the US and Canada. Our alliance with Matchland provides us with a key customer in the OTC segment in the Australian market. The site transfer projects will help us increase our finished dosage sales in Europe. We also strengthened our presence in Latin America through a marketing office in Colombia, the fifth largest in the region.

Having reinforced capacities and scale, our enhanced focus on business development – creating new markets and strengthening the existing ones – will help us effectively utilise our capacities. The benefits of our investments in finished dosages will start accruing from the current year and will be fully visible from 2009-10 onwards.

Way forward

Going ahead, we expect to increase our contract manufacturing services for different generic and branded products. With regulated markets becoming competitive and respective governments looking at healthcare cost reduction, we expect that our improved efficiencies, economies of scale, internationally benchmarked facilities and presence across the pharma value chain will result in large customer accretion.

Granules is attractively position to make this a reality: it is one of the few global companies to be vertically integrated in the dosages it specialises in and where efficiencies are driven by high capacities at all stages of operations like API, PFI and finished dosages. The result: a distinctive competitive edge within the contract manufacturing space.

We will continue to focus on the OTC segment, which provides immense outsourcing opportunities, without losing sight of the prescription segment. We are also focussing on value addition in the formulations segment, utilising the existing infrastructure to offer customers low-volume, high-margin niche products that are difficult to manufacture. We are also in discussions with key MNC customers for supply contract agreements, which will enhance our finished dosage volumes. We are extending to service the needs of key multinational customers, moving from generic to high-margin branded customers.

The next two years at Granules will be ones of investment consolidation, helping us reap the benefits of our expanded capacities across businesses and adding to shareholder value. Our focus on Europe will progressively counter a dependence on the US and corresponding dollar depreciation. While commercial shipments for some products developed under site transfer of dossiers of the multinational companies have already begun, we expect to commercialise one formulation product every four months.

Currently, the currency exchange value is also favourable and we have entered into medium to long-term contracts with some key customers, based on pricing linked to our key raw materials and currency, protecting ourselves from a probable loss due to unexpected currency fluctuations.

Finally, I am happy to state that the anticipated numbers in terms of topline and bottomline are becoming a reality with a lag of 18 months. The paracetamol and PFI plants are working close to their respective nameplate capacities covered by sales contracts for a major part of the output. This, coupled with the fact that the finished dosage plant will also commercialise products at a steady rate, makes me optimistic of achieving a 60% revenue growth in the current financial year.

Yours sincerely,

C. Krishna Prasad
Managing Director

Management discussion and analysis

Global overview

Global pharma sales grew 6.4% in 2007 to a record US$712 billion *(Source: IMS Health)*. The US (40.2% market share) reported its slowest growth (3.8%) since 1961, contributing a mere 25% to industrial growth. The sluggish growth was a result of patent expirations, generic products growth, fewer and narrowly focused novel medications, safety issues and dearth of new products.

On the other hand, Europe recorded revenues of US$221.6-billion, Russia and Turkey being the largest contributors with 20.2% and 17.2% share, respectively. Japan grew 3.6% to US$65.2 billion. The rest of the world, including Asia, Australia and New Zealand, reported a buoyant growth of 13.3% to US$78 billion, contributing 11% of the global market. This was followed by Latin America, up 11.6% to US$11.1 billion.

Global sales (US$ billion)

	2004	2005	2006	2007
Total world market	560	605	649	712
Growth	8%	7.3%	7.1%	6.4%

Source: IMS Health Market Prognosis (include IMS audited and unaudited market)

In 2008, drugs estimated at around US$20 billion are expected to lose their patent protection. Leading products are gradually losing their share in major markets, triggering a 15% generic sale growth to more than US$70 billion (value).

Indian overview

The highly fragmented Indian pharmaceutical industry accounts for about 1% of the world pharmaceutical industry by value and 8% by volume. It comprises about 24,000 players (around 330 in the organised sector) and is worth around US$8 billion. The top 10 players constitute more than a third of the market. Revenues generated by this segment grew at an average 10% over five years, following enhanced awareness, penetration and affordability. The anti-bacterial CNS and diabetes segments registered a 15-20% annual growth.

Domestic pharmaceutical companies cater to almost the whole of the country's formulations demand and nearly 70% of the country's bulk drugs demand. Exports constitute nearly 40% of production (formulations – 55% and bulk drugs – 45% in the export pie). The Pharmaceutical Export Promotion Council indicates that exports in 2007-08 stood at US$ 6.68 billion (US$ 5.73 billion in 2006-07). The industry ranks 17th in the export value of bulk actives and dosages.

CRAMS opportunity

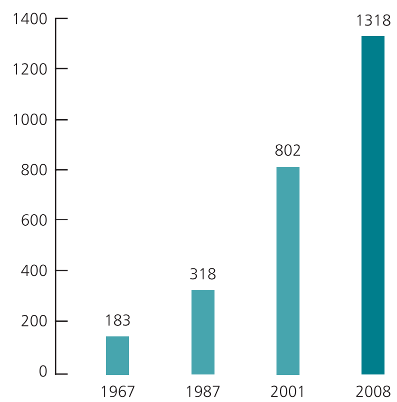
Global peers are facing mounting R&D costs, declining productivity in new drug discovery, patent expirations and declining profitability. In this demanding environment, Contract Research and Manufacturing Services (CRAMS) appears a relevant solution, which makes it possible to contract non-core and uneconomical research and manufacturing services to third parties in low-cost destinations like China and India.

Escalating cost pressures: Over the last three decades, the cost per New Molecule Entity (NME) increased significantly, following growing regulatory pressures reflected in lengthy clinical studies. This represented the key reason behind off-shoring to low-cost destinations like India and China.

Declining R&D productivity: Despite colossal R&D spends, new drug approvals by the USFDA recorded a significant slump. The reduced number of blockbuster drugs with mounting R&D costs is driving global pharma companies to outsource R&D to maintain margins.

Increasing genericisation: In recent years, innovative pharma companies faced a challenge from their large generic counterparts, causing several blockbuster drugs to lose patent protection due to successful patent challenges. Most existing drugs are also confronting generic competition. The rising generics thrust over branded formulations by developed economies poses a concern for innovators, affecting profitability.

Cost to develop a drug *(US$ mn)*



(Source: PhRMA Profile 2008)

Globally, the CRAMS business is estimated at US$20 billion and expected to reach US$31 billion by 2010. Currently, India accounts for a mere 3% of the global CRAMS market but this is expected to grow to 10% in a decade. The CRAMS segment in India is estimated to have earned revenues of approximately US$895 million in 2006, likely to reach nearly US$6.6 billion by 2013.

Contract research: Contract research organisations provide services that comprise drug discovery, new product development, formulations, pre-clinical and clinical trial management spanning phases I to IV. Outsourcing volumes generally grow from grams to kilograms as NCE progresses through various development stages. India and China are preferred CRO destinations in Asia, the former poised to reach US$2 billion by 2010 *(Source: Frost and Sullivan)*.

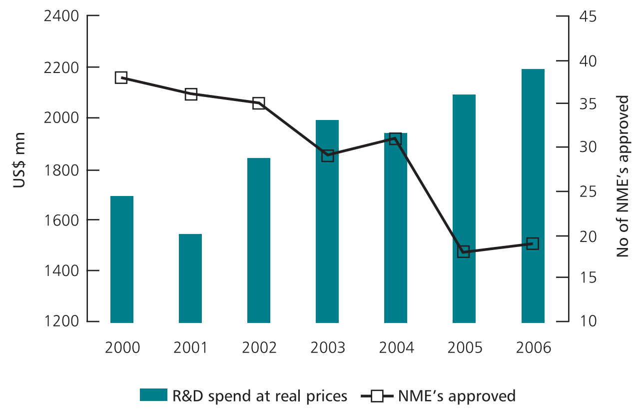
Contract manufacturing: Following NCE commercialisation, contract manufacturing (CMO) involves the supply of large quantities. India is competently placed to capitalise on this through its rich experience in the manufacture of APIs and other intermediates around a 40% lower cost structure than that of the developed markets. This could be either for on-patent or off-patent molecules, leading small and medium units to expand capacities. The Boston Consulting Group estimates that the contract manufacturing market for global companies in India could touch US$900 million by 2010.

The Indian advantage

India has established itself as one of the most preferred pharma outsourcing destinations for the following reasons:

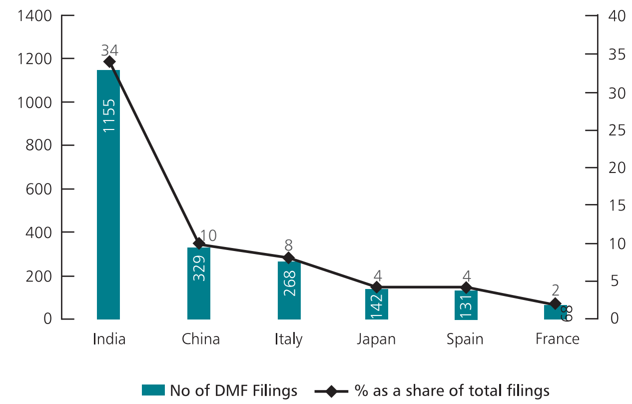
- Highest number of USFDA-approved plants in India: India has the maximum number of USFDA-approved plants (over 75) outside the US. Increasing yearly approvals are catalysing a widened global presence on the back of large volumes, superior quality and technological know-how.
- India tops global DMF and ANDA filings: India has been a forerunner in DMF and ANDA filings, with approximately 35% and 25% shares, respectively. The last three years witnessed several second-and-third tier pharma companies aggressively scaling their ANDA/DMF filings in the US.
- Low manufacturing cost: The manufacturing cost in India is 40% lower than that in developed markets, without a corresponding quality compromise. Even labour cost is one seventh of that in the US, an unbeatable USP.
- Rich talent pool: India possesses competent physicians and technical personnel with dependable English speaking skills. With chemists and engineering graduates increasing annually, India enjoys six times the number of trained chemists in the US for a tenth of the cost.
- Superior infrastructure: An enlarging global CRAMS opportunity catalysed massive pharmaceutical industry expansion in India, facilitated by superior telecom and IT infrastructure, enabling rapid and proactive response to global needs.

Decline in R&D productivity over the years



(Source: PhRMA Profile 2008, USFDA)

Country-wise DMF filings (June 2000-07)



(Source: USFDA , Crisil)

Budget measures	Budget impact
• 15% increase in health sector allocation • Increase in the allocation to the National Rural Health Mission to Rs. 12,050 crore • Provision of Rs. 993 crore to the National Aids Control Programme • Rs. 1,042 crore allocation for polio eradication with a focus on high-risk Uttar Pradesh and Bihar districts • Reduction in customs duty from 10% to 5% on certain specified life-saving and bulk drugs • Decline in excise duty on all goods produced, from 16% to 8% • Weighted deduction of 125% on payment to companies engaged in R&D	• Increased allocation, an indication of infrastructure ramp-up for greater access to quality healthcare by a majority of the population • Excise reduction to boost corporate profitability (duty paid on MRP) • Customs duty reduction on life-saving drugs to provide an edge to companies catering to these segments • Weighted deduction, a boost for companies involved in R&D

SCOT analysis of the Indian pharmaceutical industry

Strengths

- Low production cost
- Large installed capacity
- Efficient technologies for a large number of generics
- Large technical manpower
- Liberalised government policies
- High purity standards
- World-class laboratories

Challenges

- Non-availability of major intermediaries for bulk drugs
- Low 1% share of world production corresponding to 16.1% of the world's population
- Nascent biotechnology research and New Drug Discovery Systems
- Relative inexperience in international trade

Opportunities

- Ageing global population
- Increasing incomes
- Growing health awareness and attention
- New therapy approaches
- Increasing awareness for soft medication (OTC drugs)
- Growing use of generic drugs
- Globalisation
- Emerging markets
- Attractive export potential
- Increasing contract manufacturing focus

Threats

- Rising healthcare cost
- Stringent registration procedures
- High entry cost in newer markets
- High cost of sales and marketing
- Growing competition in generic products
- Switch-over from process to product patents

Our presence

Headquartered in Hyderabad (India), Granules' manufacturing facilities are located on the outskirts at Jeedimetla, Bonthapally and Gagillapur. The Company is an integrated pharmaceutical player with API, PFI and formulations manufacturing capabilities. The Company also commissioned an ibuprofen manufacturing facility in China under a joint venture with Hubei Biocause Heilen Pharmaceutical Co. Ltd.

The Company enjoys a 55-country footprint, leveraging regulatory service expertise and offering a one-stop global outsourcing solution. It also has a 100% US subsidiary to specially market in that region.

Type of facility	Location	Capacity	Approval from
API plant (Multi-product)	Jeedimetla	Metformin HCl: 960 MTPA Methocarbamol: 96 MTPA Guaifenesin: 640 MTPA Phenazopyridine HCl: 48 MTPA	USFDA, KFDA, TGA, EDQM
API – (Paracetamol/Acetaminophen)	Bonthapally	8,000 MTPA	USFDA, WHO GMP, EDQM, Infarmed (EU)
PFI – (Multiple small volume facility)	Jeedimetla	1,200 MTPA	USFDA, Australian TGA, German HA
PFI	Gagillapur	7,200 MTPA	USFDA, German HA, Australian TGA
Formulations	Gagillapur	6 billion tablets per annum (scalable to 12 billion tablets per annum)	Infarmed (EU), USFDA
API – (Ibuprofen)	Wuhan, China	3,600 MTPA	USFDA, EDQM, TPD – Canada, MCC, Russian health authorities

Operational review

API division

Overview

The Company's API facilities are located at Jeedimetla and Bonthapally. The Jeedimetla unit manufactures APIs like Metformin, Methocarbamol, Guaifenesin and Phenazopyridine, whereas the Bonthapally unit manufactures APIs like Paracetamol or Acetaminophen.

Highlights, 2007-08

Proper preventive maintenance and production planning resulted in an improved performance during the year, which is reflected in the following:

- Achieved highest production of Metformin HCl (71,608 kgs in June 2008) at the Jeedimetla unit
- Recorded highest sales of 70,800 kgs for Metformin HCl
- Surpassed the 500 MT monthly production mark at Bonthapally unit
- Developed a process for fine crystal grade
- 76% and 73% capacity utilisation at the Jeedimetla and Bonthapally units, respectively

Initiatives

To enhance productivity, the Company modified the process of Phenazopyridine HCl by reducing the reaction process from three stages to 1.5 stage, resulting in cost reduction and improvement in cycle time. Overall, the Company could save a minimum of Rs. 1.24 crore annually.

PFI division

Overview

The Company's PFI facilities are located at Jeedimetla and Gagillapur. It manufactures combination PFIs using multiple APIs. The plants enjoy regulatory approvals from the major regulatory agencies like USFDA, Australian TGA, Canadian TPD and German HA.

Highlights, 2007-08

Thanks to reduced in-process drying time, the Company achieved the following during the year:

- Increased the production of 80 DPL from 9.6 MT to 10.8 MT daily
- 60% and 65% capacity utilisation at the Jeedimetla and Gagillapur units, respectively
- Commercialised Glucosamine products GLU 99 DE and Compresso GLU 80
- Commercialised the site transfer products like PAP 83.3 (Teva)
- Commercialised the IBU 66 S

Initiatives

To enhance productivity and future efficiencies, the Company has set up a new RMG module called Module A. Hence, it is now transferring some of its products from Module B to Module A for better results.

Formulations division

The Company commissioned its tablet facility at Gagillapur in October 2007 with an annual capacity of six billion tablets (scalable to 12 billion tablets annually). The plant enjoys state-of-the-art facilities, automated processes, robust infrastructure and excellent quality systems. It received approvals from TEVA, EuGMP, WHO, San Pharmaceuticals Ltd., Par Pharmaceuticals Ltd., ACTAVIS and A&A.

Highlights, 2007-08

- Despatch of around 300 million tablets
- Quality approvals of IQ, OQ and PQ for all tablet-block machines
- Successful regulatory audits of EuGMP and WHO
- Successful customary audits of TEVA, San Pharmaceuticals Ltd., Par Pharmaceuticals Ltd., ACTAVIS and A&A
- Commercialisation of scale-up batch, qualification batch and validation batch for Acetaminophen, Ibuprofen, Metformin and Paracetamol
- Scale-up and exhibit batches undertaken for 17 more products (including combination products)
- Plant utilisation of about 15-20%, covering scale-up and exhibit batches

Initiatives

The Company undertook the following initiatives to improve productivity and efficiencies:

- Conducted trials to increase compression machine speed through a continuous modification of some parameters
- Increased the solid content and spray rate to reduce coating time
- Trained technicians in daily operations, cleaning and troubleshooting

Raw material management

Granules is a 100% export oriented unit benefiting from duty-free import. It imports a majority of its raw materials from China (highest share), France, Germany, Taiwan, Korea, etc. to avail of price advantages.

The Company conducts raw material cost and quality checks through periodic audits. Since raw materials are sourced in large volumes, the Company can negotiate better. While identifying a new vendor, all quality standards are considered.

The following initiatives strengthened Granules' supply chain:

- Arriving at contracts with varying durations (quarterly, half-yearly and annually)
- Strengthening relationships with dependable manufacturers
- Declining lead time, reducing inventories
- Tracking markets for proactive response

The Company reduced its lead time for high-volume materials by shipping on direct vessels, diminishing the voyage time without any cost increment. Result: Granules procured materials at a short notice; it increased the effective credit period and even reduced inventories.

Research and development

During 2007-08, the Company invested around Rs. 2 crore in R&D, focusing on technology development and transfer for OTC products, OTC ANDA products, rapid release gels and Rx ANDA products. Of 35 projects, development was completed for most, while others were at various development stages. As a result, three ANDAs were submitted, with eight ANDAs in the pipeline to be submitted before July 2009. About five products were commercialised for regular production in Canada, the US and Europe. The development of four rapid release gel formulations was completed and one was commercialised for the Canadian market.

Process capability enhancement of existing products also figured on the agenda; the Company undertook several site transfer projects from global (the EU and the US) customers.

The Company will emphasize the launch of innovative finished dosage forms, increasing productivity in PFI and finished dosage manufacture, besides trimming production costs. Formulations R&D will focus on developing Rx ANDA products for global geographies, while API R&D will emphasize cost reduction and developing cost-effective technologies to commercialise new APIs. Supporting captive consumption for new PFIs and finished dosage forms will constitute the key criteria for selecting new API targets.

Safety, health and environment

Worker health and safety as well as environment preservation, represent a priority for Granules, validated by different environment management plans for liquid effluents, solid waste and air pollutants.

Environment management plans adopted for liquid effluents

- Segregation of effluents as high TDS and low TDS
- Primary treatment facilities to neutralise effluents
- High TDS effluents are subjected to evaporation
- Reverse osmosis system to recycle waste water at the formulations unit
- Photochemical oxidation system for water reuse at the formulations unit
- Regular effluent analysis for COD and TDS to meet statutory regulations

Environment management plans adopted for solid waste

- Secured facility for hazardous waste storage
- Safe disposal of waste to TSDF (Treatment Storage Disposal Facility), a Hyderabad-based waste management project

Environment management plans adopted for air pollution

- Use of scrubbers to scrub gaseous emissions, if any
- Cyclone separators and bag filters provided to boilers to control dust emission from flue gas
- Stack, ambient and workplace monitoring at regular intervals

The following practices also underscore environment cleanliness:

- Rainwater harvesting to recharge and replenish ground water table
- Energy conservation and good house-keeping in plant vicinity
- Acoustic enclosures to prevent noise pollution
- Enhanced greenery in plant premises, minimising pollution

Health and safety

At Granules, employee health and safety management comprise:

- Induction training on safety issues and workplace rules to all employees
- Use of personal protective equipment
- Health centre with modern facilities
- Periodic medical checkups
- Periodic safety committee meetings, trainings and EHS staff monitoring for corrective actions.
- Detailed onsite emergency plan to control emergencies

Human resource management

At Granules, human resource management is all about creating a culture of participatory growth through skill and leadership development, consistent training, succession planning, rewards and recognition systems.

The Company maintains a structured training standard operating procedure. Training needs are identified and analysed at the year-start, followed by matrix preparation for training programmes that upgrade employee skill sets. The Company maintains employee-wise skill records and invites external experts for training. The Company had 521 employees across its plants and offices as on June 30, 2008.

Internal controls

The Company's internal control and documented procedures encompass financial and operating procedures --- providing proper accounting control, monitoring the Company's economic viability and efficiency, and protecting assets from unauthorised use or losses --- to ensure the reliability of financial and operational information. They also ensure that financial and other records are reliable for preparing financial statements, collating other data and maintaining asset accountability. The Audit Committee of the Board of Directors regularly reviews future plans, significant audit findings and adequacy of internal controls, as well as compliance with accounting standards.

Financial analysis

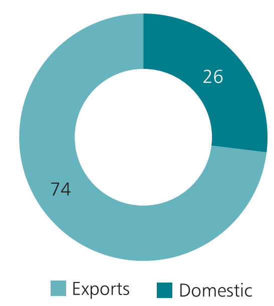
Performance scoreboard for 2007-08 (Rs. in crore)

Particulars	2007-08	Absolute change	% change
Total income	214.83	26.67	14.17
EBIDTA	34.50	0.81	2.40
PAT	9.13	-0.99	-9.74
Cash profit	21.43	-0.02	-0.09
EPS (Rs.)	4.56	-3.07	-40.23

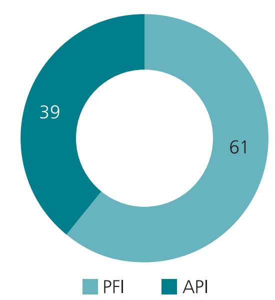
Revenue

Following enhanced marketing to enter unexplored global markets, net sales increased 15.32% from Rs. 185.70 crore in 2006-07 to Rs. 214.15 crore in 2007-08. Exports contributed 73.56% of the turnover, increasing by 16.67% to Rs. 157.52 crore in 2007-08. Domestic sales increased 11.05% from Rs. 59.59 crore in 2006-07 to Rs. 66.18 crore in 2007-08.

Geography-wise revenue distribution *(in %)*



Product-wise revenue distribution *(in %)*



The other income comprising interest, dividend, scrap sale, insurance claims and foreign exchange fluctuation, declined by 72% to Rs. 69 lakhs in 2007-08. The contribution of other income to the total income was less than 1%.

Net profit margin (4.25%) and EBIDTA margin (16.01%) declined by 113 bps and 98 bps in 2007-08, owing to the lead time in revenue generation from new capital investments and an appreciating rupee.

Costs

The total cost (excluding depreciation, interest and finance charges) surged 16.74% from Rs. 154.47 crore in 2006-07 to Rs. 180.33 crore in 2007-08, following increased scale.

Break-up of key cost components

Cost component	% of total expense	% of total income
Raw material costs	69.20	58.08
Manufacturing expenses	15.92	8.18
Marketing and selling expenses	8.33	6.99
Employee cost	6.18	5.18

Raw material costs: The cost of materials consumed increased 16.25% from Rs. 107.34 crore in 2006-07 to Rs. 124.78 crore in 2007-08, following enhanced operations. The proportion of raw material cost, as a percentage of total income, increased marginally by 103 bps to 58.08%, following rupee appreciation for a major part of 2007-08, eroding almost 10% of the topline.

