

Annual Report 2007

Fulford (India) Limited

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Schering-Plough

To earn trust, every day.

Our Vision

To Earn Trust, Every Day.

To Earn Trust, Every Day.

We aspire to earn the trust of doctors, patients, customers and other stakeholders as a champion for them and as a company that provides them with a steady flow of science-based medicines and services.

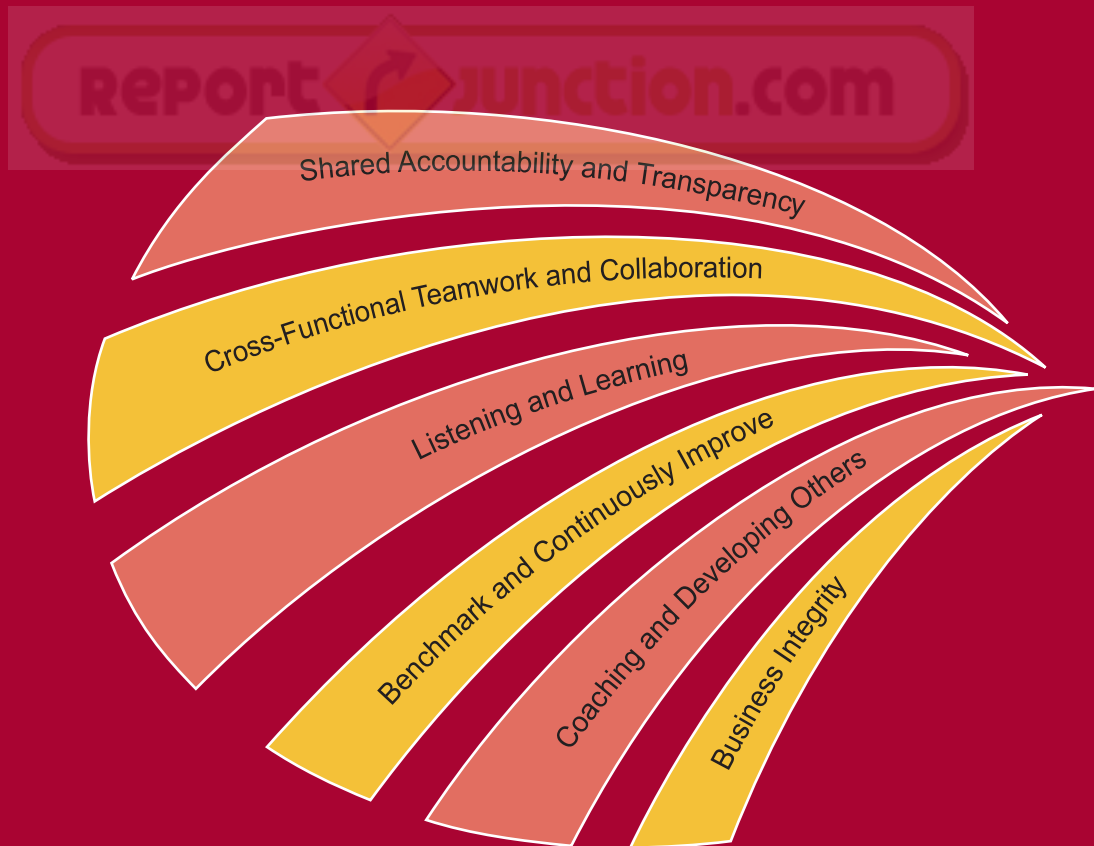
By earning trust, we will build growth.

Our vision directs our actions today, tomorrow and every day. Our vision is not just about the past.

Embedded in our vision is our value of humility.

We don't take trust for granted. We believe we get more trust if we earn it rather than demand it. And we renew our trust by earning it again and again.

We are transforming to become a high-growth organization by focusing on our patients and other stakeholders. 2007 was earmarked as a year to lay a strong foundation for future imperatives.



