"Our aspirations are our possibilities."

Robert Browning

A decade of growth...and beyond

It has been a decade of growth, a decade of achievements at Zydus Cadila. It was a defining moment, when backed by an expertise of 50 years, we started out with a new identity and new aspirations in 1995.

Since then, it has been a process of rebuilding the organisation, growing the business, exploring newer avenues, building strengths and enhancing capabilities. It's been a remarkable journey of overcoming challenges, creating opportunities and developing competencies. Over the years, our passion for innovation has grown manifold, which in turn has enabled us to create uniqueness in our products, services and approach to healthcare.

A future-focussed company, we are actively seeking opportunities that can take us to higher levels of excellence and growth. As our business becomes more global and as we extend our reach to new locations, new customers and new markets, we shall continue to draw strength and a sense of identity from our roots.

This annual report brings you a glimpse of this 'decade of growth' at Zydus Cadila and what lies beyond. It also describes in detail, the Company's activities during 2004-05 that have been a part of a broad strategic approach to growth.

A Journey of Growth

Receives five product approvals from the US FDA to market Atenolol, Clindamycin, Metformin Hydrochloride Tablet, Metformin EX and Metformin ER.

Enters into a strategic alliance with Mallinckrodt Pharmaceuticals Generics, a business unit of Tyco Healthcare and the 7th largest generic pharmaceutical company in the U.S. As per the agreement, the generic products manufactured by Zydus Cadila will be marketed by Mallinckrodt under a joint label.

Signs a Joint Venture Agreement with Mayne Pharma, a leading injectable specialty pharmaceuticals company based in Australia to set up 50:50 joint venture company to manufacture Generic Injectable,

The state-of-the-art formulations manufacturing plant at Moraiya and API plant at Dabhasa received approvals from the US FDA.

Enters the French generics market with 43 generics.

In November 2004, enteres into a strategic alliance with Zambon Group, one of the leading multinational groups of Italy to open up new avenues in contract manufacturing.

ATEN becomes the 1st Zydus brand to storm into the Top-20 pharma brand ranking (ORG:Oct).

Nucoxia, the first Etoricoxib brand to be launched in 2004 in India became the 'Best Launch of the Year' from amongst 2200 new

Cadila Healthcare enters the capital market with an IPO in February 2000.

Acquires formulation business of Recon Ltd. in May 2000. This strategic move boosted the growth of the formulation business, further consolidating the group's strengths in the southern markets.

The API plant at Ankleshwar receives ISO 14001 certification in December 2000.

Acquires German Remedies Ltd. in 2001, which was the largest M&A in the Indian pharmaceutical Sector. Becomes the 4th largest group in the Indian pharma industry.

Zydus Cadila and U.S. based Onconova enter into a joint venture in 2001 for collaborative research in the field of oncogenomics.

Zydus Cadila acquires 'Aten', one of India's largest selling anti-hypertensive brands in 2001. The acquisition catapults Zydus Cadila to the top spot in the cardiovascular segment.

Becomes the 4th largest in the Indian pharma industry as per ORG rankings.

Acquires Banyan Chemicals, a Vadodara based company with a US FDA approved plant in April 2002.

The manufacturing premises at Moraiya receives approval from the Medicine Control Agency of U.K., now known as MHRA, in April 2002.

After an existence of five decades, Cadila Laboratories restructures its operations in 1995. Cadila Healthcare Limited comes into being under the aegis of the Zydus Group.

Cadila Healthcare launches Falcigo in strategic alliance with Guilin Pharma of China. This breakthrough product in the anti-malarial segment was launched for the first time in India in 1996.

Cytotoxic (anti-cancer) medicines as well as Active Pharmaceutical Ingredients (API), for global markets.

Receives approval from Drug Controller General of India (DCGI) for its first Investigational New Drug (IND) application

for the New Molecular Entity (NME) - ZYH1.

Launches novel statin - Pitavastatin under the brand name Pitava, for the 1st time in India.

brands (ORG:Dec, MAT 2004). The other best launches from Zydus Cadila were Mifegest, Penegra, Revaldo, Levoday and Novospar.

Retains No. 1 position in CVS, GI and Women's Healthcare participated segments in the Indian pharma market (ORG:Mar, MAT 2004).

Enters into a long term strategic pact with Boehringer Ingelheim India Limited, a wholly owned subsidiary of Boehringer Ingelheim (BI) to manufacture and market BI's products in India.

Launches two in-house programmes: 'Prism' - a cost savings programme and 'Delta' - a value creation programme.

State-of-the-art formulation manufacturing plant at Moraiya receives approval from Brazilian regulatory agency, ANVISA. This certification qualifies Zydus Cadila to enter the Brazilian market with its oral tablets,

capsules and soft gelatin capsules.

Mega merger of German Remedies, Recon Healthcare, Zoom Properties and Zydus Pathline with Cadila Healthcare Limited.

Acquires Alpharma France in 2003. Now known as Zydus France SAS, the company spearheads Zydus group's operations in France, one of the fastest growing markets in Europe.

Emerges as a 'Partner of Choice' for Schering AG, a leading global pharma player in women's healthcare segment, to

manufacture and market existing products of the company in India.

In a two-pronged strategy for the U.S. market, establishes Zydus Healthcare (U.S.A.) LLC to market APIs in the U.S. market in 2002 and Zydus Pharmaceuticals (U.S.A.) Inc. to market formulations generics business in the U.S.A. in 2003.

Files 12 ANDAs with the US FDA in 2003-04, making it the first Indian company with the largest number of filings in the very first year.

Soars to the 9th position from the 16th position in ORG rankings within just a year of restructuring.

Registers the fastest growth amongst the top 80 Indian pharma companies in 1997.

In 1998, the group enters into a joint venture with Altana Pharma AG of Germany, a research-driven pharma major to create a new joint venture company Zydus Altana Healthcare Pvt. Ltd.

Enters into a joint venture with Sarabhai Enterprises in the Animal Healthcare segment, to create India's number one animal healthcare company - Sarabhai Zydus Animal Health Ltd.

The API plant at Ankleshwar receives ISO 9002 certification in the year 1999.

** Upto May 2005*

Chairman's Message

Dear Shareholders,

Over the last decade, Zydus Cadila has enjoyed wave after wave of growth in the marketplace, expanding from a Rs. 2bn start-up company to become one of the leading players in the industry with a turnover exceeding Rs. 13bn. This has been a decade of enterprise, endeavour and, indeed, a stupendous growth. The achievements of past ten years have firmly placed your company in the top bracket of Indian pharma companies. Here is a snapshot of what has been a decade of growth:

- *From a domestic formulations focussed business, today we are an integrated company with strengths all along the pharmaceutical value chain and a global presence*
- *We are the 5th largest player in the domestic pharma market with a market share of 3.9% as compared to the 16th rank in 1995*
- *We have built leadership positions in our key segments - Cardiovasculars, Gastrointestinals, Women's Healthcare and are amongst the top three in Respiratory, Pain Management and Anti-infectives*
- *We have entered the regulated generics markets with operations in France and are all set to enter the U.S. generic market this year, in addition to selling in 25 other emerging markets worldwide*

- *We have built world class manufacturing operations comprising nine state-of-the-art manufacturing plants for APIs and formulations, including novel dosage forms*
- *Leveraging this strength, we are now successfully tapping in-sourcing and contract manufacturing opportunities*
- *We have emerged as a Partner of Choice for research-driven pharma majors like Altana Pharma, Schering AG, Boehringer Ingelheim, and these alliances are unlocking value for us*
- *Nurturing our ambition to be an innovation-driven company, we now have a dedicated research team, spearheaded by 550 professionals with 230 scientists dedicated to NCE research alone. We now have one NME - ZYH1 in Phase 1 clinical trials and three NMEs in pre-clinical trials*

As with any period of growth and innovation, it is inevitable that there will be times which are challenging; times when we have to be decisive, address issues quickly and deal with the changing world. What we witnessed in our industry this past year reminds us of this. The fiscal 2004-05 was quite a challenging one for our domestic formulations business. However, we continued to make headway in plans to globalise our business operations, enter the regulated generics markets and continue to leverage our strengths to unlock new opportunities for us.

The global generics market continues to grow at an attractive pace and is now estimated at more than US$ 50bn in 2004. The key markets of U.S. and France, which we are focussing on currently, registered healthy growth rates of 9.7% and 28.6% respectively(Source: IMS), outgrowing the overall market growth.

Key Achievements of 2004-05

- *Your company has been ranked 45th amongst BT-Top 500 companies in India (Source: Business Today, Nov. 2004)*
- *We are all set to enter the U.S. markets. During the year 2004-05, we received approval from the US FDA for the Moraiya plant and also entered into an alliance with Mallinckrodt, a leading U.S. generic company, for marketing and distribution of products in the U.S. under a joint label. We have so far received five product approvals from the US FDA*
- *We entered the French generics market with 61 generic presentations during the year*
- *We entered into agreements with Zambon of Italy for manufacturing lyophilised vials and Mayne Pharma of Australia to set up integrated facilities for oncology injectables under a 50:50 JV, thus furthering our contract manufacturing business*
- *We maintained an overall 5th ranking in the Indian pharma market (ORG:Feb, MAT 2005). Launched over 60 new products in the domestic market, some of them for the first time in India*
- *Our new formulations manufacturing facility at Baddi in the tax-advantaged state of Himachal Pradesh for solid orals went on-stream*
- *Our research programme registered one of its first successes during the year. We have received approvals from the DCGI to commence Phase1 clinical trials for our IND - ZYH1*

A Challenging Year for the Indian Pharma Industry

January 2005 brought with it a new patent regime. The passage of The Patents Bill, amended the Patents Act of 1970 to conform with the requirement of TRIPS (Trade Related Intellectual Property Rights) agreement of the WTO. The new patent law is likely to have an impact on the structure of the industry over the next 5-10 years, with specialty and

Chairman's Message

innovator companies likely to have an edge. Your company is well positioned to face this challenge and has, in response, increasingly focussed on:

- *Developing a research pipeline of NCE, NDDS and Biotech products*
- *Foraying into the regulated global markets of U.S.A. and Europe*
- *Strengthening alliances to tap in-licensing opportunities*
- *Exploring contract manufacturing opportunities*

Apart from the new patent regime, there were two other important regulatory changes in early 2005, which have had a considerable impact on the Indian pharmaceutical industry. Firstly, the move by the government to levy MRP (Maximum Retail Price) based excise duty, led to higher incidence of excise duty on out-sourced products on which, until now, the excise duty was payable on the transfer price.

Secondly, the new Value Added Tax (VAT), was implemented in place of local sales taxes, w.e.f. April 1, 2005, in a large number of states. In the run up to the new VAT regime, the distribution channel de-stocked during February-March 2005, and this had a dampening impact on sales towards the close of 2004-05. Both these developments resulted in a sharp drop in domestic formulations sales of most pharma companies in the January-March 2005 quarter. The industry growth, on a MAT basis, slowed down to 4.2% at the end of March 2005.

In line, the company's sales for the last quarter fell by 22% y-y, and this drastically changed the entire growth picture for the year. As a result of this, the company reported 8% lower net profit y-y in its standalone results for 2004-05. We believe that the circumstances prevailing in the January-March 2005 quarter were an aberration and that normal growth will resume in 2005-06.

In spite of these adverse developments, the company reported consolidated sales of Rs. 13.1bn, up 2% y-y and net profit of Rs. 1.2bn, about 9% of sales.

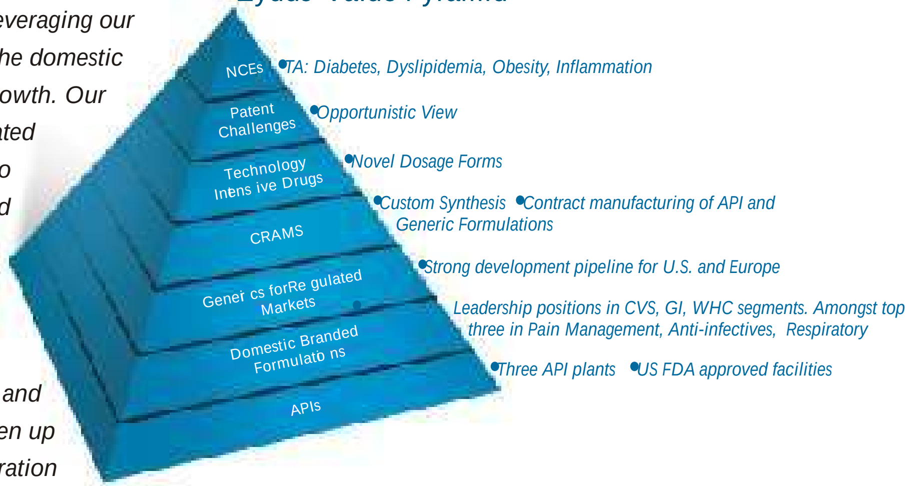
The ever-changing, competitive landscape of the pharmaceutical industry has created new challenges. Some of them we had been anticipating and some others were sudden and unexpected. While we cannot control economic conditions or market conditions, we can achieve success by focussing on our strengths, weaving strategies that give us an edge in the marketplace and constantly looking out for growth opportunities.

A decade ago, we made a great start on the path of rebuilding the organisation, the ultimate aim being profitable growth. Towards this end, we have stepped up the momentum and set up a brisk pace over the years. Our focus is to be consistent and purposeful as we stride ahead.

The Way Ahead: We Will Continue to Grow…

During the last decade, our aim has been to lay a firm foundation for growth beyond 2005. Taking stock of our strengths and our vision to emerge as one of the top ten global generic companies by 2010 and a research-driven global company by 2020, we have set ourselves distinct goals in the short term, medium term and long term.

Zydus' Value Pyramid



- *In the short term, we plan on leveraging our strengths as a strong player in the domestic formulations market to drive growth. Our focus will also be on the regulated markets of Europe and U.S.A. to market both APIs and formulations*
- *In the medium term, we will be expanding our business in the regulated generic markets, tapping both in-licensing and out-licensing opportunities, open up a new avenue of revenue generation through contract manufacturing and in-sourcing and leverage alliances*
- *In the long term, we will be looking to unleash value as an innovation research-driven global pharma company*

The Future Course: Ensuring Peak Performance

Over the past decade, we have demonstrated both the strength and promise of our company. It speaks of the success we have had in implementing a clear vision and focus.

It speaks of our clarity - clarity of focus, clarity of objectives and clarity of results - the 3 'Cs' which will continue to drive our performance and growth in the future. With a future-focussed vision, we aim to be one of the top ten global generic companies with a strong R&D pipeline and sales in excess of $1bn by 2010 and global research-driven company by 2020.

The peak performance of an athlete depends on fitness, strength, endurance, agility and power. This also holds true for any organisation that wishes to compete successfully in a highly competitive, global marketplace. The Organisational Development Programme that we launched last year, looks at three critical areas that would help us achieve peak performance. Firstly, to deliver 100% performance and keeping a tight check on fitness parameters. Secondly, to develop leaders who can drive performance and take the organisation onto a new sphere of excellence. Thirdly, to focus on business health that can drive top-line and bottom-line growth and improve operating margins.

Clearly committed to growing revenues, registering strong profits and maximising shareholders' value, we are moving ahead with initiatives that will strategically position your company for future growth. We aim to increase the value for our shareholders through consistent and rigorous execution of ideas and initiatives that will lead to a long period of profitable growth.

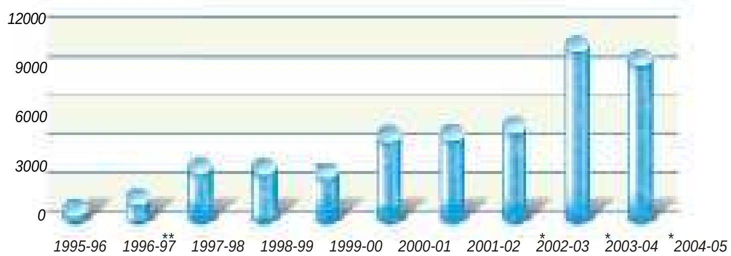
I would like to express thanks to all our stakeholders who have helped us evolve into a leading healthcare company over the past 10 years and who continue to help us create healthcare communities globally. Your co-operation and support inspire us to see things differently, create new growth platforms, walk new paths confidently, apply new learnings to the organisation and find newer ways to create healthier communities.