Manufacturing expenses: The manufacturing expenses (excluding salaries and wages) increased by 10.57% from Rs. 15.89 crore in 2006-07 to Rs. 17.57 crore in 2007-08, following a rise in crude prices. The principal manufacturing expenses — power and fuel (47.87% of the total manufacturing expenses) increased by 8.63%, and repair and maintenance charges (20.89% of the manufacturing expenses) decreased by 9.52%.

Marketing and selling expenses: The marketing and selling expenses increased by 16.07% from Rs. 12.94 crore in 2006-07 to Rs. 15.02 crore in 2007-08, although the proportion of marketing expense to total expenses declined by 5 bps.

Employee cost: Employee cost comprising salaries, wages and other employee welfare expenses, increased by 15.42%, following new recruitments.

Capital employed

The capital employed by the Company increased 6% from Rs. 285.19 crore in 2006-07 to Rs. 302.32 crore in 2007-08, on account of an increase in shareholder's funds as well as debt. The Company reported an 11.82% return on average capital employed during the year under review.

Shareholder's funds

Shareholder's funds (equity capital plus reserves and surplus) increased by 3.67% to Rs. 179.17 crore in 2007-08. Equity capital increased from Rs. 20.20 crore in 2006-07 to Rs. 20.23 crore in 2007-08, following 335,200 shares of Rs. 10 each being issued for consideration.

The reserves and surplus are zero-cost funds used in funding requirements. They increased 4.14% during the year as a result of additions to the general reserve, share premium and the carried-forward balance of the Profit and Loss Account.

Free reserves increased 17.95% over the previous year, indicating the Company's increasing self-reliability. The Company generated a net return on net worth of 5.12% during 2007-08 (previous year 5.86%).

External funds

The Company's reliance on external funding increased 8.47% during 2007-08. The Company's debt stood at Rs. 111.08 crore on June 30, 2008, as against Rs. 102.41 crore on June 30, 2007. While secured loans increased 18.66% in 2007-08, unsecured loans declined by 39.79%, following loan pay-off through accruals. The increase in secured loans was mainly on account of funding business growth and expansion. Correspondingly, debt-equity ratio increased from 0.59 to 0.62. However, interest liability declined from Rs. 0.24 crore in 2006-07 to Rs. 0.12 crore in 2007-08, and interest cover improved from 2.80 in 2006-07 to 2.99 in 2007-08.

Gross block

The Company's gross block increased by 10.40% from Rs. 158.79 crore in 2006-07 to Rs. 175.30 crore in 2007-08 as a result of expansions. Gross block utilised was 57.99% of the total capital employed. The Company provided depreciation on Straight-Line Method as per the Companies Act, 1956. The accumulated depreciation, at just 22.34% of the gross block, represented asset newness. Capital work-in-progress increased 29.72% to Rs. 92.54 crore, indicating soon-to-be commissioned projects.

Investments

Investments increased 15.75% from Rs. 18.72 crore in 2006-07 to Rs. 21.67 crore in 2007-08, on account of investments in GIL Lifesciences Pvt. Ltd., a 100% subsidiary.

Working capital

The Company's working capital requirement declined by 26.96% from Rs. 68.05 crore in 2006-07 to Rs. 49.70 crore in 2007-08, following an efficient debtors' management. As a result, working capital, as a proportion of the capital employed, declined from 23.98% in 2006-07 to 16.56% in 2007-08.

Inventory: Inventory increased by 46.60% from Rs. 19.89 crore in 2006-07 to Rs. 29.16 crore in 2007-08. Raw materials formed 33.37% of the inventory, work-in-progress 21.54% and finished goods 37.17%. The inventory cycle increased from 38 days to 39 days of turnover equivalent.

Sundry debtors: Despite expanding operations, debtors declined by 14.04% from Rs. 22.70 crore in 2006-07 to Rs. 19.51 crore in 2007-08. The debtors' cycle declined from 35 days of turnover equivalent to 34 days.

Taxation

The Company's tax liability increased by 9.20% to Rs. 3.68 crore in 2007-08. The current tax for the year increased from Rs. 44 lakhs in 2006-07 to Rs. 1.45 crore in 2007-08. This was due to withdrawal of exemption on EOU profits during the year, while computing tax as per MAT (Minimum Alternate Tax) under the Income Tax Act. The Company, being a 100% export oriented unit, enjoys an effective tax rate of 11.31%.

Forex management

The Company enjoys a significant international exposure. Around 74% of the Company's revenue was derived through exports in 2007-08. Around 70% of its raw material requirement was imported, providing a natural hedge against currency fluctuations. To protect from adverse currency fluctuations, the Company entered into forward contracts, which minimised its forex loss to Rs. 22.63 lakhs at a time of volatile currency movement.

Risk management at Granules

Risk is a tangible business reality with far-reaching commercial and material implications. At Granules, our overarching objective is to reinforce a culture of responsible risk management. Result: business decisions at Granules balance risk and reward, leading to sustainable growth.

Product portfolio risk

Overdependence on a single product or a few selective products can affect growth.

Risk mitigation

- Apart from being a Paracetamol major, the Company also caters to high-margin prescription products like Guaifenesin, Ibuprofen and Metformin.
- A focus on value-addition was reflected in the introduction of new PFI products in 2007-08.
- The Company intends to develop value-added products, combining Paracetamol and Ibuprofen.

Market penetration risk

The Company may yield market share if it does not enter unexplored markets.

Risk mitigation

- At Granules, business development has widened the global footprint.
- Its 55-country presence encompasses Latin America, Europe, Southeast Asia and North America, among others.
- Revenues from international markets accounted for 73% of the Company's aggregate revenue.
- Granules' international alliances for finished dosage and prescription drugs will strengthen its regulated market presence.

Raw material risk

Raw material cost spikes might be detrimental to the Company's bottomline.

Risk mitigation

- The Company maintained an organised cost structure throughout its production process.
- Granules (100% export oriented unit) enjoys duty-free import advantages in the import of raw materials.
- It leverages robust vendor relationships to secure economical rates.
- It enjoys a price protection clause, an insulation against raw material cost fluctuations.

Environment risk

Non-compliance with environment health and safety norms may attract censure from concerned authorities.

Risk mitigation

- Granules' foolproof plans safeguard against solid and liquid waste as well as air-pollution.
- It implemented the best environmental practices at its Gagillapur plant (CII recognised).
- Its class 100,000 R&D facility ensures a dust-free air ambience.
- It encourages employees to follow eco-friendly procedures.
- Rainwater is harvested to recharge and replenish ground water; a green belt was created in the plant to neutralise pollution.
- Despite capacity expansion, effluent generation levels were arrested at moderate levels.

Regulatory risk

The Company may not receive regulatory approvals for its new formulations plant.

Risk mitigation

- Granules ranks among the four global companies to receive product approvals from all the three major regulatory agencies – USFDA, German Health Authority and TGA.
- The Company's facilities are internationally benchmarked; even the new facility at Gagillapur received the EuGMP approval.

Outlook

An integrated presence across all verticals, combined with economies of scale, signifies the biggest competitive edge for Granules. Scale also ensures sufficient capacities to cater to the emerging demand. At present, the Company focuses on existing capacity consolidation and business development to generate optimal returns.

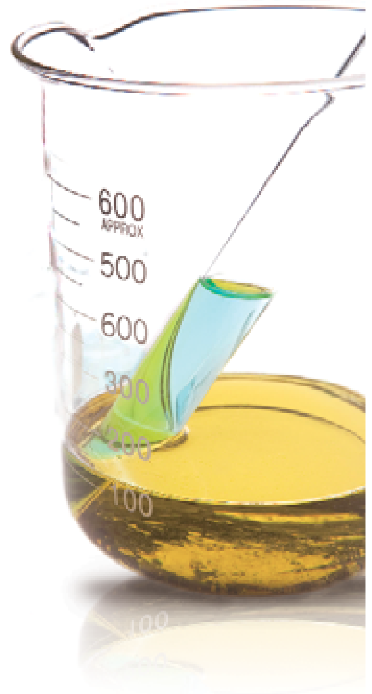
Financial summary

(Rs. in crore)

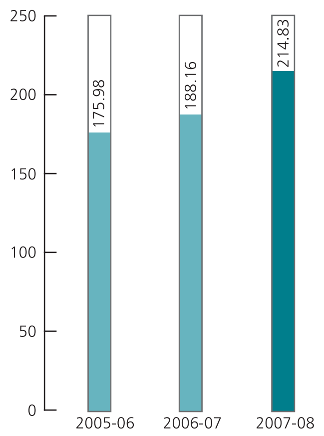
Particulars	2005-06	2006-07	2007-08
Sales	175.47	185.70	214.15
Non-manufacturing income	0.51	2.46	0.68
Total income	175.98	188.16	214.83
Raw materials	111.49	107.34	124.78
Manufacturing expenses	17.75	25.54	28.71
Gross profit	46.74	55.28	61.34
Overheads and all other expenses	19.95	21.59	26.84
PBDIT	26.79	33.69	34.50
Interest	10.25	12.03	11.97
PBDT	16.54	21.66	22.53
Depreciation	5.21	8.18	9.72
Pre-tax profit	11.33	13.48	12.81
Current tax	0.29	0.44	1.45
Deferred tax	1.72	2.83	2.11
Fringe benefit tax	0.08	0.09	0.12
Post-tax profit	9.24	10.12	9.13
Equity capital	12.37	20.20	20.23
Reserves (excluding rev. reserve)	70.20	152.62	158.94

(Rs. in crore)

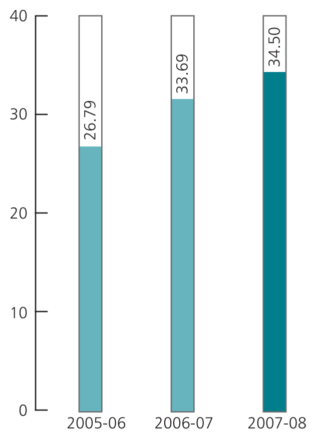
Particulars	2005-06	2006-07	2007-08
Sources of funds			
Equity share capital and share application money	13.76	21.71	21.74
Reserves and surplus	70.20	152.62	158.94
Net worth	83.96	174.33	178.41
Secured loans	69.86	84.55	100.33
Unsecured loans	10.85	17.86	10.75
Deferred tax liability	5.60	8.45	10.55
Total liabilities	170.27	285.19	302.32
Application of funds			
Gross block	141.45	158.79	175.30
Less: Depreciation	22.72	30.59	39.16
Net block	118.73	128.20	136.14
CWIP	23.69	71.34	92.54
Net block + CWIP	142.42	199.54	228.68
Investments	0.53	18.72	21.67
Total current assets	51.56	85.79	73.02
Less: Total current liabilities	25.96	20.36	23.32
Net current assets	25.60	65.43	49.70
Deferred expenditure	1.72	1.50	2.27



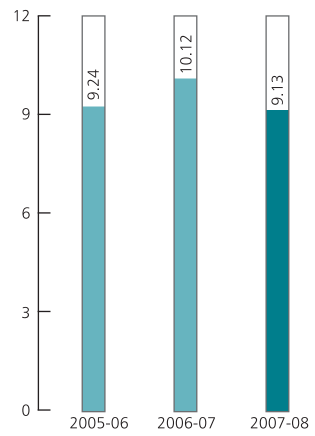
Revenues *(Rs. in crore)*



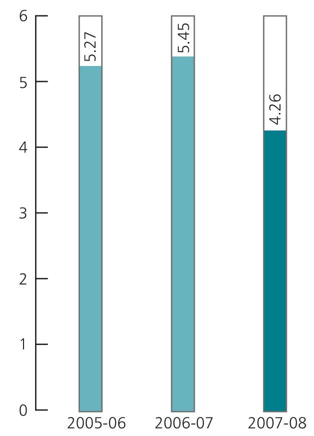
EBIDTA *(Rs. in crore)*



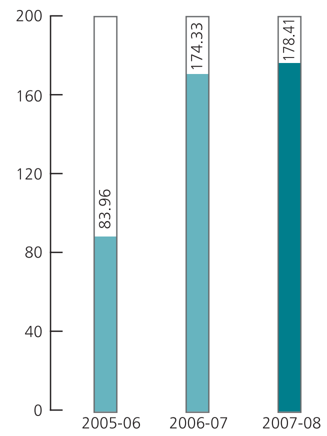
PAT *(Rs. in crore)*



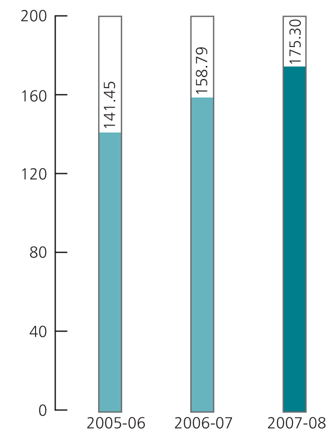
PAT margin *(in %)*



Net worth *(Rs. in crore)*



Gross block *(Rs. in crore)*



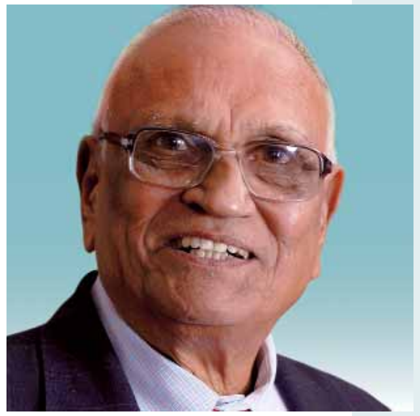
Board of Directors


Dr. C. Nageswara Rao, *Chairman*


Shri C. Krishna Prasad, *Managing Director*


Shri A.P. Kurian, *Director*


Shri N.R. Ganti, *Director*


Shri L.S. Sarma, *Director*


Shri Stephen R. Olsen, *Director*

Corporate Information

Board of Directors

Dr. C. Nageswara Rao	*Chairman*
L.S. Sarma	*Director*
A.P. Kurian	*Director*
N.R. Ganti	*Director*
Stephen R. Olsen	*Director*
C. Krishna Prasad	*Managing Director*

Registered Office

Second Floor, Block III
My Home Hub, Madhapur
Hyderabad - 500 081
Ph: 91-40-66760000; Fax: 91-40-23115145
E-mail: investorrelations@granulesindia.com

Auditors

M/s. Kumar & Giri
Chartered Accountants
D.No. 1-11-126/D
Opp. Aeroview Towers
Begumpet
Hyderabad - 500 016

Bankers

Andhra Bank
ING Vysya Bank
IndusInd Bank
Bank of Baroda
Union Bank of India
Export-Import Bank of India
State Bank of Travancore
International Finance Corporation

Share Transfer Agents

CIL Securities Limited
214, Raghava Ratna Towers, Chirag
Ali Lane, Abids, Hyderabad - 500001
Ph: 91-40-66661267, 91-40-66661276

Plant Locations

Plot No. 15/A/1, Phase-III
I.D.A. Jeedimetla, Hyderabad - 500 055

Temple Road, Bonthapally
Medak District, A.P. - 502 313

Gagillapur, Qutubullapur Mandal
R.R. District, A.P. - 500 043

R & D Centre

Gagillapur, Qutubullapur Mandal
R.R. District, A.P. - 500 043.

Directors' Report

Dear members

The Directors submit the Annual Report of the Company together with the audited statement of accounts for the year ended June 30, 2008.

1. Financial results

Particulars	2007-08 (Rs. lakhs)	2006-07 (Rs. lakhs)
Sales	21,414.65	18,570.10
Other income	68.51	246.31
Total income	21,483.16	18,816.41
Expenditure before depreciation, interest and tax	18,032.71	15,447.16
Interest and finance charges	1,197.21	1,202.85
Depreciation and amortisation	972.09	817.73
Profit before tax	1,281.15	1,348.67
Provision for taxes including deferred tax and FBT	367.70	336.70
Profit after tax	913.45	1,011.97
Add: surplus brought forward	3,324.03	2,630.90
Surplus available	4,237.48	3,642.87
Appropriations		
Dividend	250.71	250.29
Tax on distributed profits	42.60	42.54
Transfer to general reserve	23.00	27.00
Balance carried to balance sheet	3,921.17	3,323.04

2. Changes in share capital

During the financial year 2007-08, 33,520 equity shares were issued and allotted to the employees consequent to the exercise of the stock options issued by the Company, which resulted in an increase in the paid-up equity share capital from Rs. 20,02,36,340 to Rs. 20,05,71,540.

In accordance with the resolution passed by the shareholders at the Extraordinary General Meeting held on February 17, 2007, the Committee of the Board allotted 16,00,000 warrants at Rs. 94.50 per warrant, convertible into equity shares of Rs. 10 each to the promoters of the Company. On the said warrants, 10% of the value i.e., Rs. 1,51,20,000 was received towards application money. As on June 30, 2008, the entire 16,00,000 warrants were outstanding.

The said warrants were not exercised by the applicants before the due date i.e. September 27, 2008 and consequently, the entire application amount of Rs. 1,51,20,000 received from the applicants was forfeited to the Company.

3. Dividend

In view of the Company's profitable performance, the Directors are pleased to recommend for approval of the shareholders, a dividend of 12.5% on 2,00,57,154 equity shares (face value of Rs. 10 each) of the Company in respect of the financial year 2007-08. The dividend, if declared as above, would involve an outflow of Rs. 250.71 lakhs towards dividend and Rs. 42.61 lakhs towards dividend tax, resulting in a total outflow of Rs. 293.32 lakhs. Under the Income Tax Act, 1961, the dividend will be tax free in the hands of the shareholders.

4. Transfer to reserves

The Company proposes to transfer Rs. 23 lakhs to the general reserve out of the amount available for appropriations. After the appropriations, it is proposed that Rs. 597.13 lakhs be retained from the current year's profits.

5. Operating results

The Company has achieved a turnover of Rs. 21,414.65 lakhs, showing a significant 15% growth compared with that of the previous year. The operating profit during the year has increased 13% to Rs. 6,065.95 lakhs. Profit after tax has decreased 10% to Rs. 913.45 lakhs.

6. Funding

Your Company has availed the sanctioned loan of US$ 9 million from the International Finance Corporation (IFC).

7. Research and development

R&D at Granules India, a service organisation, is catering to our in-house product development requirements for both PFI and finished dosage. Our in-house development philosophy aims to collaborate and offer a business model of delivering end-to-end solutions for OTC – monograph, OTC ANDA and prescription products.

During the year, the Company's R&D developed many new products with novel formulations that deliver superior customer value and better consumer appeal. Process technology development for new API launch and cost reduction of currently produced APIs were focused on.

Granules provide comprehensive drug development resources and solutions for pre-formulation, formulation development, analytical development, cGMP scale-up, stability and also coordinate bioavailability, bioequivalence studies for regulated and emerging markets.

8. Directors

Pursuant to Article 51 of the Articles of Association of the Company, Shri L. S. Sarma and Shri A. P. Kurian, Directors, will retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment. Your Board of Directors recommends their re-appointment.

Brief profiles of Shri L. S. Sarma and Shri A. P. Kurian, the nature of their expertise in specific functional areas and the number of companies in which they hold directorships and memberships / chairmanships of committees of the board, as stipulated under Clause 49 of the Listing Agreement with the stock exchanges, have been provided in the section on Corporate Governance in this Annual Report.

9. Corporate Governance report and Management Discussion and Analysis

A report on Corporate Governance is attached to this Report as is a Management Discussion and Analysis statement.

10. Directors' responsibility statement

Pursuant to the requirement of Section 217 (2AA) of the Companies Act, 1956 and based on the representations received from the operating management, the Directors hereby confirm that:

i. the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed;

ii. appropriate accounting policies have been applied consistently. Judgement and estimates that are reasonable and prudent have been made, so as to give a true and fair view of the state of affairs the profits of the Company as at the end of the financial year.

iii. proper and sufficient care has been taken 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.

iv. the annual accounts have been prepared on a going concern basis.

11. Subsidiary company, Granules USA Inc.

Granules USA Inc., a wholly owned subsidiary company, operates for the marketing requirements of the Company in USA. During 2007-08, the subsidiary company achieved a turnover of Rs. 5,508.52 lakhs.

The relevant particulars of Granules USA Inc. and the consolidated final accounts for the year ended June 30, 2008, in accordance with the Accounting Standard AS-21 on Consolidated Financial Statements, read with Accounting Standard AS-23 on Accounting for Investment in Associates, are appended to this report.

12. Joint venture company: Granules-Biocause Pharmaceutical Co. Ltd.

During the year under review, the joint venture company has commenced commercial operations. At a 50% share, joint venture achieved a turnover of Rs. 3,818.47 lakhs.

13. Auditors

M/s. Kumar & Giri, Chartered Accountants, who are the statutory auditors of the Company hold office, in accordance with the provisions of the Companies Act, 1956, up to the conclusion of the forthcoming Annual General Meeting and have confirmed their eligibility and willingness for re-appointment.

14. Cost auditors

Mr. E. Vidya Sagar, Cost Accountant, was appointed as the cost auditor of the Company, subject to the consent of the Government of India to conduct cost audits of the bulk drugs division of the Company for 2008-09.

15. Fixed deposits

Your Company has not accepted any public deposits and, as such, no amount on account of principal or interest on public deposits was outstanding on the date of balance sheet.

16. Conservation of energy and technology absorption

The particulars as prescribed under section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out in Annexure I to this report.

17. Human resources

Your Company enjoys cordial employee relations, marked by empowerment and delegation. In view of this need, the Company approved an Employee Stock Option Plan and implemented the Granules India Equity Option Plan 2002, framed and implemented in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Regulations 1999.

18. Particulars of employees

Information as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, are given in Annexure II to this report.

19. Employee Stock Option Plan

Your Company implemented the Granules India Equity Option Plan 2002 with the objective of enhanced employee commitment.

The details of the stock options granted under the Granules India Equity Option Plan 2002, including grants to senior management (comprises all Independent Directors), are given below:

	Description	Details
A	Total number of shares	3,91,082 – one share represents one option
B	Pricing formula	At the fair market value as on the date of the grant
C	Options granted during the year	Nil
D	Options vested during the year	41,520
E	Options exercised during the year	33,520
F	Total number of shares arising as a result of exercise of options	33,520
G	Options lapsed during the year	1,04,100
H	Variation of terms of options	Not applicable
I	Money realised by exercise of options during the year	Rs. 15,01,780
J	Total number of options in force	45,500
K	Options granted to the Independent Director during the year	Nil
L	Employees who were granted options amounting to 5% or more of the options granted during the year.	Nil
M	Employees who were granted options in any one year equal to or exceeding 1% of the issued capital of the Company at the time of grant.	Not applicable

20. Transfer of unpaid / unclaimed dividend to Investor Education and Protection Fund (IEPF)

Pursuant to the provisions of Section 205A (5) of the Companies Act, 1956, the dividends declared for the year 1999-2000 and which remained unpaid / unclaimed for a period of seven years has been transferred to the credit of the Investor Education and Protection Fund (IEPF), established by the Central Government pursuant to Section 205C of the said Act.