Board of Directors

DR. V.S. SOHONI, *Chairman*

MR. K.G. ANANTHAKRISHNAN, *President & Managing Director (w.e.f. March 26, 2007)*

MR. RODNEY UNSWORTH *(upto July 24, 2007)*

MR. ROHAN ABAYASEKARA

MR. V.G. ATHAVALA

DR. S.H. ADVANI

MR. A.V. SAPRE *(Alternate to Mr. Rohan Abayasekara and Whole-time Director up to July 26, 2007)*

MR. ASHLEY MORRIS *(w.e.f. July 24, 2007)*

COMPANY SECRETARY

MRS. USHA RAMDOSS *(upto December 31, 2007)*

FUNCTIONAL HEADS

MR. A.S. PADMANABHAN, *Vice President – Human Resources*

MR. P. SURESH, *Vice President – Sales & Marketing - Primary Care*

MR. A.V. SAPRE, *Vice President – Finance (upto July 26, 2007)*

MR. C.S. KUTTY, *Vice President – Finance (w.e.f. August 30, 2007)*

MR. K. VENKATRAMAN, *Vice President – Commercial*

MR. R.K. RUSTAGI, *Vice President – Corporate Affairs*

DR. NITIN MULGAONKAR, *Director – Medical Affairs*

DR. PRASANNA BANGALE, *Director - Regulatory Affairs (w.e.f. November 7, 2007)*

DR. RAJIVA KOTHURKAR, *Director-Technical*

MR. VIVEK DILAWARI, *Director, Sales & Marketing – Specialty Business (upto January 31, 2008)*

MR. PANKAJ SINDHU, *Director - Information Technology (w.e.f. April 2, 2007)*

REGISTERED OFFICE

EUREKA TOWERS, B-WING,
8TH FLOOR, MINDSPACE, LINK ROAD,
MALAD (West), MUMBAI – 400 064

C&F AGENTS

Ahmedabad, Ambala, Kolkatta, Chennai, Cuttack, Delhi, Dehradun,
Goa, Guwahati, Bangalore, Hyderabad, Indore, Jaipur, Lucknow, Ludhiana, Patna,
Raipur, Ranchi, Trivandrum.

BANKERS

STATE BANK OF INDIA

CANARA BANK

HDFC BANK

LEGAL ADVISORS

CRAWFORD BAYLEY & CO

AM LAW

AUDITORS

DELOITTE HASKINS & SELLS

REGISTRARS AND SHARE TRANSFER AGENTS

INTIME SPECTRUM REGISTRY LTD.

C/13, Pannalal Silk Mills Compound,

L.B.S. Marg, Bhandup (West),

Mumbai – 400 078

REQUESTS TO MEMBERS

All correspondence regarding transfer and demat of shares may be addressed to our Registrars and Share Transfer Agents. Members are requested to bring their copy of the Annual Report to the Meeting.

Members requiring any information about the accounts are requested to write to the Company at least one week before the date of the meeting so that the information may be made available at the meeting.

Members can address their grievance to our Registrar and Transfer agents at helpline@intimespectrum.com and to our compliance officer at chandrahas.kutty@spcorp.com

Organizational Growth

During the year, we set up an integrated approach for organizational growth through:

1. Focus on development of new products in primary care
2. Growth of Specialty business
3. Enhanced manufacturing efficiency
4. Focus on high-science promotion
5. Strength of training activities

Our vision remains central to our work and is instrumental in the ongoing transformation at Fulford India.

People

At the core of the Growth Strategy, we have embedded our People Strategy.

Common to all Fulford, People is our commitment and dedication to being the best. At every level, we know that individual contributions make a real difference and help to make our company a leader in the global marketplace.

We realize and believe that we can deliver sustained incremental value to our stakeholders only through our people. While investment in training and development is one of our key priorities, leveraging organizational strengths for quick turnarounds is seen as a core management task.

In 2007, we have incorporated several training programs to empower our people.

The sales teams have undergone intensive induction programs, continuous field training, rigorous coaching and on-going medical training. The operational teams have also received functional training and have been part of the management excellence programs. The leadership teams have been particularly working closely on management and organizational development programs.

Excellence in everything we do!

Excellence is our operational compass and drives our action and growth agenda. Continuous improvement in every activity that we perform is our basic roadmap for the organization, so that higher value is generated per input. Our inherent drive is to increase productivity through excellence across the organization and several projects and activities have been completed or are ongoing.