Pankaj R. Patel

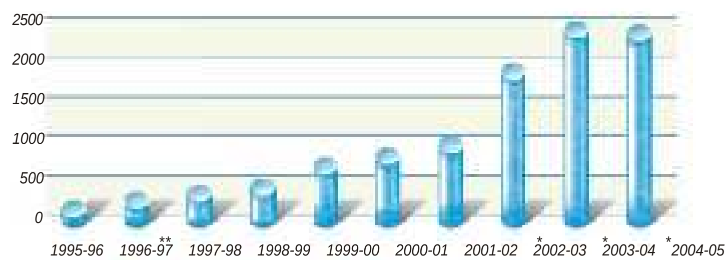
June 9, 2005

Ten Year Financial Highlights

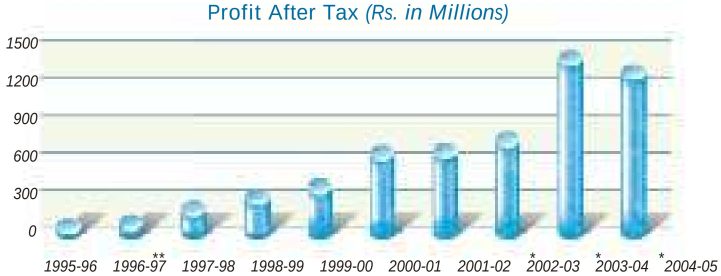
Gross Sales *(Rs. in Millions)*



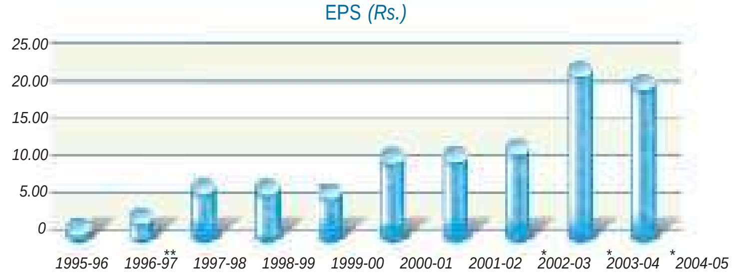
PBIDT *(Rs. in Millions)*



Profit After Tax *(Rs. in Millions)*



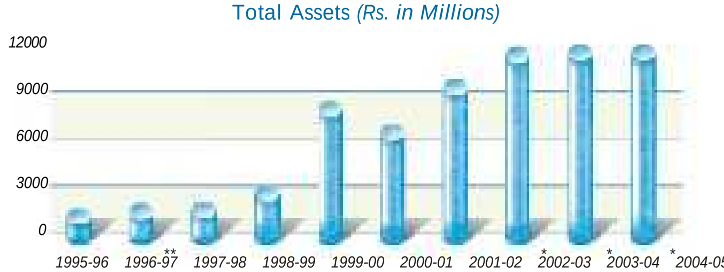
EPS *(Rs.)*



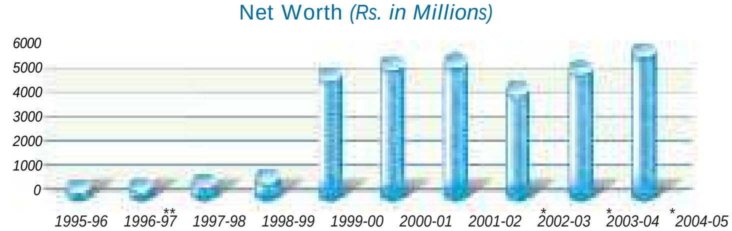
Dividend Per Share *(Rs.)*

PS for the year 1999-00 paid on pro-rata basis

Total Assets *(Rs. in Millions)*

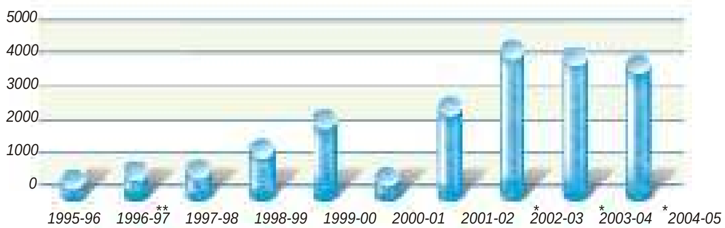


Net Worth *(Rs. in Millions)*

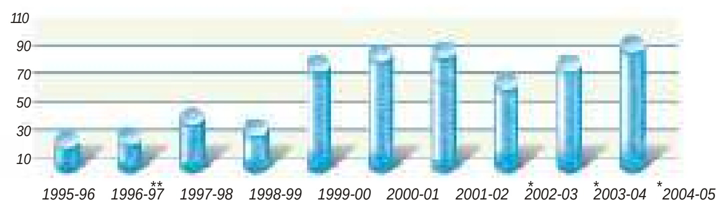


*Notes: * Post-merger data - not strictly comparable with prior years. ** 1996-97 ten month data is annualised. Regrouped figures taken wherever applicable*

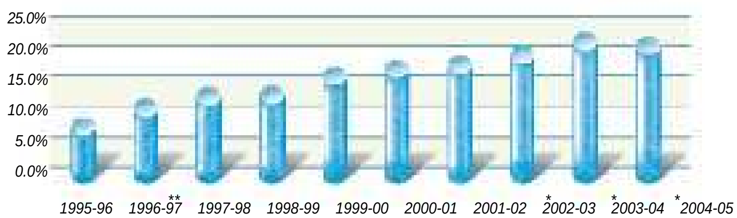
Total Debt *(Rs. in Millions)*



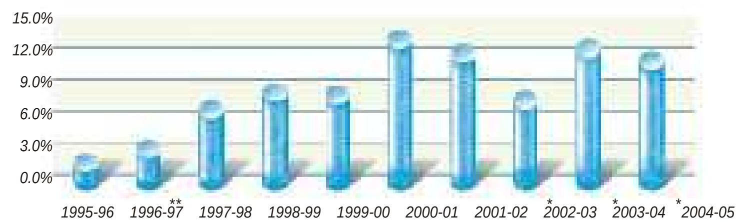
Book Value Per Share *(Rs.)*



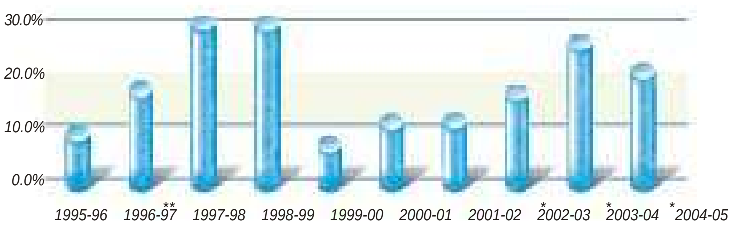
PBIDT% to Sales



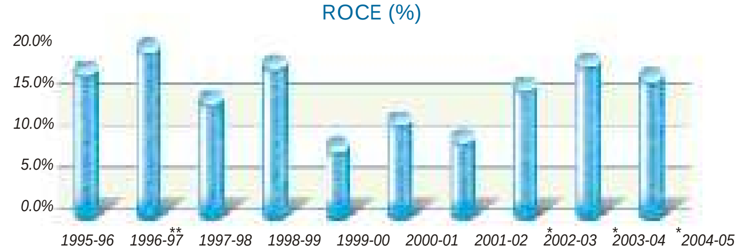
PAT% to Sales



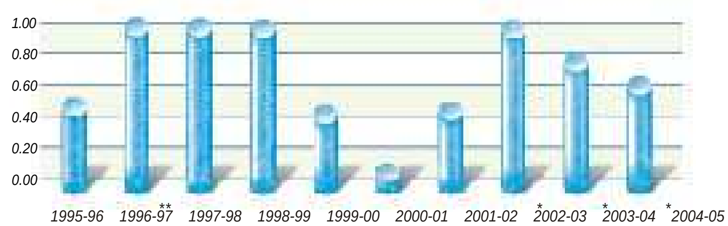
Return on Equity (%)



ROCE (%)



Debt/Equity Ratio



Highlights of 2004-05

Highlights of International Operations

- *Filed 12 ANDAs with the US FDA, taking the cumulative to 24 filings*
- *Received approvals for 2 ANDAs (Atenolol, Clindamycin)*
- *Tie-up with Mallinckrodt, a leading U.S. generic company, for marketing & distribution of products in the U.S. under a joint label*
- *US FDA approvals for formulation manufacturing plant at Moraiya and API plant at Dabhasa. The API plant at Ankleshwar was also Inspected and is pending approval*
- *Entered the generics market in France with 61 presentations*
- *Exports to emerging markets grew by 25% y-y*

Highlights of Domestic Operations

- *Retained No. 1 position in CVS, GI and Women's Healthcare (WHC) segments (ORG:Feb, MAT 2005) and improved ranking in pain management to 3rd position*
- *Maintained overall 5th ranking in the total market (ORG:Feb, MAT 2005)*
- *Launched over 60 new products in the domestic market, some of them for the first time in India*
- *Nucoxia becomes Best Launch of 2004*
- *Aten now 8th largest brand (ORG:Mar 2005)*
- *Started new formulations manufacturing operation at Baddi, Himachal Pradesh*

Highlights of R&D and Contract Manufacturing

- *Filed first IND in India for ZYH1*
- *Contract manufacturing deal with Mayne Pharma, Australia to set up integrated facilities for oncology injectables under a 50:50 JV*
- *MoU with Zambon, Italy for supply of Lyophilised vials under contract manufacturing*

Economic Value Added

A firm's management creates value when it makes decisions that generate benefits exceeding costs. Economic Value Added (EVA) is a measure of a firm's economic profit. It is calculated as the excess of economic profit over the cost of capital employed.

Rs. in Millions

Economic Value Added	2003-04	2004-05
EBIT	*1838*	*1761*
Less: Adjusted tax	*100*	*94*
NOPAT *(Net operating profit less tax)*	*1738*	*1667*
Equity	*5247*	*6069*
Debt	*4057*	*3946*
Total	*9304*	*10015*
Average capital employed	*9061*	*9659*
Post tax Cost of debt	*5.7%*	*5.2%*
Cost of equity	*10.6%*	*11.8%*
WACC % (market value weighted)	*9.7%*	*11.1%*
WACC	883	1071
EVA (NOPAT - WACC)	855	596

Notes:

- *EVA is a registered trademark of Stern, Stewart & Company*
- *EBIT (Earnings before interest and taxes) include dividends received from the Altana JV, being a strategic investment*
- *Tax calculation excludes deferred tax and is adjusted for tax shield on interest*
- *Cost of equity is based on cost of risk free debt plus equity premium adjusted for firm's beta variant. The equity premium is assumed at 7%, while the beta is calculated at 0.78*
- *Cost of debt is based on 10 year Government of India bond*
- *WACC (Weighted average cost of capital) is based on market value based weights of debt and equity*
- *The above calculation are based on Indian GAAP for standalone accounts*

Market Value Added

Market Value Added (MVA) is a measure of the value that the management has been able to add to given resources. It is measured by calculating the difference between a firm's market value (equity and debt) and its capital as per book value. Change in market value added is the change in market value of capital (equity and debt) less the change in the book value of the capital.

Rs. in Millions

Market Value Added	2003-04	2004-05
Market value of equity (year-end)	*28524*	*29180*
Market value of debt	*4057*	*3946*
Market value of debt & equity	*32581*	*33126*
Less:Invested capital		
Book value of equity	*5247*	*6069*
Book value of debt	*4057*	*3946*
Total	9304	10015
Market value added	*23277*	*23111*

Notes:
- *Market value of debt assumed same as book value in the absence of debt being listed / regularly quoted*

Management's Discussion & Analysis

Overview

Cadila Healthcare Ltd., the flagship company of the Zydus Group is one of India's leading integrated healthcare companies. Over the past decade, it has transformed itself from a strong player in the Indian pharma industry to a global pharmaceutical provider. Blazing ahead with several initiatives and leveraging its strengths, the company has been globalising its business. By actively exploring emerging opportunities, the company aims to fulfil its aspirations of becoming a top ten global generics company by the end of this decade and an innovations-driven company by 2020. During the year 2004-05, the company made brisk progress with its efforts in this sphere.

Cautionary statement:

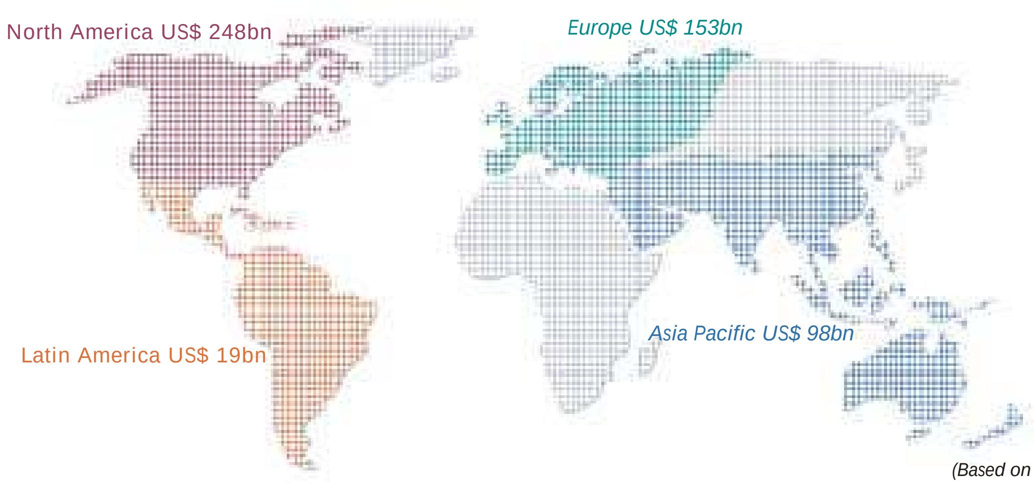
Shareholders and readers may be advised that some parts of this section contain data and information external to the Company and which are forward looking. These are based on sources considered to be reliable, and on the best estimation available at that point of time. Further, the details and explanations given in the following paragraphs reflect the management perception on material and relevant issues as on date, which are subject to change without notice due to change in government policies, competition and other risk factors. The company undertakes no obligation to publicly update or revise any of the opinions expressed hereinafter.

The Global Pharma Market

The global pharmaceutical sales in 2004 grew by 7% to US$ 550bn (constant $ terms), crossing the US$ 500bn mark for the first time. The growth was slower than the 10% CAGR in the previous five years. Almost 88% of the sales were accounted for by North America, Europe and Japan. North America, the largest market in the world, grew by 7.8% to US$ 248bn; European Union by 5.7% to US$ 144bn and Asia Pacific grew by 13% to US$ 40bn in size (Source: IMS). Although a positive year for the global pharma industry in general, 2004 was a year when prescription pharmaceuticals came under scrutiny with respect to their side effects.

Going forward, the global pharmaceutical market is projected by IMS to grow at CAGR of 6-9% through 2008 to US$ 707-790bn. The growth will be driven by a variety of factors: changing demographics, new blockbusters and a push in fast developing countries to expand access to healthcare. The Asia Pacific market is expected to continue to be one of the fastest growing markets in the world.

2004 Global Pharmaceutical Sales



(Based on IMS Audited Data)

Global Generics Markets

The global generics market continued to grow during 2004 and is estimated to have crossed US$ 50bn at consumer prices. In U.S., the growth of generic segment continued to outpace the overall market growth while in Europe, the generic sales grew twice as fast as the patent protected drugs. Leading Indian companies continued to penetrate the global generics markets and account for more than a third of the DMF filings to the US FDA.

Management's Discussion

Indian Pharma Market

January 2005 ushered in a new patent regime with the passage of The Patents Bill, amending the Patents Act of 1970 to conform to the requirements of TRIPS (Trade Related Intellectual Property Rights) agreement of the WTO.

Some of the salient features of the Patent Law, 2005 are as follows:

- *Extension of product patents to foods, drugs and chemicals with 20 years of exclusivity*
- *Compulsory licensing option under certain conditions (e.g. unaffordable price) has been retained, but the intent is to use it in limited cases*
- *Provision to allow both pre-grant and post-grant opposition to patents*
- *In respect of applications in the mailbox, patent rights are made available to innovator company only from the date of grant of patent, not retrospectively. In case the product is already in the market, the innovator company would be entitled to a reasonable royalty*

It is expected that over a period of time, the new law will have a significant impact on the industry structure and the operating environment. Over the next 5-10 years, the influence of specialty and innovator companies is likely to increase, from the current highly fragmented industry structure dominated by local companies.

Indian companies, specially the larger ones will increasingly focus on one or more of post-patent strategies - ranging from R&D focus and higher R&D spends, to in-licensing and alliances, to CRAMs (contract research/contract manufacturing), to aggressive positioning in the global market as low-cost players. These changes are also likely to drive higher consolidation within the industry.

Your company has been preparing for the product patent regime for a few years, and has, in response, increased focus over the years on:

- *R&D activity and spend*
- *Presence in regulated global markets of U.S.A. and Europe*
- *Strengthening alliances and in-licensing from partners*
- *Exploring contract manufacturing opportunities*

Apart from the new patent regime, there were two other important regulatory changes that effected in early 2005, which have had a considerable impact on the pharmaceutical industry. the first was the move by the government to levy mrp (maximum retail price) based excise duty. This has led to higher incidence of excise duty on out-sourced products (p2p) on which, until now, the excise duty was payble on the transfer price.

The second was the implementation of the new Value Added Tax (VAT), in place of local sales taxes, w.e.f. April 1, 2005, in a large number of states. In the run up to the new VAT regime, the distribution channel de-stocked during February-March 2005, leading to serious difficulties in effecting sales during the last two months of 2004-05. The result was a sharp drop in the sales of domestic formulations of most pharma companies in the January-March 2005 quarter.

Against this backdrop, the domestic pharmaceutical market in 2004-05 grew at 4.2% (ORG:Mar, MAT 2005) in local currency terms to Rs. 205bn, or US$ 4.6bn. The growth was mainly driven by new product introductions - the run up to the new patent regime saw introduction of over 2100 new products including brand extensions, the highest in last three years.

Until January 2005, on a MAT basis, the market for domestic formulations grew at 6.5% (ORG:Jan, MAT 2005).
The market growth declined sharply in February 2005 to 1.8%, and registered a negative growth of 6.9% in March 2005 (ORG:Mar 2005). As a result, the industry growth on a MAT basis, slowed down to 4.2% at the end of March 2005.

Your company's sales of domestic formulations were also affected by the extraordinary circumstances prevailing during the last quarter of 2004-05, in the run up to the new VAT regime. However, the management believes that the circumstances prevailing in the January-March 2005 quarter were an aberration and that normal growth will resume in 2005-06.

