

REXCEL PHARMACEUTICALS LIMITED

Regd. Office : 12th Floor, Devika Tower, Nehru Place, New Delhi-110 019

REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting 14th Annual Report of the Company and Audited Accounts for the year ended December 31, 2010.

Operations

M/s. Solrex Pharmaceuticals Company ("Solrex"), a 50:50 partnership between the M/s. Solus Pharmaceuticals Limited and M/s. Rexcel Pharmaceuticals Limited, through its one unit in Baddi, Himachal Pradesh, manufactures Ointments/ Gels, Liquid & Lotions and Tablets. Further Solrex through Analytical Testing Services, an approved Public Testing Laboratory also provides testing and other related services support to its abovementioned manufacturing unit and also over third parties. During the year 2010, Solrex made consolidated sales of about Rs. 10120 lacs.

During the year under review, the Company earned a profit after tax of Rs. 2639.60 lacs and the same has been transferred to the Reserves. The Board of Directors has not recommended any dividend.

Particulars with respect of Conservation of Energy/Technology Absorption and Foreign Exchange Earnings and Outgo.

There are no particulars to be furnished with regard to conservation of energy/technology absorption as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988. Foreign exchange earnings and outgo was Nil, during the year.

Fixed Deposits

The Company has not invited/received any fixed deposits during the year under review.

Particulars of Employees

The Company did not pay remuneration required to be reported in the statement pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956, and the Rules made thereunder.

Directors' Responsibility Statement

In terms of provisions of Section 217(2AA) of the Companies Act, 1956, (Act) your Directors confirm as under:

- (i) In the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, wherever applicable;
- (ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the accounting year and of the loss of the Company for that period;
- (iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The Directors have prepared the annual accounts on a going concern basis.

REXCEL PHARMACEUTICALS LIMITED

Regd. Office : 12th Floor, Devika Tower, Nehru Place, New Delhi-110 019

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Directors

During the year (i) Mr. Ramesh Parekh and Mr. Sunil Kumar resigned from the Directorship of the Company on October 18, 2010 and (ii) Mr. Omesh Sethi resigned from the Directorship of the Company on November 1, 2010. The Board of Directors accepted their resignation and placed on record its appreciation for valuable contribution made by them during their tenure as directors of the Company.

Mr. Sanjeev Mahna and Mr. Ashwani Malhotra were appointed as Additional Directors of the Company effective November 1, 2010 and hold office upto the ensuing Annual General Meeting. The Company has received Notice(s) along with requisite deposit of Rs. 500 each from the member(s) under Section 257 of the Companies Act, 1956 proposing the candidatures of Mr. Sanjeev Mahna and Mr. Ashwani Malhotra as Directors of the Company.

In accordance with the Articles of Association of the Company, Mr. Sandeep Mehandroo, retires by rotation as a Director at the ensuing Annual General Meeting and is eligible for re-appointment.

Auditors

M/s. B S R & Co., Chartered Accountants, retire as Auditors of the Company at the conclusion of ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the Auditors, if re-appointed.

Auditors' Report

In regard to observation in the Auditors' report regarding use of funds raised on short term basis for long term investments, the Company had taken loan in the year 2007 from Ranbaxy Laboratories Limited, the Holding Company and deployed the same towards its contribution in the share capital of Solrex Pharmaceuticals Company, a partnership firm in which the Company is a partner along with Solus Pharmaceuticals Limited, a fellow subsidiary. Since the loan was taken from the Holding Company and has been outstanding for about 3 years, it is a long term loan by nature.

Audit Committee

The Audit Committee of the Company was reconstituted on November 1, 2010 with Mr. Sandeep Mehandroo, Mr. Sanjeev Mahna and Mr. Ashwani Malhotra as members and Mr. Sandeep Mehandroo as the Chairman of the Committee.

Acknowledgements

Your Directors wish to acknowledge with thanks all stakeholders for their valuable sustained support and encouragement.

On behalf of the Board of Directors

Place: Gurgaon
Dated: March 21, 2011

Sd/-
(SANDEEP MEHANDROO)
DIRECTOR

Sd/-
(SANJEEV MAHNA)
DIRECTOR

BSR & Co.

