In 2004, we said we'll achieve sales of $ 400 mn by 2006-07 and we've done it!
Our next goal is the 'Healthy Billion' - posting sales of over $ 1 bn by 2010.

Highlights

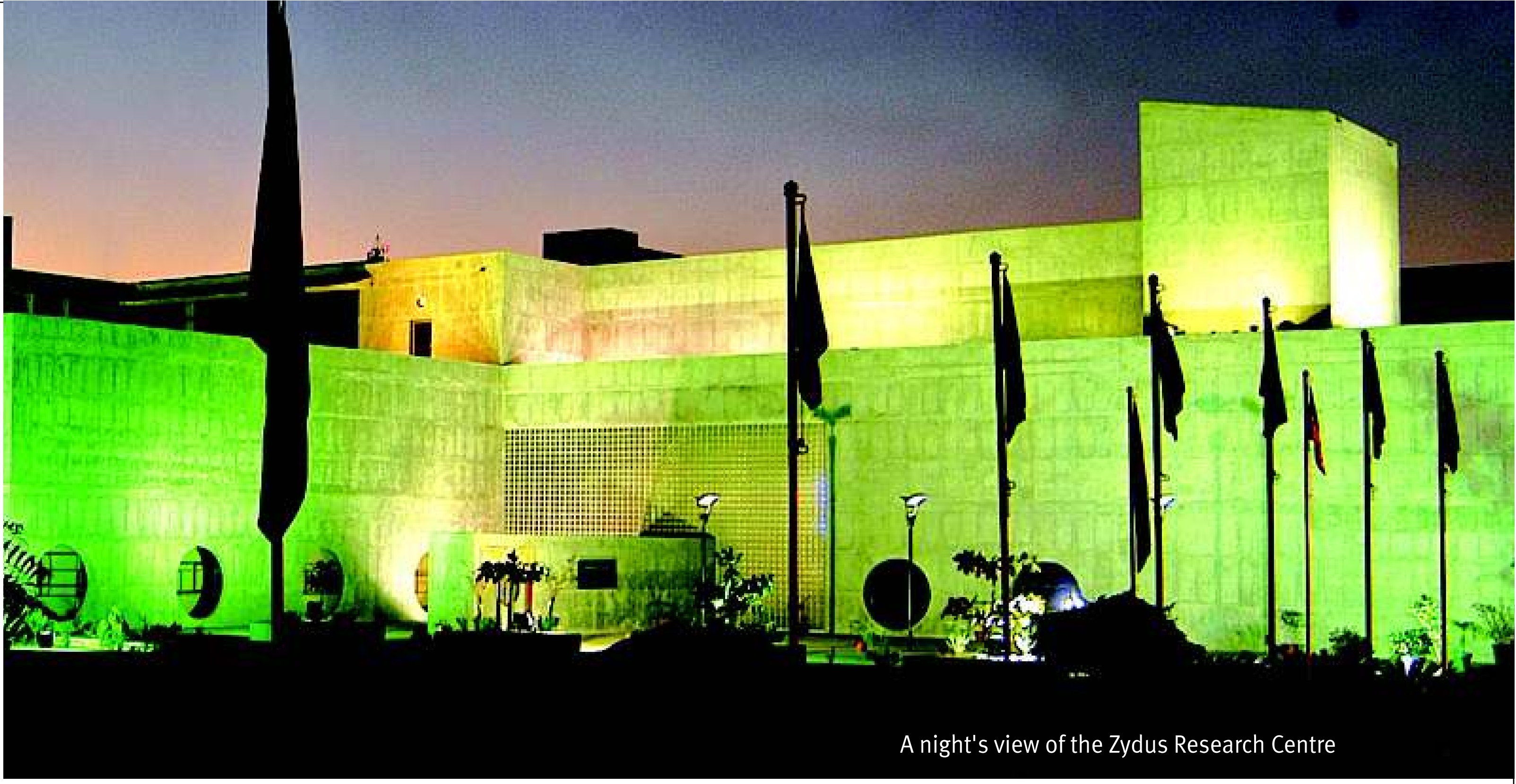
2006-07

Highlights of International Operations

- Gained remarkable acceptance in US Generics market, with excellent customer services, expansion of our customer base and two successful day-1 launches of Meloxicam and Simvastatin. US Operations recorded sales in excess of $ 31 mn (Rs. 1,428 mn)
- Filed 26 ANDAs with US FDA during the year, more than double compared to last three years' average of 12. Cumulative filings till date have touched 60, of which 23 have been approved
- Complete focus attained on pure generics business in France after completion of sell-off process of branded business. French operations crossed € 21 mn mark (Rs. 1,267 mn) in sales with significant reduction in operational losses - from Rs. 238 mn last year to Rs. 155 mn
- Filed 21 additional site transfer applications for transferring the manufacturing site from France to India, taking the total to 25 site transfers. Received 6 approvals so far, of which commercial supply of 4 products from India has been commenced
- Submitted 15 additional dossiers for new products for French market from India, taking the total to 23 dossiers. Received approval for 4 products so far
- The total sales in Emerging Markets crossed Rs. 1 bn mark, and registered sales of Rs. 1,074 mn, up from Rs. 852 mn, showing growth of 26% y-y, with Brazil registering sales of Rs. 176 mn with growth of 53% compared to previous year
- Registered turnaround in API business with a focus on new product introduction, cost improvement, better key account management and good support from captive consumption for US market. API Exports business grew by a healthy 33%
- Filed 11 DMFs, of which 5 would give us first to file status. Total DMF filings now stand at 51
- Forayed into Japanese market with opening up of a new subsidiary - Zydus Pharma Inc., Japan. The subsidiary will market APIs and formulations in Japanese market, and start product registration process in current year
- Acquired Nippon Universal Pharmaceutical Ltd., which has got countrywide reach to more than 4000 hospital and clinics in Japan, and which will enable us to have critical access to a ready manufacturing and marketing base as well as a distribution network

Highlights of Domestic Operations

- Completed the restructuring process of the branded formulations business, which has started paying dividends, with rural market showing good potential of growth in time to come
- 39 new products (including line extensions) were launched in India during the year, of which 8 were 1st to launch
- Entered Rs. 1500 cr dermatology market, with acquisition of Mumbai based Liva Healthcare Ltd., which has got wide product portfolio in dermatology segment
- Green field formulations manufacturing facility at Sikkim was constructed in record period of seven months and production is scheduled to commence within short time
- Consumer products business registered robust performance with sales of Rs. 1,219 mn, up 89%, with Sugar Free brand crossing Rs. 500 mn mark
- Revamped Nutralite brand with change in promotion strategy, which started yielding results. The brand recorded sales of Rs. 427 mn, up 38%



A night's view of the Zydus Research Centre

Highlights of Joint Ventures

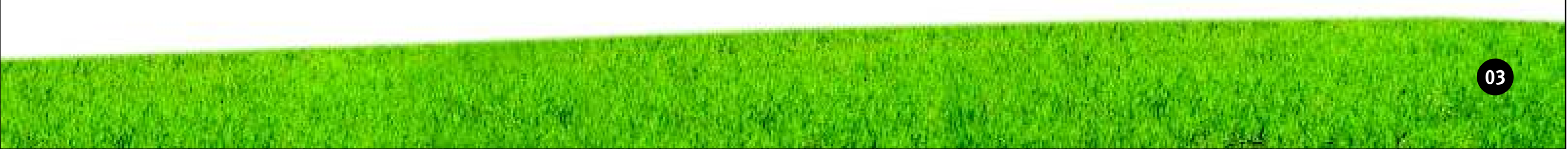
- Zydus Altana Healthcare Pvt. Ltd. posted sales revenues of Rs. 1,674 mn, up 28% from Rs. 1,306 mn last year and profits of Rs. 1,326 mn, up 44% from Rs. 920 mn last year
- Business of Sarabhai Zydus Animal Health Ltd. grew by 7% to Rs. 888 mn from Rs. 834 mn in 2005-06, while net profit grew by 28% to Rs. 84 mn from Rs. 66 mn last year
- Construction of the state-of-the-art oncological injectables manufacturing facility of Zydus Mayne Oncology Pvt. Ltd. has been almost completed with all the machines and equipment installed and commissioned. This facility is located in a pharmaceutical sector specific Special Economic Zone near Ahmedabad
- Construction of finished dosage manufacturing facility for Zydus BSV Pharma Pvt. Ltd. has been started in a pharmaceutical sector specific Special Economic Zone near Ahmedabad

Highlights of R&D and IPR

- ZYH1, our first NME for treating dyslipidemia has successfully passed Phase I clinical trials, and has entered Phase II clinical trials
- ZYI1, the anti-inflammatory and pain management compound has also passed Phase I clinical trials and has entered Phase II trials. ZYH2, the novel agent for treating diabetes is undergoing Phase I trials
- Filed fourth Investigational New Drug application (IND) with DCGI for ZYO1, a novel drug candidate for treating obesity and related disorders
- Expanded the state-of-the-art development facilities of Pharmaceutical Technology Centre (PTC) and now facilities to develop parenteral products, both liquid and lyophilised, transdermal drug delivery systems and respiratory dosage forms are operational
- More than 100 patents have been filed by Zydus group in 2006-07 in the US, EU and other emerging global markets, taking the cumulative patent filings to over 225

Financial Highlights of FY 2006-07 (Consolidated)

- Total Operating Income went up by 23% y-y to Rs. 18,288 mn from Rs. 14,845 mn last year. Topline growth was mainly driven by growth of 91% in formulations exports, growth in API exports by 33% and growth of 89% in Consumer Business
- EBIDT went up by 22% y-y to Rs. 3,521 mn from Rs. 2,877 mn. This was after spending Rs. 1,344 mn on R&D, which increased by 69% from Rs. 797 mn last year
- EBIDT margin (% to operating income) remained at 19.3% vs 19.4% last year in spite of 2% increase in R&D spends
- PAT up by 54% y-y to Rs. 2,338 mn from Rs. 1,524 mn last year
- In line with that, EPS up by 54% to Rs. 18.6 from Rs. 12.1 last year



Chairman's Message

Dear Shareholders,

The year 2006-07 was a landmark year, which reflected both - our unwavering focus in achieving the targets that we set for ourselves and the commitment to step up the momentum of growth with new goals that challenge and stretch our capabilities.

We entered the year 2004 with a new vision in place and an agenda for growth: to post sales of $ 400 mn by 2006-07. With strategies to support our growth agenda and timely execution of these plans, we have achieved our target.

On the platform of this robust business health, we are moving ahead towards the new goal that we have set for ourselves - of achieving sales of over $ 1 billion by 2010. Our strategic thinking and differentiated approaches in the marketplace will continue to create the pathways to new possibilities as we work towards this goal. As we evolve, grow and expand, we will be a nimble organisation that adapts to a rapidly changing business landscape.

Over the last few years, we have been steadily expanding our business and improving our returns. In all areas of our business we have been making substantial progress towards achieving sustainable, profitable growth. And in this we are guided by our commitment to unleash value for our shareholders.

Our transformation programme, which rests on the five pillars of Direction, Leadership, Accountability, Control and Co-ordination and Capability Building, has been guiding the efforts for the next leap forward. Each of these pillars, in turn, is creating new excellence benchmarks in terms of Performance, Operational Excellence and People Excellence.

We are surging ahead...

When we reset our vision in 2004, we were aspiring to be a global healthcare company. We acknowledged that our core strengths were our integrated capabilities, our willingness to accept new challenges, set new targets and the ability to go full steam ahead and achieve each one of them. Those were to become the cornerstones of our growth plans.

As noted earlier, the year in review was a milestone year and we are on course to become one of the leading global healthcare providers by 2010 :

- In the US where we started operations in 2004, we are already rated as a top tier generics company among peers. We recorded sales in excess of $ 31 mn last year and enjoy a market share of more than 10% in 8 out of 9 products we have launched so far. In France we crossed € 21 mn mark in sales during the year

- During the year we entered Japan, with a new subsidiary Zydus Pharma Inc., Japan. With the acquisition of Nippon Universal Pharmaceutical Ltd., we now have gained critical access to a ready manufacturing and marketing base as well as a distribution network
- Exports to other emerging markets grew by 26% and recorded sales of Rs. 1.07 bn
- Our efforts to create a robust product pipeline for the global markets is on track. We filed 26 ANDAs with US FDA during the year, more than double from last three years' average of 12. We now have cumulative filings of 60, of which 23 have been approved so far
- We filed 15 dossiers for new products and 21 site transfer applications for French market during the year

Looking at newer avenues for growth

The domestic market is changing rapidly and we have always been fashioning our responses appropriately. We have built strong leaderships in key therapy segments and in the coming years we will continue to rely on our strengths - the speed to market, building and sustaining strong customer relationships and creating an edge through brand building capabilities. All of this has helped us widen the market base to see how our healthcare expertise can reach hitherto unexplored segments. In the year 2006-07:

- We continued to lead in the participated markets in the cardiovasculars, gastro intestinals and women's healthcare
- We are broadening our reach, exploring new markets in rural India
- We are expanding our presence in new segments. Our acquisition of Liva Healthcare opened up the dermatological segment for us, which is growing at the rate of 14 %
- We launched 39 new products during the year in the domestic formulations market and of these, 8 products were first in India.
- 17 of our brands feature amongst the top 300 pharma brands in India, affirming our status as a company that has an edge in creating, marketing and nurturing brands

Other key achievements of 2006-07

- We achieved turnaround in our API business. With a focus on cost improvement and better key account management, API exports grew by a healthy 33%. This alongwith good support from captive sales, turned the business profitable again
- Post acquisition, we revamped and repositioned the Nutralite brand which crossed sales of Rs. 420 mn
- Overall, our consumer products business grew by 89%, with the Sugar Free brand crossing Rs. 500 mn in sales
- Our ability to seize the first mover advantage extended to other spheres too. The green field formulation manufacturing plant at Sikkim was completed within a record seven months, making the plant the first to be operational in the region
- On the research front, we posted new milestones by filing the 4th IND for ZYO1, a novel drug candidate for treating obesity and related disorders. Our 1st IND ZYH1 successfully completed Phase I clinical trials and work has commenced on Phase II trials. ZYI1 has also completed Phase I trials, while ZYH2 is undergoing Phase I trials

These milestones have been a result of our continuous investment in building a global platform for our operations, investment in new ideas and investing in talent who can make these ideas happen. They are reflective of a company that is constantly renewing itself and reinvigorating its approach.

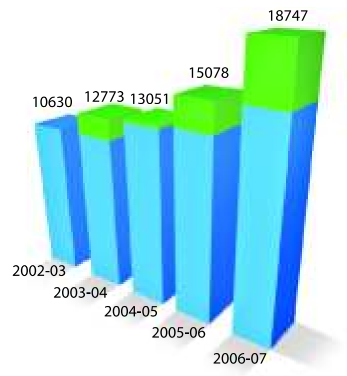
The expertise and teamwork of our people have created a high-performance driven, result-oriented culture across the entire company. Our agility and strong execution have allowed us to seize the market opportunities. With this committed team, I am confident that we will reach our targets in 2010 and beyond, successfully.

The key to our success over the years has also been about striking the right balance - the balance between the wisdom of experience and the exuberance that comes in with fresh, new ideas. We have been able to back vision with action, strategy with implementation and passion with commitment. These attributes have shaped us into a peak performer and I am confident that they will continue to play an important role as we carve out a distinctive position for ourselves. I would like to thank all of you for your support and good wishes, as we leapfrog towards our next goal and post new milestones of success.

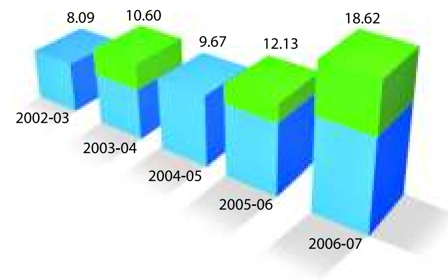
Pankaj R. Patel

Financial Highlights (Consolidated)

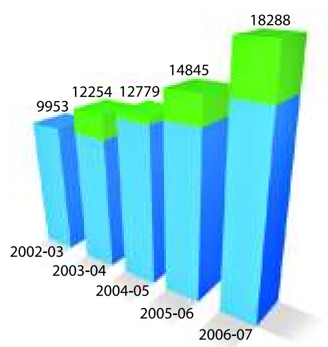
Gross Sales (Rs. in mn)



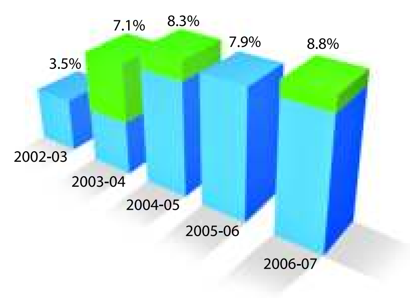
EPS [2] (Rs.)



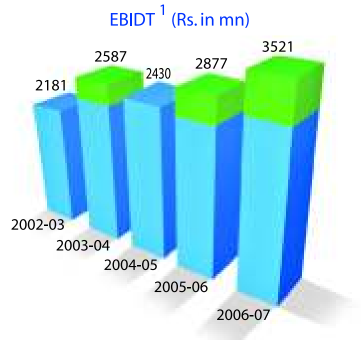
Income from Operations (Rs. in mn)



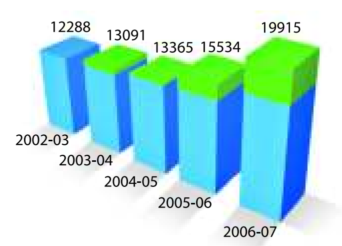
R&D Spends [3] as % to Operating Income



EBIDT [1] (Rs. in mn)



Total Assets (Rs. in mn)



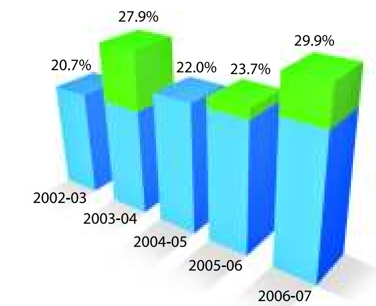
Profit after Tax (Rs. in mn)

Net Worth (Rs. in mn)

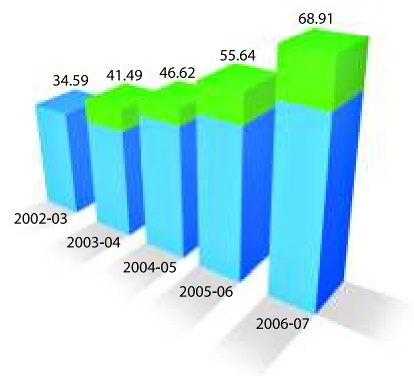
1 Excl. Other Incomes
2 EPS and DPS of earlier years have been adjusted for bonus shares issued in the ratio of 1:1 in 2006-07
3 Both Revenue & Capital R&D Spends
Previous years' figures have been regrouped wherever necessary.

Total Debt incl. Buyers' Credit (Rs. in mn)

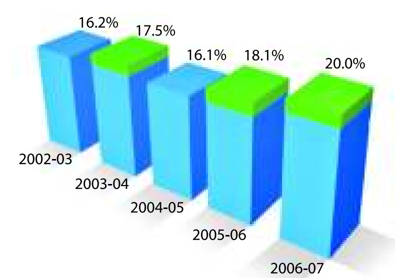
Return on Equity (%)



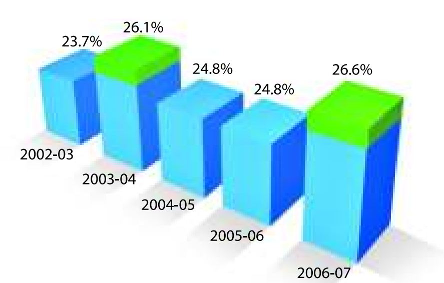
Book Value Per Share (Rs.)