Management's Discussion & Analysis

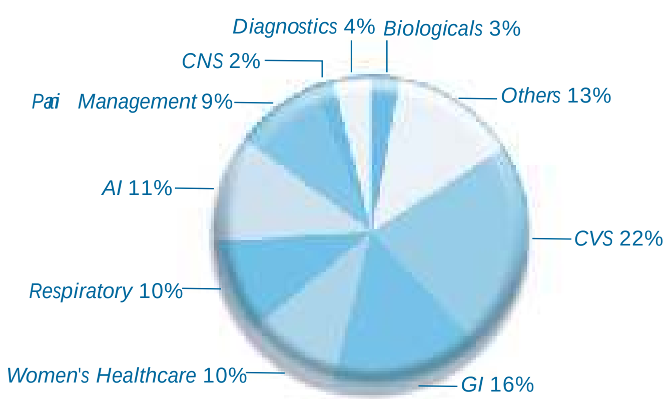
Operating Highlights (Division-wise)

Domestic Formulations

The company grew its domestic formulations business by 1.1% in the year 2004-05 to Rs. 8431mn, compared to Rs. 8342mn in 2003-04. The introduction of VAT in 19 states from April 1, 2005 led to de-stocking towards the year-end, particularly in March 2005. This severely affected the sales of domestic formulations during the crucial last month of the fiscal year. The sales for the last quarter fell by 24% y-y, and this drastically changed the entire growth picture for the year. For the first nine months, the domestic formulations grew by 8.3%.

In the Indian pharma market, the CVS segment continued to register strong growth of 13.7%, while the GIs and NSAID/pain management segments (participated) grew by 5% and 6.9% respectively (Source: ORG:Feb, MAT 2005).

The company retained 3.9% share of the total market and maintained its top rankings in cardiovascular, gastrointestinal and women's healthcare segments. It also improved its ranking in the pain management segment by moving up to the 3rd position.



Note: Based on 2004-05 Branded Formulations

New Products

During the year, the company launched over 60 new products and brand extensions under various therapeutic segments.

Pioneer Product Launches

- *'Nucoxia' (Etoricoxib) was declared the 'Brand of the Year 2004' by ORG-IMS and entered the top 300 brands category in the very first year of its launch*
- *'Pitava' became the first Pitavastatin brand to be launched in the Indian pharma market*
- *'Parcar' (Cabergoline) was launched to treat Parkinson's disease*
- *'NuPatch' was the first Diclofenac transdermal patch to be launched in India. It is manufactured in-house at the transdermal facility at the Moraiya plant*
- *'Penegra Xpress' Tablet (Sildenafil citrate Dispersible Tablets) was launched for Erectile dysfunction*
- *'Aten-H' Tablet (Atenolol + Hydrochlorothiazide Tablets) strenghtened the anti-hypertensive segment*
- *Entered the high growth Alzheimers segment with introduction of Rivera (Rivastigmine) and Mentra (Memantine)*

Other New Product Launches

Brands	Formulations	Segment
Tazilin	Tazobacattm+ Piperacillin Injection	Anti-bacterial
Aztreo	Aztreonam Injection	Anti-bacterial
Meroza	Meropenem Injection	Anti-bacterial
LR	Losartan Potassium + Ramipril Tablets	Anti-hypertensive
Ocid-D	Omeprazole + Domperidone Capsules	Anti-secretory + Prokinetic
Meva SR	Mebeverine Capsules	Anti-spasmodic
Atorva-E	Atorvastatin Calcium + Ezetimibe Tablets	Hypolipidemic
Atorva-Asp	Atorvastatin Calcium + Aspirin Capsules	Hypolipidemic + Anti-platelet
Fludara	Oral Tablets	Oncology
Itokine	Itopride Hydrochloride Tablets	Prokinetic
Forair MDI	Inhalers & Respicaps	Inhalations
Neuromet	Capsules & Injections	B12 and Combinations (multivitamins)
Nuvelle-FHC	Oral Tablets	Hormone Replacement Therapy

While the sale from these products contributed over 2% of the sales of domestic formulations during 2004-05, the products launched during the last three years (i.e. April 2002 onwards) contributed about 15% of the total domestic formulation sales during the year.

Management's Discussion & Analysis

Performance of Key Brands

- *Aten becomes 19th largest brand (23rd last year) of the industry (on MAT basis) and 8th largest in March 2005 (ORG: March 2005)*
- *Pantodac IV becomes the No.1 intravenous proton pump inhibitor (Source - ORG:Feb, IMS 2005)*
- *Mifegest consolidates position as No. 1 Mifepristone brand with > 1 million doses*
- *Atorva (Atorvastatin) becomes the largest selling statin (by volume) in India*
- *Diane regains No.1 position with > 50% market share*
- *Formonide launch ranked amongst the top 20 launches of the year*
- *Vaxirab (highly purified duck embryo vaccine manufactured in-house) sales more than doubled y-y, gains ~ 10% market share*

APIs

The bulk drug business environment during 2004-05 became highly competitive, and price pressure, both in domestic and international markets as well as loss of high margin exports took its toll on the performance of the division. Emergence of several new players led to heightened competition in the key products marketed by the division - Atorvastatin, Loratidine, Fluconazole and Paroxetine and their intermediates.

The total sales of the division (excluding captive sales) were Rs. 1745mn, registering a drop of 9.5% y-y from rs.1928mn last year. Exports of APIs and intermediates stood at Rs. 1246mn, down 8.3% y-y.*

** includes deemed exports*

Highlights of the Division

- *Filed 16 DMFs to the US FDA, taking the total to 28 DMFs at the end of the year*
- *Largest DMF filings by any Indian company in the January-March 2005 quarter*
- *Filed 5 additional COS, taking the cumulative filings to 6*
- *Ankleshwar facility inspected by the US FDA*
- *Successful inspection by the French authorities AFSSAPS of both Ankleshwar and Dabhasa facilities*
- *API plant at Dabhasa starts commercial production of APIs for regulated markets*
- *New products introduced during the year - Pitavastatin, Duloxetine, Simvastatin*

To counter the loss of sales and regain the market share in key products, the Business Unit has successfully identified and implemented cost reduction measures.

Management's Discussion & Analysis

International Formulations

International formulations business of the company has two focus areas:

- *Generics in regulated markets*
- *Emerging or less regulated markets*

Regulated Markets

2004-05 has been the year of continued efforts to build the company's presence in regulated markets of U.S.A. and Europe, with a focus on the generics opportunity. During the year, there was definite progress in this direction.

U.S. Market

The overall U.S. market grew by 7.7% in 2004 to reach US$ 236bn. This was a steep slow down from the 11.1% growth of 2003 and the first year since 1994 that the market grew by <10%. The unbranded generic segment grew by 9.7% (ex-manufacturer prices before rebate) in 2004, beating the overall market growth, but slowing sharply from 27.1% growth in 2003. Unbranded generics prescriptions grew by 9.8% y-y and account for 45.8% of the total prescriptions, up from 42.7% in 2003. The aggregate sales of generic companies in U.S. grew by 10% to US$ 18.1bn in 2004 (Source:IMS).

The Highlights of Activities Related to the U.S. Business Development in 2004-05

- *Filed for 12 additional ANDAs with the US FDA during the year, taking the cumulative number of filings to 24*
- *Filed 16 additional DMFs, taking the total to 28 DMFs at the end of 2004-05*
- *The Moraiya formulations plant was inspected by the US FDA and approved for tablets and capsules dosage forms*
- *Product approvals granted by the US FDA for Atenolol and Clindamycin. At the end of the year, 22 ANDAs are pending for approvals (3 more approvals have since been received - Metformin Hydrochloride Tablet, Metformin EX and Metformin ER)*
- *Signed an agreement with Mallinckrodt, a pharmaceutical company belonging to the U.S. based Tyco group, for distributing generic formulations in the U.S. market*
- *Dr. Mahendra Patel joined the Board of Directors of Zydus Pharmaceuticals (U.S.A.) Inc. Dr. Patel brings with him extensive experience in the pharmaceuticals field*

Mallinckrodt is the 7th largest player (by number of prescriptions) in the U.S. generic market and has over 2% market share (Source: IMS). Under the terms of the agreement, the generic products will be developed and registered by Zydus Pharmaceuticals and will be manufactured by Cadila Healthcare Ltd. at its US FDA approved manufacturing plant in Ahmedabad. Mallinckrodt will market and sell the products under a joint label.

The arrangement is clearly a win-win situation. By taking advantage of Mallinckrodt's marketing and distribution networks, Zydus Cadila will be able to jump start its U.S. business and by utilising Zydus Cadila's product development and manufacturing capabilities, Mallinckrodt broadens its product portfolio and strengthens its pipeline.

As a result of the above initiatives, the company is set to enter the U.S. generics market in the early part of 2005-06.

Robust Pipeline of FDA Filings

Management's Discussion & Analysis

European Union (EU)

The European Union is the second largest market in the world with 28% share of global sales. As per the IMS, the growth in 2004 slowed to 5.7%, taking the total market size to US$ 144bn (constant $). While the larger markets - Germany, Italy and France slowed down, the newer members of EU achieved higher growth, albeit <10%.

French Generics Business

The total French market grew by 7.2% in 2004 to US$ 28.5bn (Source: IMS) including both the retail and the hospital market. Generics segment grew by 28.6% and now represents 6.8% of the total market (approx. US$ 2bn). Major healthcare reforms introduced in France during the year favour generic substitution, and strong growth for generics is expected. The generic segment is expected to double by 2008, as several leading molecules lose patent protection (Source: IMS).

Highlights of 2004-05

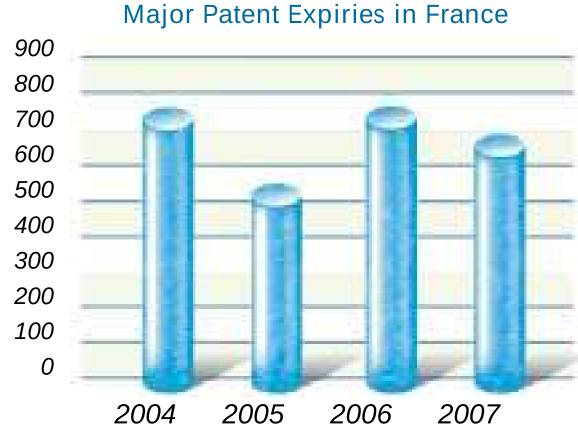
During the period ended March 31, 2005, much progress has been made in the French business in both branded generics - which the company acquired during September 2003 and pure generics - which the company introduced during 2004.

- *Launched a total of 61 generic presentations in the market until March 2005*
- *Stabilised and achieved turnaround in the branded business to register single digit growth for the period*
- *AFFSAPS inspection of API facilities successfully completed*
- *First dossier developed in India and submitted in France*
- *Two site variations submitted for transfer of production to India*
- *Supported a health awareness programme to build special relationship with pharmacists*

The total sales of Zydus France SAS during the 15 month period ended March 31, 2005 was Euro 7.2mn, compared to Euro 4.9mn for the 12 month period ended December 2003. Sales from generics, launched from September 2004 onwards, were Euro 1.4mn.

Up ahead, the plan is to grow the French business rapidly, specially the generics business. The company also plans to submit additional dossiers from India as well as submit additional products for site transfer to India.

Major Patent Expiries in France



Patent Expiries

(Euro Million in Current Sales)

Source: Company data


Zydans at work...in Philippines ...in Russia ...in Vietnam

Emerging Markets

Sales of formulations to the emerging or less regulated markets, comprising 26 countries grew by a robust 25% to Rs. 572mn, compared to Rs. 456mn in 2003-04 (in spite of Rupee appreciation of approx. 3%). Asia Pacific region accounted for more than half the sales. The company consolidated its presence in its key markets and now has over 5% market share in Sri Lanka. In Uganda and Myanmar, it has market shares exceeding 2% and 1% respectively.

The key growth drivers were:

- *Focus on key countries in each of the 4 regions: Asia Pacific, CIS and Eastern Europe, Africa and Middle East, Brazil and Latin America*
- *In the CIS countries (mainly Russia and Ukraine), the efforts made in 2003-04 to revamp the business model (putting in place a new team, larger field force and forging new relationships with large distributors) have paid off, resulting in a 2.5 times jump in the sales on a y-y basis*
- *Augmented team, increasing the number of overseas field staff in several key markets*

During 2003-04, the company had prioritised Brazil as a key market for future development and growth. It continues to be an exciting market with the retail pharma market in Brazil registering a strong growth of y-y 20.7% to US$ 5bn, buoyed by strong economic recovery and introduction of innovative products in 2004. The penetration of the generics segment continues to grow, with the market share growing to 7.5% in 2004 (9.1% in units - Source:IMS). During the year 2004-05, all the preparatory work required to enter the generics segment in Brazil, was successfully carried out:

- *The Moraiya formulations factory received approval from ANVISA (the drug regulatory body of Brazil)*
- *The bio-equivalence facility of the Zydus Research Centre was approved by ANVISA, making it possible to use in-house facilities for carrying out the bio-equivalence required for filing for product approvals*
- *Filed 14 product registrations by end of March 2005*
- *Approvals received for 5 products by the end of March 2005*
- *Tie-ups with distributors are also in place*

Having laid a strong foundation for growth, the company is set to enter the Brazilian market in the first quarter of 2005-06. Other initiatives in 2004-05 were:

- *Formulations manufacturing facility at Moraiya was approved by the MOH (Ministry of Health) of UAE and Kuwait (4th Indian company)*
- *Became the first Indian company to cross the PMF (Plant Master File) stage in Taiwan, a US$ 2.2bn market*

Management's Discussion & Analysis

New formulations manufacturing facility at Baddi, Himachal Pradesh

Manufacturing

During 2004-05, the total production from the three formulation facilities was as follows:

Production 2004-05

Tablets	2.9bn
Capsules	287mn
Injections	302 kl
Dry powder injections	3058kg
Suppositories	11mn
Vaccines	1mn doses
Lyophilised injections	2mn (nos.)

Highlights of 2004-05

- Ranked 62nd amongst the top 500 manufacturing companies in India (Source: Industry 2.0).
- A new formulations manufacturing facility at Baddi in the tax-advantaged state of Himachal Pradesh was commissioned in September 2004 in record time of under eight months. This facility will manufacture solid orals with a capacity of 200mn tablets per annum and 10mn Hard Gel Capsules
- Transdermal facility commissioned for commercial production of Diclofenac patches for the first time in India.
- Dedicated facility for hormone products has been developed and commissioned at Moraiya

Contract Manufacturing

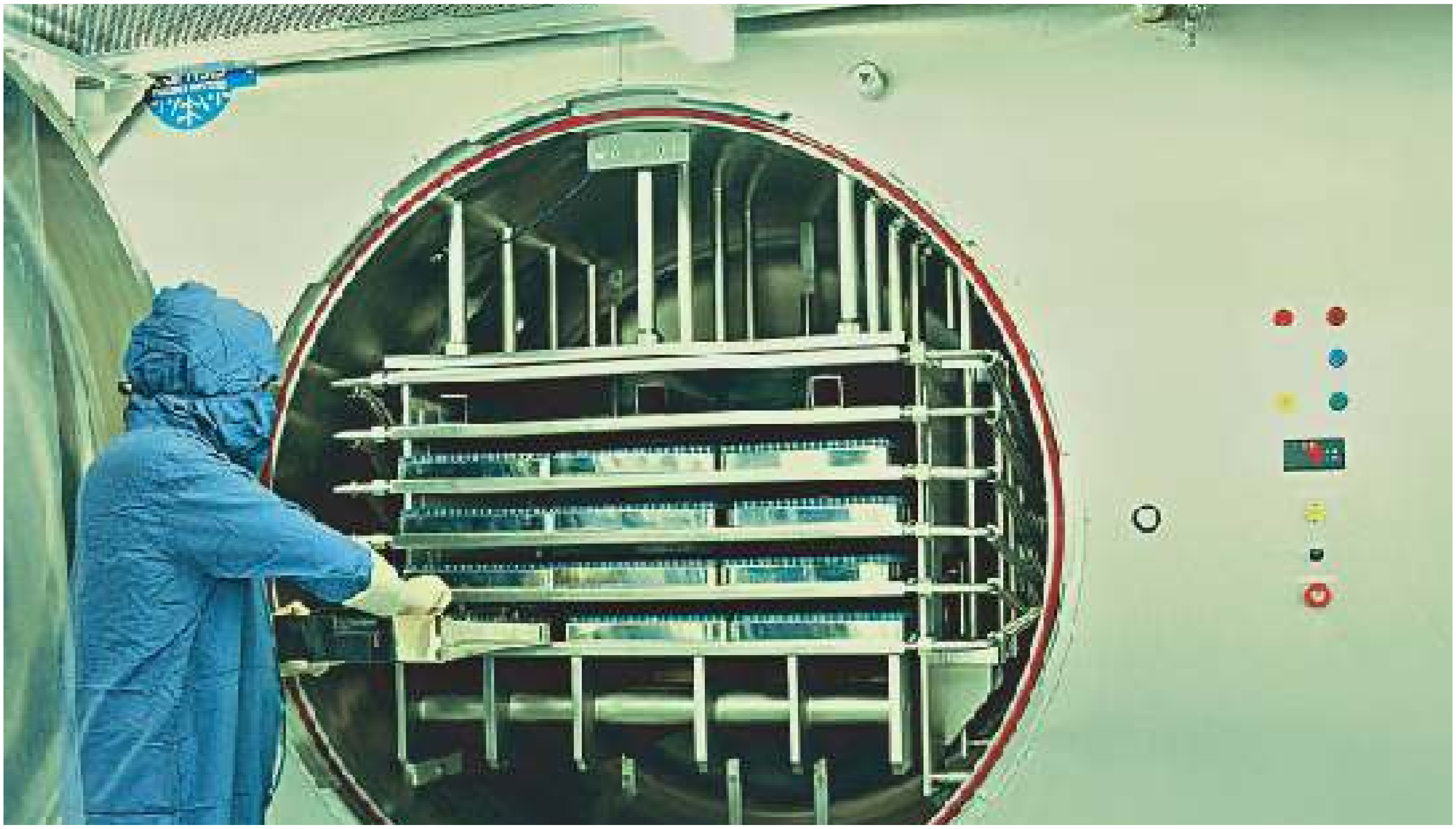
Catering to the outsourcing requirements of global pharma companies, for formulations, bulk actives as well as intermediates under contract manufacturing presents a good opportunity for the Indian pharma industry, especially after the IPR regime ushered in from January 2005. The advantages that India has to offer are:

- *Low cost operations, largely due to low cost labour*
- *Ability to meet compliance requirements of various regulatory agencies*
- *Availability of skilled technicians*
- *IPR comfort, due to change in regulatory environment post 2005*

These compelling advantages coupled with pressures to contain costs have resulted in many large pharma companies scouting for suitable tie-ups and opportunities in India. Companies which can offer comfort in terms of IPR compliance, service, technical skill sets and cost competitiveness over Western providers can make strong headway.