(Registered)
Chartered Accountants

Building No.10, 8th Floor, Tower-B
DLF Cyber City, Phase - II
Gurgaon - 122 002 (India)

Telephone: +91-124-2549191
Fax: +91-124-2549101

Auditors' Report

To the Members of
Rexcel Pharmaceuticals Limited

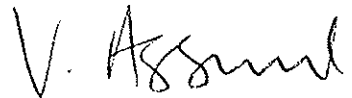
- a) We have audited the attached Balance Sheet of Rexcel Pharmaceuticals Limited ('the Company') as at 31 December 2010 and also the Profit and Loss Account and the Cash Flow Statement (collectively referred to as 'financial statements') of the Company for the year ended on that date, annexed thereto. 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.
- b) We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- c) As required by the Companies (Auditor's Report) Order, 2003 ('the Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure, a statement on the matters specified in paragraph 4 and 5 of the said Order.
- d) Further to our comments in the annexure referred to above, we report that:
 - i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - iii) the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act, to the extent applicable;
 - v) on the basis of written representations received from the directors of the Company as at 31 December 2010 and taken on record by the Board of directors, we report that none of the directors is disqualified as at 31 December 2010 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

V. Aggarwal

- vi) in our opinion, and to the best of our information and according to the explanations given to us, the said financial statements give the information required by the Act, in the manner so required and gives a true and fair view in conformity with the accounting principles generally accepted in India:
- (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2010;
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Gurgaon
Date: 21/02/2011

For BSR & Co.
Chartered Accountants
Registration No.: 101248W



Vikram Aggarwal
Partner
Membership No.: 089826

Annexure to the Auditors' Report
(Referred to in our report of even date)

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets through which all fixed assets are verified every year. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. As informed to us, no discrepancies were noticed on such verification.
- (c) The Company has not disposed off any fixed assets during the year.
- (ii) The Company does not hold any inventories. Accordingly, the provisions of clause 4(ii) of the Order are not applicable.
- (iii) (a) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 during the year, except for an investment made in earlier years by Ranbaxy Drugs and Chemical Company (RDCC), a company covered in the register maintained under Section 301 of the Act. This investment was made by RDCC in the optionally convertible debentures (OCDs) issued by the Company. During the previous year, the Company had agreed with RDCC to convert these OCDs to non interest bearing instruments. The year-end balance is Rs. Nil and the maximum amount outstanding during the year in respect of these OCDs was Rs. 33,000,000.
- (b) In our opinion, the terms and conditions on which the above mentioned interest-free, unsecured loan had been taken was not, prima facie, prejudicial to the interest of the Company.
- (c) The Company has been regular in repaying the principal amounts as stipulated and has repaid the total amount outstanding during the current year.
- (iv) The activities of the Company do not involve purchase of inventories and sale of goods or services. There was no purchase of fixed assets during the year. Accordingly, the provisions of clause (iv) of the Order are not applicable.
- (v) In our opinion, and according to the information and explanations given to us, there are no contracts and arrangements, the particulars of which 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.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 for any of the activities carried out by the Company.

V. Aggarwal

- (ix) (a) According to the information and explanations given to us, and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Income-tax and provident fund have been regularly deposited during the year by the Company with the appropriate authorities. There are no dues on account of Employees' state insurance, Investor Education and Protection Fund, Sales-tax, Customs duty, Wealth tax, Excise duty and Service tax.

There are no dues on account of Cess under Section 441A of the Companies Act, 1956, since the date, from which the aforesaid section comes into force, has not yet been notified by the Central Government.

According to the information and explanations given to us, no undisputed amounts, payable in respect of Income-tax and provident fund were in arrears as at 31 December 2010 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, there are no dues of Income tax which have not been deposited with appropriate authorities on account of any dispute.
- (x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
- (xi) According to the information and explanations given to us, the Company has not defaulted in repayment of dues to its debenture holders. There were no dues to its bankers or financial institution.
- (xii) 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) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) In our opinion and according to the information and explanations given to us, the Company did not have any term loan outstanding during the year.
- (xvii) *According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have been used for long-term investment. The Company has an outstanding loan from the holding company amounting to Rs. 24,240,348 as at the year end, which is repayable on demand. Out of this, Rs. 20,069,670 have been used by the Company for making investment in a partnership firm, which is long-term in nature.*

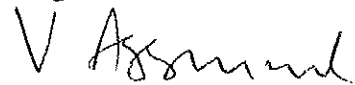
V. Aggarwal

BSR & Co.