During 2007 we have worked on yield improvement through control of processes, reduction of waste and effective supervision.

Leadership in the Way We Work

While we are increasing the pace of our growth, the way we work remains rooted in our Leader Behaviors. By continuously developing and measuring ourselves against these Leader Behaviors, we continuously foster innovation, speed and flexibility that drives results and helps us to live up to our Vision - "To Earn Trust, Every Day".

We believe that by exhibiting our Leader Behaviors, we will develop the Leadership Edge. This Leadership Edge over our competitors will make our company a high-performance competitor for the long term.

Focus Therapeutic areas

While we are in the business of offering medicines and drugs for treatment or prevention in these disease areas, our purpose is to make lives healthier and happier for more & more patients every day. We operate in seven therapeutic areas: Dermatology, Allergy & Respiratory, Anti-Infective, Hepatitis, Rheumatology, Oncology, Cardiovascular.

Hepatitis

Hepatitis is the inflammation of the liver and can be caused by viruses, alcohol, taking medicines which are hepato-toxic or can be due to auto immune Hepatitis. Hepatitis B virus (HBV) infection and Hepatitis C virus (HCV) infection continues to be one of the major public health problems in India.

Approximately 40 million HBV carriers and 12 million HCV carriers exist in India.

At Fulford, we have undertaken various initiatives to increase the awareness of Hepatitis C & B amongst primary healthcare physicians.

The main objective is to create awareness amongst

primary health care physicians about Hepatitis C & Hepatitis B, and conducting screening camps for early detection of the disease. The purpose is to create awareness about the disease, its magnitude, manifestations, development, diagnosis and its management. A number of screening camps were

conducted for early detection of the disease and referrals to the specialists. These activities have shown the commitment of our company in the field of hepatitis as a pioneer. Fulford offers Hepatitis (C & B) drugs and has been supporting Hepatitis patients through several initiatives.

Allergy

Allergy is a disorder of the immune system that is often called atopy. Allergic reactions occur due to environmental substances known as allergens; these reactions are acquired, predictable and rapid. Strictly, allergy is one of four forms of hypersensitivity and is called type 1 (or immediate) hypersensitivity. Allergy has been found to cause significant loss of productive man days in several countries. Allergic rhinitis is a collection of symptoms, predominantly in the nose and eyes, caused by house dust mite, dander, or plant pollens in people who are allergic to these substances. When these symptoms are caused by pollen, the allergic rhinitis is commonly called hay fever.

The pollens that cause hay fever vary from person to person and from region to region. Hot, dry, windy days are more likely to have increased amounts of pollen in the air than cool, damp, rainy days when most pollen is washed to the ground.

In July 2007, a leading international key opinion leader was invited to conduct symposiums at three cities in India. These symposiums were attended by more than 300 ENTs from all over the country.

Patient awareness programs on allergic rhinitis were also conducted through doctors in October 2007. Fulford offers allergy therapy. We continuously strive at bringing global expertise and knowledge to India in the area of allergy management.

Rheumatoid Arthritis (RA)

Rheumatoid arthritis (RA) is traditionally considered a chronic, inflammatory autoimmune disorder that causes the immune system to attack the joints. It is a disabling and painful inflammatory condition, which can lead to substantial loss of mobility due to pain and joint destruction. RA is a systemic disease, often affecting extra-articular tissues throughout the body including the skin, blood vessels, heart, lungs, and muscles. RA is a long-term disease that causes inflammation of the joints and surrounding tissues. It can also affect other organs. The cause of RA is unknown. It is considered autoimmune disease. The body's immune system normally fights off foreign substances, like viruses. But in an autoimmune disease, the immune system confuses healthy tissue for foreign substances. As a result, the body attacks

its own tissue. RA can occur at any age. Women are affected more often than men.

Early and aggressive intervention leads to a stage of biologic-free and drug-free remission in RA. It means more productivity and less working day loss and also reduced expense on medication. Moreover, deformities can be prevented as the radiographic progression of the disease is inhibited. Therefore, it takes care of the additional unproductive cost in the society.

Fulford participated in several key conferences across the country to create awareness and increase knowledge levels for the treatment of RA. The main objective was to create awareness about early and aggressive intervention in RA.