What do the MNCs Expect from the Indian Contract Manufacturer

- *IPR Protection*
- *Compliance with FDA/EMEA/ICH requirements*
- *Compliance with environment and quality standards*
- *Operational transparency*
- *Quick response time*
- *Accurate and complete export documentation*



Management's Discussion & Analysis

A normal business process cycle for global contract manufacturing is quite long because of the regulatory approvals and high level of customisation and the commercial production would normally commence after 24-30 months once the talks are initiated.

Zydus' Contract Manufacturing Vision

With India emerging as a global, low-cost manufacturing destination, Cadila Healthcare Ltd., is gearing up to tap this opportunity and emerge as a reliable partner for the global pharmaceutical players. The company's focus is on the higher end of manufacturing which includes specified dosage forms like lyophilised products, transdermal patches, aerosols and soft gels. This is doubly attractive due to limited competition and potential for higher value addition.

In line with its vision, the company has set up a dedicated Global Contract Manufacturing cell (GCM) to spearhead this business. The GCM cell was established during 2003-04, which started scouting for joint ventures and standalone manufacturing tie-ups for formulations with U.S. and Europe based companies during 2004-05.

Highlights of Contract Manufacturing for 2004-05

The GCM cell has taken initiatives to tie-up with pharma majors in the U.S. & Europe for oral solids, injectables (lyophilised products), pellets and formulation development projects.

During 2004-05, MoUs for two new contract manufacturing deals were signed, with:

- *Zambon, Italy and*
- *Mayne Pharma, Australia*

The Zambon group of Italy, established in 1906, is known for innovations in finished formulations and fine chemicals. The group is a leading multinational operating in over 16 countries and brings with it technical expertise in new drug delivery systems, fine chemicals and custom synthesis of advanced intermediates. Under the arrangement with Zambon, the latter would outsource a large part of its requirement of specialised lyophilised vials from Zydus, once the facilities and regulatory approvals are in place.

Mayne Group Limited, Australia is a leading player in specialty pharmaceuticals, diagnostic services, pharmacy, and health-related consumer products. With operations based in the Asia Pacific, the Americas and Europe, Middle East and Africa, Mayne Pharma focuses on the research, development, manufacture and sale of specialty pharmaceuticals with an emphasis on generic, injectables, oncology (cancer) treatments and related therapeutic areas.

Cadila Healthcare Ltd. and Mayne have signed a Memorandum of Understanding (MoU) with a strategic intent for setting up a new manufacturing Joint Venture Company (JVC) to explore opportunities to construct and operate selected cytotoxic (anti-cancer) finished products and API manufacturing facilities in India. The JVC would leverage Zydus Cadila's expertise in handling complex manufacturing processes in API and a wide range of finished dosage forms. It would leverage Mayne's longstanding experience in specialty, oncology products, its regulatory expertise, its global sales and marketing capabilities. It also gains access to additional high quality cytotoxic manufacturing capacity in a low-cost and generic-friendly environment.

Research and Development

With an area of 260,000 sq. ft. and over 230 scientists, Zydus Research Centre is one of the biggest state-of-the-art research facilities under one roof in India. In the area of NME, the focus continues to be in the areas of dyslipidemia, diabetes, cardiovascular risk, obesity, inflammation and pain management, while NDDS mainly has focus on developing platform technologies in the areas of controlled osmotic drug delivery, floating drug delivery and polymer microspheres.

Achievements of 2004-05

NME Research

- *Filed the 1st IND application with the DCGI for ZYH1 - a new molecular entity for the treatment of dyslipidemia and diabetes, which will move to clinical trails in 2005-06*
- *The pipeline of lead molecules at the end of 2004-05 is as follows:*

Compound	Disease	Stage
ZYH1	*Dyslipidemia*	*IND Filed*
ZYH2	*Diabetes*	*Pre-clinical*
ZYO1	*Obesity*	*Pre-clinical*
ZYI1	*Inflammation*	*Pre-clinical*

- *Several hundreds of novel molecules have been synthesised and screened in various in vitro / in vivo screening models to identify additional lead compounds*
- *A state-of-the-art animal facility has been commissioned for rodents and canines*

Biotechnology Research

- *Regulatory submission of two bio-similar biologics*
- *Regulatory approval for clinical trials for Interferon alpha*
- *One patent filed in biologics*

Novel Drug Delivery Research

- *Stable formulations of first NCE, for the treatment of dyslipidemia and diabetes have been prepared*
- *Developed novel multiplying porous diffusion and osmotic technology for delivering poorly soluble to highly water soluble drugs*
- *Two patents have been filed in osmotic technology*
- *Development of one month injectable depot formulation for endometriosis is underway*

Clinical Research

Zydus Research Centre conducted 27 bio-equivalence studies for in-house purpose, submission to domestic and international drugs regulatory authorities and is now focusing on ushering in the Phase I Clinical Studies of ZYH1 in 2005-06.

Onconova Therapeutics Inc. (Onconova), a research company in which Zydus Cadila has 13.37% shareholding as on December 31,2004, is based in the USA and is engaged in anti-cancer research with focus on three key problem areas in cancer therapy - lack of efficacy, drug resistance and toxicity.

During 2004, Onconova's lead NCE for treatment of solid tumors entered clinical trials at the John Hopkins Institute and two other molecules are at pre-clinical stage. The company has 15 US patents to its credit.

Patent Status at the end of 2004-05

Patent Filing	Cumulative	2004-05
Indian	*127*	*103*
PCT	*141*	*117*
Foreign	*37*	*23*

Total Patents Granted Till Date :

Indian	10
U.S.	2

The Ramanbhai Foundation 2nd International Symposium was held at Zydus Research Centre on the theme "Current Trends in Pharmaceutical Sciences: Role of Genomics & Proteomics". The symposium served as a forum for reviewing the recent scientific advances made worldwide in the field of pharmaceutical sciences and it brought together scientists from all over the world, both from academia and industry.

Management's Discussion & Analysis

Human Resources

The HR initiatives during the year 2004-05 were focussed on laying a firm foundation for managing future growth. The group had triggered off a transformation process in 2003-04 to support its business objectives and aspirations.

Making headway, a dedicated Organisation Development Cell has been set up to carry the transformation agenda forward. Three thrust areas that have been identified are: Developing leaders, Delivering 100% Q-on-Q (Quarter-on-Quarter) performance and Focus on Business Health. A forum for Zydans in key leadership roles called 'Let's Connect' was initiated during the year to enable a shared understanding of the organisational goals and the challenges that need to be addressed.

To step up the growth momentum in the coming years, the company has been on a path of value creation. From strengthening domestic operations to globalisation of business and creating value through research, several initiatives have been explored to enhance core business growth. The transformation agenda at Zydus rests on the five pillars of Direction, Leadership, Accountability, Co-ordination & Control and Capability Building.

A new business structure that facilitates the value creation process by bringing in more focus was also introduced. The thrust is on core areas of Formulations - Domestic and International, APIs, Regulated markets - Europe & USA and Research. As we drive momentum in these core areas, Corporate- HR and Corporate Finance would support the initiatives by addressing the challenges of leadership, accountability, co-ordination & control and capability building.

Chairman and Managing Director, Mr. Pankaj Patel (3rd from left) flanked by the Executive Committee members of the Zydus Group

In line with the group's aspirations to enter a newer orbit of accomplishment and distinctiveness, the HR initiatives during the year aimed at competency building through a series of training and development initiatives.

Across the organisation, 2539 employees were enrolled in various training programmes in 2004-05. An Advanced Executive Education Programme was conducted for 46 senior executives at the Indian Institute of Management, Ahmedabad (IIMA). The objective of the programme was to provide an overview on subjects such as strategy, finance, operations, marketing, OB/OD&HR.

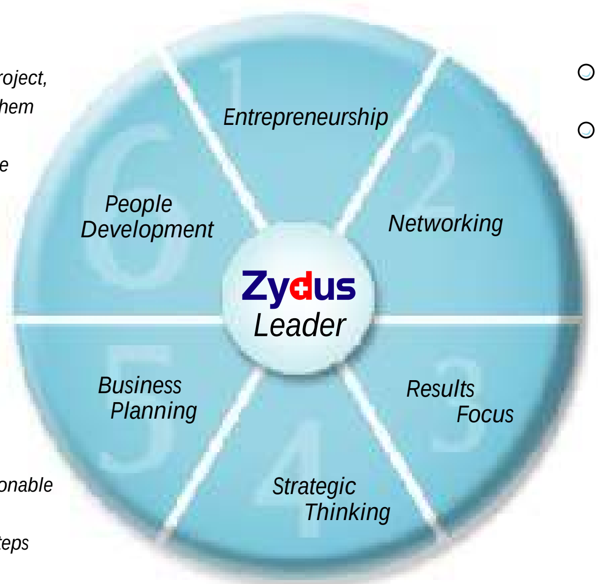
At the Indian School of Business, Hyderabad, 39 leadership role holders participated in a three-day residential programme. Prior to this programme, 'The Zydus Leadership Competency Model' was developed for the group, to make leaders more effective and draw-up a blueprint for strengthening these key roles. Based on this competency model, a development plan for key leadership roles was chalked out during the programme at ISB.

Zydus' Leadership Model

- *Embraces risk and exploits it to drive superior performance*
- *Takes initiative and makes effective and efficient decisions*

- *Spots the best people*
- *Aligns people around a project, creates opportunities for them and motivates them*
- *Coaches, mentors and role models to grow people*

- *Leverages internal networks to create effective teams*
- *Nurtures ties with partners and other stakeholders*



- *Sets stretch targets for performance and motivates teams by personal example*
- *Leverages the full resources and talent of the company to meet stretch targets*
- *Runs a tight performance review process to monitor and steer team performance*
- *Manages the consequence of poor performance from training interventions and redeployment to outright outplacement*

- *Translates strategic vision into actionable one to three year business plans*
- *Enables colleagues to grasp next steps and to act on them*

- *Understands trends and can extrapolate future threats and opportunities*
- *Generates a range of strategic options*
- *Selects best option using fact-based analysis*
- *Lays out specific initiatives required to move on designated course of action*

Management's Discussion & Analysis

Operating Highlights

Revenue

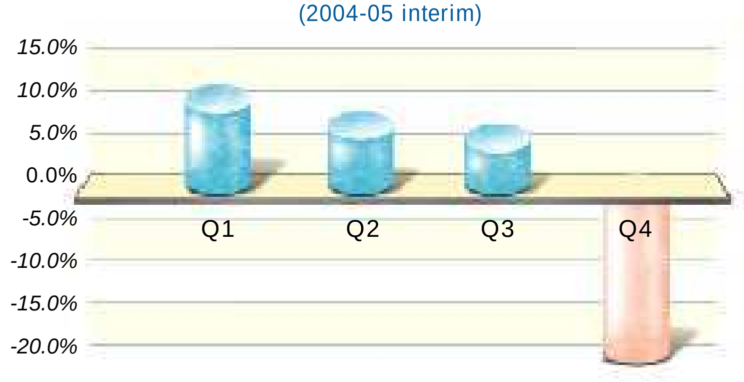
The sales revenue increased marginally by 0.8% to Rs. 11253mn in 2004-05 from Rs. 11160mn in 2003-04. As explained earlier, the negative impact on account of the de-stocking due to VAT implementation hurt the Q4 sales and constrained the full year growth, as can be clearly seen from the chart below.

Quarterly Sales *(Standalone)*

(Based on Unaudited Interim Results)

Y-Y Sales Growth

(2004-05 interim)



(Based on Unaudited Interim Results)

Break-up of Revenue

Rs. in Millions

	2004-05	2003-04	% growth y-y
Domestic Formulations	*8431*	*8342*	*1.1%*
Exports Formulations	*572*	*456*	*25.5%*
API-Domestic	*499*	*569*	*(12.3%)*
API-Exports	*1246*	*1359*	*(8.3%)*
Consumer and Others	*504*	*434*	*16%*
Total	11253	11160	0.8%

The formulations exports grew handsomely by 25% y-y, on the back of new initiatives taken in - focus on key markets and revamping the business model for CIS markets. However, lower exports of APIs and intermediates due to higher competition and price pressure constrained the overall exports growth. Consumer business (Sugar Free and EverYuth range) also reported healthy 16% y-y growth.

Other Income Including Dividend

The other income reduced by 12.2% to Rs. 785mn from Rs. 894mn in 2003-04, in spite of higher export incentives, mainly on account of lower dividend of Rs. 450mn from the Zydus Altana JV compared to Rs. 600mn in 2003-04.

Management's Discussion & Analysis

Operating Expenses

Material Cost

Consumption of materials and finished goods as percentage to sales decreased to 38.3% in 2004-05, compared to 39.7% in 2003-04. This is attributed to the continuous efforts made by the company to bring in efficiencies in purchase and in consumption of raw materials and packaging materials, as also due to product-mix changes and the market dynamics.

Personnel

Personnel cost (excluding R&D) increased by 8.3% y-y to Rs. 1264mn mainly as the teams for various developmental markets and activities - regulatory filings and international business were augmented during 2004-05 and the previous year. The total number of employees at the end of the year exceeded 6100.

Research & Development Expenses

The research and development expenditure (excluding depreciation) increased by 12.3% y-y to Rs. 710mn, compared to Rs. 632mn in 2003-04. The company continued its conservative accounting policy of charging all revenue costs related to research and regulatory dossiers completely to revenue in the same year, irrespective of the potential future benefits. In terms of percentage to sales, the R&D expenses were 6.3% of sales compared to 5.7% last year.

Selling, Distribution and General Expenses

Selling, distribution and other general expenses increased by 7.3% y-y to Rs. 2739mn from Rs. 2552mn in the previous year. The selling and distribution costs increased by 12.8% to Rs. 1282mn from Rs. 1137mn in 2003-04. However, other operating expenses grew marginally by 3%, with increases in power and fuel expenses and in miscellaneous expenses offset by savings y-y in legal and professional fees.

Depreciation and Amortisation

Depreciation and amortisation expenses were up 6.4% y-y to Rs. 565mn, versus Rs. 531mn in 2003-04. This includes amortisation of Rs. 245mn on intangible assets.

Interest and Financial Charges

Total interest and other financial charges increased by 21.7%, from Rs. 166mn to Rs. 202mn, including the impact of exchange rate fluctuations on the debt portfolio. However, gross interest paid reduced from Rs. 242mn to Rs.186mn due to efforts made by the company to restructure substantial part of its debt portfolio and switch to lower cost loans as well as resorting to FC loans. Compared to exchange gain of Rs. 66.2mn on outstanding loans during 2003-04, there was an exchange loss of Rs. 30mn in 2004-05.

Tax

The income tax provision for the year, including deferred tax, was Rs. 190mn, down 7.3% from Rs. 205mn in 2003-04, in line with the 8% drop in PBT (Profit before Tax) y-y.

Profits and Margins

The PBITDA (Profit before interest, tax, depreciation and amortisation) reduced marginally by 2.5% to Rs. 2395mn in 2004-05, from Rs. 2456mn a year ago. The PBIDT margin (percentage to sales) was largely maintained at 21.3% in 2004-05, compared to 22% last year, inspite of expense growth y-y, lower dividend income and the adverse impact of external factors such as VAT towards the year-end.

Reconciliation of PBIDT Margin

	% to sales
PBIDT Margin for 2003-04	*22.0%*
Lower Material Cost & Excise	*3.2%*
Higher Personnel Cost	*(0.8 %)*
Higher R&D Costs	*(0.6%)*
Higher Selling, Distribution & Other Expenses	*(1.5%)*
Lower Other Income	*(1.0%)*
PBIDT Margin for 2004-05	21.3%

The PBT dropped by 8% y-y to Rs. 1504mn and the PAT (Profit After Tax) was down 8.1% y-y to Rs. 1314mn, from Rs. 1429mn, in 2003-04. The net margin was lower at 11.7% from 12.8% in 2003-04.

Reconciliation of Net Margin

	% to sales
PAT Margin for 2003-04	*12.8%*
Lower PBIDT Margin as above	*(0.7%)*
Higher Depreciation and Amortisation	*(0.2%)*
Effect of Interest & ERF	*(0.3%)*
Tax Provision	*0.1%*
PAT Margin for 2004-05	11.7%

Management's Discussion & Analysis

Shareholders' Funds

The total shareholders' funds increased to Rs. 6144mn at the end of March 31, 2005, from Rs. 5395mn at the end of March 31, 2004. While the share capital remained at Rs. 314mn, the reserves increased to Rs. 5830mn, from Rs. 5081mn at the end of 2003-04 mainly on account of retained earnings and after adjusting Rs. 135mn for impairment of assets as per the new AS 28.