21. Related party transactions

As a matter of policy, your Company carries out transactions with related parties on an arms- length basis. Statement of these transactions is given in the Notes to Accounts in compliance with Accounting Standard AS – 18.

22. Acknowledgement

The Directors thank the Company's customers, vendors, investors, business associates, bankers and financial institutions for their support.

The Directors also thank the Government of India and the Governments of various countries, the concerned State Governments and other government Departments and governmental Agencies for their cooperation.

The Directors place on record their appreciation of the contributions made by every member of the Granules family.

On behalf of the Board of Directors

Place: Hyderabad
Date: October 20, 2008

Dr. C. Nageswara Rao
Chairman

Annexure - I to Directors' Report

Particulars under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the year ended June 30, 2008.

FORM A – Particulars of conservation of energy

A. Power and fuel consumption

Particulars	For the year ended June 30, 2008	For the period ended June 30, 2007
1. Electricity		
Unit (kwh)	1,07,22,128.00	96,77,163.00
Total amount (Rs. in lakhs)	360.72	354.29
Rate/unit (Rs.)	3.36	3.66
Rate/kg of production (Rs.)	2.89	3.31
2. Own generation from diesel generator		
Unit (kwh)	5,15,886.00	5,89,626.00
Total amount (Rs. in lakhs)	75.01	92.00
Rate/unit (Rs.)	14.54	15.60
Unit/kg of production (Rs.)	0.04	0.06
Rate/kg of production (Rs.)	0.60	0.86
3. Coal		
Quantity (MT)	6,336.19	4,263.03
Total cost (Rs. in lakhs)	240.86	158.78
Rate/unit (Rs.)	3.80	3.72
Rate/kg of production (Rs.)	1.99	4.06
4. Furnace oil, LSHS and LD oil		
Quantity (kltrs.)	775.17	1,303.32
Total cost (Rs. in lakhs)	164.09	168.81
Average/kltrs. (Rs.)	21.17	12.95
Rate/kg of production (Rs.)	2.66	2.48

B. Consumption per unit of production

Particulars	Standards	Current year	Previous year
Products (with details) unit Electricity Furnace oil Coal	Since the Company manufactures a wide range of bulk drugs and granulations, it is not practicable to give consumption per unit of production.		

FORM B – Particulars of absorption

Technology absorption, adaptation and innovation

Research and development (R&D)

1. Specific areas in which R&D work has been carried out by the Company

During 2007-08, R&D at Granules focused on the development and transfer of technology for various OTC products, OTC ANDA products, rapid release gels and Rx ANDA products. The Company's R&D Department has also initiated focus on enhancing the process capability of existing products. R&D also undertook several site transfer projects from different global (EU and USA) customers.

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

About 35 projects were taken for development, of which most have been completed and others are in various stages of development. As a result of the R&D, three ANDAs have been submitted and eight ANDAs are in the pipeline, to be submitted before July 2009. About five products have been commercialised for regular production for Canada, USA and European markets. Development of four rapid release gel formulations has been completed and one has been commercialised for the Canadian market.

3. Future plan of action

Formulations R&D will continue to emphasize the launch of innovative finished dosage forms, increasing productivity in PFI and finished dosage manufacturing, and lowering production costs. Also, formulation R&D focuses on developing Rx ANDA products for various global markets. API R&D will continue to emphasize cost reduction and developing cost advantaged technology to commercialise new APIs. Supporting captive consumption for new PFIs and finished dosage forms will be a key criterion for choosing new API targets.

4. Expenditure on R&D

The expenditure on R&D during the year 2007-08 was around Rs. 200 lakhs.

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

- New cold shrink technology absorption for encapsulation of rapid release gels.
- New technology absorption for banding and branding of hard gelatine capsules.
- Improved performance and capacity in tablet compression and coating process.
- Improved performance and capacity of key unit operations in the granulation facility.

2. Benefits derived as a result of the above efforts

- Shrink technology is highly innovative and the returns will be high.
- Better productivity which would lead to reduced overhead costs.

3. Imported technology

There is no import of technology.

FORM C – Foreign exchange earnings and outgo

(Rs. in lakhs)

Particulars	2007-08	2006-07
Foreign exchange earnings	15,142.40	12,773.98
Foreign exchange outgo	8,941.88	9,965.15

On behalf of the Board of Directors

Place: Hyderabad
Date: October 20, 2008

Dr. C. Nageswara Rao
Chairman

Annexure - II to Directors' Report

Information pursuant to Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975

Name	Age (yrs)	Qualification	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration (Rs. lakhs)	Last employment
Mr. Bhaskar Krishna Arumugam	37	B.Tech (Chemical), MBA, Ph.D	Chief Operating Officer	04.04.2007	12	36	Eastman Chemical Co. Kingsport, USA
Mr. Manoj Agarwal *	39	CA, ICWA	Finance Controller	04.06.2007	10	24	Strides Acrolabs, Bangalore

* Resigned and relieved from the services of the Company w.e.f 05/07/2008

Notes:

1. Remuneration includes salaries, allowances, Company contribution to provident fund and perquisites.
2. The nature of employment of the above employees is permanent.
3. None of the above employees are related to any Director of the Company.

On behalf of the Board of Directors

Place: Hyderabad
Date: October 20, 2008

Dr. C. Nageswara Rao
Chairman

Declaration regarding compliance with the Code of Conduct of the Company by Board Members and senior management personnel

This is to confirm that the Company has adopted a Code of Conduct for the Board of Directors and senior management personnel, which is available at www.granulesindia.com.

I declare that the Board of Directors and senior management personnel have affirmed compliance with the Code of Conduct of the Company.

Place: Hyderabad
Date: October 20, 2008

C. Krishna Prasad
Managing Director

Corporate Governance

I. Company's philosophy on Corporate Governance

The Company believes that all its activities should reflect good corporate governance practices. This would ensure efficient conduct of the affairs of the Company and help it maximise value for all its stakeholders. The Company will continue to employ its resources, strengths and strategies to achieve its vision, while upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the Company.

The Company follows a tradition of fair, transparent and ethical governance practices. It is in compliance with the requirements of the revised guidelines on corporate governance stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges. The Company's Corporate Governance philosophy has been further strengthened through the Code of Conduct and the Code of Conduct for Prevention of Insider Trading.

II. Board of Directors

i) The Company has a non-executive chairman and the number of its Independent Directors at 50% is more than one-third of the total number of Directors. The number of Non-Executive Directors (NEDs) at 83% is more than 50% of the total number of Directors. The composition of the Board is in conformity with Clause 49 of the Listing Agreement entered into with the Stock Exchanges.

ii) None of the Directors on the Board is a member of more than 10 committees or a chairman of more than five committees as specified in Clause 49, across all the companies in which he is a Director. The Directors have made necessary disclosures regarding committee positions in other public Companies as on March 31, 2008.

iii) The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of Directorships and committee chairmanships / memberships held by them in other companies is given below. Other Directorships do not include alternate Directorships, Directorships of private limited companies and of companies incorporated outside India. Chairmanship / membership of Board committees includes only Audit and Shareholders' / Investors' Grievance Committees.

Name	Category	No. of Board Meetings during the year 2007-08		Whether attended last AGM	No. of Directorships in other public companies	No. of Committee positions held in public companies	
		Held	Attended			Chairman	Member
Dr. C. Nageswara Rao, (Chairman)	Non-Independent, Non-Executive	6	6	Yes	–	–	1
Shri C. Krishna Prasad, (Managing Director)	Non-Independent, Executive	6	6	Yes	–	–	2
Shri L. S. Sarma	Independent, Non-Executive	6	6	Yes	3	1	3
Shri A. P. Kurian	Independent, Non-Executive	6	4	No	4	–	4
Shri N. R. Ganti	Independent, Non-Executive	6	6	Yes	2	1	3
Mr. Stephen R Olsen	Non-Independent Non-Executive	6	4	No	–	–	–

iv) Six Board Meetings were held during the year and the gap between two meetings did not exceed four months. The dates on which the Board meetings were held are as follows: July 30, October 27, November 28, December 29 in 2007 and January 24 and April 30 in 2008.

III. Audit Committee

i) The composition, procedures, powers and role of the Audit Committee constituted by the Board comply with the requirements of Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956.

ii) The terms of reference of the Audit Committee are broadly as under:

a. Overview of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements reflect a true and fair position and that sufficient and credible information is disclosed.

b. Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.

c. Reviewing the financial statements and draft audit report, including quarterly / half yearly financial information.

d. Reviewing with the management, the annual financial statements before submission to the Board, focusing primarily on:

- the changes in accounting policies and practices;
- major accounting entries based on exercise of judgment by management;
- qualifications in draft audit report;
- significant adjustment arising out of audit;
- the going concern assumption;
- compliance with accounting standards;
- compliance with the stock exchanges and legal requirements concerning financial statements;
- any related party transactions as per Accounting Standard 18.

e. Reviewing with the management, external and internal auditors, the adequacy and compliance of internal control systems.

f. Reviewing the adequacy of internal audit functions.

g. Discussion regarding any significant findings and follow up thereon with internal auditors.

h. Reviewing the findings of internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

i. Discussion with external auditors before the audit commences is dependant on the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

j. Reviewing the Company's financial and risk management policy.

iii) The composition of the Audit Committee and particulars of meetings attended by the members of the Audit Committee are given below:

Name	Category	Number of meetings during the year 2007-08	
		Held	Attended
Shri L. S. Sarma, Chairman	Independent, Non-Executive	6	6
Shri N. R. Ganti	Independent, Non-Executive	6	6
Shri A. P. Kurian	Independent, Non-Executive	6	4
Shri C. Krishna Prasad	Non-Independent, Executive	6	6

iv) Six Audit Committee meetings were held during the year. The dates on which the said meetings were held are as follows: July 30, October 27, November 28 and December 29 in 2007 and January 24 and April 30 in 2008.

v) The Audit Committee meetings are usually attended by the Chief Finance Officer and the representatives of the statutory auditors and internal auditors. Shri L. S. Sarma, the Chairman of the Audit Committee attended the previous Annual General Meeting of the Company held on December 29, 2007.

IV. Compensation & Remuneration Committee

The Compensation Committee was constituted in 2002 to administer the Company's Employee Stock Option Scheme. The Remuneration Committee was constituted to determine and recommend to the Board of Directors, a suitable remuneration package payable to Executive Directors, which may be approved by the Board of Directors subject to the consents as may be required.

The Board of Directors at their meeting held on December 29, 2007, reconstituted the Compensation Committee by merging the Remuneration Committee and the Compensation Committee. Consequently, the Compensation Committee has been renamed "Compensation & Remuneration Committee"

i) The Compensation & Remuneration Committee administers the Employee Stock option Scheme and deals with all elements of remuneration packages, stock options, service contracts and other terms and conditions of the Executive Directors and senior management.

ii) The Committee presently comprises three Independent, Non-Executive Directors and one Executive Director. Shri L. S. Sarma, Independent Director is the Chairman of the Committee.

iii) The remuneration policy is directed towards rewarding performance, based on a review of achievements on a periodical basis. The remuneration policy is in consonance with the existing industry practices.

iv) During the year 2007-08, no meetings of the Compensation & Remuneration Committee were held.

v) Prior to reconstitution, two meetings of the Compensation Committee were held during the year 2007-08 on July 30 and December 29, 2007. The details of the meetings attended by its members are given below:

Name	Category	Number of meetings during the year 2007-08	
		Held	Attended
Shri L. S. Sarma, Chairman	Independent, Non-Executive	2	2
Shri N. R. Ganti	Independent, Non-Executive	2	2
Shri C. Krishna Prasad	Non-Independent, Executive	2	2

vi) Details of remuneration to the Directors during the financial year 2007-08:

a) Executive Director (Rs. in lakhs)

Name	Salary	Perquisites	Commission	Total
Shri C.Krishna Prasad	30	10	25.45	66.35

b) Non-Executive Directors: The Company paid a sitting fee of Rs. 5,000 for attending each meeting of the Board of Directors and other Committee meetings except Share Transfer and Shareholders' / Investors' Grievance Committee for which a sitting fee of Rs. 2,500 was paid per meeting.

Name	Sitting fees (Rs.)
Dr. C. Nageswara Rao	47,500
Shri L.S. Sarma	70,000
Shri A.P. Kurian	40,000
Shri N. R. Ganti	1,22,500

V. Share Transfer and Shareholders' / Investors' Grievance Committee

i) A Share Transfer and Shareholders' / Investors' Grievance Committee of Directors was constituted to specifically look into the matters of investors' grievances such as transfer, transmission, split and consolidation of investors' holdings, replacement of lost / mutilated / stolen share certificates, dematerialisation of shares, non-receipt of dividends / notices / annual reports and change of addresses, etc. The main objective of the Committee is to strengthen the investors' relations.

ii) The Committee meets every fortnight and during the year 2007-08, 22 meetings were held. During the year, no complaints were received from the shareholders.

iii) The composition of the Committee and the details of meetings attended by its members are given below:

Name	Category	Number of meetings during the year 2007-08	
		Held	Attended
Shri N. R. Ganti, Chairman	Independent, Non-Executive	22	21
Dr. C. Nageswara Rao	Non-Independent, Non-Executive	22	7
Shri C. Krishna Prasad	Non-Independent, Executive	22	16

iv) The Company Secretary is the Compliance Officer for the Company.

v) Number of shareholders' complaints received so far – Nil

vi) Number of problems not solved to the satisfaction of the shareholders – Not applicable

vii) Number of pending complaints – Nil

VI. Other committees

Management Committee

The Board has constituted a Management Committee to advice on all matters related to the management of the Company.

Three meetings of the Committee were held during the year 2007-08, on October 26, in 2007, and January 23 and June 13, in 2008. The composition of the Committee and the details of meetings attended by its members are given below:

Name	Category	Number of meetings during the year 2007-08	
		Held	Attended
Shri N. R. Ganti, Chairman	Independent, Non-Executive	3	3
Shri L. S. Sarma	Independent, Non-Executive	3	3
Shri C. Krishna Prasad	Non-Independent, Executive	3	3

VII. General body meetings

Particulars of the last three Annual General Meetings:

AGM	Year	Location	Date	Time	No. of special resolutions passed
16th	2007	Chancery Hall, Hotel Green Park Ameerpet, Hyderabad	29.12.2007	4.00 pm	None
15th	2006	West Minister Hall, Hotel Central Court, Lakdi Ka Pool, Hyderabad	28.12.2006	4.00 pm	None
14th	2005	West Minister Hall, Hotel Central Court, Lakdi Ka Pool, Hyderabad	05.12.2005	4.00 pm	Three

For the year ended June 30, 2008, there have been no resolutions passed through postal ballot. At the ensuing Annual General Meeting, there is no resolution proposed to be passed through postal ballot.

VIII. Disclosures

i) There are no materially significant related party transactions, which have potential conflict with the interests of the Company at large.

ii) The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters related to capital markets; no penalties or strictures have been imposed on the Company by the stock exchanges or SEBI or any other statutory authorities relating to the above.

iii) The Company has fulfilled the following non-mandatory requirements as prescribed in Annexure I D to Clause 49 of the Listing Agreement with the stock exchanges:

(a) The Company has set up a Compensation & Remuneration Committee. Please see the paragraph on Compensation & Remuneration Committee for details.

(b) The statutory financial statements of the Company are unqualified.

iv) **Secretarial audit**

A qualified, practicing Company Secretary carried out secretarial audit to reconcile the total admitted capital with the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit report confirms that the total paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialised shares held with the NSDL and the CDSL.

IX. Means of communication

The quarterly, half-yearly and annual financial results of the Company are communicated to the stock exchanges immediately after the same are approved by the Board and are published in the prominent English and Telugu newspapers namely, DNA Money (Mumbai, Surat, Pune and Ahmedabad editions), Financial Express and Andhra Prabha. The results are also displayed on the Company's website, www.granulesindia.com besides the SEBI web site, www.sebiedifar.nic.in. Press releases made by the Company from time to time are also displayed on the website. The management discussion and analysis report forms part of this report and is provided elsewhere in this report.

X. General shareholder information

i) Annual General Meeting

Date	:	December 19, 2008
Time	:	4.00 pm
Venue	:	Hotel Green Park, Green Lands Ameerpet, Hyderabad.

ii) Financial year

July 1, 2007 to June 30, 2008

iii) Date of book closure

December 17, 2008 to December 19, 2008 (both days inclusive)

iv) Dividend payment

The final dividend, if declared, shall be paid / credited on or before January 17, 2009

v) Listing on stock exchanges

Bombay Stock Exchange Limited (BSE)

National Stock Exchange of India Limited (NSE)

vi) Stock codes / symbol

At BSE : 532482

At NSE : GRANULES

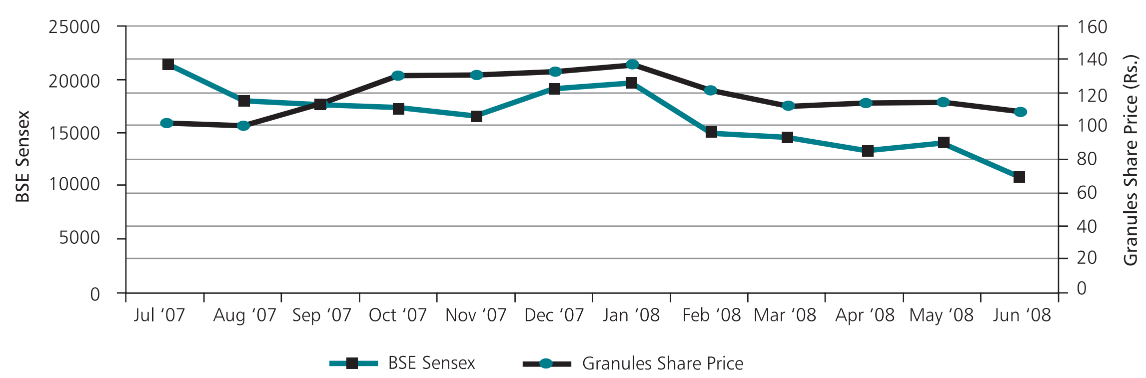
vii) Market price data

High, low (based on the closing prices) and number of shares traded during each month in the last financial year on BSE and NSE are as follows:

Month	BSE			NSE		
	High	Low	Volume	High	Low	Volume
July 2007	136.00	112.20	11,36,768	145.00	113.00	12,52,908
August 2007	113.70	95.00	2,74,202	113.00	95.10	3,62,285
September 2007	111.00	99.10	2,42,063	110.90	99.20	3,71,787
October 2007	109.40	86.00	4,79,432	110.00	80.05	7,72,105
November 2007	104.95	95.10	3,25,991	108.45	95.25	6,71,111
December 2007	122.00	94.80	23,64,338	122.00	92.00	30,83,627
January 2008	125.70	68.50	10,86,223	126.00	69.00	14,05,699
February 2008	93.85	79.00	2,68,772	99.00	79.00	6,20,167
March 2008	92.10	64.10	2,58,781	92.95	64.80	5,17,276
April 2008	83.90	71.60	1,20,269	84.00	70.70	1,86,384
May 2008	87.80	66.60	1,19,891	81.90	67.00	2,52,543
June 2008	69.75	53.00	1,10,844	72.00	51.50	2,17,721

viii) Performance of share price of the Company in comparison with BSE Sensex

Granules share price and Sensex movement



ix) Registrar and transfer agents

M/s. CIL Securities Limited has been appointed as the registrars and transfer agents and depository transfer agents of the Company. Any request pertaining to investors' relations may be addressed to the following address:

CIL Securities Limited
214, Raghva Ratna Towers
Chirag Ali Lane, Abids
Hyderabad – 500 001
Phone No: 91-40-23202465 / 66661276
Fax No: 91-40-23203028 / 66661267
Email: advisors@cilsecurities.com
Website: www.cilsecurities.com

Investors' Correspondence may also be addressed to:

The Company Secretary
Granules India Limited
2nd Floor, 3rd Block, My Home Hub
Madhapur, Hyderabad - 500081
Tel: 91-40-66760000 Fax: 91-40-23115145
E-mail : companysec@granulesindia.com

x) Share transfer system

Share transfers are processed by the registrar and share transfer agents and approved by the Share Transfer Committee depending on the volume of transfers.

Presently, the share transfers received in physical form are processed and the share certificates returned within a period of 15 days from the date of receipt, subject to the documents being valid and complete in all respects.

xi) Shareholding

a) Distribution of shareholding as on

Shareholding of nominal value	June 30, 2008				June 30, 2007			
	Number of shareholders		Number of shares		Number of shareholders		Number of shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5,000	20,262	99.41	45,69,620	22.78	13418	99.27	33,07,023	16.51
5,001 – 10,000	56	0.27	3,92,787	1.96	39	0.29	2,80,062	1.40
10,001 – 20,000	30	0.15	4,28,845	2.14	20	0.15	3,07,856	1.54
20,001 – 30,000	10	0.05	2,30,861	1.15	10	0.07	2,43,508	1.22
30,001 – 40,000	0	0.00	0	0.00	2	0.01	69,754	0.35
40,001 – 50,000	2	0.01	85,447	0.43	4	0.03	1,83,602	0.92
50,001 – 1,00,000	4	0.02	2,51,472	1.25	7	0.05	5,47,360	2.73
1,00,000 and above	19	0.09	14,09,8122	70.29	17	0.13	1,50,84,469	75.33
Total	20,383	100.00	2,00,57,154	100.00	13,517	100.00	2,00,23,634	100.00

b) Distribution pattern as on June 30, 2008

Category	Number of shares held	Percent to capital	Number of members
Promoters / Associates	59,36,691	29.60	19
Mutual funds, banks and FIIs	9,25,628	4.62	7
Bodies corporate	71,89,414	35.84	418
Individual shareholders	54,32,381	27.08	19,938
GDRs	5,73,040	2.86	1
Total	2,00,57,154	100	20,383

xii) Dematerialisation of shares and liquidity

The Company's shares are compulsorily traded in dematerialised form and are available for trading on both the depositories in India viz. the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL). Equity shares of the Company representing 77.06% of the Company's share capital are dematerialised as on June 30, 2008.

The Company's shares are regularly traded on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited, in electronic form.

Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE101D01012.

xiii) Outstanding GDRs / ADRs / warrants

Out of the 37,61,007 GDRs issued during the year 2004-05, 5,73,040 GDRs were outstanding as on June 30, 2008.

The shareholders of the Company at the Extraordinary General Meeting held on February 17, 2007, have accorded their approval for issue of warrants convertible into equity shares on a preferential basis to Mrs. C. Uma Devi, Mr. C. Harsha, Ms. C. Pragnya and Ms. C. Priyanka, all belonging to the Promoter group. Consequently, the Committee of the Board at its meeting held on March 28, 2007 had allotted 16,00,000 warrants convertible into 16,00,000 equity shares. As on June 30, 2008, the entire 16,00,000 warrants were outstanding.