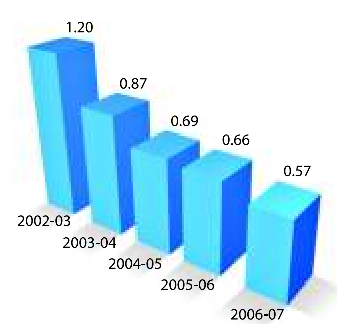
ROCE (%)



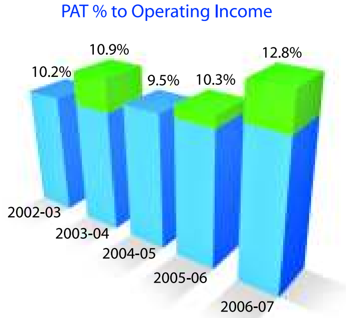
EBIDT [1] Before Revenue R&D Spends as % to Operating Income



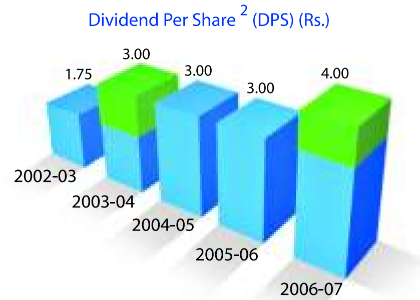
Debt / Equity ratio



PAT % to Operating Income



Dividend Per Share [2] (DPS) (Rs.)



Base Value Incremental Value

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 residual income after charging the Company for the cost of capital provided by lenders and shareholders.

It is calculated as the excess of economic profit over the cost of capital employed.

Rs. in Millions

	2006-07	2005-06
Adjusted EBIT	2,615	2,002
Less : Adjusted Tax	237	150
NOPAT (Net Operating Profit After Tax)	**2,378**	**1,853**
Adjusted Equity	9,828	7,715
Debt (incl. Buyers' Credit)	4,934	4,622
Total Adjusted Capital Employed	14,762	12,337
Average Adjusted Capital Employed	13,549	11,342
Post Tax Cost of Debt	4.73%	4.91%
Cost of Equity	15.08%	13.64%
WACC %	13.95%	12.57%
WACC	**1,890**	**1,426**
EVA® (NOPAT - WACC)	**488**	**427**

Notes :

1. EVA® is a registered trademark of Stern, Stewart & Co.
2. Tax calculation excludes deferred tax and is adjusted for tax shield on interest, non operating incomes and expenses
3. Adjusted equity includes Shareholders' funds, Deferred Tax and Minority Interest, and is adjusted for advances/investments on which interest/dividend/other non operating income was earned
4. Cost of equity is based on cost of risk free debt plus equity premium adjusted for firm's beta variant. The equity premium has been assumed at 9% while beta variant is taken at 0.79 for 2006-07 and 0.68 for 2005-06 (Source : Bloomberg) Cost of risk free debt is based on 10 year Government of India bond
4. WACC (Weighted average cost of capital) is based on market value based weights of equity and debt
5. The above calculations are based on Indian GAAP for consolidated financial results

Market Value Added

Market Value Added (MVA) is a measure of the value that the management has been able to add to the 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.

Higher the MVA, the better. A high MVA indicates that the Company has been able to create substantial wealth for its shareholders. MVA is equivalent to the present value of all future expected EVAs.

Rs. in Millions

	2006-07	2005-06
Market value of equity (year end)	42,290	42,431
Market value of debt	4,934	4,622
Total market value of equity and debt	**47,224**	**47,053**
Less : Consolidated Invested Capital		
Book value of equity	8,655	6,989
Book value of debt	4,934	4,622
Total book value of equity and debt	**13,589**	**11,611**
Market Value Added (MVA)	**33,635**	**35,442**

Notes :

1. Market value of debt assumed to be same as book value in the absence of debt being listed / regularly quoted.

MANAGEMENT'S DISCUSSION & ANALYSIS

Overview

Three years ago, we reset our vision statement, and started out on our first goal to achieve sales of $ 400 million by 2006-07. We have surpassed this first milestone successfully and have registered robust performance in all spheres of the business, formulations exports (US, France and other Emerging Markets), APIs and Consumer business, and Research and Development initiatives reaching new peaks. Moving ahead, we are now focused on our next goal of achieving sales of over $ 1 billion by 2010.

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 Generics Market

The Global Generics Market (GGM) for the year 2006 was estimated at over $ 75 billion. Burgeoning healthcare budgets of the governments worldwide, ageing population, patent expiries in regulated markets and opening up of some lesser penetrated markets, have all been contributing to the growth of the generics market globally. The global generics market continued to grow in double digits, in spite of price erosions due to increasing competition. The price erosion was not limited to patent-expired products, but also extended to the older genericised products. Price erosion in products which became generic recently after patent expires, was as high as 97-99% while in older products, it was nominal.

In US, the world's largest pharmaceuticals market, generics commanded a larger share of the market place in 2006, with Simvastatin and Sertraline - two among the top ten selling brands - representing sales of over $ 7 billion and several other products losing patent protection in 2006. By the year-end, unbranded generics in US captured 10% share of US sales, a gain of 3.2% points from 2002. Sales of unbranded generics constituted 54% share of prescriptions in US and grew by 20%, which was well above the growth of branded products, which grew by 7% and the overall US, pharmaceuticals market which grew by 8% in 2006. (*Source: IMS MAT Dec-06)*

Europe, the second largest generics market, also recorded double digit growth in 2006, with major markets like France, Spain, Italy and Netherlands registering more than 15% growth. However, compared to US market, European market showed lower price erosions as the governments in some of the markets forced reductions in rebates and back discounts offered to the pharmacies.

The French Generic Market, in which we have been present through our subsidiary Zydus France SAS, has shown healthy growth over the past 3 years. Estimated at 850mn EUR in 2003, the French generics market has nearly doubled to 1,580mn EUR by the end of 2006. A major contribution to this growth has been the patent expiry of a large number of key molecules including Omeprazole (April 04), Simvastatin (May 05) and Pravastatin (August 06). In addition, the French market has witnessed increasing generic penetration, as the French Health Authorities are more supportive to generic players compared to most of their European counterparts for keeping rising public pharmaceutical expenditure under control.

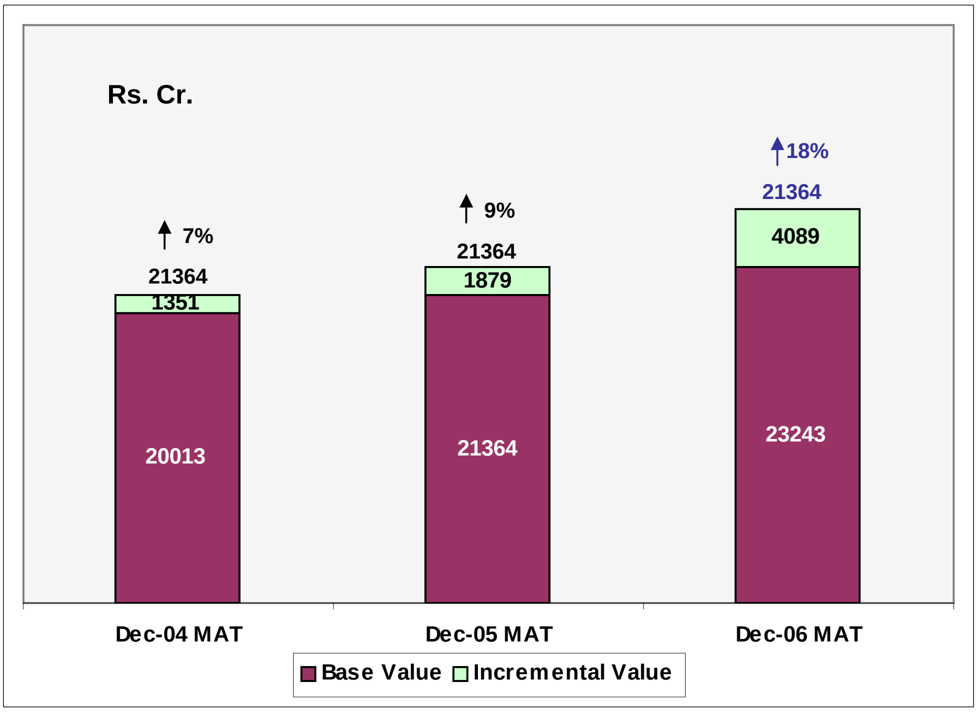
With price competition getting stiffer and wholesalers and distributors becoming increasingly demanding in the traditional generics markets of US and Western Europe, most global generics players have been forced to expand geographically and focus on backward integration, which has resulted into a large mergers in global generics industry.

Semi-regulated markets, particularly those where we are present or are planning to enter, like Brazil, and few Asia Pacific and Middle East countries continued to grow at more than 10%. The Russian market grew at 26%, which was the highest amongst the top 25 markets in the world. This provides an opportunity to grow our international business rapidly.

Markets like Japan, where generics penetration is merely 5% of the total market and certain European countries where generics penetration is less than 10% opportunities abound for the generics industry to register double-digit growth. With more and more drugs going off patent in these markets and the governments playing a supportive role to reduce healthcare costs, the generics penetration in these markets will be higher in the coming years. So it is quite evident that the Japanese pharmaceutical market, which is a very conservative and complex, is bound to evolve and open up. With the tide firmly in favour of generics, the Indian pharmaceutical companies with their robust product pipeline and ability to provide products at cost-competitive prices will definitely hold an edge.

Indian Pharmaceutical Market

The Indian Pharmaceutical Market (IPM), which is valued at over Rs. 27,000 Cr. with over Rs. 4,000 Cr. incremental value (denoting growth of 18%) registered in 2006, set new records in every sphere of performance. (*Source: ORM IMS Stockiest Secondary Audit, Dec-06 MAT)* The astounding performance of the IPM in 2006 was far better than last couple of years, as evident from the chart below showing IPM value, value growth and incremental value for last 3 years.



All the three growth drivers viz. volume growth of older products, price led growth and new product introductions showed a positive trend in 2006. One of the significant changes in this year is contribution of volume growth in overall growth, which increased to 8% from 1% in 2005, which price increases contributed just 1% in overall growth.

In all, over 4,800 new products were introduced during the year in Indian pharmaceutical market. The contribution of value of new products in IPM dropped from 7.1% last year to 6.6% in 2006. A majority of the top new introductions this year were line extensions and combinations of the already existing brands/molecules. This could be attributed to a focused effort to extend the life cycle of brand in the cost IPR scenario.

The trend of drug combinations has been on the rise gradually and has significantly contributed to the overall growth of the market. In 2006, combinations grew by 21% compared to 15% growth registered by mono therapy products. Growth in Cardiovasculars, Anti-diabetics, Gastro-intestinals and Pain / Analgesics was primarily driven by combinations, while 61% of new product introductions in the market were combination drugs.

Class I Cities, which account for 33% of the total IPM, grew by 13%, while metro cities, which account for 26% of the total IPM, grew by 15%. Rural market grew at a higher rate of 33%, and increased its contribution in total IPM from 18% last year to 21% in 2006. The easy accessibility to better healthcare facilities, and increasing government expenditure on rural development and healthcare programme has resulted in the robust growth in the rural market, thereby making it a key focus area for Indian pharmaceutical companies. Most of the top 300 brands of IPM have increased their value contribution from rural markets. In 2006, 50% of the top new introductions, contributing 11% of value of new introductions in IPM are getting a value contribution of more than 20% from rural areas.

Moving ahead, IPM is expected to benefit from rapid growth and reforms taking place in the Indian economy. India is one of the fastest growing economies in the world, with GDP growth rate of over 9%. The upswing is likely to continue for a couple of years. With increased spending of the government on healthcare programmes, rural development and rural health improvement initiatives, *through National Rural Employment Guarantee Scheme and National Rural Health Mission,* healthcare access in rural India has been improving, which has opened up huge untapped opportunities to the IPM.

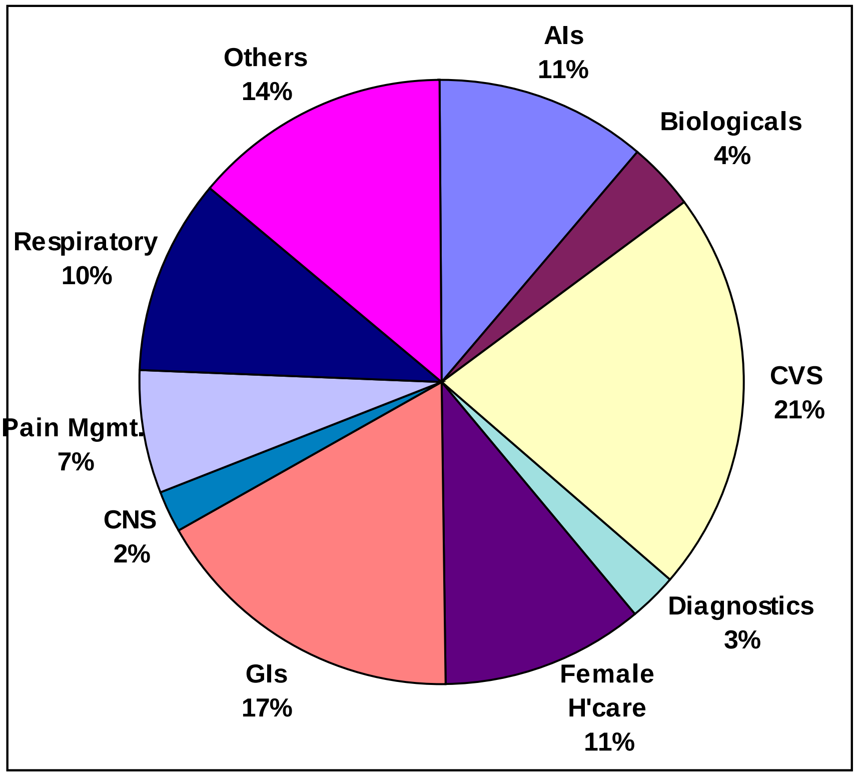
All these factors, coupled with a favorable shift in healthcare models in terms of promotion of medical tourism in India which is growing by more than 20% y-y, corporatisation of hospitals and pharmacies, opening up of new distribution channels and move to more scientific methods of promotion will help the IPM maintain double digit growth, in the vicinity of 11-13% over next 3-5 years.

Operating Highlights

Domestic Formulations

In the year FY 2006-07, our domestic branded formulations business grew by 10% to Rs.9,790 mn, from Rs. 8,928 mn last year, while generics formulations business degrew by 6% to Rs.812 mn from Rs.865 mn last year mainly due to the uncertainty of the government policy on pricing, prevailing in the market.

Therapeutic area wise break-up of domestic branded formulations



In the last quarter of 2005-06, our domestic formulations business was restructured to make it more focused and optimize resources. To this end, the marketing divisions were restructured and the total field strength and customer coverage for each division required to manage the business and the performance norms across divisions were revised and standardised. Also, a special field force of over 150 people for rural markets in one of the Multi Therapy (MT) divisions was posted to explore growth potential of rural market. This pro-active step by our company was taken keeping in mind the fact that the rural market is going to be the next growth driver for formulations business in India. Our initiatives for rural market showed positive results, which has prompted us to further expand field force in rural areas in coming months.

On new products front, we launched "Novolizer" in the domestic market. “Novolizer” is a third-generation refillable; breath actuated multiple dose dry powder inhaler device for Asthma and COPD, the technology for which is provided by Meda Pharma of Sweden. In all, we launched 39 new products in the domestic market, including line extensions, during the year. This contributed to about 2% in the overall growth of the domestic formulations business. Of the 39 new product launches, 8 products were first to be launched in India.

With a focus on expanding our presence in newer therapy areas to step up growth, we entered the dermatology segment. We had no presence in this promising segment, which is the 7th largest therapy segment in Indian pharmaceutical market, valued at Rs. 1500 Cr, growing at CAGR of over 14% for last three years. *(Source: ORG IMS)*. To enter this area of strategic importance, we preferred acquisition route and acquired Liva Healthcare Pvt. Ltd. (“Liva”), a privately held Mumbai based company. Over 55% of Liva’s total therapeutic coverage is in dermatology segment. Liva Healthcare was rated as a rising star amongst the upcoming Indian pharmaceutical companies, growing at more than 15% as per IMS (June 2006) and has a strong rapport with dermatologists, cosmetologists and physicians.

Going forward, in the domestic formulation market, we would explore opportunities in new market segments. The specialty and the super specialty divisions continue to look at innovative practices to extract a sizeable business from fast growing markets of cardiology, diabetology, respiratory, female health care and neurology through a highly motivated, well trained field force and added thrust on customer relation management. Continuing with our brand building strategy, we have also identified several new products (including combinations and line extensions) for launch in coming two to three years.

Highlights of Domestic Formulations

- Completed the restructuring process of the formulation business - which has started paying dividends, with rural market showing good potential of growth in time to come.
- 39 new products were launched in India during the year, of which 8 were 1st in India
- 17 of our formulation brands now feature in the top 300 brands of India as per ORG IMS (MAT Dec-07)
- With acquisition of Liva Healthcare, we entered Rs. 1500 Cr dermatology market
- Maintained leadership positions in the CVS, Gastro intestinal and WHC segments.

API & Intermediates

Success of the API business depends on cost leadership and capability of early development and introduction of new products. We have gained cost leadership in select products and also introduced 8 new APIs, Pregabalin, Doxophylline, Feropenam and Irbesartan being major ones, in India and for export markets during the year. This, coupled with better key account management, has helped reclaim the customer base in India and abroad. Our API exports grew by a healthy 33% from Rs. 1,090 mn last year to Rs. 1,445 mn, which was mainly fuelled by growth of 54% in exports to Latin America, 41% growth in exports to Asia Pacific and 20% growth in exports to Europe.

We continued filing more DMFs and ended the year with the filing of 11 DMFs, out of which 5 have given us the first to file status. Thus now we have totally filed 51 DMFs. Our DMF filing initiatives have also started producing results and our captive consumption shows growth of 69% mainly on account of consumption for US Generics Formulations market.

On the whole, API business grew by 21% this year. We have lined up 8 to 10 products and our aggressive drive to improve costs will continue to keep us competitive on the pricing front.

Highlights of API & Intermediate

- Registered turnaround in API business with a focus on new product introduction, cost improvement, better key account management and good support from captive consumption for US market
- API Exports business grew by a healthy 33%, with an all-round performance in all markets.
- Filed 11 DMFs, of which 5 would give us first to file status. Total DMF filings now stand at 51.
- 8 new products launched during the year. Major launches were Pregabalin, Doxophylline, Feropenam and Irbesartan.

International Formulations Business

The international formulations business on a consolidated basis grew by 91% y-y to Rs. 3,770 mn from Rs. 1,976 mn in the previous year, with remarkable performance of US and French businesses. The emerging markets also registered yet another year of robust growth.

- **U.S. Generics Market**

Zydus Pharmaceuticals (USA) Inc., our subsidiary in the US, has successfully completed its second year of commercial operations in the US market. With excellent customer services, expansion of our customer base and two successful day-1 launches of Meloxicam and Simvastatin, we have gained good recognition, acceptance and attractive levels of market share for the generic products launched to date.

We enjoy market share of more than 10% in 8 out of 9 products we have launched in US so far and we are rated a top tier generics company among peers in the US. In fact, we were adjudged as the fastest growing generic company in the US in 2006 by IMS.

Our US operations recorded sales in excess of $ 31 mn (Rs. 1,428 mn, up 186%) during the year 06-07.

The US generic marketplace has and will continue to be a very competitive with pressure coming from both domestic as well as overseas companies. We anticipate pricing pressure in our existing products and new product launches to continue. We will be countering this challenge with a strategy that focuses on new product portfolio development, cost effectiveness, superior supply chain performance and outstanding customer relationship. Through effective implementation of our strategy, we are confident of strengthening our performance in the US Market.

Highlights of the U.S. operations

- U.S. operations registered robust performance with sales in excess of $ 31 mn (Rs.1,428 mn).
- Gained an edge with First day launches of Simvastatin and Meloxicam following patent expiry.
- Gained market share of more than 10% in 8 out of 9 products launched so far in US.
- Filed 26 ANDAs with US FDA during the year, more than double compared to last three year's average of 12. Cumulative filings till date have reached 60, of which 23 have been approved till date.

European Union

French Generics Business

Zydus France SAS, our French arm has registered yet another year of strong performance with sales in excess of € 21 mn (Rs.1,267 mn), up 103%.

During the year under review, the process of selling off of our branded business, comprising OTC and mature brands was completed. Thereby we earned a one-time profit of Rs. 263 mn. Net loss of the French operations, excluding this profit was Rs.155 mn, which was lower by 35% compared to Rs.238 mn last year, and clearly shows that our French operations are well on track and are moving towards achieving break even sooner.

With the sell off of branded business, our French operations are now completely focused on the generics business. In fact, generics business has been the main growth driver for the last three years, and in 2006-07 also, even though branded business was there for a part of the year, overall growth was more than 100% because of outstanding performance of generics business.