The net worth (after deducting miscellaneous expenditure to the extent not written off) increased to Rs. 6069mn as on March 31, 2005 from Rs. 5247mn at the end of March 31, 2004. The book value per share increased to Rs. 96.6 at the end of March 2005 from Rs. 83.5 a year ago. The Return on (average) Equity (ROE) was 23.2% in 2004-05.

Debt

The total debt of the company (including buyers. credit) reduced from Rs. 4223mn at the end of 2003-04 to Rs. 3946mn at the end of March 31, 2005. Debt of Rs. 2470mn i.e. 63% of the total debt is in foreign currency of which 30% approximately is hedged forward. The debt to equity ratio at the end of March 31, 2005 was 0.65:1, lower than 0.82:1 at the end of 2003-04.

Fixed Assets and Capital Expenditure

The total gross block at the end of 2004-05 is Rs. 9505mn, up 12.3% y-y. 27% of this is by way of intangible assets such as trade marks, patents, technical know-how and commercial rights. Net block stood at Rs. 6784mn.

The total capital expenditure (including capital work in progress) during the year was about Rs. 1.2bn. This includes an amount paid towards acquisition of brands, trade marks and know-how of Rs. 102mn, while the balance was towards plant & machinery and buildings. During 2004-05, the company sold a piece of land at Andheri (Mumbai) for a total consideration of Rs. 121mn.

Working Capital and Liquidity

The working capital at the end of March 31, 2005 increased to Rs. 2244mn, from Rs. 2005mn at the end of March 31, 2004 and comprised current assets of Rs. 4663mn net of current liabilities and provision of Rs. 2419mn.

Inventories increased to Rs. 1939mn as on March 31, 2005 from Rs. 1603mn at the end of 2003-04, on account of the sales being affected in March 2005 due to VAT related issues. Consequently, inventory days increased to 63 days, from 52 days' turnover in 2003-04. The management believes that this is a temporary phenomenon and inventory levels will come down as normalcy is restored in the market place.

For the same reason, drop in sales in March 2005 - the receivables reduced by Rs. 571mn to Rs. 1088mn at the end of 2004-05 and from 54 days (of turnover) in 2003-04 to 35 days in 2004-05.

Loans and advances as on March 31, 2005 increased by Rs. 671mn to Rs. 1372mn, from Rs. 701mn as on March 31, 2004 due to loans given to subsidiaries and a JV company to support their operations.

Current liabilities of Rs. 1844mn include sundry creditors (inclusive of buyers credit) of Rs. 1501mn and provisions of Rs. 575mn.The current ratio at the end of March 2005 was 1.11 (previous year 1.15) (net of loan instalments falling due for repayment within one year).

Capital Employed and Operating Efficiency

The total capital employed (CE) at the end of the year was Rs. 10.8bn, up from Rs. 10.4bn at the end of the previous year. The Return on Capital Employed (ROCE = PBIT/ average CE) dropped from 19.3% in the previous year to 17.4%, affected by the lower earnings in the last quarter due to the VAT impact.

Performance on a Consolidated Basis

Note: For the period 2004-05, the consolidated results include a 15 month period ending on March 31, 2005 for the following subsidiaries and JV, to align their interim reporting periods, hitherto reported with a 3-month lag, with that of the parent company.

- *Zydus France SAS*
- *Zydus Healthcare LLC*
- *Zydus Pharmaceuticals (U.S.A.) Inc.*
- *Zydus Healthcare Brasil Limitada*
- *Zydus International Pvt. Ltd.*
- *Zydus Altana Healthcare Pvt. Ltd.*

Similarly, the consolidated results for the period ended March 2005 include a 13 month period ending on March 31, 2005 for Zydus Healthcare SA (Pty) Ltd. to align its interim reporting period with that of the parent company.

On a consolidated basis, the sales revenue increased by 2.2% to Rs. 13.1bn from Rs. 12.8bn in 2003-04. However, the operating expenses increased by 6.3% y-y, and the PBIDT decreased by 4% to Rs. 2457mn. from Rs. 2562mn in 2003-04. The net profit was lower 9% y-y to Rs. 1215mn, from Rs. 1331mn in 2003-04.

Overall, although the profit contribution from the 50% owned Zydus Altana JV was higher (Rs. 754mn for 15 month period ended March 31, 2005, compared to Rs. 610mn for 2003), the consolidated results of 2004-05 were affected due to:

- *Standalone results being affected by the de-stocking due to VAT in the last quarter of the year, resulting into 8% lower net profit y-y for the parent company*
- *Higher losses of the French subsidiary - Rs. 307mn for the 15 month period ended March 2005, versus a loss of Rs. 72mn in 2003, as the subsidiary is yet to reach critical mass in its generic business and incurred heavy promotional expense with the launch of generic products during 2004-05*
- *Higher losses of Zydus Pharmaceuticals (U.S.A.) Inc. of Rs. 95mn (15 months period ended March 2005) and of Zydus Healthcare Brasil Limitada (Rs. 15mn for 15 month period)*

Losses by some subsidiaries and JV, mainly Zydus France SAS, Dialforhealth and SZAHL resulted into consolidated net profit being lower than the parent company's standalone net profit of Rs. 1314mn.

Management's Discussion & Analysis

Threats, Risks and Risk Mitigation

R&D Spend and Corresponding Benefit

Even as the company has stepped up spending on basic research and on developments of new markets and generic business in regulated and semi regulated markets, there is no certainty of the benefit from this spend. However, as a matter of prudent accounting policy, the company expenses the entire revenue spend (except capex) in the year of spend itself.

Risk from International Operations

As the company steps up its international operations, and the contribution of exports to the total revenue grows larger, the ensuing risk from operating in foreign countries also grows higher. This includes inter alia political risk, credit risk, litigation risk and currency risk. The company's exports are principally denominated in the U.S. Dollars and the Rupee appreciation versus the U.S. Dollar is a matter of concern. However, this is partially compensated by imports denominated in U.S. Dollar. The company also has imports partially denominated in Euro and its appreciation may adversely affect the cost of imported raw material.

Forex Risk

During the year, the company finalised a Forex risk management policy, the objective of which is to protect the company from adverse impact of exchange rates. The company is having positive trade balance or net exports in U.S. Dollar. The exposure to Euro is on account of imports on one hand and lack of Euro exports on the other.
As a matter of policy, the company hedges a portion of its export receivables in U.S. Dollar and a portion of Euro payables. The company has 63% of its total debt in foreign currency and 43% of this is unhedged at the year-end. The proportion of hedge may increase in the future.

Litigation Risk

As the company enters the generics markets in advanced countries, it faces the risk of entering into litigation with product originator or patent holder and the ensuing costs.

Post 2005 Patent Regime

From January 1, 2005, the new product patent regime is in place. The implication is that it will not be possible for Indian companies to launch generic products patented January 1, 1995 onwards. This could eventually lead to slowdown in growth of domestic formulation revenues in the long run, as new products have been an important driver of growth.
It could also lead to structural changes within the industry - dominance of innovator/specialty companies, consolidation within the players and other changes.

Price Controls

The Indian pharma industry is subject to the Drug Price Control Order (DPCO) 1992 enforceable by the National Pharmaceutical Pricing Authority (NPPA). While the new Drug Price Control Order has not yet taken final shape, it may have adverse effect on the prices of products marketed by the company.

JV Risk

The Zydus Altana JV has been remarkably successful and has contributed Rs. 450mn as dividend income in 2004-05. Although the JV's operations are secured by a 10 year agreement up to 2009, risks from adverse market developments and other external factors remain.

Operating Highlights of JV Companies

Zydus Altana Healthcare Private Ltd. (50:50 JV)

During the 15 month period ended March 31, 2005, the sales revenues were Rs. 1798mn, compared to Rs. 1476mn during the 12 month period ended December 31, 2003.

The profit after tax for the 15 month period ended March 31, 2005 rose to Rs. 1507mn compared to Rs. 1221mn for 2003 (12 months). The PAT margin at 83.8% for the 15 month period ended March 2005 was marginally better than the 82.7% in 2003.

The JV paid a total dividend of Rs. 450mn during 2004-05, compared to Rs. 600mn in 2003-04.

During the third quarter of 2004-05, there was a change in the dispatch model of goods from the JV's facility at Mumbai to Altana. Instead of the dispatches being on a principal-to-principal basis, which was the system followed earlier, from October 2004 onwards the dispatches are on consignment basis. As Altana AG was holding inventories, this led to loss of sales of about two months during the second half of calendar 2004 for the JV.

Sarabhai Zydus Animal Health Ltd. (SZAHL)

SZAHL, a 50:50 joint venture of Zydus Cadila & Ambalal Sarabhai Enterprise (ASE), is among the leading companies in the Indian animal health market. The company has a strong presence in large animals, poultry and pet care segments with a special focus on anti-infective, NSAID, anti-helmintic, biological, tonic, anti-mastitis, anti-theileriosis, tranquilliser, nutritional, and growth promoter products. The company markets over 100 formulations and during 2004-05, six new products were launched.

The performance of the company during 2004-05 has been adversely affected mainly due to:

- *The non-availability of poultry biologicals (due to the import restrictions placed in the aftermath of the bird-flu in the South East Asian region)*
- *Apprehensions related to VAT implementation towards the year-end also led to decline in business*

As a result, company's top line has been adversely affected showing a de-growth of 15.3% as the sales dropped from Rs. 837mn in the year 2003-04 to Rs. 709mn in the year 2004-05. However, effective cost management has salvaged the situation to some extent. The cost of materials and excise duty, as percentage of sales, reduced by 4.4% y-y, from 65.4% to 61%. As a result, the PBIDT was marginally lower by 8.7% at Rs. 127mn compared to Rs. 139mn in 2003-04. The PBIDT margin improved by 1.3% point to 17.9% in 2004-05. After providing for depreciation and interest there was still a net loss of Rs. 16mn for the year. However, the loss was much lower compared to Rs. 166mn in 2003-04.

In accordance with AS 28, the company has written off impairment loss of Rs. 116mn in 2004-05 on some of its intangible assets, and the accumulated loss at the end of 2004-05 is Rs. 416mn.

Internal Control Systems and their Adequacy

The Company has established procedures for purchase of raw materials and stores, manufacture of finished goods as well as for its sale. Proper procedures exist for receipt/transfer of raw materials, stores and finished products as well as for their proper accounting, including periodical physical verification thereof. Apart from these internal control procedures, a well defined and established system of internal audit is in place to independently review and strengthen these control measures, resulting in considerable cost savings. The Audit Committee of the Board reviews the report of the internal auditor. Action as recommended by the Audit Committee is initiated to remedy any weakness in the system.

Directors' Report

Your Directors take pleasure in presenting their report on the business and operations of your Company for the year ended 31st March 2005.

Financial Review

(Rs. in Millions)

For the year ended	31st March 2005	31st arch 2004	Growth (%)
Sales and Other Income	*12038*	*12054*	*(0.1%)*
Profit before Interest, Depreciation, Extraordinary items and Tax (PBIDT)	*2395*	*2456*	*(2.5%)*
Less : Depreciation	*565*	*531*	*6.4%*
Profit Before Interest and Tax and Extra Ordinary Items (PBIT)	*1830*	*1925*	*(4.9%)*
Less : Interest	*202*	*166*	*21.7%*
Less : Extraordinary items	*124*	*125*	*0*
Profit Before Tax	*1504*	*1634*	*(8%)*
Less : Provision for tax	*190*	*205*	*(7.3%)*
Profit After Tax	*1314*	*1429*	*(8%)*
Add : Profit brought forward from the previous year	*1064*	*567*	*87.7%*
Less : Goodwill written off on Amalgamation	*0*	*92*	*(100%)*
Profit available for appropriation	*2378*	*1904*	*24.9%*
Earnings per share (EPS of FV Rs. 5/-) in Rs.	*20.93*	*22.75*	*(8%)*

During the year under review, the Company achieved sales of Rs. 11253 mn, up marginally compared to the previous year. The PBIDT decreased by 2.5% year-on-year to Rs. 2395 mn. The Profit before Tax was down 8% to Rs. 1504 mn. The Profit after Tax decreased to Rs. 1314 mn down by 8% compared to Rs. 1429 mn in 2003-04. The Company achieved EPS of Rs. 20.93 compared to Rs. 22.75 in 2003-04. The introduction of VAT from April 2005 by most states led to destocking by traders. Under the new regime the rate of tax for formulations which ranged from 8-12% was reduced to 4%. As a result company's branded product sales suffered substantially during February and March 2005. Total sales was down by 24% of domestic formulation sales for the quarter. This led to lower profits for the last quarter and the year.

A detailed analysis of the operations of the Company has been provided in the Management Discussion and Analysis Report, which forms a part of this Annual Report.

Dividend

Your Directors are pleased to recommend a dividend of Rs. 6/- per equity share on 62,80,6854 equity shares of Rs. 5/- each for the financial year ended 31st March 2005. The dividend, if approved by the shareholders at the forthcoming Annual General Meeting, will be paid to the eligible shareholders on or after 30th July 2005 and will absorb Rs. 430 millions including dividend tax.

Performance of Subsidiary and Joint Venture Companies

The audited accounts of Zydus Pharmaceuticals Limited (Zydus Pharma), Dialforhealth India Limited (DIL), Zydus International Private Limited (ZIPL), Zydus Healthcare SA (Proprietary) Limited (ZHSA), German Remedies Limited (GRL), Zydus Healthcare Brasil Limitada (ZHBL), Zydus Healthcare (USA) LLC (ZHUSA), Zydus France SAS (ZF) and Zydus Pharmaceuticals USA, Inc., the wholly owned subsidiaries/subsidiaries of the Company, along with the statement required under Section 212 of the Companies Act, 1956 are annexed.

Performance of subsidiaries during 2004-05

Sr. No.	Name of Subsidiary	% holding	Main business	Year ended on	Revenues 2004-05 (Rs mn)	Profit after tax 2004-05 (Rs mn)
1	Zydus Pharmaceuticals Limited	100%	Distribution of pharma goods	31st March	774	1
2	German Remedies Ltd. (Formerly Known as German Remedies Specialities Ltd.)	100%	Marketing of services	31st March	335.56	0.87
3	Dialforhealth India Ltd.	100%	Operates a chain of retail pharmacies	31st March	62	Loss of 12
4	Zydus International Pvt. Ltd.	100%	Based in Ireland to hold Company's Global Investments	31st Dec.	1.96	Loss of 6.71
5	Zydus Healthcare SA (Pty) Ltd.	100%	Operates formulation business of the Company in South Africa	28th Feb.	-	Loss of 0.12
6	Zydus Pharmaceuticals USA Inc. *	82.35%	Marketing of generic formulations in USA	31st Dec.	0.66	Loss of 85.66
7	Zydus Healthcare (USA) LLC	100%	Operates bulk API business in USA	31st Dec.	52.38	1.04
8	Zydus Healthcare Brasil LTDA.	100 %	Operates formulation business of the Company in Brazil	31st Dec.	0.09	Loss of 9.99
9	Zydus France SAS	100%	Marketing of generics	31st Dec.	322.55	Loss of
10	SCL Immopharm**	100%	Purchase, Sale & Lease of properties	31st Dec.	6.89	4.98

* Joint Venture Company between Zydus International Private Limited and Mr. Joseph D. Renner.
** 100% subsidiary of Zydus France, SAS.

Directors' Report

Performance of Joint Venture Companies

Detailed discussion of performance of joint ventures is covered in Management Discussion and Analysis Report.

1. *Zydus Altana Healthcare Private Limited (ZAHL)*

   This 50:50 joint venture company between the Company and Altana Pharma AG, is a 100 % EOU situated at Navi Mumbai. ZAHL paid out three interim dividends in aggregate Rs. 320 mn in addition to a final dividend of Rs. 130 mn during the year. The Company reported marginally lower sales and profits due to change in it's sales from direct to consignment basis in the third quarter.

2. *Sarabhai Zydus Animal Health Ltd. (SZAHL)*

   SZAHL is a 50:50 joint venture formed between the Company and Ambalal Sarabhai Enterprises Limited to market animal healthcare products. It incurred a loss of Rs. 16 mn for the year under review. The Company's sales suffered a setback due to ban imposed by Government of India for the import of one of it's important vaccine due to bird flue in some parts of the globe.

3. *Zydus Pharmaceuticals USA Inc.*

   The aforesaid Company though a subsidiary of the Company is a Joint Venture between Zydus International Private Limited, 100% subsidiary of the Company and Mr. Joseph Renner. The Company is yet to commence it's operations. Company has entered into a strategic marketing agreement with leading US generic player - M/s Mallinckrodt. Company is likely to start its operations in the second quarter of 2005-06.

4. *During the year under review, your Company has signed MoU for 50 : 50 Joint Venture with M/s Mayne Pharma Pty. Ltd. an Australian Company to incorporate a manufacturing Joint Venture Company in India to set up facilities in India to manufacture oncology injectables and APIs.*

International Market Initiative

Your Directors are pleased to inform you that the Company has chalked out an ambitious plan to foray into the regulated developed markets like US and Europe. Detailed discussions on these initiatives are covered in Management Discussion and Analysis Report.