Notice

NOTICE is hereby given that the Sixtieth Annual General Meeting of FULFORD (INDIA) LIMITED will be held at M.C. Ghia Hall Bhogilal Hargovindas Building, 2nd Floor, 18/20, Kaikhushru Dubash Marg, Mumbai 400 001 on Wednesday, April 16, 2008 at 11.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To consider and, if thought fit, to pass with or without modification, as a Special Resolution, the following:
 "RESOLVED THAT the Balance Sheet as at December 31, 2007 and the Profit & Loss Account for the year ended on that date together with the Directors' and the Auditors' Report thereon be and are hereby approved and adopted".
2. To consider, and if thought fit, to pass with or without modification, as a Special Resolution the following:
 "RESOLVED THAT pursuant to the recommendation of the Board of Directors, a dividend at the rate of 40% on the equity share capital of the Company for the year ended December 31, 2007 be and is hereby declared out of the profits for that year, payable to:
 - (i) those members whose names appear on the Register of Members of the Company on April 16, 2008; and
 - (ii) those whose names appear as beneficial owners as at the close of business on April 8, 2008 as per details to be furnished by the Depositories, viz. National Securities Depository Limited and Central Depository Services (India) Limited".
3. To consider and, if thought fit, to pass with or without modification, as a Special Resolution, the following:
 "RESOLVED THAT Messrs Deloitte Haskins & Sells, Chartered Accountants, the retiring Auditors of the Company, be and are hereby re-appointed as Auditors of the Company for the financial year ending December 31, 2008 and they shall hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration to be fixed by the Board of Directors of the Company".

SPECIAL BUSINESS

4. To consider and, if thought fit, to pass with or without modification, as a Special Resolution, the following:
 "RESOLVED THAT pursuant to Section 31 and all other applicable provisions, if any, of the Companies Act, 1956 (the Act), the Articles of Association of the Company ("the Articles") be and are hereby amended, altered in the manner and to the extent as set out herein below:
 Article 83 of the Articles shall be substituted by the following Article:
 Any act or resolution which, under the provisions of these Articles or of the Act, is permitted or required to be done or passed by the Company in General Meeting shall be done or passed by ordinary resolution as defined in Section 189(1) of the Act unless either the Act or the Articles specifically require such act to be done or resolution to be passed by special resolution as defined in Section 189(2) of the Act."

By Order of the Board of Directors

C.S. Kutty
 Vice President - Finance

Mumbai, February 25, 2008

Registered Office:
 8th Floor, Eureka Towers, 'B' Wing,
 Mindspace, Link Road,
 Malad (West), Mumbai - 400 064.