During 2006-07, we launched 16 new generic presentations (7 new products), taking cumulative launches to 92 presentations (53 products). The market share of Zydus France for 2006 was 1% although when looking at our share in the participated market segment, we managed to achieve a figure closer to 2%. We continue to look at innovative ways of positioning the company at the forefront of pharmacist's minds while choosing a partner for our generic business. Much of our activities with pharmacists' to-date have centered on joint healthcare awareness activities with the public that serve to reinforce the importance of the pharmacist in their community.

Apart from volume growth, the another strategic initiative which is directed towards realizing our goal of breaking even the French operations is leveraging the "India advantage" in terms of costs, by shifting manufacturing base for major products from France to India and by filing dossiers for new products for French market from India. We made remarkable progress on this front, and filed 15 dossiers for new products and 21 applications for manufacturing site transfer, taking cumulative dossiers to 23 and cumulative site transfer applications to 25. So far, we have received approvals for 4 new product dossiers and 6 site transfer applications, of which site of 4 products have already been shifted to India.

Moving ahead, we would continue growing our generics business in France. We have lined up over 20 presentations (more than10 products) for launch in French market this year. By shifting manufacturing base for major products to India, we aim to achieve considerable efficiency in operations. All these initiatives are expected to help our French operations break even in the current year.

Highlights of French operations

- Total focus on pure generics business in France after the sale of the branded business being completed. Crossed € 21 mn mark in sales (Rs.1,267 mn),
- Achieved significant reduction in operational losses – from Rs.238 mn last year to Rs.155 mn.
- Attained market share of 1.92% in the participated French Generic market (IMS MAT Dec-06).
- Filed 21 additional site transfer applications for transferring the manufacturing site from France to India, taking the total to 25 site transfers. Received 6 approvals so far, of which commercial supply of 4 products from India has been commenced.
- Submitted 15 additional dossiers for new products from India, taking the total to 23 dossiers. Received approval for 4 products so far.
- Over 25 site transfer applications and new product dossiers are in the pipeline, which are expected to bring in cost improvement and boost the growth.

Other Emerging Global Markets

Our performance in over 26 other emerging global markets during the year has been excellent, with sales crossing Rs.1 billion mark in 2006-07. We registered aggregate sales of Rs.1,074 mn in these markets, up from Rs.852 mn, showing growth of 26% Y-Y.

We are amongst top three Indian players in Sri Lanka, Myanmar, Philippines, Uganda and Sudan, and are also currently focusing and developing base in rapidly growing markets of Brazil, Russia and South Africa.

During the year, our sales in Sri Lanka crossed $ 5 mn mark, and captured market share of 4.95% in this market. *(Source: IMS Q4 '06)*

We started operations in Brazilian market, which has total pharmaceutical market size of ~$ 7 billion and has been growing at ~18% *(Source: ESPICOM)*. In 2006-07, our Brazil operations registered sales of Rs.176 mn with growth of 53% compared to previous year. During the year, we filed 7 dossiers for pure as well as branded generics (for 13 strengths) for Brazil market, taking the cumulative product dossier pipeline to 19 (27 strengths), of which 11 (13 strengths) have been launched so far. Going forward, we plan to launch 6-8 products every year for next 3-5 years to build sizeable product portfolio. Our long-term strategy for Brazil is to enter branded formulations market, which will help us to improve margin and maintain market share unlike generic market.

Highlights of Emerging Global Markets:

- The total sales to Emerging Markets in F.Y. 06-07 crossed Rs.1 bn mark, and registered sales of Rs.1,074 mn, up from Rs.852 mn, showing growth of 26% Y-Y.
- Sri Lanka crossed sale of $ 5 mn during the year with market share of 4.95% (IMS - Q4 06)
- Brazil registered sales of Rs.176 mn with growth of 53% compared to previous year
- Commenced shipment of products to GCC (Gulf Co-operation Council) countries and Taiwan
- Launched Sugar Free in the Russian market.
- 10 dossiers filed for South Africa, taking cumulative filings to 34. Received 5 dossier approvals, with cumulative approvals reaching 10.
- First to file status for 2 products in Thailand.

Entering Japan

In continuation with our efforts to explore newer avenues of growth by entering newer markets, we made a foray into the generics market of Japan by opening a wholly owned new subsidiary – "Zydus Pharmaceuticals Inc., Japan".

The Japanese generics market, which is considered to be one of the most traditional and conservative markets in the world, is valued at $ 3 bn and has a tremendous growth potential as it currently stands at just 5% of the total pharmaceuticals market in Japan in value terms and 17% by volume. It has been growing in double digits compared to innovator drugs, which have been more or less stagnant. Currently acceptance of generics is very low in Japan, but government is taking measures to improve it. Rapidly ageing population has lead to increased demand of medicines and growth in national medical expenditure has been forcing the government to reduce its cost burden by promoting use of generics.

Zydus Pharmaceuticals Inc. Japan is headquartered at Shinjuku-ku, Tokyo, Japan. The subsidiary will market APIs and formulations in Japanese market, and start product registration process in 2007. Besides marketing generics, we will also explore collaborations and alliances with Japanese pharmaceutical companies in areas such as joint research and development, co-marketing, contract manufacturing for API, intermediates and formulations.

To jumpstart our operations and strengthen our base in Japan, we acquired 100% stake in Nippon Universal Pharmaceutical Ltd., a small privately held company headquartered at Tokyo, Japan. The acquisition will provide opportunity to have access to a ready manufacturing and marketing base as well as a strong distribution reach. Nippon reaches out countrywide to more than 4000 hospitals and clinics. This is expected to provide a fillip to the group's operations in a market that is highly complex and dominated by local pharmaceutical companies. Nippon also has a GMP compliant manufacturing plant in Tokyo.

We have identified products to be developed for Japanese market and plan to build a basket of 15-20 products for launching over the next 5 years. We plan to increase the field force in Japan gradually on getting approvals of new products.

Consumer Products Business

Our consumer products division has shown another year of robust performance, and posted sales of Rs. 1,219 mn. up 89% from Rs.646 mn last year, on the back of healthy 23% growth in existing consumer business and sales of Rs.427 mn of Carnation Nutra Analogue Foods Ltd. (Carnation), which we acquired in March 2006.

The existing consumer business comprises of two umbrella brands viz. *Sugar Free*, which is a low calorie tabletop sweetener and *Everyuth*, under which we market a wide range of skin care products. During the year 2006-07, Sugar Free grew by 25%, and crossed mark of Rs.500 mn., while Everyuth range of cosmetic products grew by 17%.

With the acquisition of Carnation last year, we added one more product – *Nutralite*, to our existing portfolio. During the year 2006-07, we revamped and repositioned this brand in the market. With a complete change in the packs and packing style and special promotional campaign, the focus shifted from bulk to retail segment. Our strategy has started yielding results in the very first year, and the brand recorded sales of Rs. 427 mn, up 38% over last year. The business of Carnation reported net profit of Rs. 39 mn, in spite of heavy investments in terms of advertisements and promotions. Of this profit, Rs. 24 mn, i.e. 62%, which is the current stake holding of your company in Carnation, is reported in consolidated financial statements.

Highlights of the Consumer Products Business

- Registered robust performance with sales of Rs. 1,219 mn, up 89%.
- The Sugar Free group of products grew by 25%, and crossed Rs. 500 mn mark
- *Nutralite* brand was repositioned and posted sales of Rs. 427 mn

Manufacturing

Growth in formulations, both in domestic and international markets, would not have been possible without the infrastructure that we have created with our world class, state of the art manufacturing facilities.

With operations in regulated and semi-regulated markets of US, Europe and Brazil going strong and the opening up of new markets like Japan, the need was felt to expand the existing capacity of the manufacturing facilities. In line with this, a green field facility for Solid Oral Dosage Forms mainly for domestic market in form of a partnership firm has been established at Sikkim. The facility has been constructed in record period of seven months, and we are the first company to start operations in Sikkim. The plant has capacity to produce 10 billion dosages when fully operational on two streams. It has twelve different lines having a capacity to process from 30 kg to 1500 kg., which will provide greater flexibility and over all reduction of inventories, through optimised batch-sizes. The site has got 10 years’ full exemption from excise duty and income tax

During the year, our Baddi facility received WHO GMP approval as well as an approval from the Ministry of Health, Uganda.

For global contract manufacturing, we have installed lyophilisation facility at Moraiya plant with annual capacity of 7.5 mn dosages to cater to both Indian and international markets.

Research & Development

Our vision is to become a global research driven company by 2020 and we have already initiated concerted efforts in this direction. With three state-of-the art research and development facilities and talented pool of nearly 600 scientists, we have been investing 6-8% of its turnover on research and development activities.

During the year 2006-07, we spent Rs. 1,610 mn on research and development activities on a consolidated basis, up 38% from Rs. 1,167 mn. last year. Of this, revenue spent on R&D was Rs.1,345 mn, up 69% from last year's expenditure of Rs. 797 mn, while capital investment on R&D was Rs. 265 mn. Thus, total expenditure on R&D as % to total operating income went up to 8.8% from 7.9% last year.

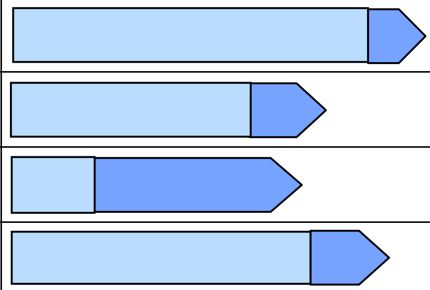
New Molecular Entity (NME) and Biological Research

Zydus Research Center (ZRC), located near Ahmedabad, concentrates on NME research, and biologicals (biogenerics), with special focus on chronic therapeutic areas like diabetes, dyslipidemia, obesity and inflammation.

During the year 2006-07, ZRC made brisk progress on NME research. ZYH1, our first molecule for treating dyslipidemia has successfully passed Phase I clinical trials, and has entered Phase II clinical trials. ZYI1, the anti-inflammatory and pain management compound has also passed Phase I clinical trials and has entered Phase II trials. ZYH2, the novel agent for treating diabetes is undergoing Phase I trials.

We filed our fourth Investigational New Drug application (IND), ZYO1 with DCGI during the year 2006-07. ZYO1 is a novel drug candidate for treating obesity and related disorders. Apart from this, there are several candidates for treating dyslipidemia, diabetes and arthritis under pre-clinical stage.

Progress in NME research							
Area of research	**NME**	**Indication**	**Pre Clinical Stage**	**IND filing**	**Clinical Trials**		
					Phase 1	**Phase 2**	**Phase 3**
Metabolic disorders	ZYH1	Dyslipidemia					
	ZYH2	Diabetes					
	ZYO1	Obesity					
Inflammatory diseases	ZYI1	Inflammation & Pain					



Progress made up to 2005-06
Progress made in 2006-07

ZRC is also engaged in biological research, and is actively working on several biologics projects, which are at various stages of clinical trials. The focus areas of these projects are therapies like cancer, multiple sclerosis, hepatitis B & C, anemia and osteoporosis.

Formulations Development – Pharmaceutical Technology Center (PTC)

Pharmaceutical Technology Center - The Single Window for Global Dossiers" has become a center of excellence. It has lived up to its mission statement "to create a innovative, technology and speed driven product development center that caters to Zydus' goals for the global pharmaceutical market".

The highly motivated and energetic team has delivered record number of dossiers in FY 2006-07. With 26 ANDA submissions in US and 15 CTD in Europe, it has also completed a record 21 Site Transfers Applications from France to India. There were significant filings made in South Africa, Brazil, Thailand and Taiwan as well.

The Pharmaceutical Technology Centre is now aligning itself and equipping itself to make Zydus a leading player in the specialty pharmaceutical sector. To realize this it has started building strong teams to develop parenteral, transdermal and respiratory dosage forms also. It has attracted the best talents in the Industry and has rapidly absorbed new technologies.

The state-of-art development facilities have been expanded and now facilities to develop parenteral products, both liquid and lyophilised, transdermal drug delivery systems and respiratory dosage forms are operational.

The centre has built unique project management capabilities and has leveraged IPR to identify and file molecules at record speed to help achieve the company's goal of achieving next milestone of $ 1 bn turnover by 2010, in addition to this, the center has helped generating revenues by providing standard services to the Global Contract Manufacturing Cell for various multinational pharmaceutical companies.

With these capabilities, PTC will be a unique, one of its kind development facilities offering a wide range of dosage forms under one roof. This team of highly skilled and knowledgeable professionals will provide the cutting edge advantage to the group in its quest to develop and register new products across the globe.

Intellectual Property Rights

During the financial year under review, we have committed significant resources towards research and development (R&D) activities. These R&D investments are core to develop a competitive position in global pharmaceutical industry. Our R&D investment has resulted into development of proprietary technologies, processes, products and know-how and thus, helped maintain a competitive position in rapidly evolving global pharmaceutical industry.

We have devoted significant resources to protect our core technologies, processes, and products through a series of patent applications and other forms of intellectual property rights. We, at Zydus, believe that an evolving intellectual property rights (IPR) portfolio is one of most strategic asset of the company.

During the financial year under review, we have taken appropriate measures to protect our IPR and control access to know-how and trade secrets. During fiscal year 2006-07, we took active measures to protect our IPR and trade secrets through timely patent filings, copyright, trademark registrations and confidentiality agreements. So far, more than 225 patents have been filed by Zydus group in the US, EU and other emerging global markets. In addition, multiple trademark applications were also filed for various products.

Environment Protection

We are committed towards protection of environment and maintenance of high standards of health and safety. As a responsible organization, we make our best efforts to adhere to various regulations of the government related to environment protection.

To move beyond compliance and initiate proactive steps in this direction, we have set up a dedicated Environment Management Cell which is responsible for implementing best environmental management practices and compliances of environmental laws to keep our group on the course of sustainable development.

In the initial phase, Environment Management Cell has conducted training programmes for the staffs for bringing awareness on the Environmental Laws, Corporate Responsibility For Environment Protection (Pharmaceutical Sector) and Environmental Impact Assessment (EIA) Notification, 2006 etc.

Environment Management Cell is regularly monitoring the Environment compliance by all units of our group. It has also started carrying out comprehensive studies on impact on environment by all manufacturing units located at various locations and on completion of studies, an Action Plan will be prepared for implementation of various steps for control/prevention or abatement of environmental pollution.

The company plans to -

- Establish an environmental cell with laboratory facilities at all units of our group for monitoring the environment and implementing the mitigation measure to conserve the environment.
- Obtain ISO 14001 certification regarding Environment Management System for all units of the group.
- Maximize the reusing, recycling & recovering of wastes and resources conservation.

Human Resources

Over the last few years, HR as a strategic partner in the business has been in the process of leading change through organisational transformation initiatives. The focus of these initiatives has been to support our organisation's performance and productivity as it surges ahead on the path of global expansion. In line with this, here is a broad overview of the initiatives undertaken by the Team HR during the year 2006-07:

Integrating and strengthening global operations

From India-focused operations in 1995, we have catapulted ourselves on to a global platform, successfully emerging as a global healthcare provider. The HR initiatives were centered on –

- Retaining the speed, agility and flexibility that forms the very core of the organisation.

- Retaining diversity of different local cultures while harmonizing processes and managing a global workforce spread across four continents that now forms 'Team Zydus'.

- Creating a global talent pool by continuously building the right "bench" strength and expanding the repertoire of talent to meet the organization's talent needs.

- Creating an attractive employer brand image to attract talent as the organisation consolidates its position in a highly competitive and fast changing landscape.

Developing leadership talent

Leadership development, which is one of the five pillars of the group's organisational transformation programme continued to be thrust area. During the year, the leadership bandwidth was expanded and currently there are 98 leadership role holders across organisation who form a part of the group's leadership conclave

- The Leadership band connects with our organisation's big picture – in terms of goals, business health parameters and enabling a collective strategic thinking on challenges and the way forward, every quarter.

- Recently, the CEO series was launched at this meet, to look at how successful leaders have been overcoming challenges, leading the transformational process in their organisation and being inspired by them. Mr. K.V. Kamath, CEO and Managing Director of ICICI Bank delivered the inaugural talk.

Capability Building

The Team HR has been looking at Capability Building – which is also one of the pillars of the organisational transformation process - to see how the learning potential of individuals and teams can be maximized for organisational effectiveness and performance. The approach is two-fold: Firstly, to raise the competency bar across the organisation to bring in greater effectiveness and keep pace with the expansion needs. Secondly, to look at specific initiatives that honest expertise and brings depth to our organisation's talent pool. The process includes:

- Mapping and aligning training needs with the organisation's business initiatives and priorities.
- Focusing on 'Next Level' competencies, through skill building and functional programmes across the organisation.
- Creating new levels of influence and impact through programmes on strategic leadership development, executive and management development.

    - In year 2006-07, a training calendar spanning over 4,000 training man-days had a wide spectrum ranging from programs to enhance productivity, to increase managerial effectiveness and programmes to explore new thinking and approaches.

    - As a part of a concerted effort to create a leadership pipeline for our organization, a new initiative – Zydus Emerging and Aspiring Leaders programme (ZEAL) was launched during the year. With a thrust on developing aspiring leaders in the middle management level, 42 executives have been enrolled into a general management programme, customised to meet our leadership requirements in different management areas.

- The Zydus Talent Management Programme (ZTMP) - the highly successful fast track programme for career growth, has created new, exciting opportunities for Zydans in field operations. Based on this model, ZTMP will now be rolled out for Zydans across the group.

Awards and Accolades

- At the World HRD Congress held at Mumbai, the Global HR Excellence Awards were presented for outstanding contributions in the field of HR. We received The HR Leadership Award on the occasion from Mr. Praful Patel, Hon'ble Minister for Civil Aviation, Government of India.

- The National Productivity Council, a national level organisation under the Ministry of Commerce and Industry, Government of India, also lauded our efforts in managing change and enhancing employee productivity.

With our group poised to become a leading global generic company with sales of over $1bn by 2010 and $ 3bn by 2015, the process of aligning HR with the organisational goals will continue. To this end, we will continue to explore new approaches to talent management, create leadership bench strength, invest in human capital development and leverage knowledge and expertise for organisational growth.

Joint Ventures

We have always been a preferred partner by several Indian and multi national companies for offering an unmatched combination in terms of cost efficiency, high quality products operational transparency and protection of intellectual properties. Highlights of the operations of the joint ventures with these partners during the year 2006-07 are:

Zydus Altana Healthcare Pvt. Ltd.

The JV with Altana AG posted sales revenues of Rs.1,674 mn during the year 2006-07, up 28% from Rs.1,306 mn in 2005-06. Profit after tax for the year ended March 31, 2007 was Rs.1,326 mn, up 44% from Rs.920 mn in 2005-06. 50% of these have been reflected in consolidated financial statements of the group. The JV paid a total of Rs.515 mn as dividend compared to Rs.375 mn in 2005-06. The improved performance was aided by sound sales growth reported by patented formulation of Pantoprazole in global market.

During the year 2006-07, Altana AG, Germany was acquired by Nycomed of Denmark. The management of Nycomed has shown confidence in us and has indicated that they are committed to continue to strengthen the relationship with us.

Sarabhai Zydus Animal Health Ltd.

This 50:50 JV with Ambalal Sarabhai Enterprises, which has a strong presence in the animal health market with a special focus in livestock, poultry and pet care segments has shown an improved performance during the FY – 2006-07. Net sales of the company grew by 7% during the year to Rs.888 mn from Rs.834 million in 2005-06, while net profit grew by 28% to Rs.84 mn from Rs.66 mn last year. The company’s business was affected due to initial set back in the Poultry business as a result of the Bird flu scare. Also, due to withdrawal of Diclofenac and reduction in the prices of some the key molecules under DPCO, margins & sales Volumes were impacted. However, due to timely marketing and operational initiatives, the company has shown a significant improvement in overall performance.

Zydus Mayne Oncology Pvt. Ltd.

Zydus Mayne Oncology Private Limited is a 50-50 joint venture with Mayne Pharma Limited, Australia for manufacturing and selling generic cytotoxic injectables products (finished products) and APIs (Active Pharmaceutical Ingredients) required as an input to manufacture finished products.

The JV will develop and manufacture selected cytotoxic APIs and injectable cytotoxic products. These products would be marketed by Mayne in territories where Mayne has a strong sales, marketing and distribution presence. Similarly, we would market these products in territories where we have strong presence.