Fixed Deposits

The Company does not accept any fresh deposits from the public. As on 31st March 2005 the Company had unclaimed fixed deposits of Rs. 0.05 mn. All deposits that matured during 2004-5 were paid off, except deposit of Rs.0.05 mn pertaining to erstwhile German Remedies Limited remained unclaimed as on 31st March 2005. There is no other unclaimed / unpaid deposits with the Company as on 31st March 2005.

Credit Rating

During the year under review, CRISIL reviewed the credit rating and upgraded to AA+ stable from AA stable for the Rs.1300 mn long term debentures and / or bonds programme of the Company, signifying the Company's strong position to repay its debts on time.

Disclosure

As required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Directors) Rules, 1988, the relevant information and data with respect to the conservation of energy, technology absorption and foreign exchange earnings/outgo have been provided in Annexure-A, *attached to this report, and forms a part of this report.*

There have been no material changes and commitments, which may affect the financial position of the Company between the end of the financial year and the date of the report.

As required under Section 217(2) of the Companies Act, 1956, the Board of Directors inform the members that during the financial year there has been :

* *No change in the nature of the Company's business,*
* *No change in the Company's subsidiaries, except those specifically stated in this report or in the nature of the business carried out by them,*
* *No change in the classes of business in which the company has an interest.*

Management's Discussion and Analysis (MDA)

MDA covering details of operations, international markets, research and development, opportunities and threats, etc. for the year under review is given as a separate statement, which forms part of this Annual Report.

Directors

Mr. Mukesh M. Patel and Mr. Pranlal Bhogilal, Directors of the Company retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment. The Board recommends the re-appointment of Mr. Mukesh M. Patel and Mr. Pranlal Bhogilal who have offered themselves for re-appointment. In accordance with stipulation under Clause 49 of the Listing Agreement, brief resume of Mr. Mukesh M. Patel and Mr. Pranlal Bhogilal, together with nature of their expertise in specific functional areas and names of the companies in which they hold office of a Director and/or the Chairman/Membership of Committees of the Board, is given in the Notice of the Annual General Meeting.

Auditors

The Audit Committee of the Board of Directors of the Company has recommended the re-appointment of M/s. R. R. Patel & Company and M/s. Mukesh M. Shah & Company, both Chartered Accountants, as joint auditors of the Company, who retire at the conclusion of the ensuing Annual General Meeting. Both the auditors are eligible for re-appointment.

Personnel

The statement of particulars of employees, providing information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, form a part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report excluding this statement is being sent to all the members. Any member interested In obtaining a copy of this statement may write to the Company Secretary at its registered office.

Directors' Report

Directors' Responsibility Statement

To the best of their knowledge and belief, and according to the information and explanations provided to them, your Directors hereby state that:

(a) In preparation of the Annual Accounts, the applicable accounting standards have been followed. Necessary explanations are given for material departures, if any;

(b) Sound accounting policies have been selected and applied consistently and judgements and estimates made that are reasonable and prudent so as to give true and fair view of the state of affairs of the Company as on 31st March, 2005 and of the profit of the Company for the year ended on that date;

(c) Proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for prevention and detection of fraud and other irregularities;

(d) The Annual Accounts for the year ended 31st March 2005 are prepared on going concern basis.

Corporate Governance

The Company has complied with the mandatory provisions of Corporate Governance as prescribed in the Clause 49 of the Listing Agreement with the Stock Exchanges. A separate report on Corporate Governance and auditors report thereon are included as a part of the Annual Report.

Acknowledgement

Your Directors place on record their deep sense of appreciation for the contribution made by the employees at all levels, including that of subsidiaries and joint ventures for their dedicated service, enabling the Company to achieve a satisfactory performance during the year under review.

Your Directors also take this opportunity to place on record the valuable co-operation and continued support extended by the financial institutions, Company's bankers, medical professionals, foreign collaborators, business associates and investors.

By order of the Board of Directors

Place : Ahmedabad
Date : 29th April 2005

Pankaj R. Patel
Chairman

Annexure to the Directors' Report

ANNEXURE - A

Information required under Section 217(1)(e) of the Companies Act, 1956.

Disclosures

1.Conservation of Energy:

a. *The Company has taken the following measures for Conservation of Energy.*

General measures :

- *Installed timers for streetlight.*
- *Regular preventive maintenance of Pumps & Air Compressors, Steam traps, Joints, Steam leakages to reduce transmission loss and to get maximum out-put.*
- *Keeping lights and Air Conditioning systems off during non-working hours.*

Specific measures taken :

Formulation unit

1.At Moraiya (Ahmedabad) :

i) Installed waste heat recovery system on D. G. Set to produce chilled water.

ii) Introduction of Refrigerated type Compressed Air Dryer in place of descient type.

iii)Installed high efficient dehumidifier in place of existing descient type dehumidifier.

iv)Reduction of AHU speed and working hours in Non critical sterile area.

v) Installed steam condensate recovery system and automatic steam pressure reducing station through out the plant.

vi)Installation of V.F.D. on pumps to reduce Power Consumption.

vii)Replaced old reflectors with well designed reflectors in tube fittings to increase the lux lavel & to reduce no. of tube rods in other area.

viii) Installation of Timer for ventilation system, exhaust system, dry scrubber at required location.

2.At Goa :

i) Installed Baby Boiler to avoid running of Non IBR boiler.

ii) Installed 32 KVA DG Set in place of 500 KVA for anti cancer production.

iii)Automatic blow down installed on 2-Ton Boiler.

iv)Speed reduction of 7.5 KW and 3.7 KW motors for the same output.

API Plants

1.At Patalganga :

i) Preheating of F.O. by steam instead of electricity

ii) Installed automatic blow down for boiler

iii)Using fuel additives

iv)Providing steam traps on reactors, thereby reduction in steam consumption viz. a viz. saving in electrical power.

v) Re-circulating the vaccum pump water.

Annexure to the Directors' Report

2. At Dabhasa (Vadodara) :

i) *Installed 50hp motor in place of 75 hp for operating cooling tower*

ii) A) *Reduce the operation of the ETP made common flow from U-01 to U-02 ETP.*

B) *Reduced the effluent load on ETP by making re-circulation of the water for the water ring vacuum pump and by diverting the water of R&D to the gardening*

iii) *Installed the Automated Power factor control panel, to have better power factor*

iv) *Installed the Hydropneumatic System for the water distribution system to have better control on undue usage.*

v) *Installed the vent condenser on a storage tank of low boiler solvents, (such as MIPA, Acetone, Toluene) to avoid the losses through the vent.*

b.Proposals for additional investments under consideration: -

For Formulation unit at Moraiya (Ahmedabad) :

i) *Installation of highly efficient additional Centrifugal Chiller.*

ii) *Generator using solid fuel and gas.*

iii) *Installation of Steam Condensate recovery system.*

iv) *Installation of C.P.P. using F.O. as fuel.*

v) *Introduction of Fan less Cooling Tower for D. G. Set and HVAC System.*

For R&D Center at Moraiya

i) *Installation of VFD in Chilled Water and Cooling Water Pump*

ii) *Installation of Voltage controller for street light circuit*

iii) *Installation of Plenum in AHU's to reduce A.C. loss*

For API Plant at Dabhasa (Vadodara)

i) *Connectivity of the utility from U-01 to U-02, to stop the utilisation at U-01.*

ii) *Installation of Cyclic timer to achieve the saving in power consumption at ETP blowers.*

iii) *Introduction of VFD for optimum utilisation of the cooling tower pumps.*

iv) *Installation of 2000 KVA Transformer.*

For API Plant at Ankleshwar

i) *Installation of Waste Heat Recovery System for Boiler Flue Gas.*

ii) *Installation of Digital Power Factor Controller.*

C. Impact of measure (a) and (b)

Formulation unit at Moraiya (Ahmedabd)

i) *Reduction in Power Consumption*

ii) *Reduction in Steam Consumption and thereby reduction in Fuel Consumption*

iii) *Reduction in diesel and oil consumption by utilizing waste heat recovery system.*

Form-A

(A)Power and fuel consumption

	Current Year (From 1/4/2004 to 31/3/2005)									Previous Year (From 1/4/2003 to 31/3/2004)					
	API Plant at (Ank.) Unit-I	Formula -tion Plant (Moraiya A'bad)	GRD Plant (Vatwa A'bad)	R&D Centre (Moraiya A'bad)	GRL Plants at Goa & Patalganga	API Plant at Dabhasa (Baroda)	Formula- tion Plant Baddi (H.P.) (22.9.04 to 31.3.05)	API Unit-II (Ank.)	Fine Chemical Plant (Changodar (A'bad)	API Plant at (Ank.) Unit-I	Formula -tion Plant (Moraiya A'bad)	GRD Plant (Vatwa A'bad)	R&D Centre (Moraiya A'bad)	GRL Plants at Goa & Patalganga	API Plant at Dabhasa (Baroda)
1. Electricity :-															
(a) Purchased															
Units	*2318096*	*9345210*	*310940*	*2892029*	*9666626*	*2115891*	*483150*	*817105*	*216862*	*1534918*	*8196750*	*275745*	*2428848*	*10106562*	*636921*
Total Amount (Rs.in mn)	*12.22*	*49.81*	*1.59*	*15.30*	*34.37*	*11.35*	*1.83*	*4.15*	*1.08*	*8.33*	*36.15*	*1.42*	*13.04*	*36.28*	*3.002*
Rate/Unit (Rs.)	*5.27*	*5.33*	*5.12*	*5.29*	*3.56*	*5.36*	*3.79*	*5.08*	*4.98*	*5.43*	*4.46*	*5.14*	*5.37*	*3.59*	*4.71*
(b) Own Generation :															
i) Through Diesel Generator															
Units	*61032*	*178250*	*6460*	*128238*	*3575812*	*71818*	*Nil*	*5568*	*15155*	*71076*	*163640*	*5250*	*99900*	*3687163*	*15856*
Units per ltr. Of Diesel Oil	*3.46*	*3.50*	*3.3*	*3.11*	*3.42*	*3.74*		*3.54*	*2.50*	*3.54*	*3.50*	*3.00*	*3.33*	*3.24*	*3.25*
Cost/Unit (Rs.)	*7.60*	*7.05*	*8.00*	*9.32*	*7.11*	*7.48*		*7.65*	*12.00*	*7.14*	*8.09*	*9.17*	*6.60*	*6.48*	*8.19*
ii)Through steam Turbine/Generator															
Units	*4173296*	*3133991*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*4986712*	*1979042*	*Nil*	*Nil*	*Nil*	*Nil*
Units per ltr. Of Fuel Oil/Gas	*3.10*	*3.90*								*3.10*	*3.40 (LDO)*	*Nil*			
Cost/Unit (Rs.)	*3.00*	*5.60*								*3.00*	*2.99*	*Nil*			
2. Coal (Specify quality and where used)	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
3. Furnace Oil / LDO															
Quality (K.Ltr)	*Nil*	*1850.85*	*1.3*	*90*	*990*	*118.65*	*Nil*	*Nil*	*Nil*	*Nil*	*2133.92*	*1.87 (HSD)*	*65*	*1099.60*	*47.22*
Total Amount (Rs.in mn)		*22.94*	*0.04*	*1.17*	*13.64*	*1.79*					*26.16*	*0.04*	*1.00*	*10.38*	*0.582*
Average Rate per Ltr.		*12.39*	*27.40*	*13.00*	*13.77*	*15.08*					*12.26*	*22.68*	*15.40*	*9.44*	*12.33*
4. Others/Internal Generation															
Natural Gas															
Quantity M³	*2982209*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*210409*	*Nil*	*3028755*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Total Cost (Rs. in mn)	*26.15*							*2.36*		*26.88*					
Rate/Unit (Rs.)	*8.80 M³*							*11.21 M³*		*9.00 M³*					

(B) Consumption per unit of production

The Company manufactures a wide range of bulk drugs, a large number of formulations and other products. In view of this, it is impractical to apportion the utilities unit wise.

Form - B

Research and Development

A. *Specific areas of Research & Development*

Following Research & Development activities are carried out :

Sr. No.	Location	A. Main area of Focus	B. Benefits derived as a result of Research and Development Activities
1	*Zydus Research Centre, Moraiya, Gujarat*	1. NCE Research on : *Metabolic Disorders, Inflammation and Pain Management* 2. *Process Research &* Novel Process Research *for filing ANDA / DMF* 3. Drug Delivery Research *in development of Novel platform technology for slow/extended release of drug and Development of Novel formulations.* 4. Biotechnology research for development of *biogenerics and biotech products.*	1. *Filed first IND for Dislipidemia.* 2. *Filed few ANDAs using Novel Process Research. Several processes are developed and are at various stages of registrations.* 3. *Filed few ANDAs using Novel Drug Delivery systems. NDDs for various products were developed and are at various stages of registration / patenting.* 4. *Develop platform technologies in* *- Controlled release / Sustained release.* *- Transdermal delivery systems.* *- Transnasal aerosol systems.* 5. *In a antiinflammatory segment many new molecular entities have been synthesized in multistep synthesis. Several patents have been filed in India and abroad based on our research.* 6. *In cardiovascular segment few new molecular entities have been synthesized in multistep synthesis.* 7. *In Biotechnology following projects are in progress.* *r-anti-viral cytokine* *r-anti-viral cytokine with increased half-life* *r-anti-cancer cytokine* *r-Th1 cytosine* *anti-inflammatory Cytokine-Receptor Cloning*
2.	*Pharmaceutical Technology Centre (PTC), Moraiya, Gujarat*	1. *Develop product for US market and prepare ANDAs for US market.* 2. *Develop dossiers*	1. *Filing ANDAs in US market and export to US market* 2. *For Export registration and Export to International markets.*
3.	*Zydus Fine Chemicals Research and Development Centre, Changodar, Gujarat*	1. *Develop DMFs for filing in US* 2. *Develop process for Active Pharmaceutical ingredients.*	1. *On filing DMFs export to US market will be possible* 2. *Developments of APIs for exports.*
4.	*Research and Development Facility, Dabhasa, Gujarat*	1. *Developing commercially viable non infringing processes for patended drugs* 2. *Cost reduction for existing products.*	1. *Several DMFs have been filed* 2. *Reduced cost of few products by process improvement.*
5.	*Research and Development Facility at Goa, Maharashtra.*	1. *Sustained / Modified Release Formulations* 2. *Anti Cancer Formulations* 3. *Anti-asthmatic / Respiratory Formulations* 4. *Female Healthcare / Hormone Formulations*	1. *Introduction of new products viz. 1) Xylomist Nasal Drops (Xylometazoline Nasal Drops IP) 2) Nazone Nasal Drops (Saline Nasal Solution), 3) Forair Respicaps (Salmeterol and Fluticasone Propionate 4) Forair Inhaler (Salmeterol and Fluticasone Inhaler)* 2. *Developed the products viz. a) Niltamide Tablets & Testosterone Gel and submitted for obtaining manufacturing permission.*
6.	*Active Pharmaceutical Ingredients Research Centre, Ankleshwar, Gujarat*	1. *Developing commercially viable non-infringing processes for patented drugs for regulated markets.* 2. *Developing commercially viable processes for off-patent drugs, for non-semi-regulated markets.* 3. *Cost reduction for existing products.* 4. *Studying different polymorphs and discovery of new polymorphic compounds.*	1. *Several DMFs have been filed and few others are ready for filing* 2. *Processes for several new products have been developed* 3. *Reduced cost of several products by process improvement* 4. *Patent has been filed for a new polymorph*
7.	*Formulation & Development, Moraiya*	1. *Development of products for non regulated markets including India.*	1. *Developed several formulations for international unregulated markets and India.*

B. Future plan of action

As stated above most of the activities will be continued in the current year also.

Formulation

ntend to develop various products for domestic and international regulated & non regulated markets.

C. Expenditure on R & D

	(Rs. in mn)
(i) Capital	*322*
(ii) Recurring	*710*
(iii)Total	*1032*
(iv) Total R&D expenditure as a percentage of turnover	*9.17 %*

D. Technology absorption, adaptation and innovation:

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

   The Company has successfully introduced the technology developed by the Company for introduction of several new formulations developed In-house. It has also implemented several new processes for API's for domestic and international market.

2. *Benefits derived as a result of the above efforts :*

- *Innovative products and introduction of new Formulations / API's.*
- *Cost savings in API to compete in the market*
- *Started manufacturing of new APIs*
- *Filed 12 ANDAs and 16 DMFs for developed markets and filed several dossiers for developing and semi regulated markets.*

Technology Imported	Year of Import	Whether fully absorbed ?
For manufacture of Transdermal Patches from Ethical Holdings PLC, U.K.	*1999-2000*	*Absorbed to commercial level. Introduced products in market successfully.*
For manufacture of certain pharmaceutical products from Schering AG, Germany	*2003-2004*	*Fully Absorbed. Introduced products in market successfully.*

a. *If not fully absorbed, areas where this has not taken place, reasons there of and future plans of actions: N.A.*

3.Foreign exchange earnings and outgo

(Rs. in mn)

	2004-05	2003-04
Earnings :		
1. F.O.B. Value of exports	*1380*	*1773*
2. Others	*8*	*0*
Outgo :		
1. CIF value of imports	*1285*	*1072*
2. Expenditure in foreign currency	*658*	*701*

By order of the Board of Directors

Place: Ahmedabad Pankaj R. Patel

Date : hApril 2005 Chairman

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Corporate Governance

Philosophy on Corporate Governance

Your Company has always believed in managing its affairs with diligence, transparency, responsibility and accountability. We have therefore designed our systems and action plans to enhance performance and stakeholder value in the long run. To create a culture of good governance, your Company has adopted practices which comprise performance accountability, effective management control, constitution of Board Committees as a part of the internal control system, fair representation of professionally qualified, non-executive and independent Directors on the Board, adequate and timely disclosure of information and the timely discharge of statutory duties. We take pleasure in reporting that your Company's existing policies and practices are in conformity with the requirements stipulated under Clause 49 of the Listing Agreement.