- (xviii) The Company has not made any preferential allotment of shares during the year to companies/firms/parties covered in the register maintained under Section 301 of the Act.
- (xix) The Company had issued unsecured optionally convertible debentures in earlier years, and accordingly, no security or charge was required to be created in respect of these debentures.
- (xx) The Company has not raised any money by public issues.
- (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.

Place: Gurgaon
Date: 21/02/2011

For BSR & Co.
Chartered Accountants
Registration No.: 101248W



Vikram Aggarwal
Partner
Membership No.: 089826

Rexcel Pharmaceuticals Limited
Balance Sheet as at 31 December 2010
(Amount in rupees)

	Schedule	As at 31 December 2010	As at 31 December 2009
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	125,000,000	125,000,000
Reserve and surplus	2	1,271,382,983	1,007,422,561
		<u>1,396,382,983</u>	<u>1,132,422,561</u>
Loan funds			
Unsecured loans	3	24,240,348	786,215,778
Total		<u>1,420,623,331</u>	<u>1,918,638,339</u>
APPLICATION OF FUNDS			
Fixed assets			
Gross block	4	1,959,556	1,959,556
Less: Accumulated depreciation		1,866,376	1,854,349
Net block		<u>93,180</u>	<u>105,207</u>
Investments			
Investment in a partnership firm	5	1,416,359,473	1,914,231,351
Current assets, loans and advances			
Cash and bank balances	6	2,656,984	2,370,890
Loans and advances	7	1,974,366	2,463,979
Other current assets	8	8,838	31,734
		<u>4,640,188</u>	<u>4,866,603</u>
Less: Current liabilities and provisions			
Current liabilities	9	469,510	564,822
		<u>469,510</u>	<u>564,822</u>
Net current assets		<u>4,170,678</u>	<u>4,301,781</u>
Total		<u>1,420,623,331</u>	<u>1,918,638,339</u>
Significant accounting policies	15		
Notes to the financial statements	16		

The schedules referred to above form an integral part of the Balance Sheet

As per our report attached

For B S R & Co.
Chartered Accountants
Registration No.: 101248W

For and on behalf of the Board of Directors

Sd/-
Vikram Aggarwal
Partner
Membership No.: 089826

Sd/-
Abhishek Kapoor
Company Secretary

Sd/-
Sandeep Mehandroo
Director

Sd/-
Sanjeev Mahna
Director

Place: Gurgaon
Date: 21/02/2011

Place: Gurgaon
Date: 21/02/2011

Rexcel Pharmaceuticals Limited
Profit and Loss Account for the year ended 31 December 2010
(Amount in rupees)

	Schedule	For the year ended 31 December 2010	For the year ended 31 December 2009
INCOME			
Operating income	10	264,128,122	154,857,901
Other income	11	223,591	61,191
Total		264,351,713	154,919,092
EXPENDITURE			
Personnel	12	202,498	-
Operating expenses	13	176,766	294,273
Depreciation	4	12,027	12,027
Total		391,291	306,300
Profit before tax		263,960,422	154,612,792
Tax charge/ (benefit)	14	-	(4,567,878)
Profit after tax		263,960,422	150,044,914
Surplus brought forward from previous year		397,422,561	247,377,647
Surplus carried forward to schedule 2		661,382,983	397,422,561
Earnings per share			
Basic (refer to note 2 of schedule 16)		21.12	12.00
Diluted		21.12	11.26
Significant accounting policies	15		
Notes to the financial statements	16		

The schedules referred to above form an integral part of the Profit and Loss Account

As per our report attached

For B S R & Co.
Chartered Accountants
Registration No.: 101248W

For and on behalf of the Board of Directors

Sd/-
Vikram Aggarwal
Partner
Membership No.: 089826

sd/-
Abhishek Kapoor
Company Secretary

Sd/-
Sandeep Mehandroo
Director

Sd/-
Sanjeev Mahna
Director

Place: Gurgaon
Date: 21/02/2011

Place: Gurgaon
Date: 21/02/2011

Rexcel Pharmaceuticals Limited
Cash Flow Statement for the year ended 31 December 2010
(Amount in rupees)