The said warrants were not exercised by the applicants before the due date i.e. September 27, 2008 and consequently, the entire application amount of Rs.1,51,20,000 received from the applicants had been forfeited to the Company.

xiv) Plant locations

a. Plot no. 15/A/1, Phase III, I.D.A. Jeedimetla, Hyderabad-500 055

b. Temple Road, Bonthapally, P.O. Jinnaram (M), Medak-502 313

c. Plot no. 160/A & 161/E, Gagillapur Village, Qutubullapur Mandal, R R District-500 043

R&D centre

Plot no. 160/A & 161/E, Gagillapur Village, Qutubullapur Mandal, R R District-500 043

xv) Address for correspondence

Granules India Limited
2nd Floor, 3rd Block, My Home Hub
Madhapur, Hyderabad – 500081, India
Tel : 91-40-66760000, Fax : 91-40-23115145
E-mail : mail@granulesindia.com
Website: www.granulesindia.com

Brief profile of Director(s) seeking reappointment / appointment at the ensuing Annual General Meeting

Shri L. S. Sarma

Shri L. S. Sarma, is a retired bank executive. He was General Manager – Industrial Development Bank of India (IDBI), Director of ECGC and Dena Bank. He worked for the International Trade Centre, Zeniva, ITC (Unctad / Gatt) as an export credit consultant. He has held prestigious positions and gained expertise in the field of banking and financial management. He is on the Board of a few companies including Hexaware Technologies Limited.

Shri A. P. Kurian

Shri A. P. Kurian, chairman of the Association of Mutual Funds in India. He has a career in financial services area spread across more than four decades. Starting as research officer in the Reserve Bank of India, he grew to the rank of advisor - Economics Department. He was with the Unit Trust of India, holding the position of Director – Investments, Director – Planning and Development and as executive trustee (equivalent to Managing Director) from 1987 to 1993.

After retirement from the Unit Trust of India, he joined the Apple Mutual Fund as advisor from 1993 to 1998 and since 1998, has been the executive chairman of the Association of Mutual Funds in India. He is on the Board of the National Stock Exchange, Executive Committee of NSDL and several other committees associated with mutual funds and the capital market.

Auditors' Certificate

To
The Members of
Granules India Limited

We have examined the compliance of corporate governance by Granules India Limited, for the year ended on June 30, 2008, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The Compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Share Transfer and Shareholders'/Investors' Grievance Committee.

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

For Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No.25480

Place: Hyderabad
Date: October 20, 2008

Auditors' Report

To
The Members of
M/s GRANULES INDIA LIMITED
Hyderabad - 500 081.

1. We have audited the attached Balance Sheet of **M/s Granules India Limited**, Hyderabad as on June 30, 2008 and the Profit and Loss Account and Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audit also includes assessing the accounting principles used and significant estimates made by the 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 section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to the above, our comments are as under:
   a) Reference is invited to Note No. B (3) under Schedule No. Q regarding dues to micro, small and medium enterprises,
   b) Reference is invited to Note No. B (21) under Schedule No. Q regarding confirmation of balances.

5. Further to our comments in the Annexure referred to in paragraph (3) & (4) above:
   a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
   b) In our opinion, proper books of account as required by the Law have been kept by the Company so far as it appears from our examination of such books.
   c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement referred to in 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 comply with the requirements of the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
   e) On the basis of the written representations received from the directors, and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on June 30, 2008, from being appointed as directors 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 Balance Sheet, Profit & Loss Account and Cash Flow Statement read together with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
      i) in so far as it relates to the Balance Sheet, of the state of affairs of the Company as on June 30, 2008.
      ii) in so far as it relates to the Profit & Loss Account, of the Profit of the Company for the year ended on that date
      iii) in case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For **M/s Kumar & Giri**
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

Annexure referred to in paragraph (3) of our report of even date

(I) Fixed Assets

a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets of the Company.

b) The Physical verification of fixed assets is being carried out as per the program drawn up and to the extent the physical verification is carried out, no material discrepancies were noticed on such verification.

c) During the year, the operations of the Bonthapally Unit had been discontinued and the majority of the assets were transferred to other units of the Company. Some of non-useful assets have been disposed off.

(II) Inventory

a) The stocks of raw materials, consumables, stores, work-in-progress and finished goods have been physically verified during the year at regular intervals by the management.

b) The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. In respect of finished goods lying with the consignees, the certificate given by the management is relied upon.

c) The discrepancies noticed on verification of stocks as compared to books were not material and it has been properly dealt with in the books of account.

(III) Loans taken / granted

According to the information and explanations given to us, the Company has neither taken nor granted any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under sec.301 of the Companies Act, 1956.

(IV) Internal control

a) In our opinion and according to the information and explanations given to us, the internal control procedures are being strengthened on a continuous basis so as to be commensurate with the size of the Company and the nature of its business for the purchase of inventory keeping in view of the expansion.

b) There are no major weaknesses in the internal control procedures.

(V) Section 301

In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered into with parties entered in the register maintained under sec. 301 of the Companies Act, 1956 aggregating during the year to a value exceeding Rs. 5,00,000/- in respect of such party during the year.

(VI) Public deposits

The Company has not accepted any deposits from the public.

(VII) Internal audit

The Company has an internal audit system so as to be commensurate with its size and the nature of its business.

(VIII) Cost records

The Central Government has prescribed maintenance of cost records in respect of manufacture of API products and formulations. The Company has made and maintained account and records of such activities.

(IX) Statutory dues

The Company is generally regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income tax, Customs Duty, Wealth Tax, Sales Tax, Excise Duty, Cess and other statutory dues with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the year ending 30.06.2008 for period exceeding 6 months from the date they became payable, excepting an amount of Rs. 8.74 lakhs representing unpaid dividend.

(X) Accumulated losses / cash losses

The Company has no accumulated losses.

(XI) Repayment of dues

There are minor delays in repayment of dues to banks.

(XII) Loans & advances

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

(XIII) Chit – Fund companies/ Nidhi/Mutual benefit societies

The provisions of special statute relating to chit fund companies and the provisions of Nidhi or mutual benefit fund/ societies are not applicable to the Company.

(XIV) Financing companies

The Company is not dealing or trading in shares, securities and other investments.

(XV) Guarantee for loans

The Company has not given any guarantee for loans taken by others to banks or financial institutions.

(XVI) Term loans

The term loans are applied for the purpose for which the loans were obtained.

(XVII) Usage of funds

According to the information and explanations given to us and on an overall examination of Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

(XVIII) Preferential allotments

The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under sec. 301 of the Companies Act, 1956, excepting preferential allotments as under:

i. 17,500 equity shares of Rs. 10 each at a premium of Rs. 63/- per equity share and 16,020 equity shares of Rs. 10 each at a premium of Rs. 4, to various employees under an approved ESOP scheme.

The said allotments have been made as per the guidelines of the appropriate authorities.

The preferential allotment so issued are not prejudicial to the interests of the Company.

(XIX) Creation of securities

The Company has not issued any debentures during the year, hence, the question of creation of securities does not arise.

(XX) Public issue

The Company has not raised any money through Public Issue.

(XXI) Frauds

According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For M/s Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

Balance Sheet as at June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	As at June 30, 2008	As at June 30, 2007
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	202,304,066	201,968,866
Share Application Money		15,120,132	15,120,032
Reserves & Surplus	B	1,589,421,253	1,526,242,050
Loan Funds			
Secured Loans	C	1,003,292,563	845,517,590
Unsecured Loans	D	107,524,468	178,592,961
Deferred Tax Liability		105,538,200	84,453,604
Total Sources of Funds		3,023,200,682	2,851,895,103
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	1,753,028,846	1,587,878,379
Less: Accumulated Depreciation		391,608,524	305,856,342
Net Block		1,361,420,322	1,282,022,037
Add: Capital Work in Progress including advances (Net)		925,367,664	687,148,012
		2,286,787,986	1,969,170,049
Investments	F	216,665,567	187,203,807
Current Assets, Loans & Advances	G		
Inventories		291,612,088	198,921,399
Sundry Debtors		195,132,444	227,011,038
Cash & Bank Balances		59,184,029	270,966,230
Other Current Assets		2,095,103	5,880,254
Loans and Advances		182,198,510	155,157,527
		730,222,174	857,936,448
Less: Current Liabilities & Provisions	H		
Current Liabilities		195,304,591	145,784,400
Provisions		37,910,664	31,652,857
Net Current Assets		497,006,919	680,499,191
Miscellaneous Expenditure	I	22,740,210	15,022,056
(to the extent not written off or adjusted)			
Total Application of Funds		3,023,200,682	2,851,895,103
Significant accounting policies and notes to accounts	Q		

As per our report of even date

for Kumar & Giri

Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: October 20, 2008

B. Vijay Kumar
Dy. General Manager - F & A

Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	Year ended June 30, 2008	Year ended June 30, 2007
INCOME			
Gross Sales		2,247,257,848	1,951,933,234
Less: Excise duty & Sales Tax		105,792,515	94,923,113
Net Sales	J	2,141,465,333	1,857,010,121
Other Income	K	6,851,443	24,630,877
		2,148,316,776	1,881,640,998
EXPENDITURE			
Cost of Materials consumed	L	1,247,807,639	1,073,396,190
Manufacturing Expenses	M	287,063,512	255,398,419
Marketing & Selling Expenses	N	150,166,541	129,376,000
Administrative Expenses	O	113,577,753	83,403,811
Interest and Finance Charges	P	119,721,886	120,284,926
Depreciation		97,209,156	81,772,815
Misc.Expenditure written off		4,655,672	3,142,042
Total Expenses		2,020,202,159	1,746,774,203
Profit before tax		128,114,617	134,866,795
Less: Current Tax Expense		14,515,386	4,393,124
Deferred Tax Expense		21,084,596	28,365,198
Fringe Benefit Tax		1,169,676	911,092
Net Profit after Taxes		91,344,959	101,197,381
Balance available for appropriation		91,344,959	101,197,381
Less: Provision for dividend		25,071,443	25,029,543
Provision for dividend tax		4,260,892	4,253,771
Transfer to General Reserve		2,300,000	2,600,000
Balance transferred to Balance Sheet		59,712,624	69,314,067
Add:Profit brought forward from previous year		332,403,640	263,089,573
Surplus carried forward to Balance Sheet		392,116,264	332,403,640
Weighted average No. of shares		21,647,819	14,855,357
Basic Earnings per share		4.56	7.63
Diluted Earnings per share		4.22	6.81
Significant accounting policies and notes to accounts	Q		

As per our report of even date

for Kumar & Giri

Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: October 20, 2008

B. Vijay Kumar
Dy. General Manager - F & A

Schedules forming part of Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE A SHARE CAPITAL		
Authorised Capital		
3,00,00,000 Equity Shares of Rs. 10 each	300,000,000	300,000,000
(Previous year 3,00,00,000 Equity Shares of Rs. 10 each)		
	300,000,000	300,000,000
Issued, Subscribed and Paid up Capital		
2,00,57,154 Equity Shares of Rs. 10/- each.	200,571,540	200,236,340
(Previous year : 2,00,23,634 equity shares of Rs. 10 each)		
(Of the above 24,12,134 equity shares of Rs. 10/- each		
issued for consideration otherwise than cash, of which		
16,67,334 equity shares are issued as per the Scheme of Amalgamation)		
Add: Shares forfeited	1,732,526	1,732,526
(39,000 Equity Shares and 1,60,783 warrants have been forfeited)		
	202,304,066	201,968,866

	Opening Balance	Additions	Withdrawals	Closing Balance
SCHEDULE B RESERVES & SURPLUS				
General Reserve	15,103,369	2,300,000	–	17,403,369
Central Subsidy	1,214,159	–	–	1,214,159
Share Premium	1,177,520,881	1,166,580	–	1,178,687,461
Profit & loss Account	332,403,641	59,712,623	–	392,116,264
	1,526,242,050	63,179,203	–	1,589,421,253

	As at June 30, 2008	As at June 30, 2007
SCHEDULE C SECURED LOANS		
I) Term loans		
from Banks	826,047,433	569,413,133
Interest accrued and due	1,221,089	1,336,029
II) Hire purchase loans	5,879,996	1,919,082
III) Working Capital Borrowings from banks	170,144,045	272,849,346
Total (I+II+III)	1,003,292,563	845,517,590
SCHEDULE D UNSECURED LOANS		
From Banks	100,000,000	170,000,000
Interest accrued and due	–	1,068,493
Sales Tax Deferment Loan	7,524,468	7,524,468
	107,524,468	178,592,961

Schedules forming part of Balance Sheet as at June 30, 2008

SCHEDULE E FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on July 1, 07	Additions	Deletions	Total as on June 30, 08	As on July 1, 07	For the Period	On Deletions	As on June 30, 08	As on June 30, 08	As on June 30, 07
Land	54,279,620	582,345	–	54,861,965	–	–	–	–	54,861,965	54,279,620
Buildings	366,669,614	16,069,690	–	382,739,304	50,224,632	12,254,176	–	62,478,808	320,260,496	316,444,982
Plant & Machinery	698,009,025	93,919,884	8,880,000	783,048,909	182,238,597	43,890,545	7,617,160	218,511,982	564,536,927	515,770,428
Lab equipment	67,804,597	28,098,424	669,442	95,233,579	10,327,256	3,717,928	669,441	13,375,743	81,857,836	57,477,341
Material Handling equipment	23,306,128	1,410,201	–	24,716,329	3,188,716	1,210,015	–	4,398,731	20,317,598	20,117,412
Electrical Installations	45,377,772	1,799,396	–	47,177,168	11,459,787	2,013,044	–	13,472,831	33,704,337	33,917,985
Office equipment	17,257,576	3,131,975	1,876,008	18,513,543	6,726,379	1,018,129	1,876,008	5,868,500	12,645,043	10,531,197
Furniture & Fixtures	12,127,119	17,520,560	673,733	28,973,946	3,336,253	1,606,929	673,733	4,269,449	24,704,497	8,790,866
Computers	9,292,433	1,746,017	336,833	10,701,617	4,376,778	1,609,399	336,833	5,649,344	5,052,273	4,915,655
Vehicles	13,311,413	7,939,875	449,082	20,802,205	10,289,427	1,504,050	283,799	11,509,678	9,292,527	3,021,986
Technical Knowhow	280,443,080	5,817,201	–	286,260,281	23,688,515	28,384,943	–	52,073,458	234,186,823	256,754,565
Total	1,587,878,377	178,035,567	12,885,098	1,753,028,846	305,856,340	97,209,158	11,456,974	391,608,524	1,361,420,322	1,282,022,035
Previous year totals	1,414,450,208	179,039,382	5,611,210	1,587,878,379	227,180,149	81,772,815	3,096,622	305,856,342	1,282,022,037	1,187,270,059

Note:

1) Gross block of Vehicles includes Rs.1,26,49,701 (Previous Year Rs. 51,35,628) acquired on hire-purchase basis.

	As at June 30, 2008	As at June 30, 2007
SCHEDULE F INVESTMENTS		
(At Cost less provision for dimunition in value)		
Quoted		
Long term - non-trade		
Andhra Bank	1,014,930	1,014,930
(11,277 shares of Rs. 10/- each)		
	1,014,930	1,014,930
Unquoted		
Trade long term		
Jeedimetla Effluent Treatment Ltd.	1,566,200	1,566,200
(15,142 Equity shares of Rs.100/- each)		
Pattancheru Envirotech Ltd	340,400	340,400
(34,040 Equity shares of Rs. 10/- each)		
	1,906,600	1,906,600
Subsidiaries		
(Unquoted Shares)		
Granules USA Inc - 100% subsidiary	2,379,470	2,379,470
500 fully paid equity shares of US$100 each		
GIL Life Sciences Pvt Ltd., 100% subsidiary	29,461,760	–
(2,946,176 fully paid equity shares of Rs. 10 each)		
Joint Ventures		
(Unquoted Shares)		
Granules Biocause Pharmaceutical Co. Ltd.	181,902,807	181,902,807
(50% Joint-venture in equity)		
	216,665,567	187,203,807

Schedules forming part of Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE G CURRENT ASSETS, LOANS & ADVANCES		
i) Stock in hand		
Raw Materials	97,342,818	95,792,396
Finished Goods	108,372,736	53,280,664
Work In Process	62,854,214	31,020,976
Consumable and packing materials	7,152,251	4,178,647
Stores and Spares	15,890,069	14,648,716
	291,612,088	198,921,399
ii) Sundry Debtors		
(Unsecured, considered good)		
a) For more than six months	26,370,200	24,480,479
b) Others	169,152,881	202,530,559
	195,523,081	227,011,038
Less: Provision for doubtful debts	390,637	–
	195,132,444	227,011,038
iii) Cash & bank balances		
Cash on hand	108,618	184,077
Bank Balances:		
With scheduled banks:		
– in current account	2,716,380	4,123,113
– in deposit accounts (including margin money)	54,456,917	37,312,562
Unutilised issue proceeds:		
With scheduled banks:		
– in current account	1,902,114	29,346,478
– in deposit accounts	–	200,000,000
	59,184,029	270,966,230
iv) Other current assets		
Interest receivable	2,095,103	5,880,254
	2,095,103	5,880,254
v) Loans & Advances		
Advances to suppliers	3,961,750	7,186,991
Deposits	20,478,278	17,136,104
Excise duty	67,858,858	34,518,469
Prepaid expenses	10,406,361	11,599,367
Sales tax refund	18,297,050	26,646,318
Import entitlements	44,270,399	39,831,573
Loan to Granules USA	6,465,000	6,084,000
Other advances	10,460,814	12,154,705
	182,198,510	155,157,527

Schedules forming part of Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE H CURRENT LIABILITIES & PROVISIONS		
Current liabilities		
Due to Small Scale Industrial Undertakings	12,975,082	9,069,485
Due to Others		
– for goods & services	162,884,132	121,784,423
– for Capital goods	12,967,634	4,711,143
Unpaid dividends	874,355	878,494
Other Liabilities	5,603,387	9,340,855
	195,304,590	145,784,400
Provisions		
Provision for taxation (net of advances)	8,578,329	2,369,543
Provision for dividend	25,071,443	25,029,543
Provision for dividend tax	4,260,892	4,253,771
	37,910,664	31,652,857
SCHEDULE I MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
(i) Public Issue Expenses		
Opening Balance	13,446,825	14,317,737
Less: Written off during the year	1,088,640	870,912
	12,358,185	13,446,825
(ii) Deferred Revenue Expenses		
Opening Balance	–	1,679,381
Less: Written off during the year	–	1,679,381
	–	–
(iii) VRS Expenses		
Opening Balance	1,575,231	1,548,147
Additions during the year	12,373,826	618,833
Less: Written off during the year	3,567,032	591,749
	10,382,025	1,575,231
Total (i+ii+iii)	22,740,210	15,022,056

Schedules forming part of Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE J SALES		
Export Sales	1,575,176,376	1,350,174,465
Domestic Sales	661,771,887	595,907,278
By products	6,888,056	5,823,700
Export benefits	3,421,529	27,791
Gross Sales	2,247,257,848	1,951,933,234
Less: Excise duty & sales tax	105,792,515	94,923,113
Net Sales	2,141,465,333	1,857,010,121

Schedules forming part of Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE K OTHER INCOME		
Interest	2,692,455	4,068,564
Dividends received	42,892	22,619
Sale of Scrap	2,760,888	1,728,325
Insurance Claims received	80,743	183,606
Profit on sale of Assets	1,274,464	–
Foreign Exchange Fluctuations	–	18,627,763
	6,851,443	24,630,877

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE L COST OF MATERIALS CONSUMED		
a) Consumption of Raw material	1,283,309,507	1,027,783,121
b) Consumption of Packing Materials	51,423,442	44,289,666
c) (Increase)/Decrease in Stocks		
(i) (Increase)/Decrease in WIP		
Opening stock	31,020,976	29,098,499
Closing Stock	62,854,214	31,020,976
	(31,833,238)	(1,922,477)
(ii) (Increase)/Decrease in FG		
Opening stock	53,280,664	56,526,544
Closing Stock	108,372,736	53,280,664
	(55,092,072)	3,245,880
Total (Increase)/Decrease in stocks	(86,925,310)	1,323,403
Total cost of material consumed (a+b+c)	1,247,807,639	1,073,396,190

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE M MANUFACTURING EXPENSES		
Salaries, Wages	101,490,210	88,013,843
Contribution to PF/ESI	6,224,618	5,252,284
Employee welfare expenses	3,672,151	3,238,373
Conversion charges	7,845,297	1,515,883
Power & Fuel	84,067,939	77,387,831
Effluent Treatment expenses	17,361,620	17,040,747
Repairs & Maintenance - Factory Building	4,201,347	5,248,788
Repairs & Maintenance - Plant & Machinery	27,652,769	29,487,938
Repairs & Maintenance - Others	4,829,617	5,807,395
Consumables & Lab Chemicals	25,379,330	18,879,681
Analytical Fees	1,145,689	613,359
Others	3,192,925	2,912,297
	287,063,512	255,398,419

Schedules forming part of Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE N MARKETING & SELLING EXPENSES		
Business Promotion expenses	14,244,767	11,034,482
Sales Commission	27,294,972	24,599,084
Freight & Clearing charges	94,282,493	81,910,468
Discount	3,075,373	357,571
Travelling expenses	11,268,936	11,474,395
	150,166,541	129,376,000

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE O ADMINISTRATIVE EXPENSES		
Salaries, Wages & Bonus	25,049,617	21,934,792
Contribution to PF/ESI	757,899	670,680
Employee welfare expenses	1,802,712	986,967
Directors remuneration	3,000,000	3,000,000
Managerial Commission	2,545,000	3,218,500
Repairs & Maintenance - Others	876,994	747,409
Rent	14,152,846	3,869,551
Rates & Taxes	3,875,994	4,281,450
Auditors' remuneration	400,004	380,210
Insurance	9,441,610	6,430,389
Consultancy & Professional Charges	12,315,886	9,303,149
Communication expenses	5,413,547	5,392,628
Printing & stationery	4,044,325	3,606,355
Travelling & Conveyance	14,090,482	9,970,619
Directors sitting fees	310,155	400,000
Foreign Exchange Fluctuations	2,263,299	–
Advertisement Charges	242,401	447,620
Garden Maintenance	2,047,156	1,670,895
Donations	566,128	1,203,245
Provision for Doubtful Debts	390,637	–
Loss on sale of assets	–	713,005
Sundry expenses	9,991,061	5,176,347
	113,577,753	83,403,811

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE P INTEREST AND FINANCE CHARGES		
Interest on Term loans	28,185,998	36,121,106
Interest on Working Capital	67,027,796	48,150,914
Interest Others	1,395,361	19,109,491
Bank Charges	23,112,731	16,903,415
	119,721,886	120,284,926

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

1) **System of accounting**: The accounts have been prepared and presented under the historical cost convention method on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) to the extent applicable.

2) **Fixed Assets:** Fixed Assets are stated at cost less accumulated depreciation. Cost is inclusive of duties & taxes (net of CENVAT/VAT), incidental expenses and erection / commissioning expenses.

3) **Depreciation:** Depreciation on fixed assets is provided on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956. The depreciation on incremental value arising from the revaluation of the fixed assets is charged to Revaluation Reserve Account.