Board of Directors

a) Composition of the Board :

The Composition of the Board of Directors, with reference to the number of Executive and Non-Executive Directors, meets the requirement of the Code of Corporate Governance. The Board is headed by the Executive Chairman, Mr. Pankaj R. Patel, who is also the promoter Director. Your Company's Board comprises of seven Directors; which includes one Executive Director and six Non-Executive Directors who have considerable experience in their respective fields. Except Mr. Pankaj R. Patel and Mr. Sharvil P. Patel, all other Directors are independent Directors. 70 % of the Board members are independent. The Board represents an optimum mix of professionalism, knowledge and expertise.

b) Dates of Board Meeting - schedule and selection of agenda items :

The dates for the Board meetings during the year are decided by the Board and circulated to the Board members. Generally, the Board meetings are held at the Company's Registered Office at Ahmedabad. The provisions under the Companies Act, 1956 and those under Clause 41/49 of the Listing Agreement are strictly followed in this regard. The Board meets at least once a quarter to review the quarterly results and other items on the agenda and also on the occasion of the Annual General Meeting. When necessary, additional meetings are also held. The Company Secretary in consultation with the Chairman of the Board drafts the agenda for each meeting with detailed explanatory notes. The agenda papers are distributed to the Directors well in advance. The members of the Board have access to all information pertaining to the Company and are free to recommend the inclusion of any matter in the agenda. The statutory auditors and senior executives of the Company are invited to the Board Meeting for discussion and to provide inputs whenever required.

c) Number of Board Meetings and attendance:

Your Company held six Board meetings during the year ended on 31st March, 2005. These were on 26th April, 2004, 26th July, 2004, 25th October, 2004, 25th December, 2004, 27th January, 2005 and 14th March, 2005. The gap between any two Board meetings was not more than four months. The details of the Board of Directors, their positions, attendance record, other Directorships (excluding private limited and foreign companies and alternate Directorships) and the membership of Board Committees other than your Company as on 31st March, 2005 are as under :-

Name of Directors	Position	Board Meetings held during the year	No. of Board meetings attended	Whether attended last AGM	Member (Chairman)**** of other Board Committees	Number of other Directorships held
Mr. Pankaj R. Patel *	Chairman and Managing Director	6	6	Yes	4 (3)	8
Mr. Mukesh M Patel	Non-executive and independent	6	6	Yes	5 (3)	5
Mr. Pranlal Bhogilal	Non-executive and independent	6	6	Yes	0	2
Mr. H. K Bilpodiwala	Non-executive and independent	6	6	No	3 (2)	7
Mr. H. Dhanrajgir	Non-executive and independent	6	5	Yes	7 (3)	7
Mr. A S Diwanji	Non-executive and independent	6	3	No	0	0
Mr. Sharvil P Patel**	Non-executive	6	3	No	1	5
Dr. Manubhai A Patel***	Non-executive and	1	0	No	N.A.	N.A.

* Promoter Director
** Relative of Mr. Pankaj R. Patel
*** Ceased to be a director w.e.f. 20-07-2004
**** Figures in ( ) indicates the number of Board Committees of which Chairman

d) Information available to the members of the Board :

The Board of your Company is presented with all information under the following heads whenever applicable and materially significant. These are submitted either as a part of the agenda papers well in advance or are tabled in the course of the Board meetings.

The information regularly supplied to the Board includes:

- *Review of annual operating plans of business, capex budget and updates, if any.*
- *Quarterly results of the Company.*
- *Minutes of the meeting of the Audit Committee and other committees.*
- *Information on the recruitment and remuneration of senior officers just below the Board level including the appointment and removal of the Chief Financial Officer and the Company Secretary.*
- *Materially important show causes, demands, prosecutions and penalty notices.*
- *Fatal or serious accidents or dangerous occurrences.*
- *Any material effluent or pollution issues.*
- *Any material default in financial obligations to and by the Company or any substantial non-payment for goods sold by the Company.*
- *Any issue which involves possible public or product liability claims of a substantial nature.*
- *Details of joint ventures or collaboration agreements.*
- *Transactions that involve substantial payments towards goodwill, brand equity and intellectual property, if any.*
- *Significant labour problems and development in human resources / industrial relations.*
- *Material sale of investments, investments in subsidiaries and assets not in the normal course of business.*
- *Quarterly details of foreign exchange exposure and the steps taken by the management to manage the exchange risk of adverse exchange rate movement.*
- *Non compliance of any regulatory or statutory provision or listing requirements as well as shareholder service such as the non-payment of dividends, delays in share transfers, etc.*

Corporate Governance

e) Role of Independent Directors :

The Independent Directors play an important role in the deliberations in Board Meetings and bring to the Company wide guidance and experience in pharmaceutical industry, accountancy, finance, taxation and legal fields, among others.

f) Materially significant related party transactions :

There are no materially significant related party transactions, pecuniary transaction or relationship between the Company and its Directors except those disclosed in the financial statements for the year ended 31st March 2005.

g) Committees of the Board :

Audit Committee

The Audit Committee was first formed on 24th April 2000. The Composition of Committee, name of the members and the Chairman of the Committee as on 31st March, 2005 together with their attendance are given in the following table.

Name of the Members	No. of Meetings	Meetings Attended
Mr. Mukesh M. Patel, Chairman	*4*	*4*
Mr. Pranlal Bhogilal	*4*	*4*
Mr. H. K. Bilpodiwala	*4*	*4*
Mr. H. Dhanrajgir	*4*	*3*
*Dr. Manubhai A. Patel**	*1*	*0*

** Ceased to be a member of Audit Committee w.e.f. 20th July, 2004*

Two members present at the meeting is the quorum for the Audit Committee meeting subject to presence of two independent directors.

During the year under review, four meetings of the Committee were held on 26th April, 2004, 26th July, 2004, 25th October, 2004 and 27th January, 2005.

The Composition of the Committee complies with the requirements of Clause 49 of the listing agreement and Section 292A of the Companies Act, 1956.

The Chairman of the Audit Committee has also attended the last Annual General Meeting of the Company.

The Company Secretary acts as the secretary to the Committee. The Committee meetings were also attended by the Managing Director, Chief Financial Officer, Chief Accounts Officer, Statutory Auditors, Internal Auditors and Cost Auditors as and when required.

The functions of the Audit Committee, among others, include the following:

- *Overseeing the Company's financial reporting process and ensuring the correct, adequate and credible disclosures in financial statements,*
- *Reviewing with management, the annual financial statements before their submission to the Board with a special emphasis on accounting policies and practices, internal controls, compliance with the accounting standards and other legal requirements concerning financial statements,*
- *Reviewing the adequacy of the audit and compliance function, including their policies, procedures, techniques and other regulatory requirements,*
- *Recommending the appointment of statutory auditors.*
- *Reviewing the observations of internal and statutory auditors about the findings during the audit of the Company.*
- *Reviewing the financial and risk management policies*
- *Looking into the reasons for substantial defaults of non payment to depositors, debentureholders, shareholders, if any.*

The Company continued to derive benefit from the deliberations in the Audit committee meetings since members are experienced in the areas of finance, accounts, taxation, company law and the industry.

Shareholders'/Investors' Grievance Committee

1) *Terms of reference:*

The Company has formed a Shareholders'/Investors' Grievance Committee under the Chairmanship of Mr. Mukesh M. Patel, a non-executive and independent director. The Committee specifically looks into redressal of shareholders' and investors' complaints such as transfer of shares, non receipt of shares, non receipt of declared dividends and to ensure their expeditious disposal.

2) *Composition:*
The Committee met four times during the year. The Constitution and details of attendance of the Committee is given as below :

Name of the Members	No. of Meetings	Meetings Attended
Mr. Mukesh M. Patel, Chairman	*4*	*4*
Mr. Pankaj R. Patel	*4*	*4*
*Dr. Manubhai A. Patel**	*1*	*0*

** Ceased to be a member of the Committee w.e.f. 20th July, 2004*

Mr. Upen H. Shah, Company Secretary acts as a Compliance Officer.

The Committee discusses about the nature of complaints received and disposed off by the Company. As on 31st March, 2005, only four complaint remained unresolved (three resolved subsequently) and all requests for transfer of shares received were transferred. There was no transfer of shares pending as on 31st March, 2005.

As on 31st March 2005, 8808 equity shares remained in the in-transit account with National Securities Depository Limited / Central Depository Services Limited.

Share Transfer Committee :

1) *Terms of reference:*

The Committee approves and monitors transfers, transmission, dematerialisation, rematerialisation, issue of duplicate shares, splitting and consolidation of shares issued by the Company.

2) *Composition:*

The Share Transfer Committee comprises of the following members:

Mr. Pankaj R. Patel - Chairman

Mr. Mukesh M. Patel; and

Dr. M. A. Patel (upto 20th July, 2004)

3) *Meetings and attendance during the year:*

The Committee meets on a need basis at least twice a month to ensure the regular process of transfers/transmissions of shares and issuance of duplicate Share Certificates to ensure timely transfers of shares.

h) Remuneration of Directors :

The Board has not formed a remuneration committee. The Directors' Remuneration Policy of your Company conforms to the provisions under the Companies Act, 1956. The Board determines the remuneration of the Non-Executive Directors within the limits approved by the shareholders.

The Company does not pay any remuneration to Non-Executive Directors, except commission and sitting fees. Pursuant to the approval of shareholders, Board can pay commission which shall not exceed one per cent per annum of net profits of the Company, subject to maximum of Rs.50,00,000/- in aggregate to the Directors of the Company or some or any of them other than the Managing Director. The non executive Directors are also paid the sitting fees @ Rs. 5,000/- per meeting for attending the Board and the Audit Committee meetings. Directors are also reimbursed the traveling and out-of-pocket expenses for attending such meetings. The details of the commission / sitting fees paid / payable to the Non-Executive Directors for the year 2004-05 are given below:

(Amount in Rs.)

Name of the Non-Executive Directors	Commission	Sitting fees		Total
		Board Meetings	Audit Committee Meetings	
*Mr. Mukesh M. Patel **	*3,00,000*	*30,000*	*20,000*	*3,50,000*
Mr. Pranlal Bhogilal	*3,00,000*	*30,000*	*20,000*	*3,50,000*
*Mr. H. K. Bilpodiwala **	*3,00,000*	*30,000*	*20,000*	*3,50,000*
Mr. H. Dhanrajgir	*3,00,000*	*25,000*	*15,000*	*3,40,000*
*Mr. Apurva Diwanji **	*3,00,000*	*15,000*	*N.A.*	*3,15,000*
Mr. Sharvil P. Patel	*0*	*15,000*	*N. A.*	*15,000*

* *Also paid professional fees for rendering professional services to the Company by themselves or firms in which they are associated*

** *Ceased to be Director w.e.f. 20th July, 2004.*

Mr. Pankaj R. Patel was appointed as Managing Director of the Company for a period of five years from 1st September 2001, on a remuneration permissible under Section 198 and 309, read with Schedule - XIII of the Companies Act, 1956. As per the terms of agreement, Managing Director can resign from his office by giving three calendar months notice in writing to the Company and the Board may appoint any other person (s) to be Managing Director(s) at any time. The office of the Managing Director if determined before the expiry of his term of office, Company will pay compensation for loss of office in accordance with the provisions of Section 318 of the Companies Act, 1956. The Company has not introduced any stock option scheme for any of its Directors.

Remuneration paid/payable to the Managing Director towards salary and contribution to the provident fund and other funds amount to Rs. 75 mn for the year 2004-05.

Computation of the remuneration of the Managing Director is given in Note 20 of Notes on Accounts, under Schedule 20 of the accounts.

Management

a) Management Discussion and Analysis Report:

Management Discussion and Analysis Report is set out in a separate section included in this Annual Report and forms a part of this Report.

b) Disclosures on materially significant related party transactions:

Transactions with related parties are disclosed in Note No. 21 of Schedule 20 of the Accounts under the heading 'Significant Accounting Policies and Notes on Accounts' in the Annual Report. These transactions are not significant and do not have any potential conflict with the interest of the Company at large.

Disclosure regarding appointment or re-appointment of Directors

In accordance with the provisions of Article No. 66 of Articles of Association of the Company, one third of the directors retire by rotation and, if eligible, offer themselves for reappointment at the Annual General Meeting of the shareholders. Mr. Mukesh M. Patel and Mr. Pranlal Bhogilal will retire at the ensuing Annual General Meeting. The Board has recommended the reappointment of the retiring Directors.

The detailed resumes of the Directors retiring by rotation are provided in the notice to the Annual General Meeting.

General body meetings

The particulars of the last three Annual General Meetings of the Company are given hereunder.

Year	Date and Time	Venue
2001-2002	7th AGM on 28th September, 2002 at 10.00 a.m.	Bhaikaka Bhavan Law College Road, Ahmedabad - 380 006
2002-2003	8th AGM on 30th September, 2003 at 10.00 a.m.	Town Hall, Ellisbridge Ahmedabad - 380 006
2003-2004	9th AGM on 20th July, 2004 at 10.00 a.m.	Bhaikaka Bhavan Law College Road, Ahmedabad - 380 006

All resolutions, including the special resolution set out in the respective notices were passed by the requisite majority of shareholders.

Corporate Governance

For the year ended 31st March, 2005, there are no ordinary or special resolutions passed by the Company's shareholders that require a postal ballot.

Communication to the shareholders and investors

The quarterly, half yearly and annual financial results of the Company are sent to the Stock Exchanges immediately after they have been taken on record by the Board. The same are published in well-circulated Gujarati and English dailies. The results are simultaneously posted on the company's website (www.zyduscadila.com) and on the Electronic Data Information Filing and Retrieval (EDIFAR) website maintained by SEBI in association with the National Informatics Centre (NIC).

Since April 2004, the company has started the practice of hosting a post-results tele-conference for analysts and investors. Both the audio replay and transcript of the tele-conferences are subsequently made available on the company's website.

The Company provides periodic event-based information to investors and the public at large by way of press releases / intimation to the Stock Exchanges where the shares of the Company are listed.

The Company also participates from time to time in investor conferences, both locally and abroad to meet Institutional Investors. A copy of presentation made to investors is also filed with the Stock Exchanges and also posted on the Company's website for the information of the investors at large.

General shareholder information

Date and Time of 10th AGM	26th July 2005 at 10.00 a.m.
Venue of 10th AGM	Bhaikaka Bhavan, Near Law Garden, Ellisbridge, Ahmedabad - 380 006.
Financial Year	31st March 2005
Book Closure Date	18th July 2005 to 26th July 2005 (Both days inclusive)
Registered Office Address	Zydus Tower, Satellite Cross Roads, Sarkhej Gandhinagar High Way, Ahmedabad -380 015.
Dividend Payment Date	30th July 2005
Compliance Officer	Mr. Upen Shah, Company Secretary is the Compliance Officer of the Company
Website Address	www.zyduscadila.com

Financial Calendar (subject to change) for the financial year 2005-06:

First Quarter Results	Before 31st July 2005
Half Yearly Results	Before 31st October 2005
Third Quarter Results	Before 31st January 2006
Audited Results for the	Before 30th June 2006

Listing of shares :

The equity shares of the Company are listed on the following Stock Exchanges:

Name and Address of the Stock Exchange
The Stock Exchange, Ahmedabad *Kamdhenu Complex, Opp. Sahjanand College, Panjara Pole, Ahmedabad - 380 015.*
The Stock Exchange, Mumbai *1st Floor, New Trading Ring, Rotunda Bldg, P. J. Towers, Dalal Street, Fort, Mumbai - 400 001.*
The National Stock Exchange of India Limited *Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai -400051*

Stock Code :

The Stock Exchange, Ahmedabad	*10927*
The Stock Exchange, Mumbai	*CDIHI 532321*
The National Stock Exchange of India Limited, Mumbai	*CADILAHC*
Reuters	*CADI-BO*
Bloomberg	*CDH IN*

Listing fees :

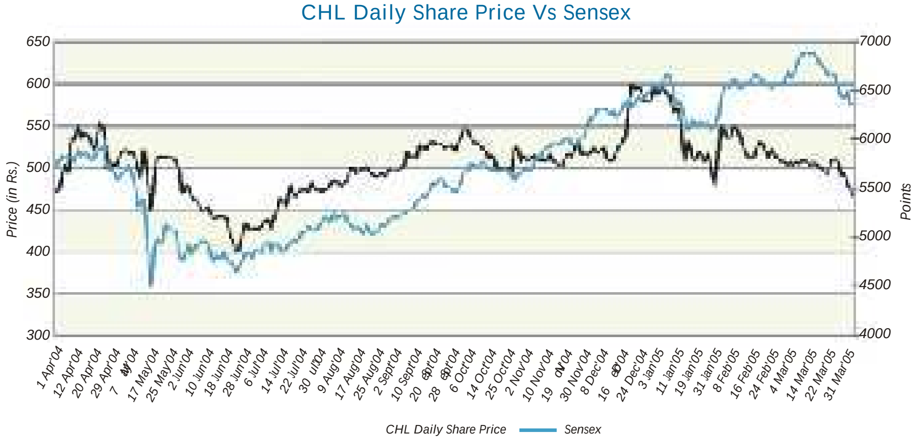
The Company has paid the annual listing fees for the financial year 2005-06 to all the Stock Exchanges where its securities are listed.