	For the year ended 31 December 2010	For the year ended 31 December 2009
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	263,960,422	154,612,792
Adjustments for :		
Depreciation	12,027	12,027
Interest on Income tax refund	(85,903)	-
Interest income on fixed deposits	(137,688)	(61,191)
Accretion in profit receivable from partnership firm	(264,128,122)	(154,857,901)
Operating loss before working capital changes	<u>(379,264)</u>	<u>(294,273)</u>
Adjustments for :		
Decrease / (increase) in loans and advances and other current assets	24,857	(105,000)
(Decrease) in trade / other payables	(95,312)	(26,787,467)
Cash used in operating activities before taxes	<u>(449,719)</u>	<u>(27,186,740)</u>
Taxes refunded	487,652	139,425
Net cash generated from/ (used in) operating activities	<u>37,933</u>	<u>(27,047,315)</u>
B. CASH FLOW FROM INVESTING ACTIVITIES		
Investments received back	762,000,000	165,000,000
Interest received on income tax refund	85,903	-
Interest on fixed deposits	137,688	101,506
Increase in fixed deposit with maturity more than 90 days	(100,000)	(2,200,000)
Net cash generated/ (used in) from investing activities	<u>762,123,591</u>	<u>162,901,506</u>
C. CASH FLOW FROM FINANCING ACTIVITIES		
(Repayment)/ proceeds of unsecured demand loan	(761,975,430)	(164,985,947)
Net cash flow (used in) financing activities	<u>(761,975,430)</u>	<u>(164,985,947)</u>
Net increase/(decrease) in cash and cash equivalents	186,094	(29,131,756)
Cash and cash equivalents at the beginning of the year	<u>170,890</u>	<u>29,302,646</u>
Cash and cash equivalents at the end of the year	<u>356,984</u>	<u>170,890</u>
Add:		
Fixed deposits with original maturity of more than 90 days	2,300,000	2,200,000
Cash and bank balances at the end of the year	<u>2,656,984</u>	<u>2,370,890</u>

Note- The Cash Flow Statement has been prepared in accordance with the 'Indirect Method' specified in Accounting Standard 3, Cash Flow Statement, notified by the Central Government in the Companies (Accounting Standards) Rules, 2006.

As per our report attached

For **B S R & Co.**
Chartered Accountants
Registration No.: 101248W

For and on behalf of the Board of Directors

Sd/-
Vikram Aggarwal
Partner
Membership No.: 089826

Sd/-
Abhishek Kapoor
Company Secretary

Sd/-
Sandeep Mehandroo
Director

Sd/-
Sanjeev Mahna
Director

Place: Gurgaon
Date: 21/02/2011

Place: Gurgaon
Date: 21/02/2011

Rexcel Pharmaceuticals Limited**Schedules forming part of the financial statements for the year ended 31 December 2010****(Amount in rupees)**

	As at 31 December 2010	As at 31 December 2009
SCHEDULE - 1		
Share capital		
Authorised		
15,000,000 (previous year 15,000,000) equity shares of Rs 10 each	<u>150,000,000</u>	<u>150,000,000</u>
	<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up		
12,500,000 (previous year 12,500,000) equity shares of Rs. 10 each (the above shares are held by Ranbaxy Laboratories Limited, the holding Company alongwith its nominees. Daiichi Sankyo Company Limited, Japan is the ultimate holding Company)	<u>125,000,000</u>	<u>125,000,000</u>
	<u>125,000,000</u>	<u>125,000,000</u>
SCHEDULE - 2		
Reserves and surplus		
Share premium account	610,000,000	610,000,000
Surplus in Profit and Loss Account	<u>661,382,983</u>	<u>397,422,561</u>
	<u>1,271,382,983</u>	<u>1,007,422,561</u>
SCHEDULE - 3		
Unsecured loans		
Optionally convertible debentures	-	33,000,000
Nil debentures of Rs. 1,000 each # (previous year 33,000 debentures of Rs 1,000 each)		
Demand loan from Ranbaxy Laboratories Limited, the holding company	<u>24,240,348</u>	<u>753,215,778</u>
	<u>24,240,348</u>	<u>786,215,778</u>