During the year 2006-07, the construction of the state-of-the-art finished dosage manufacturing facility of the JV has been almost completed with all the machines and equipment installed and commissioned. This facility is located in a pharmaceutical sector specific Special Economic Zone near Ahmedabad. Right now, the facility is in the final stage of validations.

Once the satisfactory validations of the manufacturing facility is over, we plan to take up the exhibit batches this year and file ANDAs /dossiers with the global regulatory authorities. This whole process will start by the end of this year. In the next phase, we also plan to set up an API manufacturing facility for captive use. We have already started development of APIs in its R&D laboratory and we have plans to house the R&D facility within API facility once the facility is fully set up and commissioned.

During the year, Mayne Pharma Ltd. was acquired by Hospira Inc. of US. The acquisition will have positive impact, as the new combined entity of Hospira and Mayne would be a global bell-weather in oncological injectables, having a strong foothold in both Europe and US markets. This is expected to lead to a substantially higher demand of the products compared to what was earlier envisaged and this augurs well for the JV. The new management has shown its deep interest and commitment in the JV and in strengthening the relationship between the both the partners.

Zydus BSV Pharma Pvt. Ltd.

We had entered into joint venture agreement with Bharat Serum and Vaccines Ltd. in 2005-06, to develop, manufacture and market a non-infringing and proprietary Novel Drug Delivery System (NDDS) of a proven anti-cancer product for global markets. Pursuant to the agreement, we have formed Joint Venture Company viz. Zydus BSV Pharma Pvt. Ltd.

Zydus BSV Pharma Pvt. Ltd. focuses on research and development of novel drug delivery systems in the area of oncology, which is one of the fastest growing segments in the pharmaceutical industry. The Phase I Clinical Trial on company's research product is progressing satisfactorily. The company is in the process of appointing a reputed international CRO to support its efforts for obtaining global regulatory approvals of this product.

Zydus BSV Pharma Pvt. Ltd. will also be manufacturing and marketing novel oncological formulation - Doxorubicin Hydrochloride Liposomal Injection. There are very few players in the world of Doxorubicin based Liposomal Injection which is primarily used for the treatment of Breast & Ovarian Cancer and Kaposi's Sarcoma – a form of Skin cancer. Considering the IP landscape in this segment, this product offers very good potential in the global markets.

Currently, we are in the process of establishing a finished dosage manufacturing plant in pharmaceutical specific economic zone near Ahmedabad.

We are hopeful of launching the product in the domestic market during the FY 08-09. Dossier for obtaining registrations in some of the export markets will also be prepared for submission during the year.

Consolidated Financial Highlights*

Operating Incomes

Sales

The gross sales revenue grew by 24% to Rs. 18,747 mn in 2006-07 from Rs.15,078 mn in 2005-06. Sales growth was mainly driven by growth of 91% in formulations exports, growth in API and intermediates exports by 33% and growth of 89% in Consumer business.

Break up of gross sales:

Rs. Mn.	FY 06-07	FY 05-06	% Growth
Total Sales	**18,747**	**15,078**	**24%**
Domestic Sales	**12,695**	**11,359**	**12%**
Formulations	**10,602**	**9,793**	**8%**
Branded Formulations	9,790	8,928	10%
Generic Formulations	812	865	-6%
APIs and Intermediates	**378**	**451**	**-16%**
Consumer & Others	**1,715**	**1,115**	**54%**
Consumer Business	1,219	646	89%
Animal Health & Other Businesses	496	469	6%
Export Sales	**6,052**	**3,719**	**63%**
Formulations	**3,770**	**1,976**	**91%**
US	1,428	500	186%
France	1,267	624	103%
Other Emerging Markets	1,074	852	26%
APIs and Intermediates	**2,282**	**1,743**	**31%**
Own APIs and Fine Chemicals Business	1,445	1,090	33%
Zydus Altana Business	837	653	28%

*****In the consolidated financial statements, out share in incomes, expenses, assets and liabilities of Joint Ventures (JVs) have been shown at the end of the schedule of such incomes, expenses, assets and liabilities. However, for financial analysis, share in each head of income, expense, asset and liability of the JV has been considered for better understanding.

Other Operating Incomes

The other operating incomes, which mainly comprise of export incentives, processing income and income from global contract manufacturing increased by 10% to Rs. 433 mn from Rs.392 mn in 2005-06. Export incentives grew by 84% from Rs. 55 mn in 2005-06 to Rs. 101 mn on the back of robust growth in exports, while processing and global contract manufacturing income grew by 6% from Rs. 251 mn in 2005-06 to Rs. 267 mn. Of this, income from existing contracts was Rs. 166 mn, up 4% from Rs. 159 mn last year, while income from contracts signed by our Global Contract Manufacturing (GCM) Cell was Rs. 101 mn, up 10% from Rs. 92 mn last year. This income mainly comprised of charges for development of products / processes for the contractee parties, as commercial supply under none of the contracts signed so far have started.

Other Incomes

Other incomes, which include dividends, rent and profit on sale of assets, were Rs. 264 mn, vis-à-vis Rs.36 mn last year, an increase of Rs.228 mn. This increase was mainly on account of profit of Rs.263 mn earned on sale of branded business of our French subsidiary, Zydus France SAS.

Operating expenses

Material Cost, Excise Duty and Processing Charges

The consumption of materials and finished goods as % to gross sales reduced from 37.7% last year to 34%. This was partly due to shifting of manufacturing of some of the products from external manufacturers to own plants and change in terms of contract with these external manufacturers for other products, which has resulted into reduction in material cost, with consequent increase in excise duty and processing charges paid to these external manufacturers. Thus, net reduction, as % to sales in cost of goods sold was 2.6% as shown below.

Rs. Mn.	FY 06-07	FY 05-06	% Growth	% to Sales FY 06-07	% to Sales FY 05-06	Change
Consumption of Materials	6,372	5,688	12%	34.0%	37.7%	-3.7%
Excise Duty on Sales	892	625	43%	4.8%	4.1%	0.6%
Processing Charges for Finished Goods	211	99	114%	1.1%	0.7%	0.5%
Total	**7,476**	**6,412**	**17%**	**39.9%**	**42.5%**	**-2.6%**

This net reduction of 2.6% in cost of goods sold was result of overall reduction in procurement costs of key materials and better product mix.

Personnel Costs

The Personnel cost (excluding R&D staff cost) increased by 17% y-y to Rs.1,902 mn from Rs.1,632 mn last year. The increase in personnel costs was both due to net addition in manpower and average cost per employee. Also, on the occasion of crossing of our first milestone of $ 400 mn sales mark, we have declared special one time bonus equivalent to one month's salary to all our employees. The cost on this account has been provided for in the consolidated financial statements for the year 2006-07. Increase in personnel costs excluding this has been 6% over 2005-06 base.

Manufacturing, Selling, Distribution and General expenses

The manufacturing (excl. Processing charges), selling, distribution and other general expenses increased by 32% y-y to Rs. 4,938 mn from Rs. 3,752 mn in the previous year. Manufacturing expenses (excl. Processing charges) grew by 18% from Rs. 642 mn. to Rs.757 mn. Marketing and Sales Promotion Expenses increased by 26% from Rs.1,466 mn in 2005-06 to Rs.1,851 mn, which included Rs.50 mn being promotional expenses of *Nutralite*, which were not there last year. Distribution expenses increased by 55% to Rs.794 mn from Rs.512 mn last year mainly on account of higher growth in formulations exports to US and other markets and growth in API exports, distribution costs for which are higher compared to domestic market. Compared to less than a million rupees in 2005-06, deficit on account of fluctuations in foreign currency stood at Rs.38 mn this year. Other administrative and operating expenses grew by 32% from Rs.1,132 mn to Rs.1,498 mn in 2006-07.

Depreciation and Amortisation

The depreciation and amortisation expenses were up 6% y-y to Rs.823 mn, versus Rs.779 mn in 2005-06. This includes amortisation of Rs.352 mn on intangible assets.

Interest and financial charges

The money market in India passed through difficult situation during 2006-07, reversing the trends of interest rates. In order to curb liquidity, control inflation and mitigate impact of sharp rise in crude oil prices, RBI took stringent measures leading to increase in interest rates and reducing liquidity. This led to increase in cost of debt.

In spite of this, we have been able to manage our debt port-folio, with the total finance cost, including impact of exchange rate fluctuations on the debt portfolio and other charges during the year 2006-07 was at Rs.297 mn marginally higher than Rs.288 mn for 2005-06. However, gross interest paid increased from Rs.188 mn to Rs. 267 mn mainly due to increase in level of debt.

Profits and margins

The operating EBITDA (Earnings before interest, tax, depreciation and amortisation and excluding non operating incomes) increased by 22% to Rs. 3,521 mn in 2006-07, from Rs.2,877 mn a year ago. The EBITDA margin (% to operating income) was 19.3%, was more or less same as that of last year of 19.4%, even after increase of 2% in revenue R&D spends.

Reconciliation of EBITDA margin

	% to Operating Income
EBIDTA margin for 2005-06	**19.4%**
Lower net material cost & processing charges	3.0%
Lower other manufacturing costs	0.2%
Lower personnel cost (excl. R&D staff cost)	0.6%
Higher marketing and promotion costs	-0.2%
Higher distribution costs	-0.9%
Higher other administrative costs	-0.8%
Higher R&D spends	-2.0%
EBITDA margin for 2006-07	**19.3%**

The PBT (Profit before tax) increased by 55% y-y to Rs.2,739 mn and the Net profit after tax and minority interest was up 53% y-y to Rs.2,338 mn, from Rs.1,524 mn in 2005-06. The net margin was higher at 12.8% from 10.3% in 2005-06.

Reconciliation of net margin

	% to Operating Income
Net margin for 2005-06	**10.3%**
Marginal reduction in EBITDA margin as above	-0.1%
Higher Other Incomes (mainly profit on sale of assets / business)	1.2%
No exceptional expenses (VRS compensation amortisation) this year	0.8%
Lower depreciation charge	0.8%
Reduction in net interest expenses	0.5%
Marginal increase in tax provision	-0.1%
Increase in share of minority in profits of partly owned subsidiaries	-0.4%
Net margin for 2006-07	**12.8%**

Net Worth

The consolidated Net Worth increased to Rs. 8,655 mn at the end of March 31, 2007, up 24% from Rs. 6,989 mn at the end of March 31, 2006. The paid up share capital stood at Rs. 628 mn, which increased by Rs. 314 mn after we issued bonus shares in the ratio of 1:1 in August-2006. The reserves and surplus increased to Rs. 8,027 mn at the end of 2006-07, from Rs.6,675 mn last year mainly on account of retained earnings, even after reduction of Rs.314 mn, which was utilized for issue of bonus shares.

The book value per share increased to Rs. 68.9 as at 31st March 2007 from Rs. 55.6 last year. The return on net worth (RONW = Net Profit / Average Net worth) % increased by 6.2% to 29.9% from 23.7% last year.

Debt

During the year, there was increase in total debt of the company (including Buyers' Credit) by Rs.312 mn, with total debt at the end of 2006-07 of Rs.4,934 mn against Rs.4,622 mn at the end of previous year. Increase in the debt was mainly to fund capital expenditure of over Rs.2 bn during the year.

Out of this, debt of Rs.3,582 mn is in foreign currency, representing 72.6% of total debt. 41% of the foreign currency debts have been hedged with derivatives and balance are kept open considering the natural hedge against future export receivables. Debt to equity ratio at the end of 2006-07 was 0.57:1 against 0.66:1 at the end of 2005-06.

Fixed Assets and Capital Expenditure

The consolidated gross block at the end of 2006-07 was Rs. 13,527 mn, up 12% y-y, while Net Block stood at Rs. 8,559 mn. The total capital expenditure (including capital work in progress, but excluding goodwill arising on consolidation of Carnation Nutra Analogue

Foods Ltd.) during the year was over Rs. 2,002 mn. Broad break up of this capital expenditure was as follows:

	Rs. Mn.
Formulations manufacturing facilities at Sikkim, Moraiya and other locations	1036
API and intermediate manufacturing facilities at Ankleshwar and other locations	442
Research and Development facilities (at both ZRC and PTC)	265
Other capexes including intangibles	259
Total Capital Expenditure in 2006-07	**2002**

Working capital and liquidity

Level of working capital (excl. Buyers' Credit) of Rs.4,824 mn at the end of 2006-07 shows an increase of Rs.1,152 mn from Rs. 3,672 mn at the end of 2005-06. Average working capital represents 22.7% of turnover for 2006-07.

Accounts Receivable increased by Rs.794 mn to Rs.2,784 mn at the end of 2006-07 representing 54 days (of turnover) in 2006-07 against 48 days in 2005-06. Increase in the level of receivable is due to steep rise in exports as well as API sales, for which higher credit of 180 days is extended.

Inventory level went up to Rs.3,896 mn at the end of 2006-07 from Rs.2,475 mn last year with average of 153 days of cost of goods sold against 112 days at the end of 2005-06. Major part of this increase is attributable to higher level of stocking required for export business.

Loans and Advances increased from Rs.1,588 mn to Rs.2,201 mn, which is attributed to advance of Rs.160 mn for acquisition of Liva Healthcare and increase in advances for projects and capital goods.

Current Liabilities net of Buyers' Credit has gone up to Rs.4,189 mn from Rs.2,214 mn. Major component of this is increase in Creditors for supplies, which represents increase in volume as well as longer credit terms negotiated by the Company.

Capital employed and operating efficiency

Total Capital Employed (CE) at the end of the year was Rs.14.5 bn, up from Rs.12.5 bn at the end of the previous year, which correspondence to the growth of business. Return on Capital Employed (ROCE = Operating Earning before Interest and Tax / Average CE) increased from 18.1% in the previous year to 20%.

Threats, Risks and Risk Mitigation

Risk from R&D Spend proving to be infructuous

Globally, of every 10,000 compounds tried out only one finally makes it to the market. This represents a substantial risk of the R&D spends not resulting in corresponding benefits.

Risk Mitigation:

While there is no certainty of the benefit from the R&D spend, we are following a dual strategy to limit and mitigate this risk. We plan to take the development of NCEs up to a certain level and then go for partnering for further developments. Also as a matter of prudent accounting policy, we charge off the entire revenue spend (except capex) against revenues of the year of spend itself.

Risk from International Operations

As we stepped up our international operations, and the contribution of exports to the total revenue grew larger, the ensuing risk from operating in foreign countries also grew. This included, inter alia, political risk, credit risk, litigation risk and currency risk.

Risk Mitigation:

Our operations are spread over wide geographies from America to Europe to CIS to Far East to Southern Africa and this spread acts as mitigating factor. Additionally, we principally operate in markets where the Rule of Law prevails and systemic redressal mechanisms exist.

Forex Risk

Our exports are principally denominated in US Dollars and any Rupee appreciation versus the US Dollar can impact the company adversely. And our imports are partially denominated in Euro and its appreciation may adversely affect the cost of imported raw materials. Besides, we have a large portion of foreign currency debts (both in US$ & Euro), which are subject to risks of fluctuations of foreign exchange rates.

Risk Mitigation:

We have an institutionalised Forex Risk Management Policy, which seeks to protect our Company from adverse impact of exchange rate movements. As a matter of policy, we hedge a portion of our export receivables in U.S. Dollar and a portion of Euro payables. As per this policy, major portion of foreign currency debt is kept open in order to nullify impact of rate fluctuations on export receivable. Net gains in respect of forex debt were of Rs.11 mn during FY 2006-07.

Litigation Risk

As we enter the generics markets in advanced countries, we face the risk of entering into litigation with product originator or patent holder and the ensuing costs.

Risk Mitigation:

While Litigation Risk can never really be completely ruled out, we have obtained expert legal advice and believe that at the present stage of our growth, such a risk is minimal. Certain ANDAs/dossiers filed for US and regulated markets may fall under Para IV. However, our policy in that case would be not to challenge the patent of the product originator, but go for settlement route.

Price Controls

The Indian pharmaceutical 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 our company.

Risk Mitigation:

While the DPCO does limit what a pharmaceutical company can charge for certain classes of products, we are mitigating this risk launching newer classes of products which are not covered by the DPCO as well as improving the operating efficiencies of our production processes to reduce costs.

JV Risk

We have several joint ventures with varied partners contributing substantially to our revenues. Any adverse developments in these JVs would impact our company.

Risk Mitigation:

While risks from adverse market developments and other external factors remain, it has to be noted that we have a lot of experience in managing the JVs in a manner that is profitable to both the partners. This can be seen from the success of the Zydus Altana JV, which has contributed Rs. 663 mn in the consolidated profits of FY 2006-07. Also, as discussed above, even after the change in management of two of our JV partners viz. Altana AG and Mayne Pharma, there has been no adverse effect to the operations of any of the JVs. In fact, we foresee positive effects on future operations of both the JVs. Additionally; most JVs operations are covered by long-term agreements with the partners.

Internal Control Systems and their adequacy:

We have 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 and action as recommended by the Audit Committee is initiated to remedy any weakness in the system.

Directors' Report

Your Directors take pleasure in presenting the 12th Annual Report on the business and operations of the Company together with the Audited Accounts for the year ended 31st March 2007.

Financial Results

(Rs. in millions)

For the year ended	31st March 2007	31st March 2006	Growth (%)
Sales and Other Income	15141	13215	14.57
Profit before Interest, Depreciation, Extraordinary items and Tax (PBIDT)	3162	2820	12.13
Less : Depreciation	667	616	8.28
Profit Before Interest and Tax and Extra Ordinary Items (PBIT)	2495	2204	13.20
Less : Interest	176	205	(14.15)
Less : Extraordinary items	0	111	(100)
Profit Before Tax	2319	1888	22.83
Less : Provision for tax	272	239	13.81
Profit After Tax	2047	1649	24.14
Add: Profit brought forward from the previous year	2381	1490	59.80
Profit available for appropriation, Which is appropriated as follows :			
Proposed Dividend	502	377	
Corporate Dividend Tax on Proposed Dividend	85	53	
Transferred to General Reserve	3000	328	
Balance Carried to Balance Sheet	841	2381	
Total	4428	3139	41.06
Earnings per share (EPS of FV Rs. 5/-) in Rs.			
- Before Extraordinary items	16.30	14.01	
- After Extraordinary items	16.30	13.13	

Operations and Business Performance

During the year under review, the Company achieved sales of Rs.15014 mn, showing a growth of 14.76 % compared to the previous year. The PBIDT increased by 12.13 % to Rs. 3162 mn. The Profit before Tax was higher 22.83 % to Rs. 2319 mn. The Profit after Tax increased to Rs. 2047 mn up 24.14% compared to Rs. 1649 mn in 2005-06. The Company achieved EPS (After Extraordinary items) of Rs. 16.30 compared to Rs. 13.13 in 2006-07, calculated on the enhanced capital after bonus of 1:1.

Dividend

Your Directors are pleased to recommend a dividend of Rs.4/- per equity share on 125,613,708 equity shares of Rs. 5/- each for the financial year ended 31st March 2007. The dividend, if approved by the shareholders, will be paid to the eligible shareholders within the period stipulated by the Companies Act, 1956. The Dividend Payout ratio for the current year (inclusive of corporate tax on dividend distribution) is 28.68 percent.

Bonus Issue

The Company has issued bonus shares in the ratio of one equity share for every one existing equity share of the Company held by the members on 31st August, 2006, the record date fixed by the Board. The bonus shares rank pari passu in all respects with the existing fully paid up equity shares of the Company, including dividend if any, declared by the shareholders, for the financial year 2006-07.

Acquisition

Your Company has entered into Share Purchase Agreement to acquire 97.95 % stake in Liva Healthcare Limited (LIVA), a closely held public Company from its promoters. LIVA is carrying on business of manufacturing and marketing of Formulations and is focused on Derma Segment. As on the date of this report, the transaction is completed and the Company has taken over charge of the management of LIVA.

Your Company has also entered into Share Purchase Agreement to acquire 100 % stake in Nippon Universal Pharmaceutical Ltd., (Nippon) a privately held company headquartered at Tokyo, Japan. The acquisition is made through its wholly owned subsidiary set up during the year in Japan. The acquisition will provide critical access to a manufacturing and marketing base as well as a strong distribution reach. The acquisition will unlock value for the Company, as generic market in Japan is opening up and post 2010 the Company expects this market to be a major growth driver for its global business.

Both the above acquisitions were made during the current year and in April, 2007 so its effect on the financials of the Company will be reflected in the accounts for the year ending on 31st March 2008.

