

ZAO “VEROPHARM” AND PEGASUS BAY INVESTMENTS INC.

COMBINED AND CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005 (in US Dollars and in thousands)

	<u>2005</u>	<u>2004</u>
NET SALES	79 368	59 578
COST OF SALES	(32 410)	(27 353)
GROSS PROFIT	<u>46 958</u>	<u>32 225</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(25 013)	(19 529)
NON-RECURRING OPERATING EXPENSES	(1 813)	(35)
OTHER OPERATING INCOME	-	657
OPERATING INCOME	<u>20 132</u>	<u>13 318</u>
NON-OPERATING INCOME (EXPENSES):		
Interest expense	(1 476)	(1 880)
Foreign currency exchange gain/(loss)	<u>(111)</u>	<u>(38)</u>
INCOME BEFORE INCOME TAX EXPENSE	18 545	11 400
Income tax expense	(2 509)	(1 289)
NET INCOME	<u><u>16 036</u></u>	<u><u>10 111</u></u>

ZAO "VEROPHARM" AND PEGASUS BAY INVESTMENTS INC.

COMBINED AND CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2005 (in US Dollars and in thousands)

	<u>2005</u>	<u>2004</u>
ASSETS		
NON-CURRENT ASSETS:		
Property, plant & equipment, net	23 651	25 138
Intangible assets, net	11 889	11 537
Total non-current assets	<u>35 540</u>	<u>36 675</u>
CURRENT ASSETS:		
Inventories	13 644	9 946
Accounts receivable	34 569	20 385
Receivables from related parties	3 737	9 675
Other receivables and prepaid expenses	6 115	5 478
Cash	314	41
Total current assets	<u>58 379</u>	<u>45 525</u>
 TOTAL ASSETS	 <u><u>93 919</u></u>	 <u><u>82 200</u></u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
SHAREHOLDERS' EQUITY:		
Share capital	1	1
Retained earnings	62 193	48 114
Total shareholders' equity	<u>62 194</u>	<u>48 115</u>
 LONG-TERM LIABILITIES:		
Long-term borrowings	11 233	7 208
Deferred taxation	1 797	2 684
Long-term portion of finance lease payable	48	52
Total long-term liabilities	<u>13 078</u>	<u>9 944</u>
 CURRENT LIABILITIES:		
Short-term borrowings and current portion of long-term borrowings	2 756	11 238
Accounts payable	6 599	4 752
Other payables and accrued expenses	6 964	4 206
Current portion of finance lease payable	141	267
Payables to related parties	2 187	3 678
Total current liabilities	<u>18 647</u>	<u>24 141</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 <u><u>93 919</u></u>	 <u><u>82 200</u></u>

ZAO "VEROPHARM" AND PEGASUS BAY INVESTMENTS INC.

COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005 (in US Dollars and in thousands)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES:		
Income before income tax	18 545	11 400
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2 051	3 063
Loss on disposal of property, plant and equipment	206	57
Provision for doubtful receivables	(501)	571
Foreign exchange (gain) loss on financing and investing activities	111	38
Write off of third party loan	946	-
Interest expense	1 476	1 880
Operating cash flow before working capital changes	<u>22 834</u>	<u>17 009</u>
Increase in inventories	(3 697)	(776)
Increase in accounts receivable	(13 683)	(5 394)
Increase in receivables from related parties	(540)	(539)
Increase in other receivables and prepaids	(1 583)	(945)
Increase in accounts payable	995	2 703
Decrease in payables from related parties	(256)	(178)
Increase in other payables and accruals	5 323	2 736
Cash flows from operations	<u>9 393</u>	<u>14 616</u>
Income taxes paid	(1 768)	(950)
Interest paid	(4 013)	(2 521)
Net cash inflow from operating activities	<u>3 612</u>	<u>11 145</u>
INVESTING ACTIVITIES:		
Purchase of property, plant, equipment	(1 869)	(3 444)
Purchase of intangible assets	(1 088)	(456)
Purchase of equity interest in subsidiaries	-	(222)
Net cash outflow from investing activities	<u>(2 957)</u>	<u>(4 122)</u>
FINANCING ACTIVITIES:		
Repayment of/proceeds from borrowings, net	(3 794)	1 275
Proceeds from/repayment of borrowings from related parties, net	5 043	(10 426)
Net cash inflow(outflow) from financing activities	<u>1 249</u>	<u>(9 151)</u>
Effect of translation on cash flows	(1 631)	2 039
NET INCREASE (DECREASE) IN CASH	273	(89)
CASH, beginning of period	<u>41</u>	<u>130</u>
CASH, end of period	<u>314</u>	<u>41</u>

ZAO “VEROPHARM” AND PEGASUS BAY INVESTMENTS INC.**COMBINED AND CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005
(in US Dollars and in thousands)**

	Share Capital	Retained Earnings	Total Shareholders' Equity
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Balance at January 1, 2004	1	35 444	35 445
Net income	-	10 111	10 111
Currency translation	-	2 559	2 559
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Balance at December 31, 2004	1	48 114	48 115
Net income	-	16 036	16 036
Currency translation	-	(1 958)	(1 958)
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Balance at December 31, 2005	1	62 192	62 193
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