4) **Expenditure during construction period:** Expenditure (including finance cost relating to borrowed funds for construction or acquisition of fixed assets) incurred on projects under implementation are treated as Preoperative expenses pending allocation to the assets and are shown under "Capital Work in Progress" and the same are apportioned to fixed assets on commencement of commercial production.

5) **Investments:** Long-term investments and investments in subsidiary companies are carried at cost. Provision for diminution in value is made whenever necessary in accordance with the Accounting Standards in force.

6) **Valuation of Inventories:**
   a) Inventories are valued at the lower of cost or net realizable value.
   b) Inventories of raw material, consumables and stores and spares are valued at cost as per FIFO method. Cost does not include duties and taxes that are subsequently recoverable.
   c) Cost for the purpose of finished goods and material in process is computed on the basis of cost of material, labour and other related overheads.
   d) Goods in transit are stated at costs accrued up to the date of Balance Sheet.
   e) Stocks with consignment agents are stated at costs accrued up to the date of the Balance sheet.

7) **Government grants:** Government grants received in the nature of promoter's contribution and where no repayment is ordinarily expected are treated as capital reserve.

8) **Foreign Exchange:** Foreign exchange transactions are recorded at the exchange rates prevailing at the time of transactions or at contracted rates. Current assets and current liabilities are translated at values prevailing at the Balance Sheet date. Gains/Losses, if any, arising thereby are recognised in the Profit and Loss account.

9) **Revenue Recognition:**
   a) Revenue from sales is recognised when significant risk and rewards in respect of ownership of the products are transferred.
   b) Revenue from domestic sales is recognised on dispatch of products from the factory of the Company and in case of consignment sale, on further sale made by the agents.
   c) Revenue from export sales is recognised on the basis of dates of Bill of Lading.

10) **Export Benefits:** Advance licenses are issued to the Company under the Advance License Scheme [Duty Exemption Entitlement Certificate (DEEC Scheme)] / duty entitlement credited under the Duty Entitlement Pass Book Scheme (DEPB Scheme) on the export of the goods manufactured by it. Whenever export sales are made by the Company, pending receipt of imported duty-paid raw materials under the DEEC / DEPB Schemes, the cost of domestic raw materials actually consumed

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

for the purpose of such exports is compensated and / or matched by accruing the value of the benefit under the DEEC / DEPB Scheme.

11) **Research and development expenses:**
   a) Research costs not resulting in any tangible property/equipment are charged to revenue as and when incurred.
   b) Know-how / product development costs incurred on an individual project are carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future benefits from the related project, not exceeding ten years.
   c) The carrying value of know-how / product development costs are reviewed for impairment annually when the asset is not yet in use and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

12) **Employee Retirement Benefits:**
   a) Provident fund: These expenses are accounted on accrual basis and charged to Profit and Loss account of the year.
   b) Gratuity: Payment for present liability of future payment of gratuity is made to an approved Gratuity Fund that fully covers the same.
   c) Provision for accrued leave encashment is made on the basis of actuarial valuation.

13) **Borrowing costs:** Borrowing costs incurred in relation to the acquisition and construction of assets are capitalised as part of the cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as an expense in the year in which they are incurred.

14) **Income tax expense:**
   a) Current Tax Expense
      The Current charge for income tax is calculated in accordance with the tax regulations.
   b) Deferred Tax Expense
      Deferred income tax reflects the impact of timing difference between accounting income and tax income for the year/period. Deferred tax is measured based on the tax rates and the tax laws enacted at the Balance Sheet date. Deferred tax asset is recognised only to the extent of certainty of realization of such asset.
   c) Fringe Benefit Tax:
      Fringe Benefit Tax is calculated in accordance with the tax regulations.

B) NOTES TO ACCOUNTS:

1) **Contingent liabilities not provided for in respect of:**

(Rupees in Lakhs)

	As at June 30, 2008	As at June 30, 2007
a) Claims against the Company not acknowledged as debts:		
Income tax	–	33.80
Customs duty	43.47	43.47
b) Estimated amount of contracts remaining to be executed on Capital account and not provided for (net of advances)	–	412.97
c) Letters of credit and Bank Guarantees issued by Bank	4519.04	2756.94
d) Bills discounted with banks	6247.31	4680.28

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

2) Secured loans:

a) Term loans: Term loans from Banks are secured by equitable mortgage of Land and buildings and hypothecation of plant and machinery located at Jeedimetla, Gagillapur and Bonthapally on pari passu basis.
Term loans are further secured by second charge on hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables.

b) Working capital facilities: The working capital facilities from Banks are secured by hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables on pari passu basis. The working capital facilities are further secured by a second charge on the fixed assets of the Company.

c) All the above loans except loan from International Finance Corporation are further secured by personal guarantee of the Managing Director. The Company has requested Consortium Bankers to waive the personal guarantee of the Managing Director, which is under active consideration.

d) Hire purchase loans are secured by hypothecation of the asset purchased.

3) Sundry Creditors include a sum of Rs. 129.75 lakhs due to micro, small and medium enterprises. Total outstanding dues of micro, small and medium enterprises have been determined to the extent such parties have been identified on the basis of the information available with the Company. The parties to whom the Company owes sums outstanding for more than 30 days as at the Balance Sheet date are:

Durga Industries — Kats Organics (P) Ltd — Super Olefins (P) Ltd
Sidharth Canisters Pvt. Ltd. — Technic Containers

4) Particulars of Production, Sales and Stock of Finished Goods (Previous year figures in brackets).

(Qty in. M. Tons and Value Rs. in Lakhs)

Product	Opening stock		Production	Closing Stock		Sales	
	Qty	Value	Qty	Qty	Value	Qty	Value
API's	84.07	303.38	7116.44	302.37	558.58	4105.58	8432.07
	(130.23)	(223.81)	(5965.67)	(84.07)	(303.38)	(3438.59)	(7002.38)
PFI' s	128.54	222.52	5377.60	106.96	406.17	5247.08	12979.06
	(173.26)	(335.73)	(4730.94)	(128.54)	(222.52)	(4775.66)	(11459.87)
Formulations (Tablets) (in '000)	7935.25	6.91	6548.17	7917.05	6.91	6566.37	3.52
	(6771.16)	(5.73)	(25342.51)	(7935.25)	(6.91)	(24178.41)	(107.85)
Total							21414.65
							(18570.10)

Note: Captive consumption of API's is 2792.56 MT (Previous Year 2573.24 MT) and that of PFI's is 152.10 MT (Previous Year Nil) included in Production.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

5) Consumption of Raw materials during the year: (Qty in. M. Tons and Value Rs. in Lakhs)

Name of the material	2007-08		2006-07	
	Qty	Value	Qty	Value
Para Amino Phenol	3825.45	3396.42	3423.23	3041.64
Acetic Anhydride	4184.80	2058.13	3855.76	1806.04
Ibuprofen	350.67	1365.25	260.40	944.87
Paracetamol	999.56	1134.42	419.65	587.41
Guaicol	440.04	1009.61	447.04	1042.68
Acetamide	668.65	689.56	–	–
PVPK	66.78	393.34	38.29	224.39
Ciprofloxacin	27.79	318.01	15.35	167.96
Dicyandiamide	393.27	307.70	–	–
Epichlorohydrin	358.08	301.27	413.92	450.43
1 Aminocyclohexane Acetic Acid	–	–	6.61	229.37
PG Starch	–	–	275.03	165.67
Others		1859.38		1617.37
Total		12833.10		10277.83

6) Remuneration to Managing Director (Rupees in Lakhs)

	2007-08	2006-07
Salary	30.00	30.00
Commission	25.45	32.19
Perquisites	10.90	8.91
Total	66.35	71.10

7) Computation of net profit u/s 198 read with Section 309 (5) of Companies Act, 1956 (Rupees in Lakhs)

	Period ended June 30, 2008	Period ended June 30, 2007
Profit before Income tax as per Profit & Loss account	1281.15	1348.67
Add: Directors remuneration	30.00	30.00
Directors' commission	25.45	32.19
Directors sitting fees	3.10	4.00
Loss / (Profit) on assets sold / written off (Net)	(12.75)	7.13
Total	1326.95	1421.98
Total remuneration payable including commission @5%	66.35	71.10
Less: Remuneration & perquisites paid	40.90	38.91
Balance being commission payable	25.45	32.19

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

8) Remuneration to Statutory Auditors (Rupees in Lakhs)

	2007-08	2006-07
As Auditor	3.50	3.50
As adviser, or in any other capacity, in respect of:		
Taxation services	1.25	Nil
Company Law matters	Nil	Nil
Management services	Nil	Nil
Certification	0.44	0.30
Out of pocket expenses	Nil	Nil
Total	5.19	3.80

9) Licensed, Installed capacity and actual production of Active Pharmaceutical Ingredients (APIs), Pharmaceutical Formulation Intermediates (PFIs) (As certified by the Management) (Rupees in Lakhs)

	2007-08	2006-07
Capacity and Production		
i) Licensed Capacity (Metric tones per annum)	NA	NA
ii) Installed Capacity (Metric tones per annum)		
APIs	9751.00	13351.00
PFIs	8400.00	8400.00
Tablets (in 1000 Nos)	172800.00	172800.00
iii) Production (Metric tones)		
APIs	7116.43	5965.67
PFIs	5377.61	4730.94
Tablets (in 1000 Nos)	6548.17	25342.51

10) Foreign Exchange outgo/earnings towards: (Rupees in Lakhs)

Expenditure/Earnings in Foreign Currency	2007-08	2006-07
Import of goods	7928.45	6446.96
Foreign travel	4.85	15.30
Sales commission	265.35	208.33
Consultancy charges	69.21	39.22
Capital assets	532.68	1383.78
Investments	–	1819.03
Interest	93.05	–
Other expenditure	48.29	55.60
Foreign exchange earnings – Export sales realised	15142.40	12773.98

11) Details of Imported and Indigenous Raw Materials:
Raw materials consumed – Imported/ Indigenous (Rupees in Lakhs)

Name of the material	2007-08		2006-07	
	%	Value	%	Value
Imported	70.17	9004.48	62.37	6686.16
Indigenous	29.83	3828.63	37.63	4034.57
Total	100.00	12833.10	100.00	10720.73

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

12) During the year, the Company has capitalised borrowing costs of Rs. 466.92 lakhs towards Tablet facility at Gagillapur, grouped under Capital Work in Progress, (Previous year Rs. 256.97 lakhs for Tablet facility at Gagillapur, grouped under Capital Work in Progress), incurred during the year.

13) The Company has, during the year invested Rs.294.62 lakhs in a wholly owned subsidiary "GIL Lifesciences Private Limited", Hyderabad, Andhra Pradesh, India. The subsidiary has not commenced any activity.

14) Segment reporting: The Company has only one business segment of "Pharmaceuticals". Therefore, the disclosure requirements of "Segment reporting" are not applicable.

15) Related party disclosures required as per Accounting Standard (AS-18) on "Related party disclosures" issued by the Institute of Chartered Accountants of India, are as below:

a) Names of related parties and the nature of relationships:

Name	Relationship
(i) Granules USA Inc	Wholly owned subsidiary company
(ii) GIL Lifesciences Private Limited	Wholly owned subsidiary company
(iii) Granules-Biocause Pharmaceutical Co. Ltd	Joint – Venture
(iv) Key management personnel:	
Shri C. Krishna Prasad	Managing Director
(v) Others:	
Dr. C. Nageswara Rao	Non executive Chairman

b) Transactions with Subsidiary company: (Rupees in Lakhs)

	June 30, 2008	June 30, 2007
(i) Granules USA Inc		
Sale of goods	4943.82	5205.78
Interest on unsecured loan	5.26	3.27
Amounts outstanding at Balance Sheet date:	June 30, 2008	June 30, 2007
Loan granted	64.65	60.84
Interest on loan	17.05	11.79
Equity subscribed	23.79	23.79
Amounts receivable for sales made	3433.58	3251.20
(ii) GIL Lifesciences Private Limited		
Equity participation	294.62	–
Amounts outstanding at Balance Sheet date:	June 30, 2008	June 30, 2007
Equity	294.62	–
c) Transactions with Joint–Venture	June 30, 2008	June 30, 2007
Equity Participation	–	1819.03
Purchase of goods	1611.82	–
Amounts outstanding at Balance sheet date:	June 30, 2008	June 30, 2007
Equity	1819.03	1819.03
Amounts payable for purchase of goods	712.55	–
d) Transactions with other related parties:		
Mr. C. Krishna Prasad, Managing Director:		
Remuneration	66.35	71.10
Dr. C. Nageshwar Rao, Chairman:		
Sitting fee paid	0.30	0.65

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

16) Details of Loans and advances given to Subsidiary company:

Unsecured loan to Granules USA Inc., (Rupees in Lakhs)

	June 30, 2008	June 30, 2007
Balance as at 30 June 2008	64.65	60.84
Maximum balance during the period	64.65	69.32
Rate of interest charged	7% p.a.	7% p.a.

17) Earnings per share – Basic and Diluted:

	2007-08	2006-07
Net profit for the year (Rs. in lakhs)	913.45	1011.97
Weighted average number of shares outstanding during the year	2,16,47,819	1,48,55,357
Basic earnings per share (Rs.)	4.56	7.63
Diluted earnings per share (Rs.)	4.22	6.81
Nominal value of shares (Rs.)	10.00	10.00

18) Deferred tax has been accounted for in accordance with the Accounting Standard – 22, "Accounting for taxes on income", issued by the Institute of Chartered Accountants of India. The components of Deferred Tax Assets and Liabilities recognised in these accounts are as follows: (Rupees in Lakhs)

	Opening balance as on 1.7.2007	Charge/(Credit) during the period	Closing balance as on 30.6.2008
Deferred tax liability			
Depreciation	913.53	214.89	1128.42
Deferred revenue expenses	2.55	–	2.55
Total	916.08	214.89	1130.97
Deferred tax asset			
Leave encashment	23.46	(0.57)	22.89
Bonus	8.25	2.96	11.21
MAT Credit	39.83	1.65	41.48
Total	71.54	4.04	75.58
Net Deferred tax liability	844.54	210.85	1055.39

19) Sundry Debtors are shown net of bill discounting under Current Assets. Sundry debtors outstanding as on June 30, 2008 are Rs. 8202.55 lakhs.

20) Sundry debtors include a sum of Rs. 3433.58 lakhs (Previous year: Rs. 3251.20 lakhs) due from a subsidiary company.

21) Balances appearing under Sundry creditors, Capital WIP, Loans and advances and debtors are subject to confirmation and/or reconciliation, if any.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

22) Amortization of Miscellaneous Expenditure:

a) GDR issue expenses of Rs. 151.89 lakhs carried forward from earlier years are amortised over a period of 5 years commencing from the year in which the Projects commence commercial production. Paracetamol Project at Bonthapally had commenced commercial production during March 2006, hence the issue expenses are proportionately amortised.

b) The Company has implemented a Voluntary Retirement Scheme (VRS). The total cost of separation of Rs. 123.74 lakhs excluding Gratuity under the Gratuity scheme applicable to the employees is amortised over a period of 5 years.

23) The Company has implemented an Employees Stock Option Scheme, accordingly 17,500 Equity shares of Rs. 10 each were issued at a premium of Rs. 63 and 16,020 Equity shares of Rs. 10 each were issued at a premium of Rs. 4 under the said Scheme.

24) The Government of Andhra Pradesh, Commissionerate of Industries has vide its Letter No.20/2/9/0444/ID dated October 11, 1999 and its clarification vide Letter dated August 4, 2001 determined an eligibility of Rs. 184.12 lakhs towards Sales tax deferment on the sale of Paracetamol and the Sales tax payable by the Company for a period of 14 years commencing from June 30, 1998 to June 29, 2012 is deferred. The liability of Rs. 75.24 lakhs as at June 30, 2008 (Previous year Rs. 75.24 lakhs) for the deferred Sales tax is shown under unsecured loans.

25) In terms of accounting policy 10 for the accrual of export benefits, estimated benefits of Rs. 442.70 lakhs (Previous year Rs. 398.31 lakhs) have been taken into account under the DEEC/DEPB Schemes.

26) Previous years figures have been regrouped/rearranged/re-classified wherever necessary.

27) Figures in Balance Sheet and Profit & Loss account have been rounded off to the nearest Rupee and figures in Notes have been rounded off to the nearest thousand and have been expressed in terms of decimals of thousands.

As per our report of even date

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

B. Vijay Kumar
Dy. General Manager - F & A

Cash Flow Statement for the Period ended June 30, 2008

(Amount in Rupees)

Particulars		Year ended June 30, 2008		Year ended June 30, 2007
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		128,114,617		134,866,795
Adjustments for:				
Depreciation	97,209,156		81,772,815	
Misc. Expenditure written off	4,655,672		3,142,042	
Profit / (Loss) on sale of assets	(1,274,464)		713,005	
Provision for doubtful debts	390,637		–	
Interest & dividend income	(2,735,347)		(4,091,183)	
Interest & finance charges	96,609,154	194,854,808	103,381,511	184,918,190
Operating profit before working capital changes		322,969,425		319,784,985
Increase in Trade and other receivables		4,446,976		(123,696,973)
Increase in inventories		(92,690,689)		10,068,264
Increase/(decrease) in Trade Payable		49,496,861		(68,886,670)
Cash generated from operations		284,222,573		137,269,606
Interest paid	97,792,587		102,536,287	
Direct Taxes paid	9,448,809		4,382,680	
Dividends paid	29,287,453	136,528,849	17,232,480	124,151,447
Net Cash from operating activities		147,693,724		13,118,159
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	416,255,217		655,493,961	
Increase in Miscellaneous expenditure	12,373,826		921,251	
Purchase/(sale) of investments	29,461,760		181,902,807	
Sale of Fixed Assets	(2,702,587)		(1,801,583)	
Interest/dividends received	(6,520,498)		860,830	
Net Cash used in investing activities		448,867,718		837,377,266
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital including premium	1,501,880		831,839,862	
Increase/(decrease) in Working Capital Loans	(102,705,301)		194,276,996	
Proceeds from Long Term & Other Borrowings	369,544,787		132,769,250	
Repayment of long term loans	(108,949,572)		(180,827,331)	
Proceeds from Unsecured Loans	–		370,000,000	
Repayment of unsecured loans	(70,000,000)		(300,000,000)	
Net Cash used in Financing Activities		89,391,794		1,048,058,777
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		(211,782,200)		223,799,668
Cash equivalents (Opening Balance as at 1-7-2007)		270,966,230		47,166,562
Cash equivalents (Closing Balance as at 30-6-2008)		59,184,029		270,966,230

Notes: Cash flow statement has been prepared following the indirect method. Interest paid, direct taxes paid, dividend paid are on the basis of actual movement of cash

As per our report of even date

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

B. Vijay Kumar
Dy. General Manager - F & A

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details:

Registration No.	0 1 – 1 2 4 7 1	State Code (Refer code list)	0 1
Balance Sheet Date	3 0 0 6 2 0 0 8		

II. Capital Raised during the year (Amount in Thousand of Rupees)

Public Issue	N I L	Right Issue	N I L
Bonus Issue	N I L	Private Placement	N I L

III. Position of Mobilisation and Deployment of Funds (Amount in Thousand of Rupees)

Total Liabilities	3 0 2 3 2 0 1	Total Assets	3 0 2 3 2 0 1

Sources of Funds

Paid-up capital	2 1 7 4 2 4	Reserves & Surplus	1 5 8 9 4 2 1
Secured Loans	1 0 0 3 2 9 3	Unsecured loans	1 0 7 5 2 5
Deferred tax liability	1 0 5 5 3 8		

Application of Funds

Net Fixed Assets	2 2 8 6 7 8 8	Investments	2 1 6 6 6 6
Net Current Assets	4 9 7 0 0 7	Misc. Expenditure	2 2 7 4 0

IV. Performance of Company (Amount in Thousand of Rupees)

Turnover	2 1 4 8 3 1 7	Total Expenditure	2 0 2 0 2 0 2
Profit before tax	1 2 8 1 1 5	Profit / (Loss) after tax	9 1 3 4 5
Earning per share	4 . 5 6	Dividend	1 2 . 5 %

V. Generic names of principal products/services of the Company (As per Monetary terms)

Item Code No. (ITC Code)	2 9 4 2 0 0 0
Product Description	Bulk drugs Formulations & Granulations

As per our report of even date

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

B. Vijay Kumar
Dy. General Manager - F & A

Annexure to the Balance Sheet as at June 30, 2008

Statement pursuant to Section 212 of the Companies Act, 1956.

01.	Name of the subsidiary	Granules USA Inc.	GIL Lifesciences Pvt. Ltd.
02.	Financial period ended	June 30, 2008	June 30, 2008
03.	Date from which it become a subsidiary.	March 5, 2003	July 19, 2007
04.	Holding company's interest	100% (500 shares of US$ 100 each fully paid up)	100% (29,46,176 shares of Rs.10 each fully paid up)
05.	The net aggregate amount of the profits or losses 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.	Nil	Nil
	b. not dealt with or provided for in the accounts of the holding company.	Loss of Rs.77.50 Lakhs	Nil
06.	The net aggregate amount of the profits or losses for the 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.	Nil	Nil
	b. not dealt with or provided for in the accounts of the holding company.	Loss of Rs. 397.47 Lakhs	Nil

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

B. Vijay Kumar
Dy. General Manager - F & A

Place: Hyderabad
Date: October 20, 2008

Consolidated Auditors' Report

To
The Members of
M/s GRANULES INDIA LIMITED
Hyderabad - 500 081.

1. We have audited the attached consolidated Balance Sheet of M/s Granules India Limited, its subsidiaries of M/s Granules USA Inc., GIL Lifesciences Pvt Ltd and joint-venture with M/s. Granules-Biocause Pharmaceutical Co. Ltd., as on June 30, 2008 and the consolidated Profit and Loss Account and the consolidated Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. We did not audit the financial statements of the subsidiaries and the joint-venture, whose financial statements reflect total assets of Rs. 7703.47 lakhs as at June 30, 2008, the total revenue of Rs. 9327.00 lakhs for the year ended on that date. These financial statements and other financial information have been audited by other auditors whose report has been furnished to us, and our opinion is based solely on the report of other auditors.

4. We report that the consolidated financial statements have been prepared by the Company's management in-accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements and Accounting Standard 27, Financial Reporting of Interest in Joint-ventures, issued by the Institute of Chartered Accounts of India and on the basis of separate audited financial statements of the group and unaudited financial statements of a consolidated entity.

5. Further to the above, our comments are as under:
   a. Reference is invited to Note No. B (3) Schedule No. Q regarding dues to micro, small and medium enterprises,
   b. Reference is invited to Note No. B (13) under Schedule No. Q regarding confirmation of balances.