Notice (Contd.)**NOTES:**

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF, ON A POLL ONLY AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. However Proxy Forms duly stamped, completed and signed, should be deposited at the Registered Office of the Company not less than 48 hours before the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from April 9, 2008 to April 16, 2008, both days inclusive.
3. Members are requested to notify any change in their address immediately to the Company or to its Registrars and Share Transfer Agents.
4. Members holding shares in demat mode may please note that, the bank details as furnished by the respective Depositories to the Company will be mandatorily printed on their dividend warrants for the purpose of distribution of dividend through Electronic Clearing Service (ECS) as advised by the Securities & Exchange Board of India (SEBI). In the absence of ECS facility, the bank account details, if available, will be printed on the dividend warrants. Instructions if any, given by them in respect of shares held in physical mode will not be automatically applicable to the dividend paid on shares held in demat mode. Members holding shares in demat mode must, therefore, give instructions regarding bank accounts in which they wish to receive dividend, to their Depository Participants. The Company or the Registrar and Share Transfer Agents will not act on any direct request from these Members for change/deletion in such bank details.
5. In terms of Sections 205A and 205C of the Companies Act, 1956, the amount of dividend remaining unpaid or unclaimed for a period of seven years from the date of transfer to the unpaid dividend account, is required to be transferred to the Investor Education and Protection Fund. Members shall not be able to claim any unpaid dividend from the said Fund or the Company thereafter. Members who have not encashed the dividend warrants for the years 2001, 2003, 2004, 2005 and 2006 are requested to contact the Registrar and Transfer Agents, Intime Spectrum Registry Ltd. Mumbai. Outstanding dividend for the years prior to 1995 have been transferred to the General Revenue Account of the Central Government. Outstanding dividends for the years 1995, 1996, 1997 and 1998 have been transferred to the Investor Education and Protection Fund. No dividend was declared for the year 1999. No dividend was declared for the year 2000, and hence in the current year no amount in respect of unpaid/unclaimed dividend is required to be transferred to the Investor Education and Protection Fund.
6. Section 109A of the Companies Act, 1956 provides for Nomination by individuals, who are shareholders of the Company in the prescribed Form No. 2B. Members who hold shares in the physical form can nominate a person in respect of all the shares held by them by filling the prescribed form. Blank forms will be supplied by the Company's Registrars and Share Transfer Agents, Intime Spectrum Registry Ltd. on request. Members holding shares in the dematerialized form may contact their Depository Participant for recording nomination in respect of their shares.
7. Members are requested to note that as prescribed by the Securities and Exchange Board of India (SEBI), trading in securities of the Company is compulsorily in dematerialized form. The Company has already executed tripartite agreements with both the depositories viz. Central Depository Services (India) Limited (CDSL) and National Securities Depository Limited (NSDL), and Intime Spectrum Registry Limited, the Company's Share Transfer Agent. Accordingly, the equity shares of the Company can be held in an electronic form with any Depository Participant (DP) with whom the Members have their Depository Account. The ISIN No. allotted to the equity shares of the Company is INE521A01017. In view of the numerous advantages offered by the Depository System, members who are yet to dematerialize their shares are requested to avail of the facility of dematerialisation.

Annexure to Notice

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item No. 4

As you are aware, under the present Articles, special resolution of the shareholders has to be obtained for every item of business in the general meeting of the Company.

Under the provisions of the Companies Act, 1956, a special resolution is required for transacting an item of business only where it is specifically so required by the Companies Act. All the other items of business can be transacted by an ordinary resolution.

Accordingly, the Board of Directors recommends the resolution for your approval.

None of the Directors are interested in the Special Resolution.

By Order of the Board of Directors

C.S. Kutty

Vice President - Finance

Mumbai, February 25, 2008

Registered Office:

8th Floor, Eureka Towers, 'B' Wing,
Mindspace, Link Road,
Malad (West), Mumbai - 400 064.

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Directors' Report

The Directors hereby present the Sixtieth Annual Report together with the audited accounts of the Company for the year ended December 31, 2007.

FINANCIAL RESULTS

| | January 1, 2007 to December 31, 2007 Rupees | January 1, 2006 to December 31, 2006 Rupees |
|---|---|---|
| Profit before tax for the period amounted to | 338,813,563 | 197,532,847 |
| Profit after tax for the period amounted to | 218,152,773 | 125,867,999 |
| Tax Adjustments for prior years | — | 1,591,914 |
| Balance in Profit and Loss Account | 63,573,257 | 49,454,269 |
| Amount available for appropriation | 281,726,030 | 176,914,182 |
| Out of which the following sums have been appropriated: | | |
| Proposed Dividend | 15,600,000 | 11,700,000 |
| Corporate Tax on Dividend | 2,651,220 | 1,640,925 |
| General Reserve | 240,000,000 | 100,000,000 |
| Balance carried to Balance Sheet | 23,474,810 | 63,573,257 |

DIVIDEND

The Directors recommend a Dividend of 40% for the year ended December 31, 2007. If the proposed dividend is approved by the shareholders at the Annual General Meeting the total dividend payout will be Rs.15,600,000/-. The tax on dividend payout borne by the company will be Rs. 2,651,220/-.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry structure and developments

India is poised for sustained GDP growth of over 8% in the next ten years. It is expected to emerge as the fastest growing economy by 2013 and to be the 3rd largest economy by 2050 (Source: BRICs Report, Goldman Sachs). The GDP growth will be driven by both investments and domestic consumption.