Performance of Subsidiary Companies

The performance of subsidiaries and joint ventures as per the audited accounts of the respective subsidiary / joint venture companies are summarised hereunder. The audited accounts for the foreign subsidiaries are as at December 2006 / February, 2007. The January / February to March 2007 accounts are subjected to limited review.

Performance of subsidiary Companies during 2006-7

Sr. No.	Name of Subsidiary	% holding	Main business	Year ended on	Revenues 2006-7 (Rs mn)	Profit after tax 2006-7 (Rs mn)
1	Zydus Pharmaceuticals Limited, India	100%	Distribution of pharmaceuticals	31st March	0.00	0.04
2.	German Remedies Limited, , India	100%	Marketing services	31st March	1.74	1.04
3.	Dialforhealth India Ltd, India.	100%	Operates a chain of retail pharmacies	31st March	65.19	(7.34)
4.	Carnation Nutra Analogue Foods Limited, India	61.56 %	Manufacture and marketing of health food products	31st March	427.05	23.90
5.	Zydus International Pvt. Ltd, Ireland	100 %	Hold Company's Global Investments	31st Dec.	12.02	(5.39)
6.	Zydus Healthcare SA (Pty) Ltd, South Africa	100%	Marketing of formulations in South Africa	28th Feb	0.00	0.65
7.	Zydus Healthcare (USA) LLC, USA	100%	Marketing of APIs in USA	31st Dec.	31.50	0.14
8.	Zydus Healthcare Brasil LTDA, Brazil	100 %	Operates formulation business of the Company in Brazil	31st Dec.	117.73	(105.20)
9.	Zydus France SAS, France	100%	Marketing of generic Pharmaceuticals in France	31st Dec	1200.14	37.73
10.	Zydus Pharmaceuticals USA Inc., USA	70 %	Marketing of generic formulations in USA	31st Dec.	1145.92	164.48
11	Dialforhealth Unity Limited, India	55%	Operates a chain of retail pharmacies on Franchisee basis	31st March	0.34	(0.84)
12	SCI Immopharm, France	100 %	Purchase, Sale & Lease of properties	31st Dec	0.00	0.21

During the year under report Company has incorporated Zydus Pharma Inc., Japan and Zydus Netherlands B.V., the Netherlands. Both these companies are 100 % subsidiaries of Zydus International Private Limited, Ireland, which again is a wholly owned subsidiary of the Company. The first accounting year of both the companies are yet not completed and therefore their financial data are not provided. However, Unaudited financial data upto 31st March 2007 limited reviewed by the auditors are included in consolidated accounts.

During the year under review the Company has established a partnership business in the name "Zydus Healthcare" to set up manufacturing facilities to manufacture pharmaceutical products in Sikkim. The stake of the Company together with one of its subsidiary Company is 98 % and Welfare Trust for the welfare of Employees of the Company shares the remaining 2 %.

As required under the provisions of Section 212 of the Companies Act, 1956, a statement of the holding Company's interest in the subsidiary companies is attached to this report.

In terms of the approval granted by the Central Government under Section 212 (8) of the Companies Act, 1956, copy of Annual Reports of the subsidiary companies have not been attached with the Balance Sheet of the Company. The Company will make these documents/details available upon request by any shareholder of the Company.

The annual accounts of the subsidiaries are also available for inspection by the shareholders at the Registered Office of the Company and also at the respective registered offices of its subsidiaries. However, pursuant to Accounting Standard AS–21, issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements presented by the Company includes the financial information of its subsidiaries. The following information for each subsidiary Company is also being disclosed in a separate annexure with consolidated balance sheet: (a) Capital (b) Reserves (c) Total assets (d) Total liabilities (e) Details of investment (except in case of investment in subsidiaries) (f) Turnover (g) Profit before taxation (h) Provision for taxation (g) Profit after taxation and (J) Proposed dividend.

Performance of Major Joint Venture Companies

Detailed discussion of performance of each joint venture Company is covered in Management Discussion and Analysis Report.

1. Zydus Altana Healthcare Private Limited (ZAHL)

This 50:50 joint venture between the Company and Altana Pharma AG, is a 100% EOU situated at Navi Mumbai. This JV Company achieved turn over of Rs.1508 millions for the year ended on 31^{st} December 2006 as against Rs.1280 millions in the previous year. The net profit of the Company was Rs.1227 millions against Rs.935 millions in the previous year. ZAHL paid four interim dividends aggregating to Rs.925 mn for the year ended on 31^{st} December 2006. ZAHL also paid first interim dividend of Rs.100 mn out of the profits of the current year.

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. The company recorded sales of Rs.859.14 mn showing growth of 4%. The company improved performance all round in the current year and earned net profit of Rs.84.15 mn. The spread of bird flu in other countries disturbed import of some of its products initially followed by bird flue in India during the early part of the year has adversely affected its sales of poultry business.

3. Zydus Pharmaceuticals USA Inc.

The aforesaid Company though subsidiary of the Company is a Joint Venture between 100% subsidiary Zydus International Private Limited, Mr. Joseph Renner and Dr. Mahendra Patel to market generic products in the US market. The Company recorded sales of Rs. 1145.92 mn showing growth of 363%. The Company earned net profits of Rs.164.48 mn as against loss of Rs.84.01 mn in the previous year. Most of the formulations marketed by company have captured market share exceeding 10% in USA.

4. Zydus Mayne Oncology Private Limited (ZMOPL)

This 50:50 joint venture Company between Mayne Pharma, Australia and Cadila Healthcare Limited for manufacture of anticancer injectible and API's. This JV Company has set up its formulation manufacturing facilities near Ahmedabad and will start its commercial operations in the current year. At present company is working on manufacturing processes, for APIs and also developing ANDAs for filing in USA.

5. Zydus BSV Pharma Private Limited (ZBPL)

This is 50:50 joint ventures between the Company and Bharat Serum and Vaccines Limited. The joint venture has acquired intellectual property of pagylated doxorubicin from Bharat Serum and Vaccines Ltd. The manufacturing facilities of the Joint Venture Company is under construction.

International market initiatives

Your Directors are pleased to inform you that the Company has started commercial activities in the regulated developed markets like US, France and Brazil. The initial response in US, France and Brazil is encouraging. The French subsidiary has reorganized its product portfolio and its non-core branded OTC product portfolio has been disposed off to fully focus on generic formulations. ANDA and DMF filing process in US is going on successfully. Company filed 26 ANDAs and 11 DMFs during the year. Thus Company has created healthy pipeline of products to be marketed in USA. In Brazil acceptance of the products is encouraging. A detailed discussion on these initiatives is covered in Management Discussion and Analysis.

Fixed deposits

The Company has not accepted any fresh deposits from the public. As on 31st March 2007, the Company had unclaimed fixed deposits of Rs. 0.02 mn. All deposits that matured and the amount of interest payable on fixed deposits that remained unclaimed for a period of seven years were transferred to the Investors' Education and Protection Fund as required under the provisions of the Companies Act, 1956.

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 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, 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. Sharvil P. Patel and Mr. Apurva S. Diwanji, 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. Sharvil P. Patel and Mr. Apurva S. Diwanji, who have offered themselves for re-appointment. In accordance with stipulation under Clause 49 of the Listing Agreement, brief resume of Mr. Sharvil P. Patel and Mr. Apurva S. Diwanji, 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.

Mr. Sharvil P. Patel, Director of the Company was appointed Deputy Managing Director by the Board of Directors at their meeting held on 26th April, 2007 with effect from 1st April, 2007, subject to approval of shareholders and such other authorities as may be required under the law. The Board recommends the appointment of Mr. Sharvil P. Patel as Deputy Managing Director.

Auditors

M/s. R. R. Patel & Company and M/s. Mukesh M. Shah & Company, both Chartered Accountants retire as Auditors of the Company at the forthcoming Annual General Meeting and are eligible for re-appointment. The Audit Committee of the Board of Directors of the Company and Board of Directors have recommended that M/s. R. R. Patel & Company and M/s. Mukesh M. Shah & Company, both Chartered Accountants, be appointed as joint auditors to hold office until the conclusion of the next Annual General Meeting. The Company has received confirmations that their appointments will be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956.

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' Responsibility Statement

Pursuant to the requirements under Section 217 (2AA) of the Companies Act, 1956 and to the best of their knowledge and belief, and according to the information and explanations provided to them, your Directors hereby state that:

(a) The Annual Accounts for the year ended 31st March 2007 are prepared on going concern basis.

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

(c) Sound accounting policies have been selected and applied consistently and judgments and estimates made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March, 2007 and of the profit of the Company for the year ended on that date;

(d) 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;

Corporate Governance

In terms of Clause 49 of the Listing Agreements with the Stock Exchanges a Corporate Governance Report is made part of this Annual report.

In compliance of Section 292A of the Companies Act, 1956 and with the Listing Agreement, an Audit Committee consisting of four Independent Directors has been formed.

A Certificate from the statutory auditors of the Company regarding compliance of the conditions stipulated for Corporate Governance under Clause 49 of the Listing Agreement is attached to the Corporate Governance Report.

The declaration by the Managing Director addressed to the members of the Company pursuant to Clause 49 of the Listing Agreement regarding adherence of the Code of Conduct by the Members of the Board and by the Senior Management Personnel of the Company is also attached to the Corporate Governance Report.

Acknowledgment

Your Directors wish to place on record their deep sense of appreciation of the contribution made by the employees at all levels, including that of subsidiaries and joint ventures for their dedicated services, enabling the Company to achieve good 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 : 26th April, 2007

Sd/-
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:

- Regular preventive maintenance of Pumps & Air Compressors, Steam traps, Joints, Steam leakage to reduce transmission loss and to get maximum out-put.
- Keeping lights and Air Conditioning systems off during non-working hours.
- Maintenance of power factor above 99 %.

Specific measures taken:

AT Formulation units:-

- Installed Centrifugal in place of VAM
- Installed FO based engine for power generation and exhaust gas boiler for steam generation from exhaust gas of FO based engine
- Modification in Hot Water System to reduce steam consumption
- Steam Condensate recovery from Tablet Department
- Installed low watt PL lamp of 42W in place of 82 nos. of Mercury Vapour (160W)
- Operation of Row Water pump by VFD
- Replaced MHL light fittings by TLD fittings
- Installed power saving 'Jabla' tube light fittings.
- Installed automatic Voltage Controller
- Installed motor star connection / VFD

API Plants :-

- Installed Electronizer for lights.
- Changed FRP Fan for cooling Tower.
- Usage of bagasse briquette in place of furnace oil.
- Installed automatic blow down and monitoring of steam traps.
- Installed Natural Gas based C.G.P. Plant of 1 MW capacity (Co-generation Power Plant) for using flue gas for generating 250 TR Chilled Water by VAHP System.
- Brine Secondary Pump provided with VFD

– Condensate recover at Solvent Recovery Plant (SRP)
– Replaced the soft water usages in wash area by Filter Water.
– Diversion of domestic effluent in soak pit.
– Use of Fuel additive to improve the fuel efficiency.
– Major overhauling of DG Set to improve the fuel efficiency.

b. Proposals for additional investments: -

<u>Formulation Unit at Moraiya (Gujarat)</u>

– Installation of 3 MW coal based CPP Plant with co-steam generation
– Installation of Centrifugal Chiller (700 TR) in place of FO fired VAM Chiller
– Rain Water harvesting

<u>API Unit at Dabhasa (Gujarat)</u>

– Installation of Solid Fuel boiler
– Installation of Steam Jet ejector
– Using of Narmada Water in place of Bore well water

<u>Formulation Plant (Goa)</u>

– Installation of power factor control penal

<u>R&D Center (Moraiya)</u>

– Installation of Variable Frequency Drive

c. Impact of measure (a) and (b):

– Reduction in Power Consumption
– By installing Natural Gas based co-generation power plant for using fuel gas, centrifugal in place of VAM, FO based Engine for power generation and exhaust gas boiler for steam generation from exhaust gas of FO based engine, usage of Bagasse briquette in place of furnace oil, there will be a considerable reduction in power cost and thereby production cost.

Form-A

(A) Power and fuel consumption

	Current year Total consolidation	Previous year Total consolidation
1. Electricity :-		
(a) Purchased		
Units	32819206	29945263
Total Amount (Rs. in mn)	159.79	139.63
Rate/Unit (Rs.)	4.87	4.66
(b) Own Generation :		
i) Through Diesel		
Generator		
Units	2331950	1677885
Units per lt. Of Diesel oil	3.73	2.59
Cost/Unit (Rs.)	9.27	9.67
ii) Through LDO Generator Units	-	2130065
Units per lt. Of Fuel Oil	-	3.5
Cost /Unit (Rs.)	-	7.45
iii) Through HFO DG Set		
Units	9356010	1380800
Unit per lit. of Fuel	4.25	4.2
Cost / Unit (Rs.)	4.36	4.01
iv) Through CPP (Natural Gas) Units	4991880	5167464
Unit per lit. of Gas (M^3)	3.08	3.13
Cost / Unit (Rs.)	3.82	3.24
2. Coal (Specify quality	NIL	NIL
and where used)		
3. Furnace Oil / LDO		
Furnace OIL Quantity (K. Lt.)	2968.539	2663.96
Total Amount (Rs. in mn)	54.842	45.98
Average Rate per Lt. (Rs.)	18.47	17.27
Light Diesel Oil Quantity (K. Lt.)	25.05	27.4
Total Amount (Rs. in mn)	0.69	0.49
Average Rate per Lt. (Rs.)	27.62	18.1
HSD Quantity (K. Lt.)	550.594	48.774
Total Amount (Rs. in mn)	18.967	1.37
Average Rate per Lt. (Rs.)	34.45	28.09
4. Others/Internal Generation Natural Gas		
Quantity m^3	3468745	3654937
Total Cost (Rs. in mn)	42.61	32.55
Rate/Unit (Rs.)	12.28	8.90
Bagasse		
Quantity MT	1523.51	1177.565
Total Amount (Rs. in mn)	5.46	4.06
Rate/Unit MT (Rs.)	3583.84	3448

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

1. 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	Innovative Research at Zydus Research Centre, Moraiya, Gujarat	1. **New Molecular Entity (NME) Research:** The focus of this activity is to develop NMEs in following Therapeutic Areas:- **a. Metabolic Disorders** Type II Diabetes Obesity Dyslipidemia Cardiovascular Disorders **b. Inflammation and Pain** Rheumatoid arthritis Pain 2. **Biotechnology Research :** Research is being directed towards a. Development of Biogenerics therapeutic proteins b. Development of New Biological Entities. 3. **CMC Department:** **a.** Development of novel processes for NME's. b. Development of processes for therapeutic peptides	1. **NME research :** a. Developed an early clinical stage portfolio of proprietary and innovative drug candidates. b. Successfully completed Phase-I clinical trials for lead compound ZYH1 for treating Dyslipidemia. Phase-II clinical trials are going on c. Successfully completed Phase-I clinical trials for lead compound **ZYI1** in the treatment of inflammatory disorders and pain. Company is awaiting permission for Phase-II trials. d. Lead compound for treating diabetes **ZYH2** is undergoing Phase-I clinical trials. e. Filed IND application for conducting Phase-I clinical trial for lead compound ZYO1 for treatment of obesity and waiting for the permission to initiate the Phase-I trials.

Sr. No.	Location	A. Main area of Focus	B. Benefits derived as a result of Research and Development Activities
		4. Novel Drug Delivery Research: **a.** Development of Novel platform technology for prolonged release depot formulations. **b.** Development of Novel formulation for biological products & NME	f. Identified multiple lead compounds for treatment of Arthritis, Diabetes and Dyslipidemia. These compounds are currently undergoing evaluation & pre-clinical. g. Filed of 22 patent applications in the year 2006-07 **2. Biotechnology research :** The Company has made significant progress in the area of biotechnology based projects. The status of various projects is given below. <u>Biological Products</u> — <u>Developmental Status</u> 1. Interferon alfa-2B — Clinical Trials completed 2. Epoetin alfa — Preclinical Toxicity studies are going on 3. Filgrastim — Clinical Trials going on 4. Interferon beta 1-b — Awaiting Clinical Trials permission 5. Pegylated Interferon alpha-2b — Preclinical Toxicity studies are going on 6. Pegylated Filgrastim — Preclinical Toxicity studies are going on **3. Novel Drug Delivery Research:** (a) Developed a novel Depot formulation of Leuprolide. (b) Developed Novel formulation for NMEs & therapeutic products.

Sr. No.	Location	A. Main area of Focus	B. Benefits derived as a result of Research and Development Activities
2.	Research and Development of Finished Dosage Forms at Pharmaceutical Technology Centers (PTC) at Ahmedabad, Mumbai.	Research & Development at "Pharmaceutical Technology Center (PTC)" are focused on formulation development for markets like US, Europe, Brazil, South Africa, Russia, Taiwan, Ukraine, Thailand, India, African Countries and other global markets of interest.	Developed a robust, competitive portfolio of generic products During the year 2006-07, 96 dossiers have been filed in regulated markets and 303 dossiers have been filed in emerging markets..
3.	Research and Development in Active Pharmaceutical Ingredients (APIs) at Ankleshwar, Dabhasa. Patalganga and Zyfine,	1. Development of processes suitable for regulated markets like EU, North America and Japan. In this endeavor our aim is to develop processes, which are cost effective and suitable for early or timely launch of formulations. 2. Continuous process development for cost optimization. 3. Development of Novel Polymorphs and pharmaceutically acceptable salts. 4. Development of process to enable quick launch of Formulations in India and other less regulated markets. 5. Working on various areas like Catalytic hydrogenation, Chiral induction, Cyanation, Metathesis, Organolithium Reactions, Reductive Amination, Stero selective ketal formation.	1. Developed Robust portfolio of API's for global markets 2. Provided competitive advantage to Zydus global generic business by backward integration with in-house API. 3. Successful scaling up and technology transfer for 12 APIs for regulated markets, which resulted in filing 11 US DMFs and 1 EDMF. 4. Developed eleven APIs for India and other less regulated markets. 5. Filed 39 patents for novel process and polymorphs. 6. Reduction in cost of the products 7. Introduction of environment friendly processes. 8. Introduction of new route of Synthesis 9. Inventions leading to patent filings.

2. Future plan of action

A. Basic Research at Zydus Research Centre

NME Research:

i. To pursue additional disease targets in following Therapeutic areas.
   - Metabolic disorders
   - Inflammatory disorders
   - Cardiovascular disorders.

ii. Optimize existing leads for clinical development and further strengthen the early stage clinical pipeline

iii. Develop clinical Proof of Concept (PoC) for drug candidates under clinical development.

iv. Validation of new targets: development of cell, receptor and enzyme based assays to screen NME's.

v. Scale-up early stage initiatives in transgenic animal research

Biotechnology Research

The new initiatives planned for the current year include

- New initiatives in novel biologicals
- Development of biogenerics for domestic market

Process Research & Novel Process Research

- Synthesis of New Peptides of Therapeutic Interest
- Synthesis of Novel processes for Blockbuster Molecules.

Novel Drug Delivery Research

- Development of Novel Platform technology for oral drug delivery
- Development of biodegradable polymer based depot formulations
- Continuation of support for NCE development related to their formulation

B. Research in Formulations at Pharmaceutical Technology Centres and other Formulation Units :

- Commencement of activities for New Drug Delivery systems such as Parenterals and Transdermal patches.
- New Drug Delivery systems like Ointment, Gels, Nasal Products and MDIs shall be the focus for the future.
- To develop various products for international regulated & non-regulated markets and also for domestic markets.
- Working on Custom Synthesis, Contract Research for Company's Customer & Process Development for intermediate & NCE.

C. Research in Active Pharmaceuticals Ingredients (APIs)

- To continue working on above areas of research.
- To further strengthen our R&D and IP Cell, which will enable us to find new profitable opportunities.

To work towards less hazardous and more environment friendly process of manufacture.

3. Expenditure on R & D

		(Rs. in mn)
(i)	Capital	269
(ii)	Recurring	1291
(iii)	Total	1560
(iv)	Total R&D expenditure as a percentage of turnover	10.39%

4. Technology absorption, adaptation and innovation:

I) Efforts in brief, made towards technology absorption, adaptation and innovation:

The Company has successfully introduced the technology developed by in-house research and introduced several new formulations. It has also implemented several new processes for API's for domestics and international market.