6. In our opinion, and to the best of our information and according to the explanations given to us, the said consolidated Balance Sheet, consolidated Profit & Loss Account and consolidated Cash Flow Statement read together with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
   i. in so far as it relates to the consolidated Balance Sheet, of the state of affairs of the Company as on June 30, 2008.
   ii. in so far as it relates to the consolidated Profit & Loss Account, of the Profit of the Company for the year ended on that date.
   iii. in case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For M/s Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

Consolidated Balance Sheet as at June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	As at June 30, 2008	As at June 30, 2007
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	202,304,066	201,968,866
Share Application Money		15,120,132	15,120,032
Reserves & Surplus	B	1,518,859,312	1,457,135,042
Loan Funds			
Secured Loans	C	1,339,570,543	1,157,791,973
Unsecured Loans	D	107,524,468	178,592,961
Deferred Tax Liability		104,747,937	84,453,605
Total Sources of Funds		3,288,126,459	3,095,062,479
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	1,973,830,495	1,678,112,687
Less: Accumulated Depreciation		411,695,667	306,584,928
Net Block		1,562,134,828	1,371,527,759
Add: Capital Work in Progress including advances (Net)		926,686,243	713,385,397
		2,488,821,071	2,084,913,156
Investments	F	2,921,530	2,921,530
Current Assets, Loans & Advances	G		
Inventories		528,634,121	295,998,222
Sundry Debtors		375,050,040	371,291,595
Cash & Bank Balances		108,503,492	364,201,271
Other Current Assets		1,993,769	4,689,688
Loans and Advances		191,225,411	163,139,727
		1,205,406,833	1,199,320,503
Less: Current Liabilities & Provisions	H		
Current Liabilities		394,159,270	175,461,909
Provisions		37,910,664	31,652,857
Net Current Assets		773,336,899	992,205,737
Miscellaneous Expenditure	I	23,046,959	15,022,056
(to the extent not written off or adjusted)			
Total Application of Funds		3,288,126,459	3,095,062,479
Significant accounting policies and notes to accounts	Q		

As per our report of even date

for Kumar & Giri
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: October 20, 2008

B. Vijay Kumar
Dy. General Manager - F & A

Consolidated Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	Year ended June 30, 2008	Year ended June 30, 2007
INCOME			
Gross Sales		2,670,335,567	1,976,279,073
Less: Excise duty		105,792,515	94,923,113
Net Sales	J	2,564,543,052	1,881,355,960
Other Income	K	12,907,907	22,181,122
		2,577,450,960	1,903,537,082
EXPENDITURE			
Cost of Materials consumed	L	1,536,061,255	1,080,989,643
Manufacturing Expenses	M	340,408,417	255,878,142
Marketing & Selling Expenses	N	167,932,310	143,980,911
Administrative Expenses	O	155,506,827	106,199,983
Interest and Finance Charges	P	130,291,866	121,626,236
Depreciation		116,571,582	82,087,859
Misc.Expenditure written off		4,655,672	3,142,042
Total Expenses		2,451,427,929	1,793,904,816
Profit before tax		126,023,031	109,632,266
Less: Current Tax Expense		14,515,386	4,393,124
Defered Tax Expense		20,294,333	28,365,198
Fringe Benefit Tax		1,169,676	911,092
Net Profit after Taxes		90,043,635	75,962,852
Balance available for appropriation		90,043,635	75,962,852
Less: Provision for dividend		25,071,443	25,029,543
Provision for dividend tax		4,260,892	4,253,771
Transfer to General Reserve		2,300,000	2,600,000
Balance transferred to Balance Sheet		58,411,301	44,079,538
Add profit brought forward from previous year		263,021,029	218,941,491
Surplus carried forward to Balance Sheet		321,432,330	263,021,029
Weighted average No. of Shares		21,647,819	14,855,357
Earnings per share		4.16	5.11
Significant accounting policies and notes to accounts	Q		

As per our report of even date

for Kumar & Giri
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: October 20, 2008

B. Vijay Kumar
Dy. General Manager - F & A

Schedules forming part of Consolidated Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE A SHARE CAPITAL		
Authorised Capital		
3,00,00,000 Equity Shares of Rs. 10 each	300,000,000	300,000,000
(Previous year 3,00,00,000 Equity Shares of Rs. 10 each)		
	300,000,000	300,000,000
Issued, Subscribed and Paid up Capital		
2,00,57,154 Equity Shares of Rs. 10/- each.	200,571,540	200,236,340
(Previous year : 2,00,23,634 equity shares of Rs. 10 each)		
(Of the above 24,12,134 equity shares of Rs. 10/- each issued for consideration otherwise than cash ,of which 16,67,334 equity shares are issued as per the Scheme of Amalgamation)		
Add: Shares forfeited	1,732,526	1,732,526
(39,000 Equity Shares and 1,60,783 warrants have been forfeited)		
	202,304,066	201,968,866

	Opening Balance	Additions	Withdrawals	Closing Balance
SCHEDULE B RESERVES & SURPLUS				
General Reserve	15,103,369	2,300,000	–	17,403,369
Central Subsidy/Capital reserve	1,214,159	–	–	1,214,159
Share Premium	1,177,796,486	1,012,968	–	1,178,809,454
Profit & loss Account	263,021,028	58,411,302	–	321,432,330
	1,457,135,042	61,724,269	–	1,518,859,312

	As at June 30, 2008	As at June 30, 2007
SCHEDULE C SECURED LOANS		
I) Term loans		
from Banks	826,047,433	569,413,133
Interest accrued and due	1,221,089	1,336,029
II) Hire purchase loans	5,879,996	1,919,082
III) Working Capital Borrowings from banks	506,422,025	585,123,729
Total (I+II+III)	1,339,570,543	1,157,791,973
SCHEDULE D UNSECURED LOANS		
From Banks	100,000,000	170,000,000
Interest accrued and due	–	1,068,493
Sales Tax Deferment Loan	7,524,468	7,524,468
	107,524,468	178,592,961

Schedules forming part of Consolidated Balance Sheet as at June 30, 2008

SCHEDULE E FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on July 1, 07	Additions	Deletions	Total as on June 30, 08	As on July 1, 07	For the Period	On Deletions	As on June 30, 08	As on June 30, 08	As on June 30, 07
Land	54,279,620	29,616,102	–	83,895,722	–	–	–	–	83,895,722	54,279,620
Buildings	371,533,754	58,358,017	209,423	429,682,348	50,224,632	14,180,425	–	64,405,056	365,277,291	321,309,122
Plant & Machinery	746,572,741	153,536,187	9,133,836	890,975,091	182,553,623	57,516,485	7,617,160	232,449,078	658,526,013	564,019,122
Lab equipment	67,804,597	28,098,424	669,441	95,233,580	10,327,256	3,717,928	669,441	13,375,743	81,857,837	57,477,341
Material Handling equipment	23,306,128	1,410,201	–	24,716,329	3,188,716	1,210,015	–	4,398,731	20,317,598	20,117,412
Electrical Installations	45,377,772	1,799,396	–	47,177,168	11,459,787	2,013,044	–	13,472,831	33,704,337	33,917,985
Office equipment	18,242,783	3,209,025	1,876,008	19,575,799	7,384,977	1,227,797	1,876,008	6,736,767	12,839,033	10,857,805
Furniture & Fixtures	12,620,447	17,535,722	673,733	29,482,436	3,366,844	1,606,929	673,733	4,300,040	25,182,396	9,253,603
Computers	9,292,433	1,746,017	336,833	10,701,617	4,376,778	1,609,399	336,833	5,649,345	5,052,273	4,915,655
Vehicles	13,311,413	7,939,875	449,082	20,802,206	10,289,427	1,504,050	283,799	11,509,678	9,292,528	3,021,986
Technical Knowhow	315,770,998	5,817,201	–	321,588,199	23,727,911	31,670,487	–	55,398,399	266,189,800	292,043,086
Total	1,678,112,684	309,066,166	13,348,356	1,973,830,496	306,899,951	116,256,560	11,456,974	411,695,667	1,562,134,827	1,371,212,737

Note:

1) Gross block of Vehicles includes Rs.1,26,49,701 (Previous Year Rs. 51,35,628) acquired on hire-purchase basis.

	As at June 30, 2008	As at June 30, 2007
SCHEDULE F INVESTMENTS		
Andhra Bank	1,014,930	1,014,930
(11,277 shares of Rs. 10/- each)		
	1,014,930	1,014,930
Unquoted		
Trade long term		
Jeedimetla Effluent Treatment Ltd.	1,566,200	1,566,200
(15,142 Equity shares of Rs. 100/- each)		
Pattancheru Envirotech Ltd	340,400	340,400
(34,040 equity shares of Rs. 10/- each)		
	1,906,600	1,906,600
	2,921,530	2,921,530
SCHEDULE G CURRENT ASSETS, LOANS & ADVANCES		
i) Stock in hand		
Raw Materials	118,945,129	95,792,396
Finished Goods	320,865,736	150,357,487
Work In Process	62,854,214	31,020,976
Consumable and packing materials	10,078,973	4,178,647
Stores and Spares	15,890,069	14,648,716
	528,634,121	295,998,222

Schedules forming part of Consolidated Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE G CURRENT ASSETS, LOANS & ADVANCES (Contd.)		
ii) Sundry Debtors		
(Unsecured, Considered Good)		
For more than six months	26,370,199	28,579,270
Others	355,165,097	342,712,325
	381,535,297	371,291,595
Less: Provision for doubtful debts	6,485,257	–
	375,050,040	371,291,595
iii) Cash & Bank Balances		
Cash on hand	274,419	184,077
Bank Balances:		
With scheduled banks:		
- in current account	51,870,042	97,358,153
- in deposit accounts (including margin money)	54,456,917	37,312,562
Unutilised issue proceeds		
With scheduled banks:		
- in current account	1,902,114	29,346,478
- in deposit accounts	-	200,000,000
	108,503,492	364,201,271
iv) Other Current Assets		
Interest receivable	1,993,770	4,689,688
	1,993,770	4,689,688
v) Loans & Advances		
Advances to suppliers	9,086,671	7,186,991
Deposits	20,478,278	17,136,104
Excise duty	67,858,858	34,518,469
Prepaid expenses	10,406,361	11,599,367
Sales tax refund	18,297,050	26,646,318
Import entitlements	44,270,399	39,831,574
Other advances	20,827,794	26,220,904
	191,225,411	163,139,728

	As at June 30, 2008	As at June 30, 2007
SCHEDULE H CURRENT LIABILITIES & PROVISIONS		
Current liabilities		
Due to Small Scale Industrial Undertakings	12,975,082	9,069,485
Due to Others		
- for goods & services	209,243,157	125,211,170
- for Capital goods	12,967,634	30,948,530
Unpaid dividends	874,355	878,494
Other Liabilities	158,099,042	9,354,230
	394,159,270	175,461,909

Schedules forming part of Consolidated Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE H CURRENT LIABILITIES & PROVISIONS (Contd.)		
Provisions		
Provision for taxation (net of advances)	8,578,329	2,369,543
Provision for dividend	25,071,443	25,029,543
Provision for dividend tax	4,260,892	4,253,771
	37,910,664	31,652,857

	As at June 30, 2008	As at June 30, 2007
SCHEDULE I MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
(i) Public Issue Expenses		
Opening Balance	13,446,825	14,317,737
Less: Written off during the year	1,088,640	870,912
	12,358,185	13,446,825
(ii) Deferred Revenue Expenses		
Opening Balance	–	1,679,382
Less: Written off during the year	–	1,679,382
	–	–
(iii) VRS Expenses		
Opening Balance	1,575,231	1,245,729
Additions during the year	12,373,826	921,251
Less: Written off during the year	3,567,032	591,749
	10,382,025	1,575,231
(iv) Preliminary Expenses		
Additions during the year	306,749	–
	306,749	–
Total (i+ii+iii+iv)	23,046,959	15,022,056

Schedules forming part of Consolidated Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE J SALES		
Export Sales	1,923,369,203	1,374,520,304
Domestic Sales	736,656,779	595,907,278
By products	6,888,056	5,823,700
Export benefits	3,421,529	27,791
Gross Sales	2,670,335,567	1,976,279,073
Less: Excise duty & Sales Tax	105,792,515	94,923,113
Net Sales	2,564,543,052	1,881,355,960

Schedules forming part of Consolidated Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE K OTHER INCOME		
Interest	2,255,628	3,599,836
Dividends received	42,892	22,619
Sale of Scrap	4,257,690	1,728,325
Insurance Claims received	80,743	183,606
Profit on sale of Assets	1,274,464	
Foreign Exchange Fluctuations	4,996,490	16,646,736
	12,907,907	22,181,122

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE L COST OF MATERIALS CONSUMED		
a) Consumption of Raw material	1,627,041,066	993,486,132
b) Consumption of Packing Materials	57,583,288	44,289,666
c) (Increase)/Decrease in Stocks		
(i) (Increase)/Decrease in WIP		
Opening stock	31,020,976	29,098,499
Closing Stock	62,854,214	31,020,976
	(31,833,238)	(1,922,477)
(ii) (Increase)/Decrease in FG		
Opening stock	150,357,487	195,493,809
Closing Stock	267,087,347	150,357,487
	(116,729,860)	45,136,322
Total (Increase)/Decrease in stocks	(148,563,098)	43,213,845
Total cost of material consumed (a+b+c)	1,536,061,256	1,080,989,643

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE M MANUFACTURING EXPENSES		
Salaries, Wages	113,287,836	88,013,843
Contribution to PF/ESI	6,224,618	5,252,284
Employee welfare expenses	3,672,151	3,238,373
Conversion charges	7,845,297	1,515,883
Power & Fuel	117,192,973	77,387,831
Effluent Treatment expenses	17,361,620	17,040,747
Repairs & Maintenance - Factory Building	4,201,347	5,248,788
Repairs & Maintenance - Plant & Machinery	31,998,136	29,487,938
Repairs & Maintenance - Others	4,829,617	5,807,395
Consumables & Lab Chemicals	25,379,330	18,879,681
Analytical Fees	2,344,009	1,093,082
Others	6,071,483	2,912,297
	340,408,417	255,878,142

Schedules forming part of Consolidated Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE N MARKETING & SELLING EXPENSES		
Business Promotion expenses	18,409,816	11,034,482
Sales Commission	27,294,972	26,103,397
Freight & Clearing Charges	104,853,889	92,604,958
Advertisement	692,701	–
Discount	3,075,373	357,571
Travelling expenses	13,605,559	13,880,504
	167,932,310	143,980,911

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE O ADMINISTRATIVE EXPENSES		
Salaries, Wages & bonus	47,899,359	38,203,058
Contribution to Provident Fund	757,899	670,680
Employee welfare expenses	1,802,712	986,967
Directors remuneration	3,000,000	3,000,000
Managerial Commission	2,545,000	3,218,500
Repairs & Maintenance - Others	1,024,899	938,608
Rent	15,475,568	4,706,867
Rates & Taxes	5,390,238	4,568,216
Auditors' remuneration	400,004	380,210
Insurance	10,378,863	10,219,172
Consultancy & Professional Charges	13,232,469	9,767,438
Communication expenses	6,123,948	5,916,533
Printing & stationery	4,064,247	3,606,355
Travelling & Conveyance	14,749,606	9,970,617
Directors sitting fees	310,155	400,000
Advertisement Charges	242,401	447,620
Garden Maintenance	2,047,156	1,670,895
Donations	566,128	1,203,245
Provision for Doubtful Debts	6,485,257	–
Loss on sale of assets	–	713,005
Sundry expenses	19,010,918	5,611,998
	155,506,827	106,199,983

	Year ended June 30, 2008	Year ended June 30, 2007
SCHEDULE P INTEREST AND FINANCE CHARGES		
Interest on Term loans	28,185,998	36,121,106
Interest on Working Capital	75,597,972	48,150,914
Interest Others	1,836,066	19,109,491
Bank Charges	24,671,830	18,244,725
	130,291,866	121,626,236

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

1) System of accounting: The accounts have been prepared and presented under the historical cost convention method on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) to the extent applicable.

2) Principles of consolidation: The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down on the accounting standards on Consolidated Financial Statements by the ICAI. The financial statements of the parent company, Granules India Limited, GIL Lifesciences Private Limited, Granules USA Inc and Granules Biocause Pharmaceutical Co. Limited (50% joint-venture) have been combined on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealised gains / losses. Exchange differences resulting from the difference due to transactions of foreign currency assets and liabilities in subsidiary company is disclosed as foreign currency translation adjustment. The consolidated financial statements are prepared applying uniform accounting policies for like transactions and other events in similar circumstances in use at the parent and subsidiary company.

3) Fixed Assets: Fixed Assets are stated at cost less accumulated depreciation. Cost is inclusive of duties & taxes (net of CENVAT/VAT), incidental expenses and erection / commissioning expenses.

4) Depreciation: Depreciation on fixed assets is provided on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956. The depreciation on incremental value arising from the revaluation of the fixed assets is charged to Revaluation Reserve Account.

5) Expenditure during construction period: Expenditure (including finance cost relating to borrowed funds for construction or acquisition of fixed assets) incurred on projects under implementation are treated as Preoperative expenses pending allocation to the assets and are shown under “Capital Work in Progress” and the same are apportioned to fixed assets on commencement of commercial production.

6) Investments: Long-term investments and investments in subsidiary companies are carried at cost. Provision for diminution in value is made whenever necessary in accordance with the Accounting Standards in force.

7) Valuation of Inventories:
   a) Inventories are valued at the lower of cost or net realizable value.
   b) Inventories of raw material, consumables and stores and spares are valued at cost as per FIFO method. Cost does not include duties and taxes that are subsequently recoverable.
   c) Cost for the purpose of finished goods and material in process is computed on the basis of cost of material, labour and other related overheads.
   d) Goods in transit are stated at costs accrued up to the date of Balance Sheet.
   e) Stocks with consignment agents are stated at costs accrued up to the date of the Balance sheet.

8) Government grants: Government grants received in the nature of promoter’s contribution and where no repayment is ordinarily expected are treated as capital reserve.

9) Foreign Exchange: Foreign exchange transactions are recorded at the exchange rates prevailing at the time of transactions or at contracted rates. Current assets and current liabilities are translated at values prevailing at the Balance Sheet date. Gains/Losses, if any, arising thereby are recognised in the Profit and Loss account.

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS (Contd.)

10) Revenue Recognition:
   a) Revenue from sales is recognised when significant risk and rewards in respect of ownership of the products are transferred.
   b) Revenue from domestic sales is recognised on dispatch of products from the factory of the Company and in case of consignment sale, on further sale made by the agents.
   c) Revenue from export sales is recognised on the basis of dates of Bill of Lading.

11) Export Benefits: Advance licenses are issued to the Company under the Advance License Scheme [Duty Exemption Entitlement Certificate (DEEC Scheme)] / duty entitlement credited under the Duty Entitlement Pass Book Scheme (DEPB Scheme) on the export of the goods manufactured by it. Whenever export sales are made by the Company, pending receipt of imported duty-paid raw materials under the DEEC / DEPB Schemes, the cost of domestic raw materials actually consumed for the purpose of such exports is compensated and / or matched by accruing the value of the benefit under the DEEC / DEPB Scheme.

12) Research and development expenses:
   a) Research costs not resulting in any tangible property/equipment are charged to revenue as and when incurred.
   b) Know-how / product development costs incurred on an individual project are carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future benefits from the related project, not exceeding ten years.
   c) The carrying value of know-how / product development costs are reviewed for impairment annually when the asset is not yet in use and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

13) Employee Retirement Benefits:
   a) Provident fund: These expenses are accounted on accrual basis and charged to Profit and Loss account of the year.
   b) Gratuity: Payment for present liability of future payment of gratuity is made to an approved Gratuity Fund that fully covers the same.
   c) Provision for accrued leave encashment is made on the basis of actuarial valuation.

14) Borrowing costs: Borrowing costs incurred in relation to the acquisition and construction of assets are capitalised as part of the cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as an expense in the year in which they are incurred.

15) Income tax expense:
   a) Current Tax Expense
      The Current charge for income tax is calculated in accordance with the tax regulations.
   b) Deferred Tax Expense
      Deferred income tax reflects the impact of timing difference between accounting income and tax income for the year/ period. Deferred tax is measured based on the tax rates and the tax laws enacted at the Balance Sheet date. Deferred tax asset is recognised only to the extent of certainty of realization of such asset.
   c) Fringe Benefit tax:
      Fringe Benefit tax is calculated in accordance with the tax regulations.

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS (Contd.)

B) NOTES TO ACCOUNTS:

1) Contingent liabilities not provided for in respect of:

(Rupees in Lakhs)

	As at June 30, 2008	As at June 30, 2007
a) Claims against the Company not acknowledged as debts:		
Income tax	–	33.80
Customs duty	43.47	43.47
b) Estimated amount of contracts remaining to be executed on Capital account and not provided for (net of advances)	–	412.97
c) Letters of credit and Bank Guarantees issued by Bank	4519.04	2756.94
d) Bills discounted with banks-Subsidiary Company bills	3362.78	3122.74
e) Bills discounted with banks-Others	2884.54	1557.53

2) Secured loans:

a) Term loans: Term loans from Banks are secured by equitable mortgage of Land and buildings and hypothecation of plant and machinery located at Jeedimetla, Gagillapur and Bonthapally on pari passu basis.

Term loans are further secured by second charge on hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables.

b) Working capital facilities: The working capital facilities from Banks are secured by hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables on pari passu basis. The working capital facilities are further secured by a second charge on the fixed assets of the Company.

c) All the above loans except loan from International Finance Corporation are further secured by personal guarantee of the Managing Director. The Company has requested Consortium Bankers to waive the personal guarantee of the Managing Director, which is under active consideration.

d) Hire purchase loans are secured by hypothecation of the asset purchased.

3) Sundry Creditors include a sum of Rs. 129.75 lakhs due to micro, small and medium enterprises. Total outstanding dues of micro, small and medium enterprises have been determined to the extent such parties have been identified on the basis of the information available with the Company. The parties to whom the Company owes sums outstanding for more than 30 days as at the Balance Sheet date are:

Durga Industries	Kats Organics (P) Ltd	Super Olefins (P) Ltd
Sidharth Canisters Pvt. Ltd.	Technic Containers	

4) Remuneration to Managing Director

(Rupees in Lakhs)

	2007-08	2006-07
Salary	30.00	30.00
Commission	25.45	32.19
Perquisites	10.90	8.91
Total	66.35	71.10

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS (Contd.)

5) Remuneration to Statutory Auditors

(Rupees in Lakhs)

	2007-08	2006-07
As Auditor	3.50	3.50
As adviser, or in any other capacity, in respect of:		
Taxation services	1.25	Nil
Company Law matters	Nil	Nil
Management services	Nil	Nil
Certification	0.44	0.30
Out of pocket expenses	Nil	Nil
Total	5.19	3.80

6) During the year, the Company has capitalised borrowing costs of Rs. 466.92 lakhs towards Tablet facility at Gagillapur (Previous year Rs. 256.97 lakhs for Tablet facility at Gagillapur, grouped under Capital Work in Progress) incurred during the year.

7) Segment reporting: The Company has only one business segment of "Pharmaceuticals". Therefore, the disclosure requirements of "Segment reporting" are not applicable.