#refer to note 6 of schedule 16 for the terms and conditions of these debentures

Rexcel Pharmaceuticals Limited

Schedules forming part of the financial statements for the year ended 31 December 2010

(Amount in rupees)

SCHEDULE - 4**Fixed assets**

Description	Gross block		Accumulated depreciation			Net block	
	As at 1 January 2010	As at 31 December 2010	As at 1 January 2010	Charge for the year	As at 31 December 2010	As at 31 December 2010	As at 31 December 2009
Office equipment	253,194	253,194	147,987	12,027	160,014	93,180	105,207
Furniture and fixtures	365,922	365,922	365,922	-	365,922	-	-
Computers	1,340,440	1,340,440	1,340,440	-	1,340,440	-	-
Total	1,959,556	1,959,556	1,854,349	12,027	1,866,376	93,180	105,207
Previous year	1,959,556	1,959,556	1,842,322	12,027	1,854,349	105,207	

Rexcel Pharmaceuticals Limited**Schedules forming part of the financial statements for the year ended 31 December 2010****(Amount in rupees)**

	As at 31 December 2010	As at 31 December 2009
SCHEDULE - 5		
Investments		
Long term		
Trade - unquoted		
Capital of Solrex Pharmaceutical Company, a partnership firm		
Opening balance	1,914,231,351	1,924,373,450
Add: Share of profit from partnership firm	264,128,122	154,857,901
Less: Investment received back during the year	(762,000,000)	(165,000,000)
	<u>1,416,359,473</u>	<u>1,914,231,351</u>

Name, capital and profits sharing ratio of the other partner:

Solus Pharmaceuticals Limited

Capital contribution

1,416,359,473

1,914,231,351

Share in profits

50%

50%

SCHEDULE - 6**Cash and bank balances**

Balances with scheduled banks in:

-Current accounts

356,984

170,890

-Deposit accounts

2,300,000

2,200,000

2,656,9842,370,890**SCHEDULE - 7****Loans and advances**

(Unsecured, considered good, unless otherwise stated)

Advance recoverable in cash or in kind or for value to be received

10,054

12,015

Minimum alternate tax credit receivable

168,000

155,000

Advance tax and tax deducted at source

1,796,312

2,296,964

(net of provision for tax Rs. 168,000, previous year Rs. 155,000)

1,974,3662,463,979**SCHEDULE - 8****Other current assets**

Interest accrued but not due on fixed deposits

8,838

31,734

8,83831,734**SCHEDULE - 9****Current liabilities**

Sundry creditors #

460,258

97,570

Other liabilities

9,252

467,252

469,510564,822

#refer to note 7 of schedule 16

Rexcel Pharmaceuticals Limited

Schedules forming part of the financial statements for the year ended 31 December 2010.

(Amount in rupees)

	For the year ended 31 December 2010	For the year ended 31 December 2009
SCHEDULE - 10		
Operating income		
Share of profit from partnership firm	264,128,122	154,857,901
	264,128,122	154,857,901
SCHEDULE - 11		
Other income		
Interest on income tax refund	85,903	-
Interest on fixed deposit (gross of tax deducted at source Rs. 14,195 (previous year Rs. 15,576))	137,688	61,191
	223,591	61,191
SCHEDULE - 12		
Personnel		
Salaries and bonus	181,125	-
Contribution to provident and other funds	11,947	-
Staff welfare expenses	9,426	-
	202,498	-
SCHEDULE - 13		
Operating expenses		
Legal and professional	33,368	28,476
Rates and taxes	3,125	1,950
Repair and maintenance	46,227	19,262
Auditor's remuneration (including service tax):		
- Statutory audit fee	70,316	93,755
-Tax audit fee	23,440	70,973 *
Bad debts written off	-	79,592
Miscellaneous	290	265
	176,766	294,273
* paid to previous statutory auditor		
SCHEDULE - 14		
Tax charge/ (benefit)		
Current tax	13,000	155,000
Minimum alternate tax credit entitlement	(13,000)	(155,000)
Deferred tax - prior year	-	(4,568,283)
Income tax prior period credit	-	405
	-	(4,567,878)

Rexcel Pharmaceuticals Limited

Schedules forming part of the financial statements for the year ended 31 December 2010

(Amount in rupees)

SCHEDULE – 15

Significant Accounting Policies

Basis of accounting

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the Accounting Standards as specified in the Companies (Accounting Standards) Rules, 2006, other pronouncements of the Institute of Chartered Accountants of India (ICAI), and the relevant provisions of the Companies Act, 1956 to the extent applicable.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

Revenue Recognition

Share of profit from an investment in a partnership firm is recognized on an accrual basis.