Currently, healthcare access is estimated to be less than 40% of the population with 88% and 24% of urban and rural population respectively having access to healthcare. The current spending on healthcare [public and private] is estimated at USD 41 billion (6% of GDP) and expected to increase to USD159 billion [10% of GDP] by 2016. Government healthcare expenditure accounts for 19% of the total healthcare expenditure, which is 1.14% of GDP and which is expected to increase to 2-3% of GDP during the next 5 years. Private insurance penetration is expected to increase in the mid to long term.

The Indian Pharmaceutical Market is 4th in volume and 13th in value terms globally. The current size of the Indian Pharmaceutical Market is reported to be ~USD 7 billion and has registered a growth of about 12% in 2007 (IMS MAT Dec 2007). The market is expected to witness accelerating growth, making India among the top ten global markets by 2015-16, with estimated market size of ~USD 20 billion. The market remains dominated by acute therapies; however chronic segments such as Cardio Vascular, Diabetes, Central Nervous System and specialty segments like Oncology are growing faster than the market.

Directors' Report (Contd.)

The key growth drivers are:

Growing income levels, increasing disease burden of both acute and chronic diseases, better healthcare access with improved infrastructure, penetration of Private Insurance, emergence of large corporate healthcare establishments and changing regulatory landscape including Patent Laws.

Opportunities, Threats, Risks and Concerns

Increasing healthcare awareness, healthcare infrastructure development and Government giving priority to this sector will enable high growth of the industry as well as the Company.

Patents and Pricing remain the key concerns for the pharmaceutical industry. Regarding patents, clarity has still to emerge in the areas of patentability, data exclusivity and compulsory licensing.

The New Pharmaceutical Policy has been pending for approval for the last 2 years. The draft policy has recommended price control for all medicines featuring in the WHO list of essential medicines. If implemented, this will significantly increase the span of price control. Currently, 74 active pharmaceutical ingredients and formulations based on these APIs are under price control. Increase in span of price control is contrary to the overall economic policy of the Government. Expansion of span of price control could adversely impact the industry as well as the Company. Research based industry such as Pharmaceuticals have to be encouraged with fiscal incentives and a price mechanism which will enable the industry to continue investment in R&D activities.

Low disease awareness and poor compliance for drugs are concerns from the disease management perspective. Patients seeking treatment from doctors is low even among the urban populace and this ushers in responsibility on the industry to create awareness in critical disease areas. Your company has spent considerable time and effort in increasing the awareness and management of Hepatitis C, Rheumatoid Arthritis and Psoriasis.

Internal control system and its adequacy

The Company has a comprehensive internal control system that includes policies in different areas and suitable monitoring procedures. Compliance, with integrity, is a core value of the Company. The commitment of Company funds is regulated by an Approval Authorisation policy to ensure use of funds in the best possible manner. The Internal Audit Program conducted by an external agency and supplemented by self-assessment audit guide, covers all key areas to assess and ensure conformity to applicable laws, Accounting Standards, Company policies and protection of the Company's assets and interests. The Audit Committee appointed by the Board reviews the findings and recommendations of internal auditors as well as auditors appointed by shareholders and also reviews the action plan to address the areas of improvement and thereby strengthen the system continuously. During the year, internal audit was also conducted by the Global Internal audit function and all the observations recommended by the audit team have been implemented. Environment, Health and Safety Audit was conducted during the year to ensure that all our operations are carried out in a compliant manner. Corrective and preventive actions recommended have been implemented to ensure a safe work environment.

The CEO/CFO certification in respect of the financial statements, pursuant to Clause 49 (V) of the Listing Agreement has been placed before the Board at its meeting held on February 25, 2008, and noted.

Material development in human resources/ industrial relations

Human Resources development is one of the key priorities to be a high-performing company. Various Learning and Development programs have been initiated to strengthen the four cornerstones, of the people strategy:

- a. **'Attract'** - top talent with specialized knowledge and skills to drive the growth strategies of the organization.
- b. **'Develop'** - to create an environment of continuous learning, to help deliver strategic objectives and achieve professional excellence.
- c. **'Engage'** - building an unique and inclusive culture, when people working in the Company are energized, motivated and committed to shared goals, values and leader behaviors.
- d. **'Reward'** - recognizing and rewarding people, for what they do and the contributions they make to the Company.