8) Related party disclosures required as per Accounting Standard (AS-18) on "Related party disclosures" issued by the Institute of Chartered Accountants of India, are as below:

a) Names of related parties and the nature of relationships:

Name	Relationship
(i) Granules USA Inc	Wholly owned subsidiary company
(ii) GIL Lifesciences Private Limited	Wholly owned subsidiary company
(iii) Granules Biocause Pharmaceuticals Co. Ltd.	Joint-Venture
(iv) Key management personnel :	
Shri C. Krishna Prasad	Managing Director
(v) Others: Dr. C. Nageswara Rao	Non-executive Chairman

b) Transactions with Subsidiary company:

(Rupees in Lakhs)

	June 30, 2008	June 30, 2007
(i) Granules USA Inc		
Sale of goods	4943.82	5205.78
Interest on unsecured loan	5.26	3.27
Amounts outstanding at Balance sheet date:	June 30, 2008	June 30, 2007
Loan granted	64.65	60.84
Interest on loan	17.05	11.79
Equity	23.79	23.79
Amounts receivable for sales made	3433.58	3251.20
(ii) GIL Lifesciences Private Limited		
Equity participation	294.62	–
Amounts outstanding at Balance sheet date:	June 30, 2008	June 30, 2007
Equity	294.62	–

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS (Contd.)

c) Transactions with Joint-Venture (Rupees in Lakhs)

	June 30, 2008	June 30, 2007
Equity participation	–	1819.03
Purchase of goods	1611.82	–
Amounts outstanding at Balance Sheet date:	June 30, 2008	June 30, 2007
Equity	1819.03	1819.03
Amounts payable for purchase of goods	712.55	–
d) Transactions with other related parties:		
Mr. C. Krishna Prasad, Managing Director:		
Remuneration	66.35	71.10
Dr. C. Nageshwar Rao, Chairman:		
Sitting fee paid	0.30	0.65

9) Details of Loans and advances given to Subsidiary company:

Unsecured loan to Granules USA Inc., (Rupees in Lakhs)

	June 30, 2008	June 30, 2007
Balance as at 30 June 2008	64.65	60.84
Maximum balance during the period	64.65	69.32
Rate of interest charged	7%p.a.	7%p.a.

10) Earnings per share – Basic and Diluted:

	2007-08	2006-07
Net profit for the year (Rs. in lakhs)	901.05	759.63
Weighted average number of shares outstanding during the year	21,647,819	14,855,357
Earnings per share (Rs.)	4.16	5.11
Nominal value of shares (Rs.)	10.00	10.00

11) Deferred tax has been accounted for in accordance with the Accounting Standard – 22, "Accounting for taxes on income", issued by the Institute of Chartered Accountants of India. In the case of Subsidiaries and Joint Venture, deferred tax liability or asset is considered as calculated by them. The components of Deferred Tax Assets and Liabilities recognised in these accounts are as follows: (Rupees in Lakhs)

	Opening balance as on 1.7.2007	Charge/(Credit) during the period	Closing balance as on 30.6.2008
Deferred tax liability			
Depreciation	913.53	214.89	1128.42
Deferred revenue expenses	2.55	–	2.55
Total	916.08	214.89	1130.97
Deferred tax asset			
Leave encashment	23.46	(0.57)	22.89
Bonus	8.25	2.96	11.21
MAT Credit	39.83	1.65	41.48
Others	–	7.91	7.91
Total	71.54	11.95	83.49
Net Deferred tax liability	844.54	202.94	1047.48

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS (Contd.)

12) The Company has, during the year invested Rs. 294.62 lakhs in a wholly owned subsidiary "GIL Life sciences Private Limited", Hyderabad, Andhra Pradesh, India. The subsidiary has not commenced any activity.

13) Balances appearing under Sundry creditors, Capital WIP, Loans and advances and debtors are subject to confirmation and/or reconciliation, if any.

14) Amortization of Miscellaneous Expenditure:

a) GDR issue expenses of Rs. 151.89 lakhs carried forward from earlier years are amortised over a period of 5 years commencing from the year in which the Projects commence commercial production. Paracetamol Project at Bonthapally had commenced production during March 2006, hence the issue expenses are proportionately amortised.

b) The Company has implemented a Voluntary Retirement Scheme (VRS). The total cost of separation of Rs. 123.74 lakhs excluding Gratuity under the Gratuity scheme applicable to the employees is amortised over a period of 5 years.

15) The Company has implemented an Employees Stock Option Scheme, accordingly 17,500 Equity shares of Rs. 10 each were issued at a premium of Rs. 63 and 16,020 Equity shares of Rs. 10 each were issued at a premium of Rs. 4 under the said Scheme.

16) The Government of Andhra Pradesh, Commissionerate of Industries has vide its Letter No.20/2/9/0444/ID dated October 11, 1999 and its clarification vide Letter dated August 4, 2001 determined an eligibility of Rs. 184.12 lakhs towards Sales tax deferment on the sale of Paracetamol and the Sales tax payable by the Company for a period of 14 years commencing from June 30, 1998 to 29 June 2012 is deferred. The liability of Rs. 75.24 lakhs as at 30 June 2008 (Previous year Rs. 75.24 lakhs) for the deferred Sales tax is shown under unsecured loans.

17) In terms of accounting policy 10 for the accrual of export benefits, estimated benefits of Rs. 442.70 lakhs (Previous year Rs. 398.31 lakhs) have been taken into account under the DEEC / DEPB Schemes.

18) Previous years figures have been regrouped/rearranged/re-classified wherever necessary.

19) Figures in Balance Sheet and Profit & Loss account have been rounded off to the nearest Rupee and figures in Notes have been rounded off to the nearest thousand and have been expressed in terms of decimals of thousands.

As per our report of even date

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

B. Vijay Kumar
Dy. General Manager - F & A

Consolidated Cash Flow Statement for the Period ended June 30, 2008

(Amount in Rupees)

Particulars		Year ended June 30, 2008		Year ended June 30, 2007
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		126,023,031		109,632,265
Adjustments for:				
Depreciation	116,571,582		82,087,859	
Misc. Expenditure written off	4,655,672		3,142,042	
Profit / (Loss) on sale of assets	(1,274,464)		713,005	
Provision for doubtful debts	6,485,257		–	
Interest & dividend income	(2,298,520)		(3,622,455)	
Interest & finance charges	105,620,036	229,759,562	103,381,511	185,701,961
Operating profit before working capital changes		355,782,592		295,334,226
Increase in Trade and other receivables		(38,329,385)		(194,000,852)
Increase in inventories		(232,635,899)		51,958,705
Increase/(decrease) in Trade Payable		236,654,929		(65,894,188)
Cash generated from operations		321,472,236		87,397,891
Interest paid	106,803,469		102,536,287	
Direct Taxes paid	9,448,809		4,382,698	
Dividends paid	29,287,453	145,539,732	17,232,480	124,151,466
Net Cash from operating activities		175,932,504		36,753,575
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	540,351,773		744,323,181	
Increase in Miscellaneous expenditure	12,680,574		921,251	
Sale of Fixed Assets	(3,165,846)		(1,801,583)	
Interest/dividends received	(4,994,438)		1,003,591	
Net Cash used in investing activities		544,872,062		744,446,440
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital including premium	1,348,269		832,115,467	
Increase in Working Capital Loans	(78,701,704)		231,279,304	
Proceeds from Long Term & Other Borrowings	402,359,847		132,769,249	
Repayment of long term loans	(141,764,633)		(180,827,331)	
Proceeds from Unsecured Loans	(70,000,000)		370,000,000	
Repayment of unsecured loans	–		(300,000,000)	
Net Cash used in Financing Activities		113,241,780		1,085,336,689
Net Increase/(decrease) in Cash & Cash equivalents (A+B+C)		(255,697,779)		304,136,674
Cash equivalents (Opening Balance as at 1-7-2007)		364,201,271		60,064,596
Cash equivalents (Closing Balance as at 30-6-2008)		108,503,492		364,201,270

Note: Cash flow statement has been prepared following the indirect method. Interest paid, direct taxes paid, dividend paid are on the basis of actual movement of cash

As per our report of even date

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: October 20, 2008

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

B. Vijay Kumar
Dy. General Manager - F & A

Director's Overview

Fiscal Year: 07 – 08

Fiscal 06-07 was a transition year for Granules USA. There was the loss of Leiner, a major customer, with their FDA regulatory problems that started in early 2007 and which lead to their eventual Chapter 11 bankruptcy filing in March 2008. Although this resulted in a significant loss of business the demand for Granule's core product line was eventually transitioned to another OTC finished dosage player and existing customer, LNK. The loss of sales of Compress PAP 90% CPC and CPP to Leiner was mitigated* by the additional sales ramp to LNK of Compresso PAP 90% CPK, CPL and CPC, in addition to the increased sales of Compresso PAP 80% DPL. Sales to Perrigo of Guaifenesin and Brompheniramine Maleate totaled almost US$1 million in the fiscal year which were consistent with previous year sales that were in excess of US$900,000. Sales to LNK of the above mentioned products totaled over US$8.5 million. In total, fiscal year sales remained flat from fiscal 2006 to fiscal 2007, from US$13.07 million to US$13.24 million respectively.

As the US retail drug marketplace continues to consolidate around large retailers such as CVS, RiteAid, Walgreens and Walmart, and wholesale clubs such as Costco, BJ's and Sam's Club, the manufactures that service them are being called upon to provide higher levels of service, larger volume quantities and increased product offerings. Retail consolidation has resulted in the concentrated purchasing patterns of these retailers within a limited number or select qualified suppliers. This presents two potential opportunities for Granules moving forward. First is the opportunity as a large volume/capacity raw material supplier to grow as a supplier of choice with existing manufacturers and within existing markets; both private label and branded. This is evidenced by Granules USA's bulk finished dosage supply opportunity currently being negotiated with Perrigo. Second, is the opportunity to enter the marketplace by providing a desired alternative choice to the established private label manufacture oligopoly that has arisen from the disappearance of Leiner and the recent regulatory troubles of periphery OTC players such as Ohm/Ranbaxy and ancillary OTC suppliers such as Actavis. This is also evidenced by the proposal of an OTC business plan initiative for the pursuit of a front-end sales platform for finished dosages to be sold directly to retail pharmacies, retailers and wholesale clubs. As branded pharmaceutical companies with large volume demands have similar requirements of their suppliers, the opportunity to provide large scale, consistent high quality raw materials towards the maintenance of branded products lines is an opportunity to continue to target. To that end. Granules USA is in an active qualification process with McNeil/J&J to become a global supplier of Acetaminophen and related raw material products. Furthermore, the process of leveraging Granules position as a qualified supplier to private label manufactures such as Perrigo and LNK has begun with the pursuit of branded companies in the US such as Reckitt Benckiser which purchased Adam's Therapeutics, the maker of the Mucinex® with the opportunity to supply Guaifenesin as a new global supplier. Although these sales cycles are lengthy, their opportunities are distinct in their financial impact and consistency and longevity of demand.

Moving forward, it is Granules USA Inc.'s challenge to further its niche in the pharmaceuticals marketplace and establish a dominant market presence with customers and partners in the business line and products lines that speak to Granules' capabilities and capacities and provide for a distinct market advantage.

Sincerely

Jonathan Berlent
President
Granules USA Inc.

Professional Accountant Associates

To
The Board of Directors
Granules USA Inc.

101, Howard Blvd.,
Mt. Arlington,
New Jersey, 07856

We have reviewed the accompanying Balance Sheet of Granules USA Inc., as of June 30, 2008, and the related statement of income, retained earnings, and cash flow for the period then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All of the information included in the financial statements is the representation of the management of Granules USA Inc.

Review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in the scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Anjali Patel, *CPA*

October 10, 2008

Balance Sheet as at June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	As at June 30, 2008	As at June 30, 2007
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	2,379,470	2,379,470
Loan Funds			
Unsecured Loans	B	8,166,333	7,274,565
Total Sources of Funds		**10,545,803**	**9,654,035**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	C	1,775,914	1,683,702
Less: Accumulated Depreciation		950,325	728,586
Net Block		**825,589**	**955,116**
Current Assets, Loans & Advances	D		
Inventories		198,393,263	121,346,029
Sundry Debtors		131,538,131	135,561,356
Cash & Bank Balances		4,303,964	5,113,651
Loans and Advances		11,966,980	13,912,587
		346,202,339	**275,933,623**
Less: Current Liabilities & Provisions			
Current Liabilities	E	383,979,488	306,981,929
Net Current Assests		**(37,777,149)**	**(31,048,306)**
Miscellaneous Expenditure			
(to the extent not written off or adjusted)			
Profit & Loss Account		47,497,364	39,747,225
Total Application of Funds		**10,545,803**	**9,654,035**
Significant accounting policies and notes to accounts			

As per our report of even date

For Professional Accountant Associates

Anjali Patel
CPA

Place: New Jersy
Date: October 10, 2008

For and on behalf of the Board

Jonathan Berlent
President

Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	Year ended June 30, 2008	Year ended June 30, 2007
INCOME			
Sales (net)		550,852,248	566,300,220
Other Income	F	236	3,371,296
		550,852,484	569,671,516
EXPENDITURE			
Cost of goods sold	G	516,253,405	549,802,263
Marketing & Selling Expenses	H	10,576,774	14,566,792
Administrative Expenses	I	29,689,167	23,300,160
Interest and Finance Charges	J	1,857,670	1,810,038
Depreciation		225,608	315,045
		558,602,623	589,794,296
Profit before tax		(7,750,139)	(20,122,780)
Less: Current Tax Expense		–	–
Net Profit after Taxes		(7,750,139)	(20,122,780)
Balance transferred to Balance Sheet		(7,750,139)	(20,122,780)
Add: Profit/loss brought forward from previous year		(39,747,225)	(19,624,445)
Surplus/deficit carried forward to Balance Sheet		(47,497,364)	(39,747,225)

As per our report of even date

For Professional Accountant Associates

Anjali Patel
CPA

Place: New Jersy
Date: October 10, 2008

For and on behalf of the Board

Jonathan Berlent
President

Schedules forming part of Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE A SHARE CAPITAL		
Authorised Capital		
Common stock, 1500 shares of US$100 par value (Previous year Common stock, 1500 shares of US$100 par value)	6,675,000	6,675,000
	6,675,000	6,675,000
Issued, Subscribed and Paid up Capital		
500 Shares of US$100 each (Previous year : 500 shares of US$100 each)	2,379,470	2,379,470
	2,379,470	2,379,470

	As at June 30, 2008	As at June 30, 2007
SCHEDULE B UNSECURED LOANS		
From Companies / Banks	8,166,333	7,274,565
	8,166,333	7,274,565

SCHEDULE C FIXED ASSETS

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
Particulars	As on July 1, 07	Additions	Deletions	Total as on June 30, 08	As on July 1, 07	For the Year	On Deletions	As on June 30, 08	As on June 30, 08	As on June 30, 07
Office equipment	985,207	77,050	–	1,062,256	658,598	542,427	–	898,858	163,398	628,776
Furniture & Fixtures	493,328	15,162	–	508,490	30,591	(30,591)	–	–	508,490	462,737
Technical Knowhow	205,168	0	–	205,168	39,396	24,926	–	51,467	153,700	178,626
Total	**1,683,702**	**92,212**	–	**1,775,914**	**728,586**	**536,762**	–	**950,325**	**825,589**	**1,270,139**
Previous year totals	1,642,235	41,467	–	1,683,702	413,563	315,023	–	728,586	955,116	1,228,672

	As at June 30, 2008	As at June 30, 2007
SCHEDULE D CURRENT ASSETS, LOANS & ADVANCES		
i) Stock in hand		
Finished Goods	198,393,264	121,346,029
	198,393,264	121,346,029
ii) Sundry Debtors (Unsecured, considered good)		
Receivables	131,538,131	135,561,356
	131,538,131	135,561,356
iii) Cash & bank balances		
- in current account	4,303,964	5,113,651
	4,303,964	5,113,651
iv) Loans & Advances		
Other current assets	11,966,980	13,912,587
	11,966,980	13,912,587

	As at June 30, 2008	As at June 30, 2007
SCHEDULE E CURRENT LIABILITIES & PROVISIONS		
Due to creditors for goods & services	383,595,193	306,616,808
Other liabilities	384,295	365,121
	383,979,488	306,981,929

Schedules forming part of Profit & Loss Account for the Period ended June 30, 2008

(Amount in Rupees)

	As at June 30, 2008	As at June 30, 2007
SCHEDULE F OTHER INCOME		
Foreign Exchange Fluctuations	236	3,371,296
	236	3,371,296

	As at June 30, 2008	As at June 30, 2007
SCHEDULE G COST OF GOODS SOLD		
(i) Purchases	579,885,472	521,072,560
(ii) (Increase)/Decrease in Finished goods		
Opening stock	134,761,197	163,490,900
Closing Stock	198,393,264	134,761,197
Total (Increase)/Decrease in stocks	(63,632,067)	28,729,703
Cost of goods sold	516,253,405	549,802,263

	As at June 30, 2008	As at June 30, 2007
SCHEDULE H MARKETING & SELLING EXPENSES		
Sales Commission	–	1,504,313
Distribution expenses	8,410,692	10,656,369
Travelling expenses	2,166,082	2,406,109
	10,576,774	14,566,792

	As at June 30, 2008	As at June 30, 2007
SCHEDULE I ADMINISTRATIVE EXPENSES		
Salaries, Wages & bonus	19,260,143	16,254,407
Repairs & maintenance - Others	48,777	191,199
Rent	1,322,722	837,316
Rates & Taxes	375,094	286,767
Insurance	771,217	3,788,783
Consultancy & Professional Charges	916,583	464,289
Communication expenses	442,086	523,905
Printing & stationery	381,435	396,660
Foreign Exchange Fluctuations	1,924,841	–
Sundry expenses	4,246,270	556,833
	29,689,167	23,300,160

	As at June 30, 2008	As at June 30, 2007
SCHEDULE J INTEREST AND FINANCE CHARGES		
Interest on Working Capital	877,767	468,727
Bank Charges	979,903	1,341,310
	1,857,670	1,810,038

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE K SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

1. Business

   Granules USA Inc. ("Granules and the "Company") was incorporated on March 5, 2003 in New Jersey. Granules is a wholly owned subsidiary of Granules India Limited ("GIL"), a company incorporated in India.

   Granules acts as an exclusive front-end value chain for GIL and develop markets for the products manufactured by GIL. The business of GIL comprises of manufacture and sale of pharmaceutical products.

2. Basis of presentation

   a. The accompanying financial statements for the period July 1, 2007 to June 30, 2008 are prepared in accordance with the accounting principles generally accepted in the United States of America ('US GAAP')

   b. In preparing the Company's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period, the important estimates made by the Company in preparing these financial statements include those on the useful life of property and equipment, the valuation of deferred taxes and allowance for doubtful debts and actual results could differ from those estimates.

3. Cash and cash equivalents

   The Company considers all highly liquid investments and deposits with an original maturity of ninety days of less to be cash equivalents. Cash and cash equivalents comprise cash on hand and balance with banks.

4. Inventories

   Inventories consist of products purchased from GIL, and are stated at cost. The cost of the products is determined using the first in first out ('FIFO') method.

5. Accounts receivables

   The Company provides allowance for doubtful accounts equal to the estimated uncollectable amounts in the aggregate, based on the present and prospective financial condition of customers and ageing of accounts receivables after considering historical experience and economic environment.

6. Property and equipment

   Property and equipment are stated at cost less accumulated depreciation. Depreciation provided over the estimated useful economic life of the assets using the straight-line method. Depreciation of an asset commences when the asset is put to use. The estimated useful lives used to determine depreciation are:

Furniture and fixture	7 years
Computers	5 years

7. Intangible assets

   Purchased trademarks are capitalised at cost; intangible assets with finite useful life are amortised over the useful or economic life of the intangible.

8. Impairment of long-lived assets

   In August 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets' that replaced SFAS 121 "Accounting for Impairment of Long-lived Assets and for Long-Lived Assets to be disposed off". SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or the fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The provisions of SFAS 144 are effective for financial statements issued for the fiscal year beginning after December 15, 2001 and the Company has adopted the same.

9. Revenue

   Customers of the Company consist primarily of large pharmaceutical companies. Revenue from product sales is recognised when the merchandise is shipped to customers and all the four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products has occurred; (iii) the selling price is both fixed and determinable and;

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

(iv)collectibles is reasonably probable.

Provisions for sales discount, damaged product returns, exchanges for expired products are established as a reduction of product sales revenue at the time such revenues are recognised. Certain charge backs and rebate programs extended to customers pursuant to the industry standards, are recognised as a reduction from product sales revenues at the time of shipment.

10. Research and development

Research and development costs are expensed when incurred. Expenditure for obtaining regulatory approvals and registration of products is charged to revenue when incurred. During the period July 1, 2007 to June 30, 2008, the Company incurred Rs. 2,35,646/- on research and development.

NOTE B – CASH AND EQUIVALENTS

The cash and cash equivalents of the Company comprise of: (Amount in Rupees)

	As of June 30, 2008
Checking account the PNC Bank -3 accounts aggregating Bank balance only to Rs. 4,269,000/- is FDIC insured.	Rs. 4,303,964/-

NOTE C – INVENTORIES

Inventories comprise of: (Amount in Rupees)

	As of June 30, 2008
Traded goods	85,424,697/-
Goods-in-transit	112,968,567/-
Total	198,393,264/-

NOTE D – ACCOUNTS RECEIVABLES

Granules accounts receivables are primarily related to sale of granules to pharmaceutical companies. Credit is extended based on prior experience with the customer and evaluation of customers' financial condition. Granules had gross receivables from outside customers of Rs. 135,186,146/- as of June 30, 2008. The Company has provided for doubtful allowance Rs. 3,648,015/- the amount owed by Leiner, which has filed for bankruptcy.

NOTE E – OTHER CURRENT ASSETS

Other current assets comprise of: (Amount in Rupees)

	As of June 30, 2008
Advances (to Lehigh Valley Technologies Inc)	8,787,385
Prepaid expenses	3,179,595
Total	11,966,980

The Company had made a loan to Lehigh Valley Technologies Inc for Rs. 15,404,345 payable in 56 equal weekly installments of Rs. 303,227 commencing from May 18, 2008. Interest chargeable was at 8% per annum. Only Rs. 6,616,960 has been paid to date and the entire amount has been allocated towards principle. No provision for accrued interest has been made.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment comprise of the following: (Amount in Rupees)

	As of June 30, 2008
Furniture and fixtures	508,490
Computer equipment	1,062,257
Less: Accumulated depreciation	898,858
Total	671,889

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

NOTE G – INTANGIBLES

Intangibles comprise of: (Amount in Rupees)

	As of June 30, 2008
Trade marks	205,167
Less: Accumulated amortization	51,467
Total	153,700

NOTE H – OTHER CURRENT LIABILITIES

Other current liabilities comprise of the following: (Amount in Rupees)

	As of June 30, 2008
Accrued expenses	577,015
Loan from Granules India Limited	8,166,333
Total	8,743,348

The Company received a loan of Rs. 6,465,000 from its parent company GIL. This loan carries 7% simple interest. Interest accrued for the period is Rs. 437,063

NOTE I – COMMITMENTS AND CONTINGENCIES

There are no commitments of contingencies as on June 30, 2008.