II) Benefits derived as a result of the above efforts:

- Innovative products for introduction of new Formulations / API's.
- Cost reduction in API to compete in the market
- Manufactured new APIs for captive consumption and exports
- Filed 26 ANDAs and 11 DMFs for developed market and filed several dossiers for developing and semi regulated markets.

5. Details of imported technology during the last five years :

The Company has not imported any technology during the year. All technology imported by the Company during last five years have been fully absorbed.

6. Foreign exchange earnings and outgo

(Rs. in mn)

	2006-07	2005-06
Earnings :		
1. F.O.B. Value of exports	2943	2073
2. Others	154	117
Outgo :		
1. CIF value of imports	1660	1315
2. Expenditure in foreign currency	707	723

By Order of the Board of Directors

Place : Ahmedabad
Date : 26th April, 2007

Sd/-
Pankaj R. Patel
Chairman

Corporate Governance Report

Company's Philosophy on Corporate Governance Code

Cadila Healthcare Limited believes in continuous good corporate governance and always strives to improve performance at all levels by adhering to corporate governance practices, such as 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 that 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 has complied in all respects with the features of corporate governance specified in Clause 49 of the Listing Agreement.

I. Board of Directors

The Executive Committee comprising the Managing Director, Executive Director, the Chief Financial Officer and the various business heads manage the day to day business affairs of the Company. The Board of Directors monitors the overall business operations based on updates of the Company's performance provided by the Managing Director on a regular basis.

(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. As on 31st March 2007, your Company's Board comprised 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 in terms of Sub clause-I (A) (iii) of Clause 49 of the listing agreement. Board represents a balanced mix of professionals, knowledge and expertise.

Board Meetings / Director's Particulars:

In compliance with clause 49 of the listing agreement and as required under the Companies Act, 1956, the Board meets at least once in each quarter and the gap between any two Board meetings was not more than four months. During the year under review, four meetings were held on :

28th April 2006
28th July 2006
31st October 2006 and
22nd January 2007

The meetings of the Board of Directors are scheduled well in advance and usually held in Ahmedabad where the registered office of the Company is situated. The Chief Financial Officer and the Company Secretary in consultation with the Chairman and Managing Director prepare a detailed agenda for the meeting. The board papers comprising the agenda alongwith the draft of relevant resolutions, documents and explanatory notes, wherever required are sent at least a week in advance to all the Directors. The draft minutes of the meeting approved by the Chairman is circulated to all members generally within three weeks after the conclusion of the meeting.

The information generally provided to the Board for its consideration and approval are as specified in Clause 49 of the listing agreement wherever applicable and materially significant. Such information is submitted well in advance with the agenda papers and in very exceptional and urgent cases only some issues are tabled during the course of the Board meetings.

The Independent Directors play an important role in the deliberations in Board Meetings and bring with them rich expertise in the field of pharmaceutical, industry, marketing, accountancy, finance, taxation and other laws.

The requirement that a Director shall not be a member of more than 10 committees and Chairman of more than 5 committees has been complied with while constituting the Committee of Directors.

The following table gives the attendance of the Directors at the Board meetings of the Company and also the other Directorship and Chairmanship / membership in Board Committees of public limited companies other than the Company.

Name of the Director	Category and 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	4	4	Yes	4 (3)	10
Mr. Mukesh M Patel	Non-executive and independent	4	4	Yes	5 (4)	6
Mr. Pranlal Bhogilal	Non-executive and independent	4	3	Yes	0	2
Mr. H.K Bilpodiwala	Non-executive and independent	4	4	Yes	2 (1)	4

Name of the Director	Category and 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. H. Dhanrajgir	Non-executive and independent	4	3	No	5 (2)	6
Mr. A S Diwanji	Non-executive and independent	4	3	No	0	0
Mr. Sharvil P Patel **	Non-executive	4	3	Yes	1	4

* Promoter Director
** Son of Mr. Pankaj R. Patel
*** Figures in ( ) indicates the number of Board Committees of which Chairman
@ Other committee means Audit Committee and Shareholders' Grievance Committee

(B) Non-Executive Directors' Compensation and Disclosures

Non-executive Directors, including independent directors are paid sitting fees and commission as recommended by the Board of Directors and within the limits and powers approved by the Members. The shareholders have approved the payment of sitting fees and commission to non-executive Directors at the Annual General Meeting held on 26th July 2005 and 30th September 2003 respectively, which is in accordance with the applicable laws.

Apart from the above, 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 2007.

II. Committees of the Board

The Company has three Board-level Committees, namely;

a) Audit Committee;
b) Share Transfer Committee;
c) Shareholders' / Investors' Grievance Committee

a) Audit Committee

As on 31st March 2007, the Audit Committee comprised of four Independent Directors. Name of the members and the Chairman of the Committee as on 31st March 2007 together with their attendance are given in the following table.

Name of the Member	No. of Meetings	Meetings Attended
Mr. Mukesh M. Patel, Chairman	4	4
Mr. Pranlal Bhogilal	4	3
Mr. H. K. Bilpodiwala	4	4
Mr. H. Dhanrajgir	4	3

All members of the committee have accounting and financial management expertise. The Audit Committee held four meetings during 2006-07 on 28th April 2006, 26th July 2006, 31st October 2006 and 22nd January 2007. The time gap between any two meetings was less than four months.

The Chairman of the Audit Committee attended the Annual General Meeting of the Company held on 28th July 2006 to answer shareholder queries.

The Managing Director, Chief Financial Officer, Chief Accounts Officer, Statutory Auditors, Management Auditors and the Cost Auditors are invited to the meetings of the Audit Committee. The Company Secretary acts as Secretary to the Committee.

The Terms of Reference of the Audit Committee cover the matters specified for Audit Committees under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956.

The management of the Company is responsible for the Company's internal controls and the financial reporting process while the statutory auditors are responsible for performing independent audit of the Company's financial statements in accordance with the generally accepted auditing practices and for issuing reports based on such audits. The Audit Committee supervises these processes and thus ensures proper and timely disclosures to maintain the transparency, integrity and quality of financial control and reporting.

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

- Supervision of the Company's financial reporting process.
- Reviewing with the Management, the financial results before placing them 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 with the statutory auditors,
- Recommending the appointment and removal of external auditors and their fees.
- Reviewing the observations of internal and statutory auditors about the findings during the audit of the Company and making suggestion for their improvement.

- Reviewing the financial and risk management policies
- keeping watch on timely payment to depositors, debenture holders, shareholders and creditors
- Reviewing the performance of statutory and internal auditors.
- Reviewing management discussion and analysis of financial condition and result of operations.
- Reviewing of significant related party transactions if any.
- Reviewing of appointment, removal and terms of remuneration of Chief Internal Auditor.

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, corporate laws and the industry. It ensures accurate and timely disclosures that maintain the transparency, integrity and quality of financial control and reporting.

b) Share Transfer Committee:

1) **Terms of reference:**

The Committee is empowered to perform all the functions of the Board in relation to approval and monitoring transfers, transmission, dematerialisation, rematerialisation, and issue of duplicate share certificates splitting and consolidation of shares issued by the Company.

2) **Composition:**

The Share Transfer Committee comprises the following members:

Mr. Pankaj R. Patel - Chairman
Mr. Mukesh M. Patel; Mr. Pranlal Bhogilal

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.

c) Shareholders'/Investors' Grievance Committee

1) **Terms of reference:**

The Shareholders'/Investors' Grievance Committee is empowered to perform all functions of the Board in relation to handling of Shareholders' Grievance. The Committee primarily focuses on redressal of shareholders/investors complaints received by the Company and their resolution.

2) **Composition:**

The Constitution and details of attendance of the Committee members is given in the following table. The Committee met four times during the year.

Name of the Member	No. of Meetings	Meetings Attended
Mr. Pranlal Bhogilal, Chairman *	4	3
Mr. Pankaj R. Patel	4	4
Mr. Mukesh M. Patel	4	4

* Appointed as a Chairman of the Committee w.e.f 31st October, 2006.

The Company Secretary is the Secretary of the Committee who is designated as Compliance Officer of the Company.

The Committee ensures that communications received from shareholders / investors pertaining to non-receipt of dividend warrants, transfer of physical shares/change of address / bank mandates / revalidation of dividend warrant / split /consolidation / remat / exchange of shares, etc. have been answered and redressed to the satisfaction of the shareholders. There were no investor grievance remained unattended and pending as on 31st March 2007.

As on 31st March 2007, 20943 equity shares remained in the in-transit account with National Securities Depository Limited and Central Depository Services Limited.

III. Subsidiary Companies

None of the subsidiaries of the Company come under the purview of the material non- listed subsidiary. The financial statements of subsidiaries, in particular, the investments made by subsidiaries, if any, during the quarter are reviewed by the Audit Committee of the Board of Directors.

The copy of the minutes of the Board Meetings of the unlisted Indian subsidiary Companies is placed in the subsequent Board Meetings.

IV Disclosures

(A) Related Party Transactions

The Company has not entered into any transaction of material nature with related parties i.e. Directors or Management, their subsidiaries or relatives conflicting with the Company's interest at large. The Register of Contracts containing transactions in which Directors are interested is placed before the Board regularly for its approval. The details of related party transactions are disclosed in the financial section of this Annual Report.

(B) **Remuneration of Directors**

Shri Pankaj R, Patel is the only executive director. The Board of Directors decides the remuneration of the Executive Director within the ceiling fixed by shareholders as per the resolution passed at the Annual General Meeting held on 28th July 2006. The remuneration paid to Shri Pankaj R. Patel for the year ended on 31st March 2007 was as follows:

Rs. in mn

Salary & Allowance	Commission	Perquisites	Retiral Benefits	Service Tenure	Notice Period
124	0	0	0.3	5 Yrs. from 01.09.2006	3 months

Independent Directors are paid sitting fees of Rs. 5,500/- per Board and Audit Committee meeting and 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. Directors are also reimbursed the traveling and out-of-pocket expenses for attending such meetings. The details of the commission / sitting fees paid to the Non-Executive Directors for the year 2006-07 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*	4,00,000/-	22,000/-	22,000/-	4,44,000/-
Mr. Pranlal Bhogilal	4,00,000/-	16,500/-	16,500/-	4,33,000/-
Mr. H. K. Bilpodiwala *	4,00,000/-	22,000/-	22,000/-	4,44,000/-
Mr. H. Dhanrajgir	4,00,000/-	16,500/-	16,500/-	4,33,000/-
Mr. Apurva Diwanji *	4,00,000/-	16,500/-	N.A.	4,16,500/-
Mr. Sharvil P. Patel	Nil	16,500/-	N. A.	16,500/-

* Also paid professional fees for rendering professional services to the Company in their professional capacity or through the firms with which they are associated which is not considered as affecting their independence.

@ Payment of Commission to the independent directors has been decided by the Board of Directors based on the performance of the Company.

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.

Mr. Pankaj R. Patel was appointed as Managing Director of the Company for a period of five years from 1st September 2006, on a remuneration permissible under Section 198 and 309, read with Schedule - XIII of the Companies Act, 1956. As per the terms of agreement, the 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, the Company will pay compensation for loss of office in accordance with the provisions of Section 318 of the Companies Act, 1956.

The Company does not have any stock option scheme. Moreover, there is no separate provision for payment of severance fees to the Directors.

Remuneration paid/payable to the Managing Director towards salary and contribution to the provident fund and other funds amount to Rs.124/- mio for the year 2006-07. Computation of the remuneration of the Managing Director is given in Note - 9 of Notes on Accounts, under Schedule – 20 of the accounts.

(C) **Code of Conduct**

The Board of Directors has adopted the Code of Conduct for Directors and Senior Management and the same has been placed on the Company's website. All Board Members and the Senior Management Personnel have affirmed compliance with the Code of Conduct for the year under review.

(D) **Prohibition of Insider Trading**

The Company has framed its Insider trading Regulations wherein rules for the preservation of price sensitive information, pre-clearance of trade, monitoring and implementation are framed. This code is applicable to all the Directors and such employee's of the company who are expected to have access to unpublished price sensitive information relating to the Company. Transaction for dealing in the prescribed volume of security of the Company during the prescribed time requires prior approval of the Company.

Shares held by the Directors as at March 31, 2007

Name of the Directors	**No. of shares held**	**Details of shares bought/sold during April 2006 to March 2007**
Mr. Pankaj R. Patel *	90452850	Nil
Mr. Mukesh M. Patel	800	NIL
Mr. Pranlal Bhogilal	NIL	NIL

Name of the Directors	No. of shares held	Details of shares bought/sold during April 2006 to March 2007
Mr. H. K. Bilpodiwala	NIL	NIL
Mr. H. Dhanrajgir	NIL	NIL
Mr. Apurva Diwanji	NIL	NIL
Mr. Sharvil P. Patel	2000	NIL

* Held also as a Karta of HUF and Trustees of the Family Trusts.

(E) Management

(i) 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.

(ii) Disclosure of material financial and commercial transactions:

As per the disclosure received from senior management no material financial and commercial transactions that may have a potential conflict with the interest of the Company at large were reported to the Company during the year under report

(F) Shareholders

(i) Disclosure regarding appointment or re-appointment of Directors

Mr. Apurva S. Diwanji and Mr. Sharvil P. Patel will retire at the ensuing Annual General Meeting by rotation and they have offered themselves for reappointment. The Board has recommended the reappointment of the retiring Directors.

The information about the brief resume and other information required to be disclosed under this section are provided as annexure to the notice of the Annual General Meeting.

(ii) Quarterly results and presentation made by the Company to analysts are forwarded to the stock exchanges where the equity shares of the Company are listed and the same are posted on the Company's website.

(E) **Compliance by the Company**

The Company has complied with all the mandatory requirements of the Listing Agreement with Stock Exchanges as well as regulations and guidelines of SEBI. Further, during the last three years, no penalties or strictures are imposed on the Company by the Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets.

V. CEO/CFO Certification

The Managing Director and the Chief Financial Officer of the Company has certified to the Board as required.

VI. Means of Communication :

(1) The Company has 43071 shareholders as on 31st March 2007. The main channel of communication to the shareholders is through annual report, which includes inter alia, the Directors' Report, the Report on Corporate Governance, audited financial results.

(2) The Annual General Meeting is a platform for face-to-face communication with the shareholders, where the Chairman makes presentation on the results of the Company and where the Directors respond to the specific queries of the shareholders.

(3) The quarterly and half yearly results are published in widely circulating national and local dailies such as "The Hindu Business Line" and "Jansatta", in English and Gujarati. These are not sent individually to the shareholders.

(4) The financial results and shareholding pattern for each quarter are also provided on the SEBI web-site www.sebiedifar.nic.in maintained by National Informatics Centre and can be reviewed from this website.

(5) The Company's results and official news releases are displayed on the Company's web-site, www.zyduscadila.com. The Company holds meetings and makes presentations to the institutional investors and analysts. The copy of such presentation and the transcript of the phone call are also made available on the Company's web-site.

VI General Body Meetings

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

Year	Date and Time	Venue
2003-2004	9th AGM on 20th July 2004 at 10.00 a.m.	Bhaikaka Bhavan Law College Road, Ahmedabad - 380 006
2004-2005	10th AGM on 26th July 2005 at 10.00 a.m.	Bhaikaka Bhavan Law College Road, Ahmedabad - 380 006
2005-2006	11th AGM on 28th July 2006 at 10.00 a.m.	Bhaikaka Bhavan Law College Road, Ahmedabad - 380 006

The shareholders passed all the resolutions including the special resolutions set out in the respective notices with the requisite majority. For the year ended 31st March, 2007, there are no ordinary or special resolutions passed by the Company's shareholders that require a postal ballot.

VII General shareholder information

Date and Time of 12th AGM	27th July 2007 at 10.00 a.m.
Venue of 12th AGM	Bhaikaka Bhavan, Near Law Garden, Ellisbridge, Ahmedabad – 380 006.
Financial Year	31st March 2007
Book Closure Date	16th July 2007 to 27th July 2007 (Both days inclusive)
Registered Office Address	Zydus Tower, Satellite Cross Roads, Sarkhej Gandhinagar High Way, Ahmedabad – 380 015.
Dividend Payment Date	On or after 6th August 2007
Compliance Officer	Mr. Upen Shah, Company Secretary is the Compliance Officer of the Company
Website Address	www.zyduscadila.com

Financial Calendar for the financial year 2007-08:

First Quarter Results	Before 31st July 2007
Half Yearly Results	Before 31st October 2007
Third Quarter Results	Before 31st January 2008
Audited Results for the year 2007-08	Before 30th June 2008

Listing of shares :

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

Name and Address of the Stock Exchange
Ahmedabad Stock Exchange Limited Kamdhenu Complex, Opp. Sahjanand College, Panjara Pole, Ahmedabad – 380 015.
Bombay Stock Exchange Limited 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

Listing fees :

The Company has paid the annual listing fees for the financial year 2007-08 to all the Stock Exchanges where its securities are listed.

Stock Code :

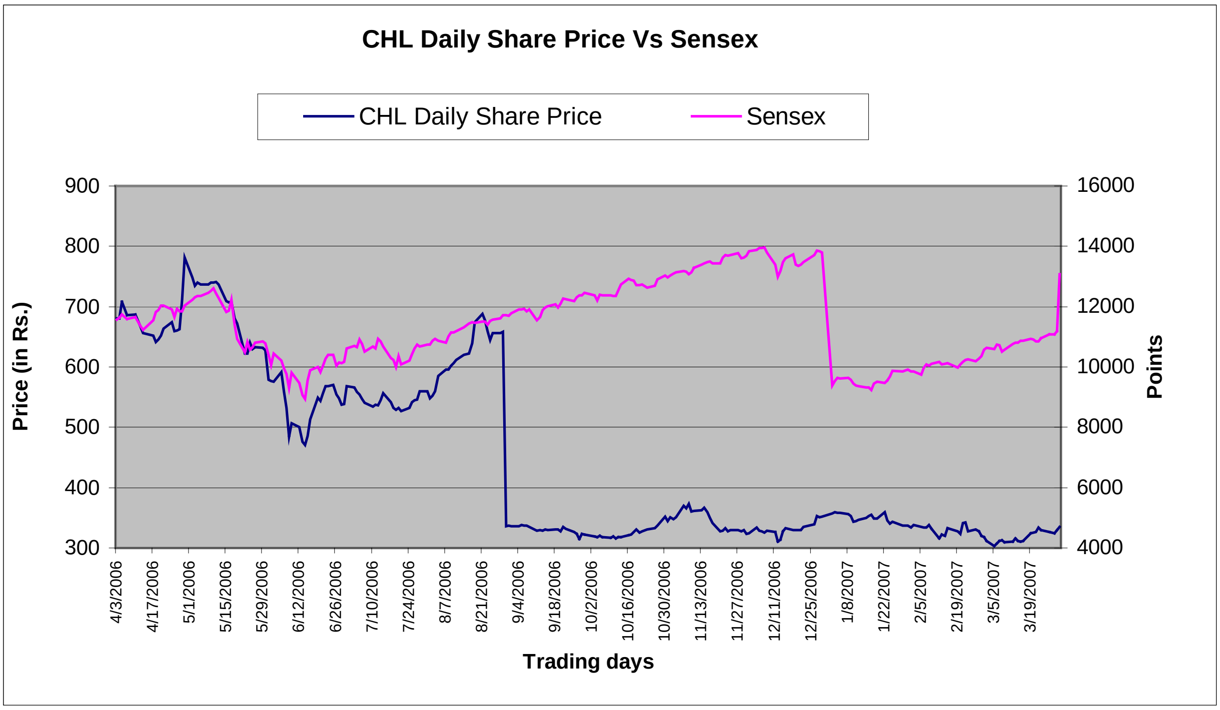
Name of the Stock Exchange	Stock Code No.	Closing Price as on 30th March 2007
Ahmedabad Stock Exchange Limited	10927	Not Traded
Mumbai Stock Exchange Limited	CDIHI 532321	335.50
The National Stock Exchange of India Limited, Mumbai	CADILAHC	336.70
Reuters	CADI-BO	N.A.
Bloomberg	CDH IN	N.A.