Interest income is recognised using time proportion method.

Fixed assets and depreciation

Fixed assets are stated at the cost of acquisition or construction, less accumulated depreciation and impairment losses. Cost comprises the purchase price and any attributable costs of bringing the assets to their working condition for intended use.

Depreciation on fixed assets is provided using the straight-line method and at the rates specified in Schedule XIV to the Companies Act, 1956, which are reflective of the estimated useful lives of the fixed assets.

Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Assets costing individually Rs. 5,000 or less are fully depreciated in the year of purchase.

Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments.

Investment in partnership firm is carried at cost. The Company's share in the profit/ loss earned/ incurred by partnership firm is accreted to, or reduced from, as the case may be, the carrying value of investments.

Rexcel Pharmaceuticals Limited

Schedules forming part of the financial statements for the year ended 31 December 2010

(Amount in rupees)

SCHEDULE – 15 (Continued)

Taxes on income

Income tax expense comprises current tax (i.e amount of tax for the year determined in accordance with the Income-tax law) and deferred tax charge or credit.

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed at each balance sheet date and are written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realized.

Minimum alternate tax (MAT) payable under the provisions of the Income Tax Act, 1961 is recognized as an asset in the year in which credit becomes eligible and if there is convincing evidence that the company will pay the normal tax in the future. MAT is set off to the extent allowed, in the year in which the Company becomes liable to pay income taxes at the enacted tax rates.

Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date.

Provisions and contingent liabilities

A provision is created when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

The Company does not recognise assets which are of contingent nature until there is virtual certainty of realisability of such assets. However, if it has become virtually certain that an inflow of economic benefits will arise, asset and related income is recognised in the financial statements of the period in which the change occur.

Rexcel Pharmaceuticals Limited**Schedules forming part of the financial statements for the year ended 31 December 2010****(Amount in rupees)****SCHEDULE – 16****Notes to the financial statements****1. Background**

The Company was incorporated on 3 March 1997 and was granted certificate for commencement of business on 10 March 1997. The main objective of the Company is to carry on business of pharmaceutical and related products of all kinds and descriptions. However, in the year 2000, production was shifted to Ranbaxy Laboratories Limited (RLL), being the holding company, and thereafter, the Company was engaged in marketing activities for RLL products. In year 2007, all the employees of the Company were shifted to RLL. In the year 2007, the Company along with Solus Pharmaceuticals Limited, as equal partner, made investment in Solrex Pharmaceuticals Company, a partnership firm.

2. Earnings per share

Particulars	For the year ended 31 December 2010	For the year ended 31 December 2009
Net profit after tax attributable to equity shareholders	263,960,422	150,044,914
Number of equity shares	12,500,000	12,500,000
Weighted average number of shares outstanding		
-Basic	12,500,000	12,500,000
Effective of dilutive equity shares on account of Optionally convertible debentures	-	825,000
-Diluted	12,500,000	13,325,000
Basic earning per share	21.12	12.00
Diluted earning per share	21.12	11.26
Nominal value per equity share (Rs.)	10	10

3. Segment Reporting Policies

In the opinion of the management, there is only one segment as envisaged by Accounting Standard 17 “Segment Reporting”. Accordingly, no disclosure for segment reporting has been made in the financial statements.

Rexcel Pharmaceuticals Limited

Schedules forming part of the financial statements for the year ended 31 December 2010

(Amount in rupees)

SCHEDULE – 16 (continued)**4. Related party disclosures****a) Relationship:**

Ultimate holding company	Daiichi Sankyo Company Limited
Holding company	Ranbaxy Laboratories Limited
Fellow subsidiary	Ranbaxy Drugs and Chemicals Company
Enterprise under the common control of the holding company	Solrex Pharmaceuticals Company (a partnership firm)

b) The following transactions were carried out with related parties in the ordinary course of business:

	For the year ended 31 December 2010	For the year ended 31 December 2009
i) Holding company		
Repayment of loan	728,975,430	164,985,947
Balance at the end of the year:		
Unsecured loan	24,240,328	753,215,777
ii) Fellow subsidiaries		
Balance at the end of the year:		
Convertible debentures	-	33,000,000
iii) Enterprise under the common control of the holding company		
Investment received back	762,000,000	165,000,000
Share of profit	264,128,122	154,857,901
Balance at the end of the year:		
Investment	1,416,359,473	1,914,231,351

Rexcel Pharmaceuticals Limited**Schedules forming part of the financial statements for the year ended 31 December 2010****(Amount in rupees)****SCHEDULE – 16 (continued)****5. Deferred tax**

The Company estimates the deferred tax charge/credit using applicable rate of taxation based on the impact of timing differences between financial statements and estimated taxable income for the current year. The component of deferred tax as at 31 December 2010 is as under:

	31 December 2010	31 December 2009
Deferred tax assets		
Accumulated depreciation	27,120	27,120
Unabsorbed business losses	3,248,520	3,277,848
Short term capital loss	1,400,583	1,400,583
Total	4,676,223	4,705,551

However, in the absence of virtual certainty of realization as at 31 December 2010, deferred tax asset has not been recognized.

6. The Company had allotted 33,000 Optionally Convertible Debentures (OCD's) of Rs 1,000 each, fully paid up to Ranbaxy Drugs and Chemicals Company, a fellow subsidiary on 11 December 2007. As per original terms and conditions of the instrument, each OCD, at the option of the OCD holder, is convertible into 25 Equity Shares of Rs 10 each at a premium of Rs 30 or redeemable at par anytime after 18 months from the date of allotment but before period of 60 months from the date of allotment by giving a 30 days prior written notice. In case conversion option is not exercised by the OCD holder within the period of 60 months, the OCD will be redeemed at par from the date of allotment.

During the previous year, the Company had entered into an agreement with Ranbaxy Drugs and Chemicals Company whereby parties agreed that there will be no interest payable in the event of redemption during the entire term of OCDs. During the current year, the Company has redeemed the OCD's.

Rexcel Pharmaceuticals Limited

Schedules forming part of the financial statements for the year ended 31 December 2010

(Amount in rupees)

SCHEDULE – 16 (continued)

7. The Ministry of Micro, Small and Medium Enterprises has issued an Office Memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allocated after filing of the Memorandum. Based on the information available with the management, there are no overdues outstanding to micro and small enterprises as defined under the Micro, Small and Medium Enterprises Development Act, 2006. Further, the Company has not received any claim for interest from any supplier under the said Act.

For and on behalf of Board of Directors

Sd/-
Sandeep Mehandroo
Director

Sd/-
Sanjeev Mahana
Director

Place: Gurgaon
Date: 21/02/2011

REXCEL PHARAMCEUTICALS LIMITED

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.

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 State Code

5	5
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Balance Sheet Date

3	1
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1	2
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2	0	1	0
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Date Month Year

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue	Right Issue																				
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Bonus Issue	Private Placement																				
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III. Position of Mobilisation and Deployment of funds (Amount in Rs. Thousands)

Total Liabilities	Total Assets																				
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Source of Funds	Reserves & Surplus																				
Paid-up Capital	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> 1 2 7 1 3 8 2																				
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Secured Loans	Unsecured Loans																				
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Application of Funds	Investments																				
Net Fixed Assets	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> 1 4 1 6 3 5 9																				
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Net Current Assets	Miscellaneous Expenditure																				
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Accumulated Losses																					
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IV. Performance of Company (Amount in Rs. Thousands)

	Total Expenditure																				
Turnover Including Other Income	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> 2 6 4 3 5 2																				
Profit Before Tax	Profit After Tax																				
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Earning Per Share in Rs.	Dividend Rate %																				
Earning Per Share	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> 2 1																				
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V. Generic Names of Three Principal Products/Services of the Company (as per Monetary terms)

Item Code No. (ITC Code)

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 N A

Product Description

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 N A

For and on behalf of the Board of Directors

Place: Gurgaon
Date: 21/02/2011

Sd/-
Abhishek Kapoor
Company Secretary

Sd/-
Sandeep Mahendroo
Director

Sd/-
Sanjeev Mahna
Director