NOTE J – NET OPERATING LOSSES CARRIED FORWARD

As at June 30, 2008, the Company had Rs. 36,315,056 in Federal net operating loss and Rs. 37,345,482 New Jersey State operating loss carry forwards which can be carried forward for future utilization within 15-20 years.

NOTE K – RELATED PARTY TRANSCATIONS

The Company had following transactions and balances with its parent, GIL: (Amount in Rupees)

	Period ending June 30, 2008
Purchases by the Company from GIL	483,402,564
Short-term loan by the Company from GIL	6,465,000
Interest due on short term loan	1,701,333
Related party balances at the year end:	
Accounts payable by the Company to GIL	381,541,918
Short-term loan payable by the Company to GIL	8,166,333
Accounts Receivable from GIL to the Company	13,906,396

NOTE L – SEGMENT INFORMATION

The Company's main business is marketing of pharmaceutical products of the parent company. The management views the Company's operations as a single reportable segment.

NOTE M – CONCENTRATION

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect future operating results and cause actual results to vary materially from expectations include but are not limited to government regulations, competition, reliance on certain customers and credit risk.

The Company has concentration in respect of region in which it operates, which is the USA. The Company has concentration in receivables and revenue. Contract Pharmacal , Amneal, LNK, and Kirk Pharma constitute approximately 6%, 4%, 61% and 7% of the accounts receivables and approximately 6%, 2%, 64%, and 5% of the revenue respectively.

NOTE N – STOCKHOLDERS' EQUITY

The authorised share capital of the Company is 1,500 equity shares of no par value. The Company has issued 500 equity shares of US$100 each. Each share carries an equal voting right and is entitled to an equal share in the assets of the Company at liquidation.

Cash Flow Statement for the Period ended June 30, 2008

(Amount in Rupees)

Particulars	Year ended June 30, 2008		Year ended June 30, 2007	
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		(7,750,139)		(20,122,780)
Adjustments for:				
Depreciation	225,608		315,045	
		225,608		315,045
Operating profit before working capital changes		(7,524,531)		(19,807,735)
Increase in Trade and other receivables		5,968,832		12,215,784
Increase in inventories		(77,047,234)		42,144,871
Increase/(decrease) in Trade Payable		76,993,691		(41,826,801)
Cash generated from operations		(1,609,243)		(7,273,881)
Net Cash from operating activities		(1,609,243)		(7,273,881)
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	92,212		41,467	
Net Cash used in investing activities		92,212		41,467
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from Long Term & Other Borrowings	891,768		(469,034)	
Net Cash used in Financing Activities		891,768		(469,034)
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		(809,687)		(7,784,382)
Cash equivalents (Opening Balance as at 1-7-2007)		5,113,651		12,898,033
Cash equivalents (Closing Balance as at 30-6-2008)		4,303,964		5,113,651

As per our report of even date

For Professional Accountant Associates

Anjali Patel
CPA

Place: New Jersy
Date: October 10, 2008

For and on behalf of the Board

Jonathan Berlent
President

Directors Report

Your Directors have pleasure in presenting the First Annual Report of the Company together with the Audited statement of Accounts for the period ended June 30, 2008.

COMPANY PERFORMANCE:

The Company has acquired 18.35 acres of land at Jawaharlal Nehru Pharma City (JNPC), Parwada Mandal, Visakhapatnam under the APIIC Special Projects Zone for the purpose of setting up of a Bulk Drug Manufacturing Unit. The APIIC is the nodal agency with Ramky Pharma City (India) Ltd, acting as Developers.

DIRECTORS

Dr.C.Nageswara Rao, Director of the Company has resigned from the Board with effect from March 03, 2008.

The Board wish to place on record its profound appreciation for the services rendered by Dr.C.Nageswara Rao during his tenure as Director.

Mr.Harsha Chigurupati was appointed as Additional Directors with effect from March 03, 2008.

AUDITORS

M/S.Vijaya Bhaskar & Co., Chartered Accountants, the retiring auditors are eligible for reappointment.

DIRECTORS RESPONSIBILITY STATEMENT

As required under Sec.217(2AA) of the Companies Act, 1956, your directors wish to state :

(a) That in preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(b) That they have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

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

(d) That they have prepared the accounts for the year ended June 30, 2008 on a 'going concern' basis

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE FLUCTUATIONS

The relevant information as required under section 217 (2) of the Companies Act, 1956 is not enclosed, since the said provisions are not applicable to the Company.

No research and development undertaken during the year and no expenses have been incurred on research and development during the year.

FIXED DEPOSITS

During the year under review, your Company did not accept or invite any deposits from the Public.

DIVIDENDS

In view of non commencement of the business, your directors are unable to recommend any dividend.

PARTICULARS OF EMPLOYEES

There are no employees, employed through out the year and in receipt of Rs. 24,00,000/-or more or employed for part of the year in receipt of Rs. 2,00,000/- per month.

ACKNOWLEDGEMENTS

The Directors would like to thank the shareholders, bankers and other stakeholders for their support given by them to the Company.

For and on behalf of the Board

C. Krishna Prasad
Director

Place: Hyderabad
Date : September 15, 2008

Harsha Chigurupati
Director

Auditors' Report to Members

We have audited the attached Balance Sheet of GIL Lifesciences Private Limited as at June 30, 2008. 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.

We conducted the audit in accordance with auditing standards accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financials 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 our audit provides a reasonable basis for our opinion.

We report as follows:

1 As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose a statement on the matters specified in Paragraphs 4 and 5 of the said order:

2 Further to our comments in the Statement referred to in paragraph(1) above:

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

b) In our opinion, proper books of accounts as required by law have been kept by the Company in so far as it appears from our examination of the books.

c) The Balance Sheet referred to in the Report are in agreement with the books of accounts.

d) In our opinion, the accounts have been prepared in accordance with the Accounting standards referred to in Sub-section 3 (c) of Section 211 of the Companies Act, 1956.

e) On the basis of written review of written representations received from the directors, and taken on record by the Board of Directors, none of the director is disqualified as on June 30, 2008 from being appointed as director in terms of clause (g) of Section 274(1) of the Companies Act, 1956.

f) In our opinion and to the best of our information and according to the explanation given to us, the said accounts read with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:

In so far as it relates to the Balance Sheet, of the State of affairs of the Company as at June 30, 2008.

For Vijaya Bhaskar & Co.,
Chartered Accountants

Date : September 15, 2008
Place: Hyderabad

A. Vijaya Bhaskar
Partner

Annexure to Auditors' Report

(i) a) The Company does not own any fixed assets other than land and has maintained proper records for the situation of fixed assets.

b) The Company does not have any fixed assets except Land and hence physical verification of assets does not arise.

c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets have not been disposed of by the Company during the year.

(ii) There are no stocks of the Company as at June 30, 2008 and hence the clause (ii) of CARO,2003 is not applicable.

(iii) The Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

In view of what has been stated above, the clause (iii)(b) regarding terms and conditions of such loans, clause (iii)(c) regarding payment of principal amount and interest and clause (iii)(d) regarding for recovery of overdue amount of Para 4 of the Order are not applicable.

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the expenses and we have not observed any continuing failure to correct weakness in such internal controls.

(v) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.

(vi) The Company has not accepted any deposits from the public within the meaning of Section 58 A and 58 AA of the Act and the rules framed there under.

(vii) In our opinion, the reporting on the internal audit system of the Company is not applicable.

(viii) Maintenance of cost records under Section 209(i) (d) of the Companies Act, 1956 is not applicable to this Company.

(ix) The disclosure under Clause (ix) relating to Statutory dues is not applicable to the Company.

(x) The Company does not have accumulated losses as at June 30, 2008 and has not incurred cash losses during the financial year ended on that date or in the immediately preceding previous financial year.

(xi) The Company has not availed any loans from banks or

Annexure to Auditors' Report (Contd.)

institutions, hence the comment on the default in repayment is not applicable.

(xii) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) The Provisions of any special statute as specified under paragraph (xiii) of the Order are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments.

(xv) According to the information and explanation given to us, the Company has not given any guarantees for the loans taken by others from banks or financial institutions.

(xvi) The Company has not raised any term loans during the year.

(xvii) According to the information and explanation given to us and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on a short term basis which have been used for long term investment.

(xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.

(xix) The Company has not made any preferential allotment of shares to parties and Companies covered in the Register maintained under Section 301 of the Companies Act, 1956 during the year.

(xx) The Company has not raised any money by Public Issue during the year.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For Vijaya Bhaskar & Co.,
Chartered Accountants

Date : September 15, 2008
Place: Hyderabad

A. Vijaya Bhaskar
Partner

Balance Sheet as at June 30, 2008

(Amount in Rupees)

Particulars	Schedule No.	As at June 30, 2008
SOURCES OF FUNDS		
Shareholders's Funds		
Share Capital	A	29,461,760
Total Funds Employed		**29,461,760**
APPLICATION OF FUNDS		
Fixed Assets	B	
Gross Block		29,033,758
Net Block		29,033,758
Current Assets, Loans and Advances:	C	
Cash and Bank balances		130,812
		130,812
Less: Current Liabilities and Provisions:	D	
Current Liabilities		9,558
Net current assets		**121,254**
Miscellaneous expenditure	E	
(to the extent not written off or adjusted)		
Preliminary expenses		306,748
Total Funds Used		**29,461,760**
Significant Accounting Policies and Notes to the accounts	F	

As per our report attached

For and on behalf of the Board of Directors

For Vijaya Bhaskar & Co.,
Chartered Accountants

A. Vijaya Bhaskar
Partner

C. Krishna Prasad
Director

Harsha Chigurupati
Director

Place: Hyderabad
Date : September 15, 2008

Schedules forming part of Balance Sheet as at June 30, 2008

(Amount in Rupees)

	As at June 30, 2008
SCHEDULE A SHARE CAPITAL	
Authorised	
30,00,000 Equity Shares of Rs. 10/- each	30,000,000
Issued, subscribed & Paid up	
29,46,176 Equity Shares of Rs. 10/- each fully paid up	29,461,760
	29,461,760

SCHEDULE B FIXED ASSETS

	GROSS BLOCK		DEPRECIATION		NET BLOCK
Name of the asset	Additions during the year	As on 30-Jun-08	For the year	Upto 6/30/08	As on 6/30/08
1. Land	28,950,315	28,950,315	–	–	28,950,315
2. Pre-operative expenses pending capitalisation	83,443	83,443	–	–	83,443
Total	29,033,758	29,033,758	–	–	29,033,758

	As at June 30, 2008
SCHEDULE C CURRENT ASSETS, LOANS AND ADVANCES	
Cash and Bank balances	
Cash on hand	9,766
Balance with Scheduled Banks in Current account	121,046
	130,812
SCHEDULE D CURRENT LIABILITIES AND PROVISIONS	
Current Liabilities	
Dues to Holding Company	8
Audit fee payable	9,550
	9,558
SCHEDULE E MISCELLANEOUS EXPENDITURE	
(to the extent not written off or adjusted)	
Preliminary Expenses	306,748
	306,748

Schedules forming part of Balance Sheet

SCHEDULE F SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1) **Nature of Operations**

The Company was incorporated on July 19, 2007 and is promoted by Granules India Limited. The Company was incorporated to carry on the business of manufacturers, dealers, distributors, agents, exporters, importers, processors and developers of all types of drugs and chemicals.

2) **Basis of Accounting**

The financial Statements of the Company are prepared under the historical cost convention in accordance with the generally accepted accounting principles applicable in India and the provisions of the Indian Companies Act, 1956.

3) **Fixed Assets**

Fixed assets are stated at cost of acquisition.

4) **Preliminary Expenses**

Preliminary expenses will be amortised over a period of 5 years from the year of commencement of business.

B. NOTES TO ACCOUNTS

1) Contingent Liabilities Rs. Nil

2) As the Company is yet to commence its business, the information required under Paragraph 3 and 4 of Part II of Schedule VI of the Companies Act, 1956 is not furnished.

3) Remuneration to the Auditors:

Audit fee	Rs. 8,500
Service tax	Rs. 1,050

4) Particulars of Remuneration to Directors Rs. Nil

5) Earnings in Foreign Currency Rs. Nil

6) CIF Value of imports Rs. Nil

7) As the Company was incorporated on July 19, 2007, the Balance Sheet covers the period July 19, 2007 to June 30, 2008.

8) The Company has no employees in its rolls.

9) Since the Company is yet to commence the business, all the expenses incurred during the period amounting to Rs. 83,443 is transferred to Pre-operative expenditure pending capitalization.

10) **Related Party Disclosures**

Disclosures as required by Accounting Standard 18(AS-18) 'Related Party Disclosures' issued by the Institute of Chartered Accountants of India is as follows:

a) Names of Related parties and description of relationship:

(i) Holding Company- Granules India Limited

(ii) Fellow Subsidiaries

Schedules forming part of Balance Sheet

SCHEDULE **F** SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS (Contd.)

b) Details of transactions with Holding Company-Granules India Limited

Nature	Amount (Rs.)
Income	Nil
Expenditure	Nil
Outstanding balances as of June 30, 2008	
Payables	8

c) Key Management Personnel

- Not reported as there are no employees in its rolls.

11) The segment information as required under Accounting Standard 17(AS-17) is not reported as the Company is yet to commence the business. There are no reportable geographical segments.

12) The disclosure about the suppliers for their status under Micro, Small and Medium Enterprises Development Act, 2006 is not applicable as there are no balance of Sundry Creditors at the year end.

13) The disclosure on the Deferred Tax asset/liability as required under the Accounting Standard 22(AS-22) is not applicable.

14) The figures have been rounded off to the nearest rupee and this being the first set of Financial Statements of the Company there are no figures for the previous year.

As per our report attached

For and on behalf of the Board of Directors

For Vijaya Bhaskar & Co.,
Chartered Accountants

A. Vijaya Bhaskar
Partner

C. Krishna Prasad
Director

Harsha Chigurupati
Director

Place: Hyderabad
Date : September 15, 2008

“If we are growing, we’re always going to be out of our comfort zone”

– John Maxwell

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

Notice

Notice is hereby given that the Seventeenth Annual General Meeting of the members of Granules India Limited will be held on the 19th day of December 2008 at 4.00p.m. at Hotel Green Park, Green Lands Ameerpet, Hyderabad to transact the following business:

Ordinary Business:

1. To consider and adopt the Audited Balance Sheet as at June 30, 2008 and the Profit and Loss Account for the year ended as on that date along with schedules and notes appended thereto and the reports of Directors and Auditors thereon.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Shri L. S. Sarma, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Shri A. P. Kurian, who retires by rotation and being eligible offers himself for reappointment.
5. To appoint M/s. Kumar & Giri, Chartered Accountants, Hyderabad as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

Special Business:

6. **Appointment of Mr. Harsha Chigurupati in terms of Section 314**

   To consider and, if thought fit, to pass, with or without modification(s), the following resolution as **SPECIAL RESOLUTION:**

   "RESOLVED THAT subject to the approval of the Central Government and pursuant to the provisions of Section 314 (1B) and all other applicable provisions of the Companies Act 1956, consent of the Board be and is hereby accorded to revise the remuneration of Mr. Harsha Chigurupati, relative of Mr. C. Krishna Prasad, Managing Director and Dr. C. Nageswara Rao, Chairman of the Company, to hold office as Chief Marketing Officer of the Company or such other designation as may be assigned, with effect from April 1, 2008 at a remuneration not exceeding Rs. 2,00,000/- (rupees two lakhs only) per month as per the Company's Employment Rules."

By order of the Board
for **Granules India limited**

Place: Hyderabad
Date : October 20, 2008

Dr. C. Nageswara Rao
Chairman

NOTES:

1. A Member entitled to attend and vote is entitled to appoint Proxy to attend and vote instead of himself and the Proxy need not be the Member of the Company. The Proxies in order to be effective should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
2. Members/proxies are requested to duly fill the attendance slips for attending the meeting and bring their copies of the Annual Report to the meeting.
3. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
4. Members who hold shares in dematerialization form are requested to write their client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
5. Members are requested to notify immediately any change in their address to the Share Transfer Agents.
6. Those members who have so far not encashed their dividend warrants for the below mentioned financial years, may claim or approach the Company for the payment thereof as the same will be transferred to the Investor Education and Protection Fund (IEPF) of the Central Government, pursuant to Section 205C of the Companies Act, 1956 on the respective dates mentioned there against. Kindly note that after the said dates, the members will lose their right to claim such dividend.

Financial year ended	Due date of transfer
30/06/2004	18/01/2012
30/06/2005	03/01/2013
30/06/2006	26/01/2014
30/06/2007	27/01/2015

7. **Closure of register of Members and Dividend payment:**
   a) The Company has already notified closure of Register of Members and Transfer Books thereof from December 17, 2008 to December 19, 2008 (both days inclusive) for determining the names of Members eligible for dividend, if approved, on equity shares. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
   b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid on or before January 17, 2008.
   c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 3 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centers/branches. The members are, therefore, advised to en-cash Dividend Warrants within the initial validity period.
8. **Payment of Dividend through ECS:**
   The Company offers the facility of electronic credit of Dividend directly to the respective bank accounts of shareholders, through Electronic Clearing Services (ECS). This facility is currently available at the locations specified in the Mandate form enclosed in this Annual Report.
   i) Members holding shares in physical form are advised to submit the Bank mandate particulars of their bank account viz., name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number latest by December 20, 2007 to the Company's Registrar and Share Transfer Agent.
   ii) In respect of shareholders holding shares in electronic form, the Company will make payment through ECS if the bank account details been furnished by the shareholder to the concerned depository participant

with whom the shareholder is maintaining his demat account. In case, so far the bank details have not been furnished to the depository participant or change in the bank particulars already furnished, advised to submit the same to the depository participant.

9. Non-Resident Indian Shareholders are requested to inform M/s. CIL Securities Limited immediately of:
   a) the change in the Residential status on return to India for permanent settlement.
   b) the particulars of the Bank Account maintained in India with complete name, branch, account number and address of the Bank, if not furnished earlier.

10. Corporate Members intending to depute their authorised representatives are requested to send a duly certified copy of the Board resolution authorizing their representatives to attend and vote at the Annual General Meeting.

11. M/s. CIL Securities Limited, (214, RAGHAVA RATNA TOWERS, CHIRAG ALI LANE, HYDERABAD - 500 001) acts as the Company's Registrar and Share Transfer Agent for both manual and electronic form of shareholding. All communication relating to shares should be addressed directly to them.

12. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their request in Form 2B (which will be made available on request) to the Registrar and Share Transfer Agent i.e., M/s. CIL Securities Limited.

13. Members desiring to seek any information on the Annual Accounts are requested to write to the Company at an early date to enable compilation of information.

EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act, 1956]

ITEM NO. 6

The members at the Extraordinary General Meeting held on 04/12/2006, had approved the appointment of Mr. C. Harsha, relative of Mr. C. Krishna Prasad, Managing Director and Dr. C. Nageswara Rao, Chairman, as "Head – Strategic Planning" at a remuneration of Rs. 49000/- per month w.e.f. September 1, 2006. In view of the augmentation of responsibilities as "Chief marketing Officer" and on appraisal of his performance during the period of his office, the remuneration of Mr. C. Harsha is proposed to be enhanced w.e.f. April 1, 2008.

Approval of the shareholders in terms of Section 314(1B) is required and hence the Special Resolution at Item No.6 of the accompanying Notice which your Directors recommend for your approval.

Mr. C. Krishna Prasad and Dr. C. Nageswara Rao, who are relatives of Mr. C. Harsha are deemed to be concerned and interested in the said resolution. None of the other Directors of the Company is in any way, concerned / interested in the Resolution.

By order of the Board
for **Granules India limited**

Place: Hyderabad
Date : October 20, 2008

Dr. C. Nageswara Rao
Chairman

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

PROXY FORM

17th Annual General Meeting

Regd. Folio No.	
*Demat A/c No.	

DP ID No.	

I/We .... of .... in the district of .... being a member/members of the Company, hereby appoint .... of ....or failing him/her of .... in the district of .... as my / our Proxy to vote for me / us on my / our behalf at the 17th Annual General Meeting of the Company to be held at Hotel Green Park, Green Lands Ameerpet, Hyderabad, on Friday, the 19th day of December 2008 at 4.00 p.m. and at any adjournment (s) thereof.

Signed this .... day of 2008

Affix
Re. 15 paisa
Revenue
Stamp

Signature...

Note: This form, in order to be valid and effective, should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.

* Those who hold shares in demat form must quote their Demat A/c No. and Depository Participant (DP) ID. No.

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

ATTENDANCE SLIP

17th Annual General Meeting

Regd. Folio No.	
*Demat A/c No.	

DP ID No.	
No. of Shares held	

I certify that I am a Member/Proxy for the Member of the Company.

I hereby record my presence at the 17th Annual General Meeting of the Company at Hotel Green Park, Green Lands Ameerpet, Hyderabad, on Friday, the 19th day of December 2008 at 4.00 p.m.

Member's/Proxy's Name

Signature of Member/Proxy

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

ELECTRONIC CLEARING SERVICE (CREDIT CLEARING) MANDATE FORM

Shareholder's authorization to receive dividends through Electronic Credit Clearing Mechanism

1. Name of the sole/first Shareholder (IN BLOCK LETTERS) : ....
2. Folio No./DP ID No. & Client ID No. : ....
3. Particulars of Bank Account
   - a Name of the Bank : ....
   - b Branch, Address & Telephone No. of the Branch : ....
   - c Account No. (as appearing on the cheque book/pass book) : ....
   - d Account Type (Saving/Current/Cash Credit Account) : ....
   - e Ledger No./ Ledger Folio No. (if appearing on the cheque book/pass book) : ....
   - f 9 Digit Code No. of the Bank & Branch appearing on the MICR Cheque issued by the bank. : ....

I hereby declare that the particulars given above are correct and complete. If the transaction is delayed or not effected at all for reasons of incomplete or incorrect information, I will not hold Granules India Limited responsible.

Place:

Date :

Signature of the Sole/First Shareholder

Notes:

1. Please fill in the Mandate Form and send it to:
   - i) the Depository Participant who is maintaining your Demat Account in case you hold shares electronically with a copy to the Company, in case there are any changes in your bank particulars.
   - ii) the Registrar and Share Transfer Agent of the Company, M/s.CIL Securities Limited, 214, Raghava Ratna Towers, Chirag Ali Lane, Hyderabad – 500 001, in case you hold shares in physical form.
2. Please attach a blank cancelled cheque or photocopy of a cheque. Alternatively, the above particulars may be attested by your bank manager.
3. In case of more than one folio/demat account please complete details on separate sheets.
4. The information provided by you will be treated confidential and would be utilised only for the purpose of effecting the payments meant for you. You also have a right to withdraw from this mode of payment by providing the Company with an advance notice of 3 weeks.

At present the Reserve Bank of India at the following centres makes the ECS facility available at Ahmedabad, Bangalore, Bhubhaneshwar, Chennai, Chandigarh, Guwahati, Hyderabad, Jaipur, Kolkata, Kanpur, Mumbai, New Delhi, Nagpur, Patna and Trivendrum.

The members located at other than the above list of centers will continue to receive the dividend warrants with bank particulars, if any, despite ECS mandate.