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, 06	12042.56	800.00	609.55	21210.00	800.00	601.20	63923
May, 06	**10398.61**	798.70	575.00	35997.00	799.00	551.00	39251
June, 06	10609.25	611.40	461.00	6069.00	609.00	451.00	44703
July, 06	10743.88	579.95	512.65	5273.00	577.00	492.75	22541
Aug., 06	11699.05	704.00	*329.00	11896.00	705.00	*330.00	29686
Sept., 06	12454.42	342.40	303.65	22725.00	348.80	314.00	31628
Oct., 06	12961.90	355.00	312.30	30601.00	355.95	314.00	62312
Nov., 06	13696.31	384.00	320.00	25100.00	385.00	320.00	49424
Dec., 06	13786.91	359.80	300.10	23164.00	365.90	301.00	33067
Jan., 07	14090.92	365.00	335.00	12527.00	364.00	330.80	50174
Feb., 07	**12938.09**	356.50	297.00	9547.00	357.50	281.00	34535
March, 07	13072.10	339.00	292.00	6112.00	340.00	273.35	15593

No Trading Recorded on the Stock Exchange, Ahmedabad.
* Ex-bonus Price. Bonus Shares in the ratio 1:1 were issued on 5th September 2006.

Chart 'A' Stock Performance



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, 22200591, 22200582.
Fax number: 079 – 22202963.
Email: investor.service@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 2007 is given below.

No. of Equity Shares	No. of Folios	% to total folios	No. of Shares	% of Share-holding
Less than 100	28854	66.99	1824892	1.45
101 to 500	10995	25.53	2669527	2.13
501 to 1000	2256	5.24	1620336	1.29
1001 to 5000	791	1.84	1484951	1.18
5001 to 10000	67	0.16	464180	0.37
10001 and above	108	0.25	117549822	93.58
Grand Total	**43071**	**100.00**	**125613708**	**100**
Shareholders in Physical Mode	7468	17.33	1510463	1.20
Shareholders in Electronic Mode	35603	82.66	124103245	98.80
Grand Total	**43071**	**100.00**	**125613708**	**100**

Shareholding pattern as at 31st March 2007:

Category	No. of Shares held		Total Shares	% of shareholding
	Physical	Electronic		
Promoter's holding	2400	90460850	90463250	72.02
Mutual Funds and UTI	2356	7481009	7483365	5.96
Banks, FIs and Insurance Companies	1118	10742741	10743859	8.55
Foreign Institutional Investors	250	6258038	6258288	4.98
NRIs / OCBs	15506	305377	320883	0.26
Other Corporate Bodies	10117	1569648	1579765	1.26
Indian public	1478716	7285582	8764298	6.98
Total	**1510463**	**124103245**	**125613708**	**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 98.80 % 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 cover page of the annual report.

Address for correspondence:

Shareholders correspondence should be addressed to the Company's Registrar and Transfer Agent at the address mentioned above.

Shareholders may also contact Mr. Upen H. Shah, Company Secretary, at the Registered Office of the Company for any assistance.
Tele. Nos. 079 – 26868100 Extension – 326
e-mail id : upen.shah@zyduscadila.com

Investors can also send their complaints at investor.grievance@zyduscadila.com, a special e-mail ID created pursuant to amendment in Clause No. 47(f) of the Listing Agreement.

Shareholders holding shares in the electronic mode should address all their correspondence to their respective depository participants.

Outstanding GDRs/ADRs/Warrants, its conversion date and likely impact on equity:

The Company has not issued any 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 reports filed by the Company.

IX. Extent of compliance with the non-mandatory requirements:

1. The Board:

The Chairman and Managing Director of the Company Mr. Pankaj R. Patel, being the Executive Chairman 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 Board has not formed a Remuneration Committee. The Board of Directors and shareholders approve the remuneration of the Managing Director and also payment of commission to the Directors.

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 were not applicable for any business of the Company during the year under review. The same shall be complied with, as and when necessary.

DECLARATION

The Chairman and Managing Director of the Company hereby declares that all Board Members and senior management have affirmed compliance with the code of conduct adopted by the Board for the current year.

Sd/-
(Pankaj R. Patel)
Chairman and Managing Director
Cadila Healthcare Limited.

Place : Ahmedabad
Date : 26th April, 2007

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 2007 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 agreement.

We state that in respect of the investor grievances received during the year ended 31st March 2007, 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

Sd/-
R. R. Patel
Proprietor

Place : Ahmedabad
Date : 26th April, 2007

For Mukesh M. Shah & Co.
Chartered Accountants

Sd/-
Mukesh M. Shah
Partner

Place : Ahmedabad
Date : 26th April, 2007

Auditors' Report to the Members of Cadila Healthcare Ltd.

We have audited the attached Balance Sheet of Cadila Healthcare Limited ('the company') as at 31st March, 2007, 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 (Auditor's 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 and 5 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, 2007 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, 2007;

    (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.,
CHARTERED ACCOUNTANTS

Sd/-
(R.R. PATEL)
PROPRIETOR
Membership No. 7871

For MUKESH M. SHAH & CO.
CHARTERED ACCOUNTANTS

Sd/-
(MUKESH M. SHAH)
PARTNER
Membership No.30190

Place : Ahmedabad
Date : 26th April, 2007

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, 2007, 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 Act. Accordingly, clause (iii)(f) and (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. During the course of our audit, we have not observed any 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 so 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 2007. 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 court 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 Rules 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 statutory dues during the year with the appropriate authorities. However, at 31st March 2007, 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, 2007 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	3	Appellate Tribunal
The Central Sales Tax and Local Sales Tax Acts	28	Commissioner of Sales Tax
	43	High Court
The Central Excise Act and the Service Tax Act	42	ACCE/DCCE/JCCE/Add.Comm.
	7	Commissioner (Appeals)
	12	CESTAT
	2	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 had 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 (Refer note no.B-2 of Sch.no.20). 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/letter of comfort given by the company for loans taken by a joint venture company and a subsidiary from banks are not prima facie, prejudicial to the interest 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

Sd/-
(R.R. PATEL)
PROPRIETOR
Membership No. 7871

For MUKESH M. SHAH & CO.
CHARTERED ACCOUNTANTS

Sd/-
(MUKESH M. SHAH)
PARTNER
Membership No.30190

Place : Ahmedabad
Date : 26th April, 2007

CADILA HEALTHCARE LIMITED

Balance Sheet as at March 31, 2007

	Sch. No.	INR - Millions As at March 31, 2007		2006
SOURCES OF FUNDS :				
Shareholders' Funds :				
Capital	1	628		314
Reserves and Surplus	2	8195		7049
			8823	7363
Loan Funds :				
Secured Loans	3	3627		3125
Unsecured Loans	4	850		1207
			4477	4332
Deferred Tax Liability [Net]	20[B-19]		1127	1097
Total			14427	12792
APPLICATION OF FUNDS :				
Fixed Assets :	5			
Gross Block		11292		10151
Less : Depreciation, Amortisation and Impairment		3877		3291
Net Block		7415		6860
Capital work-in-progress		521		589
			7936	7449
Investments	6		2928	1851
Net Current Assets				
Current Assets, Loans and Advances :				
Inventories	7	3287		2128
Sundry Debtors	8	2386		1851
Cash and Bank Balances	9	124		23
Loans and Advances	10	2273		2086
		8070		6088
Less : Current Liabilities & Provisions :				
Liabilities	11	3764		1999
Provisions	12	743		597
		4507		2596
			3563	3492
Total			14427	12792
Significant Accounting Policies and Notes on Accounts	20			

As per our report of even date

For R.R.Patel & Co.,
Chartered Accountants

For Mukesh M. Shah & Co.,
Chartered Accountants

Sd/-
(PANKAJ R. PATEL)
Chairman & Managing Director

Sd/-
(R. R. PATEL)
Proprietor
Membership No. 7871.

Sd/-
(MUKESH M. SHAH
Partner
Membership No. 30190.

Sd/-
(JYOTINDRA B. GOR
Chief Accounts Officer

Sd/-
(UPEN H. SHAH)
Company secretary

Sd/-
(MUKESH M. PATEL)
Directors

Ahmedabad, Dated : 26th April, 2007

CADILA HEALTHCARE LIMITED

Profit and Loss Account for the Year ended March 31, 2007

	Sch. No.	INR - Millions Year ended March 31, 2007		2006
INCOME :				
Sales and Income from Operations :				
Gross Sales		15014		13082
Less : Excise Duty		877		623
Net Sales		14137		12459
Other Income from Operations	13	482		377
Total			14619	12836
Other Income	14		522	379
			15141	13215
EXPENDITURE :				
Consumption of Materials and Finished Goods	15	5249		5089
General Expenses	16	5439		4489
Research Expenses	17	1291		817
Interest and Financial Charges	18	176		205
Depreciation, Amortisation and Impairment		667		616
			12822	11216
Profit before extra ordinary items and Tax			2319	1999
Less : Extra-ordinary Expenses :				
Compensation under Voluntary Retirement Scheme			0	111
Profit before Tax			2319	1888
Less : Provision for Taxation	19		272	239
Profit after Tax			2047	1649
Add : Balance brought forward			2381	1490
PROFIT AVAILABLE FOR APPROPRIATIONS			4428	3139
Appropriations :				
Dividends :				
Proposed Dividend		502		377
Corporate Dividend Tax on Proposed Dividend		85		53
		587		430
Transfer to General Reserve		3000		328
			3587	758
Balance carried to Balance Sheet			841	2381
Basic and Diluted E P S [in Rupees] :	20[B-20]			
Before Extraordinary items			16.30	14.01
After Extraordinary items			16.30	13.13
Significant Accounting Policies and Notes on Accounts	20			

As per our report of even date

For R.R.Patel & Co.,
Chartered Accountants

For Mukesh M. Shah & Co.,
Chartered Accountants

Sd/-
(PANKAJ R. PATEL)
Chairman & Managing Director

Sd/-
(R. R. PATEL)
Proprietor
Membership No. 7871.

Sd/-
(MUKESH M. SHAH
Partner
Membership No. 30190.

Sd/-
(JYOTINDRA B. GOR
Chief Accounts Officer

Sd/-
(UPEN H. SHAH)
Company secretary

Sd/-
(MUKESH M. PATEL)
Directors

Ahmedabad, Dated : 26th April, 2007

Schedules forming part of the Balance Sheet

	INR - Millions		
	As at March 31,		
	2007		2006
Schedule : 1 - Capital :			
Authorised :			
130,000,000 [90,000,000] Equity Shares of Rs.5/- each	650		450
500,000 Preference Shares of Rs. 100/- each	50		50
		700	500
Issued, Subscribed and Paid-up :			
125,613,708 [62,806,854] Equity Shares of Rs.5/- each fully paid-up		628	314
Notes : Of the above shares,			
[A] 33,034,332 shares were allotted as fully paid-up pursuant to the Scheme of Arrangement & Amalgamation without payments being received in cash.			
[B] 77,691,976 [14,885,122] shares were allotted as fully paid-up by way of Bonus shares by capitalisation of Share Premium Account [General reserve].			
Total		628	314
Schedule : 2 - Reserves & Surplus :			
Capital Redemption Reserve Account :			
Balance as per last Balance Sheet		32	32
Share Premium Account :			
Balance as per last Balance Sheet	2561		2561
Less : Utilised for the issue of Bonus Shares	314		0
		2247	2561
Debenture Redemption Reserve :			
Balance as per last Balance Sheet	75		247
Less: Transfer to General Reserve	50		172
		25	75
General Reserve :			
Balance as per last Balance Sheet	2000		1500
Add : Transfer from Debenture Redemption Reserve	50		172
Add : Transfer from Profit and Loss Account	3000		328
		5050	2000
Balance in Profit and Loss Account		841	2381
Total		8195	7049

Schedules forming part of the Balance Sheet

		INR - Millions	
		As at March 31,	
		2007	2006
Schedule : 3 - Secured Loans			
1 Privately Placed Debentures :			
60, 7 % Redeemable Non Convertible Debentures of Rs. 1,666,666.67			
[As at 31-03-06 Rs.5,000,000/-] each			
[Redeemable in six equal half yearly installments commencing from Nov., 2004]		100	300
2 Loans and Advances from Banks :			
A Term Loans in Foreign Currency	447		447
B Working Capital Loans			
[Including Packing credit foreign currency loans of Rs.145 { As at 31-03-06 -Rs. 43 } Millions]	924		626
C External Commercial Borrowings in Foreign Currency	2156		1752
		3527	2825
Total		3627	3125

Securities for Loans :

1 First charge by way of mortgage of office complex of the Company at Mumbai, a residential flat of the Company at Ahmedabad and legal mortgage of selected Trade Marks of the Company.

2 [A] Secured by hypothecation of three specific Trade Marks of the Company.

[B] [a] Secured by way of hypothecation of inventories [Including goods in transit], Bills Receivables, Book-Debts and all other movables of the Company including documents of titles to goods, both present and future, of the specific divisions for which facilities are availed by the Company.

[b] Further secured by second charge on all the fixed assets of the Formulation Unit of the Company at Moraiya and Plant and Machineries of the API Unit of the Company at Ankleshwar.

[c] The above charges rank " pari passue " amongst banks in the respective consortium.

[C] Out of External Commercial Borrowings in Foreign Currency :

[a] Rs. 599 [As at 31-03-06 - Rs. 748] Millions are secured by first equitable mortgage of immovable properties and hypothecation of movable properties, both present and future, of the Formulation Unit of the Company at Moraiya, to rank " pari passue " with lenders referred to at 2[C][c] & 2[C][f], save and except current assets charged to banks for Working Capital Loans.

[b] Rs. Nil [As at 31-03-06 - Rs. 59] Millions secured by first mortgage of immovable properties and hypothecation of movable properties, both present and future of the Formulation Unit situated at Ponda, Goa, save and except current assets charged to Banks for Working Capital Loans.

[c] Rs. 290 [As at 31-03-06 - Rs. 540] Millions secured by securities mentioned at 2[C][a] & 2[C][b] above on " pari passue " basis with lenders referred at 2[C][a] & 2[C][f].

[d] Rs. 435 [As at 31-03-06 - Rs. 405] Millions are secured by first mortgage of immovable properties and hypothecation of movable properties, both present and future, of the API Unit-1 of the Company situated at Ankleshwar, save and except current assets charged to banks for Working Capital Loans.

[e] Rs. 290 [As at 31-03-06 - Rs. Nil] Millions to be secured by mortgage of a specific Trade Mark of the Company.

[f] Rs. 542 [As at 31-03-06 - Rs. Nil] Millions to be secured by first equitable mortgage of immovable properties and hypothecation of movable properties, both present and future, of the Formulation Unit of the Company at Moraiya, to rank " pari passue " with lenders referred at 2[C][a] & 2[C][c], save and except current assets charged to banks for Working Capital Loans and to be further secured by mortgage / hypothecation of a specific Trade Mark of the Company.

Schedules forming part of the Balance Sheet

			INR - Millions	
			As at March 31,	
			2007	2006
Schedule : 4 - Unsecured Loans				
1	**Fixed Deposits** [Rs. 0.02 { As at 31-03-06 Rs. 0.05 } Million]		0	0
2	**Short - term Loans :**			
	A From Banks [Including foreign currency loans of Rs. 435 { As at 31-03-06 - Rs. 177 } Millions]	435		304
	B From a Financial Institution in foreign currency	0		458
			435	762
3	**Other Loans and Advances :**			
	A Interest free deemed loan against deferment of sales tax :			
	a From a Financial Institution	193		193
	b Deferred amount	220		217
		413		410
	B From a Financial Institution	2		2
	C From Others	0		33
			415	445
	Total		850	1207

Note : Out of loan at [3 - A {a}] , Rs. 85 Millions is secured by personal guarantee of the Managing Director of the Company.

Schedules forming part of the Balance Sheet					
	Nos. [*]	Face Value [**]	INR - Millions		
			As at March 31,		
			2007		2006
Schedule : 6 - Investments [At cost] :					
Long Term Investments :					
In Government Securities [Unquoted] :					
National Savings Certificates [Lodged with Govt. Auth. as security] [Rs. 16,350/-]^			0		0
Kisan Vikas Patra [Lodged with Sales Tax Auth.. as security] [Rs.9,000]^			0		0
				0	0
In Shares, Debentures, Bonds & Firms :					
Subsidiary companies:					
Quoted :					
In fully paid-up equity shares of :					
Carnation Nutra-Analogue Foods Ltd	3432138	10	497		245
[17,20,955 Shares purchased during the year]	[1711183]				
Unquoted :					
In fully paid-up equity shares of :					
Zydus Pharmaceuticals Ltd.	950000	10	10		10
Dialforhealth India Ltd.	5000000	10	50		50
German Remedies Ltd.	24000	100	2		2
Zydus International Pvt. Ltd. , Ireland	10214781	€ 1.462843	817		563
[31,10,381 Shares subscribed during the year]	[7104400]				
Sub-total			879		625
				1376	870
Trade Investments :					
Unquoted :					
In fully paid-up equity shares of :					
Companies under the same Management :					
Zydus Altana Healthcare Pvt. Ltd.	10000000	10	100		100
Zydus Mayne Oncology Pvt. Ltd.	7500000	10	75		75
Sarabhai Zydus Animal Health Ltd.	27000000	10	270		270
Zydus BSV R & D Pvt. Ltd.	990000	10	70		65
[4,90,000 Shares subscribed during the year]	[500000]				
Zydus BSV Pharma Pvt. Ltd.	3240000	10	32		5
[27,40,000 Shares subscribed during the year]	[500000]				
			547		515
In fully paid-up 7 % Non Cumulative Redeemable Preference Shares of :					
Companies under the same Management :					
Zydus Mayne Oncology Pvt. Ltd.	1250[0]	100000	125		0
[1250 Shares subscribed during the year]					
In fully paid-up Convertible Preferred Stock of :					
Onconova Therapeutic Inc. USA					
Series B	521739	$0.01	140		140
Series C	280899	$0.01	47		47
			187		187
			859		702
				859	702
Other Investments :					
Quoted :					
In fully paid-up Equity Shares of :					
Housing Development Finance Corporation Ltd.	43900	10	1		1
HDFC Bank Ltd. [Rs. 10,850/-]^	800	10	0		0
Saket Projects Ltd. [Rs. 50,000/-]^	5000	10	0		0
			1		1

Schedules forming part of the Balance Sheet				
	Nos. [*]	Face Value [**]	INR - Millions As at March 31, 2007	2006
Schedule : 6 - Investments [At cost] continue :				
In fully paid-up Bonds of Unit Trust of India :				
- 6.6% Tax free ARS Bonds	391712	100	**39**	39
- 6.75% Tax free US-64 Bonds	34515	100	**4**	4
			43	43
			44	44
Unquoted :				
In fully paid-up equity shares of :				
Pharmaceutical Business Group [I] Ltd.	999800	10	**10**	10
Bharuch Enviro Infrastructure Co. Ltd. [Rs. 12,140/-]^	1214	10	**0**	0
Bharuch Eco - Aqua Infrastructure Ltd	625813	10	**6**	6
Enviro Infrastructure Co. Ltd.	50000	10	**1**	1
The Green Environment Co-op. Society Ltd. [Rs. 5,000/-]^	50	100	**0**	0
Avra Laboratories Pvt. Ltd	250000	10	**2**	2
Cosmos Co. Op. Bank Ltd. [Rs. 50/-]^	2	25	**0**	0
			19	19
In fully paid-up Bonds of :				
Rural Electrification Corporation Ltd.				
- 5.15 % ,5 Year Capital Gains Bonds, Series - III	0[10500]	10000	**0**	105
[10500 Bonds encashed during the year]				
National Housing Bank Ltd.				
- 5.10 % ,5 Year Capital Gains Bonds, 2002	0[10000]	10000	**0**	100
[10000 Bonds encashed during the year]				
National Bank for Agricultural & Rural Development				
- 5 % ,5 Year Capital Gains Bonds.	0[1000]	10000	**0**	10
[1000 Bonds encashed during the year]				
			0	215
			19	234
Total Other Investments			**63**	278
Total Investments in Shares , Debentures & Bonds			**2298**	1850
[*] In the Capital of a Partnership Firm			**509**	0
Contribution to the Corpus of Gujarat Venture Capital Fund:				
1990 [Rs. Nil { As at 31-03-06 Rs. 50,000/- }]^	-	-	**0**	0
1995	-	-	**1**	1
			1	1
Share application Money			**120**	0
Total [Aggregate Book Value of Investments]			**2928**	1851
Unquoted			**2387**	1562
Quoted [Market Value Rs 376 { As at 31-03-06 Rs. 294 } Millions}]			**541**	289
Total			**2928**	1851

Notes :

[1] **[*] Investment in the Capital of a Partnership Firm :**

	2007	2006
Name of Firm : M/s. Zydus Healthcare, Sikkim.		
Total Capital of the Firm [Rs. In Millions]:	513	0
Name of Partners & their Profit Sharing Ratio :		
Cadila Healthcare Limited	96 %	0
German Remedies Limited	2%	0
Cadila Healthcare Limited Staff Welfare Trust	2%	0

[2] In " Nos. [*]" figures of Previous year are same unless stated in [ ]

[3] In " Face Value [**] " , figures in Indian Rupees unless stated otherwise.