Corporate Governance

Stock price and BSE Sensex data :

Month	BSE Sensex	The Stock Exchange Mumbai			National Stock Exchange of India Limited		
		High	Low	Av. Volume (In Nos.)	High	Low	Av. Volume (In Nos.)
April, 04	5655.09	570.00	461.00	56241	570.95	456.00	81735
May, 04	4759.62	530.00	397.10	20146	529.00	390.10	51813
June, 04	4795.46	488.95	390.55	11091	495.00	390.10	25824
July, 04	5170.32	487.00	420.00	27814	520.00	420.00	39007
Aug., 04	5192.08	506.00	468.50	18328	506.00	467.70	26104
Sept., 04	5583.61	538.90	449.80	22149	540.00	487.00	49177
Oct., 04	5672.27	557.60	488.00	20504	557.70	489.00	28058
Nov., 04	6234.29	535.10	497.00	11399	537.40	497.00	26404
Dec., 04	6602.69	632.15	500.00	22417	634.00	499.00	50203
Jan., 2005	6555.94	600.00	469.00	26872	605.00	467.50	62759
Feb., 05	6607.78	560.00	500.00	28638	589.90	496.00	42035
March, 05	6492.82	530.00	460.00	19957	528.00	456.15	46042

CHL Daily Share Price Vs Sensex



Share transfer agents:

For lodgment of transfer deeds and other documents or any grievances / complaints, investors may contact the Company's Registrar and Transfer Agent at the following address:

M/s. Pinnacle Shares Registry Pvt. Ltd.,
Near Ashoka Mills, Naroda Road,
Ahmedabad - 380 025.
Telephone: 079 - 22204226, 22200338, 22200582.
Fax number: 079 - 22202963.
Email: gautam.shah@psrpl.com

Share transfer system:

Shares sent for transfer in physical form are registered and returned by Registrar and Share Transfer Agents within 30 days from the date of receipt of documents, provided the documents are found in order. Shares under objection are returned within 21 days. The Share Transfer Committee meets generally twice in a month to approve share transfers/transmissions.

Distribution of shareholding:

The shareholding distribution of equity shares as on 31st March 2005 is given below:

No. of equity Shares	No. of Folios	% to total folios	No. of Shares	% share-holding
Less than 100	*32020*	*79.51*	*1655397*	*1.87*
101 to 500	*7182*	*17.83*	*1692994*	*1.87*
501 to 1000	*618*	*1.53*	*452282*	*0.59*
1001 to 5000	*342*	*0.85*	*705166*	*0.99*
5001 to 10000	*43*	*0.11*	*315379*	*0.48*
10001 and above	*69*	*0.17*	*57985636*	*94.20*
Grand Total	40274	100.00	62806854	100.00
Shareholders in Physical Mode	*10236*	*25.41*	*1024692*	*1.63*
Shareholders in Electronic Mode	*30038*	*74.59*	*61782162*	*98.37*

Shareholding pattern as at 31st March, 2005:

Category	No. of Shares held		Total	% of
	Physical	Electronic	Shares	shareholding
Promoter's holding	*1200*	*45230425*	*45231625*	*72.02*
Mutual Funds and UTI	*1249*	*1096187*	*1097436*	*1.75*
Banks, FIs and Insurance Companies	*816*	*3805275*	*3806091*	*6.06*
Foreign Institutional Investors	*125*	*6844767*	*6844892*	*10.90*
NRIs / OCBs	*8803*	*143257*	*152060*	*0.24*
Other Corporate Bodies	*5284*	*647804*	*653088*	*1.04*
Indian public	*1007215*	*4014447*	*5021662*	*7.99*
Total	1024692	61782162	62806854	100.00

Dematerialisation of shares and liquidity :

The Company's equity shares are traded compulsorily in dematerialised form with effect from 24th July, 2000. Approximately 98.37% of the equity shares have been dematerialised. ISIN number for dematerialisation of the equity shares of the Company is INE010B1019.

Location of the company's manufacturing plants:

The details of the location of the plants of the Company are mentioned on the inside page of the annual report.

Corporate Governance

Registered Office/address for correspondence:

Shareholders can send their correspondence to the Registered Office of the Company at Zydus Tower, Satellite Cross Roads, Ahmedabad 380 015 or to the Registrar and Transfer Agent at M/s Pinnacle Share Registry Private Limited, Near Asoka Mills, Naroda Road, Ahmedabad - 380 025, in case of transfers, transmission, change in address and bank particulars etc. with respect to physical shares. Shareholders holding their shares in the electronic mode should address all their correspondence to their respective depository participants.

Outstanding GDRs/ADRs/Warrants :

The Company has not issued GDRs/ADRs/warrants or any convertible instruments.

Details of non-compliance

There was no non-compliance during the year and no penalties were imposed or strictures passed on the company by the Stock Exchanges, SEBI or any other statutory authority. The Company obtained a Certificate from the Statutory Auditors of the Company with respect to compliance with the conditions of Corporate Governance and annexed the certificate with the Directors' Report and sent the same to all the shareholders of the Company. The same certificate shall also be sent to all the concerned Stock Exchanges along with the annual returns filed by the Company.

Report on Corporate Governance

This section of the Report, together with the information given under the Management Discussion and Analysis Report and the Additional Shareholders' Information constitutes a detailed report on the Corporate Governance efforts of the Company during the year ended 31st March, 2005.

Extent of compliance with the non-mandatory requirements:

1. Chairman of the Board:
   The Chairman and Managing Director of the Company Mr. Pankaj R. Patel is entitled to maintain Chairman's office at the expense of the Company and is also reimbursed the expenses incurred by him in the course of performance of his duties.

2. Remuneration Committee:
   The Company has not established any Remuneration Committee. The Board of Directors and shareholders approve the remuneration of Managing Director and also payment of commission to the Directors other than Managing Director.

3. Shareholders' rights:
   The quarterly / half-yearly results, after they are taken on record by the Board of Directors, are sent forthwith to the Stock Exchanges where the Company's shares are listed. The results in the prescribed proforma are published in leading Gujarati and English dailies. These results are also made available on Company's website www.zyduscadila.com.

4. Postal ballot:
   Provisions relating to postal ballots have been introduced by the Companies (Amendment) Act, 2000. However, the same are applicable to particular businesses as specified therein. The same shall be complied with, as and when applicable.

Social Report

Community Development
In keeping with its mission to create healthier communities globally, our group is actively involved in developing the community of which it forms a part. Through the Ramanbhai Foundation, it has undertaken initiatives in the field of pharmaceutical research, education and healthcare.

Research
Under the aegis of the Foundation, the group organises an International Symposium on the latest trends in Pharmaceutical Sciences, once every two years. Leading researchers, academicians and industry professionals from the world over share their insights on the latest developments in pharmaceutical research at the symposium. The Ramanbhai Foundation 2nd International Symposium on the Role of Genomics and Proteomics was held in January 2005. More than 22 research scientists, academicians and research professionals from across the world shared their insights with over 200 delegates.

Education

'The Zydus School for Excellence' - a centre for learning where young minds are free to grow in relationship to his or her potential has been set up under the aegis of the Ramanbhai Foundation. The school, affiliated to the ICSE Board, is now into its 4th academic year. Spread over 80,000 sq.ft. the school has classes from Kindergarten to class nine (scalable to Class 12 with each passing year). In 2004-05, the school announced the 'Shri Ramanbhai Patel Memorial Scholarship Programme' jointly funded by a grant from the Ramanbhai Foundation and Zydus School for Excellence. Specially instituted for students from disadvantaged backgrounds, the scholarship covers the student's school fees, study materials, books and all other expenses directly related to the academic programme.

Shri Ramanbhai B. Patel - AMA Centre for Excellence in Education, inaugurated by His Excellency Dr. APJ Abdul Kalam in May 2002, provides a platform for parents, teachers and students to highlight the critical educational issues of the day. The centre conducts open house discussions, memorial lectures on excellence in education, progressive learning programmes for academicians and knowledge sharing forums, which study the successful learning models across the country. In August 2004, Dr. Karan Singh, Member of Rajya Sabha, delivered the Ramanbhai Patel Memorial lecture on Excellence in Education. Other distinguished personalities such as Dr. Abid Hussain, Former Indian Ambassador to USA and Justice P.N. Bhagwati have also given memorial lectures at the centre.

To recognise and honour the teacher's contributions to a child's world of learning, the centre has instituted 'The Shreshtha Shikshak Award'. The centre received 2000 nominations for the award in 2004-05. Ms. Trupti J. Thakker, a teacher from Kutch and Mr. Ramanlal Virjibhai Visavaliya from Kunkava Taluka in Amreli district were jointly awarded the Shrestha Shikshak award by Dr. Karan Singh.

Ms. Trupti Thakker received the award for her crusading efforts in promoting higher education for the girl child. Mr. Visavalya was presented the award for his innovative approaches to teaching mathematics and exemplifying the concept of 'learning through fun'.

The other seminars and programmes conducted for Teachers and Heads of Institutions by the centre include :

- *Time Management - A Way of Getting Control of Your Life (April 3, 2004)*
- *Computer Programme for Teachers (April 5 to 17, 2004)*
- *How Okay Are You? (A Programme For Developing Better Inter-Personal Relations) (April 10, 2004)*
- *Self Assessment and Personal Growth for Teachers (April 17, 2004)*
- *Innovative Teaching: A Way of Making Learning a Wonderful and Memorable Experience (April 24, 2004)*
- *Zen Teacher (September 11, 2004)*
- *Creativity - Looking Beyond The Limits (September 12, 2004)*
- *How Okay Are You? (A Programme for Developing Better Inter-Personal Relations) (September 18, 2004)*
- *Team Work in School: A New Concept for Effective Teaching (September 25, 2004)*
- *Reaching Out to Students A Workshop For Effective Counselling (October 9, 2004)*
- *Seminar on the Role of Teachers in Shaping young minds Inaugurated by Dr. Kiran Bedi (March 11, 2005)*

Healthcare

As a part of its outreach programmes, the group organises annual healthcare camps at Moraiya and Dabhasa, near Vadodara. Leading specialists from Ahmedabad, the group's medical advisors and the employees, volunteer their services in organising these camps. So far, the group has organised general healthcare camps, diagnostic, dental-care, eye-care and pediatric camps. In January 2005, more than 800 people attended the healthcare camp at Moraiya.

Corporate Governance

Besides this, the company has also launched a hypertension awareness drive called 'ATENsion Hypertension', which creates awareness on hypertension across the country, particularly in the far flung remote districts. Making this programme more broadbased, the group has launched the "Aten Outreach Programme'. In the first phase, the programme co-ordinators will be visiting 18 towns of coastal Andhra Pradesh in a mobile van and would be conducting hypertension detection camps. The camps would provide free blood pressure check-up and also counsel the people on the perils of hypertension, map the family history on hypertension for future record and emphasize on the need for regular, periodic check-ups with the local doctors.

AWARDS & ACCOLADES

The Chairman and Managing Director of our group, Mr. Pankaj R. Patel was awarded the 'Best Pharma Man of the year 2003' by the Foundation of Indian Industry and Economists (FIIE). The national award was in recognition of Mr. Patel's dynamic and charismatic leadership, which has enabled the group position itself as one of the leading pharmaceutical companies in India.

Our group emerged as the top manufacturer exporter in the field of pharmaceuticals for the year 2003-04 and received an award for the export performance from the Gujarat Chamber of Commerce and Industry.

Auditors' Certificate on Corporate Governance

We have examined the compliance of the conditions of Corporate Governance by Cadila Healthcare Limited, for the year ended on 31st March, 2005 as stipulated in Clause 49 of the Listing Agreement of the said Company with the concerned Stock Exchanges in India.

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

In our opinion and to the best of our information and explanations given to us, we certify that the company has complied with the conditions of corporate governance as stipulated in the above mentioned listing agreements.

We state that in respect of the investor grievances received during the year ended 31st March 2005, no such investor grievances remained unattended/pending for more than 30 days.

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 R.R.Patel & Co.
Chartered Accountants

R. R. Patel
Proprietor

Place : Ahmedabad
Date : 29th April 2005

For Mukesh M. Shah & Co.
Chartered Accountants

Mukesh M. Shah
Partner

Place : Ahmedabad
Date : 29th April 2005

Auditors' Report

To
The Members of
Cadila Healthcare Ltd.
Ahmedabad

We have audited the attached Balance Sheet of Cadila Healthcare Limited (‘the company’) as at 31st March, 2005, and also the Profit and Loss Account and the Cash Flow Statement 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.

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 applied 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.

As required by the Companies (Auditors’ Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 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 paragraph 4 of the said Order.

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

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

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

(c) The Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report comply with the accounting standards 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 of the company and taken on record by the Board of Directors, we report that no director is disqualified as on 31st March, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956; and

(f) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts subject to 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 the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2005;
(ii) In the case of the Profit and Loss account, of the profit for the year ended on that date; and
(iii) In the case of Cash Flow statement, of the cash flows for the year ended on that date.

For R.R. PATEL & CO.,	*For MUKESH M. SHAH & CO.,*
CHARTERED ACCOUNTANTS	*CHARTERED ACCOUNTANTS*
(R. R. Patel)	*(Mukesh M. Shah)*
PROPRIETOR	*PARTNER*
Membership No. 7871	*Membership No.30190*

Place : Ahmedabad
Date : 29 th april 2005

Auditors' Report

Annexure to the Auditors' Report

With reference to the Annexure referred to in paragraph 3 of the report of the Auditors to the Members of Cadila Healthcare Ltd on the accounts for the year ended 31st March, 2005, we report that:

1. (a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (b) Some of the fixed assets were physically verified during the year by the management in accordance with programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.

   (c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.

2. (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.

   (b) In our opinion the procedures for the physical verification of inventory followed by management are reasonable and adequate in relation to the size of the company and the nature of its business.

   (c) The Company has maintained proper records of inventory. No material discrepancies were noticed on physical verification of inventory.

3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act,1956. Accordingly, clause (iii)(b) to (iii)(d) of paragraph 4 of the Order are not applicable to the company for the current year.

   (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, clause (iii)(f) to (iii)(g) of paragraph 4 of the Order are not applicable to the company for the current year.

4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal control system.

5. (a) In our opinion, and according to the information and explanations given to us, the particulars of Contracts or Arrangements referred to in Section 301 of the Companies Act, 1956, have been entered in the register required to be maintained under that section.

   (b) In our opinion and according to the information and explanations given to us the transactions made in pursuance of such Contracts or Arrangements have been made at prices, which are reasonable having regard to prevailing market prices at the relevant time.

6. In our opinion, and according to the information and explanations given to us, the company has complied with the directives issued by the Reserve Bank of India and provisions of sections 58A, 58AA or other relevant provisions of the Companies Act, 1956 and the rules framed there under with regard to deposits accepted from the public, which have matured and are remaining unclaimed as at 31st March 2005. We are informed that no order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any other Tribunal.

7. The Company has an internal audit system which, in our opinion is commensurate with size and the nature of its business.

8. We have broadly reviewed the books of accounts maintained by the Company pursuant to the order made by the Central Government for maintenance of cost records under section 209(1) (d) of the Companies Act, 1956, and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have not, however made a detailed examination of the records.

9. (a) According to the information and explanations given to us and on the basis of our examination of the books of account, the company has been generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Custom duty, Excise duty, cess and any other dues during the year with the appropriate authorities. However, at 31st March 2005, there are no undisputed dues payable for a period of more than six months from the date they became payable.

   (b) According to the information and explanations given to us, the particulars of dues of income tax, sales tax, excise duty and service tax as at 31st March, 2005 which have not been deposited on account of any dispute, are as follows.

Name of the Statute	Amounts involved (Rs. in Millions)	Forum where the dispute is pending
Income Tax Act, 1961	36	CIT (APPEALS)
	23	Appellate Tribunal
The Central Sales Tax and Local Sales Tax Acts	13	Commissioner of Sales Tax
	64	High Court
The Central Excise Act and the service Tax Act	214	Assistant / Joint Commissioner (Appeals)
	70	CESTAT
	3	High Court

10. 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.

11. The company has not defaulted in repayment of dues to a financial institution or bank or debenture holder.

12. The company has granted an advance to a joint venture company for honouring its obligations as a guarantor to a bank against the security of some of the assets of the said company & against pledge of shares of a party to a joint venture. Adequate records are maintained for the same.

13. The company is not a chit fund/nidhi/mutual benefit fund/society.

14. According to the information and explanations given to us, the company is not dealing or trading in shares, securities, debentures and other investments.

15. In our opinion and according to the information and explanations given to us, the terms and conditions of guarantees given by the company for loans taken by a joint venture company and subsidiaries from banks are not prima facie, prejudicial to the interests of the company.

16. Term loans obtained by the Company were applied for the purpose for which the loans were obtained.

17. According to the Cash-flow statement and other records examined by us and the information and explanations given to us, on an overall basis, funds raised on short term basis have not, prima facie, been used during the year for long term investment.

18. 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.

19. The Securities/charges have been created in respect of debentures issued.

20. The company has not raised any money by public issues during the year.

21. To the best of our knowledge and belief, and according to the information and explanations given to us, no fraud on or by the company was noticed or reported during the year.

For R.R. PATEL & CO.,
CHARTERED ACCOUNTANTS

(R. R. Patel)
PROPRIETOR
Membership No. 7871

For MUKESH M. SHAH & CO.,
CHARTERED ACCOUNTANTS

(Mukesh M. Shah)
PARTNER
Membership No.30190

Place : Ahmedabad
Date : 29h April 2005