[4] [ ]^ Figures in bracket denote Rupees.

Schedules forming part of the Balance Sheet

INR - Millions

	As at March 31, 2007		2006
Schedule : 7 - Inventories :			
[As taken, valued and certified by the management] [Valued at lower of cost and net realisable value]			
Stores and Spare Parts		29	32
Stock-in-Trade :			
Raw Materials	951		564
Packing Materials	192		145
Finished Goods	1284		1004
		2427	1713
Work-in-progress		831	383
Total		3287	2128
Schedule : 8 - Sundry Debtors [Unsecured] :			
Debts outstanding for a period exceeding six months :			
Considered good	240		133
Considered doubtful	33		21
Total	273		154
Less: Provision for doubtful debts	33		21
		240	133
Other debts - Considered good :			
Due from subsidiary companies [Refer note no. B - 5 of Sch.no.20]	543		327
Others	1603		1391
		2146	1718
Total		2386	1851
Schedule : 9 - Cash and Bank Balances :			
Cash balance on hand		4	4
Bank Balances :			
With Scheduled Banks :			
In Current Accounts [As at 31-03-06 Rs. 0.4 Millions]	65		0
In Fixed Deposit Accounts	42		5
[Out of this, fixed deposits of Rs. 14 { As at 31-03-06 Rs.3 } Millions have been pledged with Banks as Margin Money for Guarantees issued and fixed deposits of Rs.0.3 { As at 31-03-06 Rs. 0.3 } Millions have been pledged with Sales-tax Authorities.			
In Foreign Currency Current Accounts	10		10
		117	15
With Other Banks :			
In Current Account in foreign currency with :			
International Moscow Bank, Moscow,	2		2
[Maximum amount outstanding during the year Rs. 14 { Previous year - Rs. 2 } Millions]			
International Exchange Bank, Philippines,	1		1
[Maximum amount outstanding during the year Rs. 1 { Previous year - Rs. 1 } Million]			
JSP Pension Bank Aval Kiev, Ukraine	0		1
[Maximum amount outstanding during the year Rs. 13 { Previous year - Rs. 6 } Millions]			
		3	4
Total		124	23

Schedules forming part of the Balance Sheet			
	INR - Millions		
	As at March 31,		
	2007		2006
Schedule : 10 - Loans and Advances :			
[Considered Good , unsecured unless otherwise stated]			
Advances to subsidiary companies [Refer note no. B - 6 of Sch.no. 20]		649	1005
Advances recoverable in cash or in kind or for value to be received :			
Secured :			
Advances to a Joint Venture Company [Refer note no. B - 2, 3-A & 7 of Sch.no. 20]	22		125
Others [As at 31-03-06 Rs. 0.3 Million]			
[Includes loan to an Officer Rs. 0.2 { as at 31-03-06 Rs. 0.3 } Million]			
[Maximum balance due during the year Rs. 0.3 { Previous Year Rs. 0.3 } Million]	2		0
		24	125
Unsecured :			
Others [Includes loan to an Officer Rs. 0.1 { as at 31-03-06 Rs. 0.2 } Million]			
[Maximum balance due during the year Rs. 0.2 { Previous Year Rs. 1 } Million]		1426	830
		2099	1960
Advance payment of direct taxes [net of provision]		8	41
Balances with Custom / Central Excise / Sales Tax Authorities		161	76
Interest receivable from others		5	9
Total		2273	2086
Schedule : 11 - Current Liabilities :			
Acceptances		399	190
Sundry Creditors :			
Small Scale Industrial Undertakings	38		20
For Capital Goods	74		59
Others	3142		1612
Subsidiary Companies [As at 31-03-06 Rs. 0.4 Millions]	11		0
		3265	1691
Advances from Debtors		40	58
Trade Deposits		19	12
Investor Education and Protection Fund [*] :			
Unclaimed dividends	10		9
Matured but unclaimed Fixed Deposits [Rs. 0.01 { As at 31-03-06 Rs. 0.01 } Million]	0		0
Interest payable on matured but unclaimed fixed deposits [Rs. 0.01 { As at 31-03-06 Rs. 0.01 } Million]	0		0
Total [*][There are no amounts due and outstanding to be credited to Investor Education and Protection Fund]		10	9
Interest accrued but not due on loans		31	39
Total		3764	1999
Schedule : 12 - Provisions :			
Proposed dividend		502	377
Corporate Dividend Tax on Proposed Dividend		85	53
Provision for claims for product warranties and return of goods		13	11
Provision for retirement benefits		143	156
Total		743	597

Schedules forming part of the Profit and Loss Account

	INR - Millions			
	Year ended March 31,			
	2007		2006	
Schedule : 13 - Other Income from operations :				
Income from Contract Manufacturing and Processing Charges				
[T.D.S. Rs. 4.8 { Previous year - Rs. 7.5 } Millions]		**267**		251
Export Incentives		**101**		55
Surplus on account of fluctuations in foreign exchange rates [Net]		**0**		26
Miscellaneous Income [T.D.S. Rs. 0.9 { Previous year - Rs. Nil } Millions		**114**		45
Total		**482**		377
Schedule : 14 - Other Income :				
A Dividends [Gross] :				
From Long Term :				
a Trade Investments :				
I Subsidiaries	**4**		1	
II Joint Ventures	**515**		375	
	519		376	
b Non - Trade Investments - Others	**1**		1	
Total Dividend received		**520**		377
B Others :				
Rent Received [T.D.S. Rs. 0.4 { Previous year - Rs.0.4 } Million]		**2**		2
Total		**522**		379
Schedule : 15 - Consumption of Materials and Finished Goods :				
Raw Materials :				
Stock at commencement	**564**		496	
Add : Purchases	**3888**		2536	
	4452		3032	
Less : Stock at close	**951**		564	
		3501		2468
Packing Materials consumed		**699**		415
Purchase of Finished Goods		**1775**		2259
[Increase] in Stock of Finished Goods & Work-in-process :				
Stock at close :				
Finished Goods	**1284**		1004	
Works-in-progress	**831**		383	
	2115		1387	
Less : Stock at commencement				
Finished Goods	**1004**		968	
Work-in-progress	**383**		367	
	1387		1335	
	(728)		(52)	
Differential Excise Duty on Opening and Closing stock on Finished Goods	**2**		(1)	
		(726)		(53)
Total		**5249**		5089

Schedules forming part of the Profit and Loss Account			
	INR - Millions		
	Year ended March 31,		
	2007		2006
Schedule : 16 - General Expenses :			
Personnel expenses :			
Salaries, wages and bonus	1355		1210
Company's contribution to provident & other funds	88		84
Staff welfare expenses	82		63
		1525	1357
Stores and spare parts consumed		208	167
Power & fuel		343	308
Processing Charges		212	99
Insurance		49	40
Repairs :			
Buildings	22		18
Plant and Machinery	39		34
Others	23		20
		84	72
Rent		21	23
Rates and Taxes		4	5
Managing Director's Remuneration		124	99
Commission to Directors		2	2
Travelling Expenses		348	290
Legal and Professional Fees		172	124
Deficit on account of fluctuations in foreign exchange rates [Net]		45	0
Miscellaneous Expenses		432	338
Marketing, Selling & Distribution Expenses :			
Commission on sales	186		171
Freight and forwarding on sales	363		279
Sales promotion expenses	299		227
Advertisements	251		202
Seminar, Conference and Exhibition	102		96
Representative Allowance and Incentives	263		251
Bad debts written off	3		17
Provision for Doubtful Debts	17		12
Other marketing expenses	343		298
		1827	1553
Preliminary Expenses written off [Rs. Nil { Previous year - Rs. 0.08 } Million]		0	0
Directors' fees [Rs 0.19 { Previous year - Rs. 0.32 } Million]		0	0
Loss on assets sold / discarded [Net]		27	7
Donations		16	5
Total		5439	4489

Schedules forming part of the Profit and Loss Account

	INR - Millions		
	Year ended March 31,		
	2007		2006
Schedule : 17 - Research Expenses :			
Materials		**363**	219
Personnel expenses :			
Salaries, wages and bonus	**188**		157
Company's contribution to provident & other funds	**13**		10
Staff welfare expenses	**7**		5
		208	172
Stores and spare parts consumed		**41**	22
Power & fuel		**28**	26
Analytical expenses		**515**	281
Insurance		**8**	6
Repairs :			
Buildings	**2**		3
Plant & machineries	**3**		2
Rent		**5**	2
Travelling Expenses		**20**	10
Legal and Professional fees		**5**	3
Others [Excluding Depreciation of Rs. 88 { Previous Year - Rs. 67 } Millions]		**98**	71
Total		**1291**	817
Schedule : 18 - Interest and Financial Charges :			
Interest :			
On term loans	**217**		118
On debentures	**12**		42
On working capital loans	**30**		12
Others	**1**		3
		260	175
Deficit on account of fluctuations in foreign exchange rates on loans		**(11)**	57
Bank commission & charges		**39**	40
		288	272
Less : Interest earned [Gross] :			
From Long Term Investments	**12**		15
on Capital in a Partnership firm	**10**		0
Others [T.D.S. - Rs 4.1 { Previous year Rs. 6.3 } Millions]	**90**		52
Total		**112**	67
Total		**176**	205
Schedule : 19 - Provision for Taxation :			
Current Tax	**200**		130
Deferred Tax	**30**		85
Fringe Benefit Tax	**42**		15
Total		**272**	230
Add : Prior year's tax adjustments [Rs 0.21 Million]		**0**	9
Total		**272**	239

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts :

A Significant Accounting Policies :

1 Basis of Accounting :

The financial statements are prepared under the historical cost convention on the "Accrual Concept" of accountancy in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable and with the applicable provisions of the Companies Act, 1956.

2 Use of Estimates :

The preparation of Financial Statements in conformity with the Accounting Standards generally accepted in India requires, the management to make estimates and assumptions in respect of certain items like provisions for doubtful debts, impairment of fixed assets, provision for product warranty claims etc. that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

3 Fixed Assets and Depreciation :

A Fixed Assets are stated at historical cost of acquisition / construction less accumulated depreciation and impairment loss. Cost [Net of Input tax credit received / receivable] includes related expenditure and pre-operative & project expenses for the period upto completion of construction / assets are put to use.

B Depreciation is provided on "straight line method" as per Section 205 (2) (b) of the Companies Act,1956 at the rates prescribed in Schedule XIV thereto.

C Depreciation on impaired assets is calculated on its residual value, if any on a systematic basis over its remaining useful life.

D Leasehold land is amortized over the period of the lease.

E The Trade Marks and Technical Know-how Fees are amortised over its estimated economic life of ten years.

F Depreciation on additions / disposals of the fixed assets during the year is provided on pro-rata basis according to the period during which assets are put to use.

G Depreciation is provided @ 100 % where, the actual cost of purchase of an asset does not exceed Rs. 10,000/-.

4 Impairment of Assets :

The Company assesses at each balance sheet date whether there is any indication of impairment of any asset. If such indication exists, assets are impaired by comparing carrying amount of each asset and / or cash generating unit to the recoverable amount being higher of the net selling price or value in use. Value in use is determined from the present value of the estimated future cash flows from the continuing use of the assets.

5 Borrowing Costs :

Borrowing costs attributable to the acquisition / constructions of a qualifying asset are capitalised as part of the cost of such assets, up to the date, the assets are ready for its intended use. Other borrowing costs are recognised as an expense in the period in which they are incurred.

6 Expenditure during the Construction Period :

The expenditure incidental to the expansion / new projects are allocated to Fixed Assets in the year of commencement of the commercial production.

7 Investments :

A Long term and strategic investments are stated at cost, less any diminution in the value other than temporary.

B Current investments, if any, are stated at lower of cost and fair value determined on individual investment basis.

C Investments in shares of foreign subsidiary and other Companies are expressed in Indian Currency at the rates of exchange prevailing at the time when the original investments were made.

8 Inventories :

A Raw Materials , Stores & Spare Parts , Packing Materials , Finished Goods and Works-in-Progress are valued at lower of cost and net realisable value .

B Cost [Net of Input tax credit availed] of Raw Materials, Stores & Spare Parts , Packing Materials & Finished Goods is determined on FIFO basis .

C Cost of Finished Goods and Works-in-Progress is determined by taking material cost (net of Input tax credit availed) , labour and relevant appropriate overheads .

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

9 Revenue Recognition :

A Sales of products in domestic market are recognised when they are despatched to customers at invoice value and are reported net of trade discounts and sales tax collected.

B Revenue in respect of export sales is recognised on shipment / air lift of products .

C Dividend income is recognised when the unconditional right to receive the income is established.

D Interest income is recognised on time proportionate method.

E Revenue in respect of other income is recognised when no significant uncertainty as to its determination or realisation exists.

10 Foreign Currency Transactions :

A The transactions in foreign currencies on revenue accounts are stated at the rates of exchange prevailing on the date of transaction.

B The net gain or loss on account of exchange differences either on settlement or on translation are recognised in the Profit and Loss Account, except in cases where they relate to acquisition of Fixed assets from a country outside India, the same are adjusted to the carrying cost of respective Fixed Assets.

C The foreign currency assets and liabilities covered by forward contracts / options are stated at forward contract rates , while those not covered by forward contracts are restated at the prevailing exchange rates at the year end. The premium in respect of forward contracts is accounted over the period of the contract.

11 Research and Development Cost :

A Revenue expenditure on research and development is charged to the profit and loss account of the year in which it is incurred.

B Capital expenditure on research and development is given the same treatment as Fixed Assets.

12 Excise Duty :

Excise Duty is accounted gross of Cenvat benefit availed on inputs, fixed assets and eligible services.

13 Retirement Benefits :

A Contribution to Provident Fund and Superannuation Scheme accruing during each year as per the schemes are charged to Profit and Loss Account.

B Gratuity and Leave Encashment Liabilities are charged to Profit and Loss Account on the basis of actuarial valuation.

14 Miscellaneous Expenditure Not Written Off :

The compensation paid to the employees under Voluntary Retirement Scheme is expensed in the year of payment.

15 Provision for Bad and Doubtful Debts / Advances :

Provision is made in accounts for bad and doubtful debts / advances which in the opinion of the management are considered irrecoverable.

16 Provision for Product warranties :

Estimated warranty claims in respect of products sold during the year are provided based on the management's estimates of probable customers claims.

17 Taxes on Income :

A Current tax is determined on the basis of the amount of tax payable on taxable income for the year.

B In accordance with Accounting Standard 22 - " Accounting for Taxes on Income " , issued by the Institute of Chartered Accountants of India, amount of the deferred tax for timing differences between the book and tax profits for the year is accounted for using the tax rates and laws that have been enacted or substantively enacted as of the balance sheet date. Deferred tax assets arising from temporary timing differences are recognised to the extent there is reasonable certainty that the assets can be realised in future.

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

B Notes on Accounts :

1 The Company has imported certain capital Equipments at concessional rate of custom duty under "Export promotion of Capital Goods Scheme" of the Central Government. The Company has undertaken an incremental export obligation to the extent of US $ 14 Millions{ equivalent to Rs. 630 Millions Approx. } [Previous Year US $ 19 Millions { equivalent to Rs. 848 Millions approx.}] to be fulfilled during a specified period as applicable from the date of imports. The liability towards custom duty payable thereon in respect of unfulfilled export obligations as on 31st March, 2007 of Rs. 136 Millions [as at 31-03-06 Rs. 91 Millions] is not provided for.

2 The Company had given a guarantee in favour of a bank for securing term loans granted by it to Sarabhai Zydus Animal Health Ltd.[SZAHL] , a joint venture company .The Company had paid entire amount to the bank on behalf of SZAHL honouring its obligation under the aforesaid guarantee. The outstanding amount against it as at 31-03-07 Rs. 22 Millions. [As at 31-03-06 Rs.125 Millions].

The aforesaid loan of bank to SZAHL had been fully repaid on March 14, 06. In terms of guarantee document entered into between the bank, SZAHL and the Company, all rights and security of the lender in the form of mortgage of land at village Dongargaon [Taluka : Mawal, district : Pune] together with structures erected / to be erected thereon and certain trademarks of SZAHL shall automatically get transferred in favour of the Company on repayment of the said loan. In view of this, the amount recoverable from SZAHL is disclosed as secured advance under Loans and Advances under schedule - 10.

3 **A** The Company has an investment of Rs. 270 Millions in fully paid up equity shares of Sarabhai Zydus Animal Health Ltd., a Joint venture company. Further, the Company has given secured loans & advances of Rs. 22 Millions [Previous Year Rs. 125 Millions] to said Company. The net worth of the said company is partially eroded. However, since the company is making profit during last two years & investment being strategic long term, the diminution is considered to be temporary and accordingly no provision has been made.

B The Company has an investment of Rs. 50 Millions and given loans & advances of Rs. 71 Millions to Dialforhealth India Ltd., a wholly owned subsidiary of the Company. The accumulated losses as at 31st March, 2007 amounting to Rs. 84 Millions has exceeded the entire share capital of the said Company. However having regard to the long term strategic investment, the diminution is considered to be temporary and accordingly no provision has been made.

C There is a diminution of Rs. 231 Millions in the value of shares of Carnation Nutra Analogue foods Ltd., a listed subsidiary company. In view of the long term strategic investment, the diminution is considered to be temporary and accordingly no provision has been made.

4 **A** Provision for product warranty claims in respect of products sold during the year is made on the basis of management's estimation of probable customer claims in respect thereof considering the estimated stock lying with retailers. The Company does not expect any reimbursement of such claims in future.

B The movement in such provision is stated as under :

INR - Millions

Carrying amount at the beginning of the year	Additional provision made during the year	Amount used	Unused amount reversed during the year	Carrying amount at the end of the year
11.53	10.12	0	8.33	13.32

	INR - Millions Year ended March 31, 2007	2006
5 Sundry Debtors include amount due from subsidiary companies :		
A Zydus Healthcare Brazil Ltda.[Maximum amount due during the year Rs.65 { Previous Year Rs.20 } Millions]	54	20
B Zydus Pharmaceuticals (USA) INC [Maximum amount due during the year Rs. 460 { Previous Year Rs.307 } Millions]	460	307
C Zydus France SAS [Maximum amount due during the year Rs.33 { Previous Year Rs. Nil } Millions]	29	0
6 Loans & Advances include amount due from subsidiary companies :		
A Zydus International Pvt. Ltd. [As at 31-03-07 Rs. 805] [Maximum amount due during the year Rs. 404 { Previous Year Rs. 404 } Millions] [During previous year, the Company had provided a convertible loan of Rs. 404 Millions to be converted into Share Capital of Zydus International Pvt. Ltd. at par, at the discretion of the Company, with an option to recall the loan in case the objective of providing the loan is not met with which the company exercised during the year and the loan was recalled.]	0	404

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

				INR - Millions	
				Year ended March 31,	
				2007	2006
	B		Dialforhealth India Ltd.[Maximum amount due during the year Rs. 71 { Previous Year Rs. 61 } Millions]	**71**	61
	C		Zydus France SAS [Maximum amount due during the year Rs.578 { Previous Year Rs. 540 } Millions]	**578**	540
	Note : All interest bearing except B. The terms of repayment not specified in B. In case of C repayable in September, 2008 & September, 2009.				
7	Loans & Advances include amount due from a Joint Venture Company :				
			Sarabhai Zydus Animal Health Ltd.[Maximum amount due during the year Rs. 125 { Previous Year Rs. 159 } Millions] [Note : Interest bearing. The terms of repayment not specified.]	**22**	125
8	Loans & Advances include amount advanced for acquisition of controlling stake in Liva Healthcare Ltd. [Closing of Transactions occurred on April 18, 2007].			**160**	0
9	**A**		Details of remuneration paid / payable to the Managing Director :		
		a	Remuneration	**124**	99
		b	Contribution to Provident and other Funds [Rs. 0.3 { Previous year - Rs. 0.3 } Millions]	**0**	0
		c	Total	**124**	99
	B		Computation of net profit as per section 198 read with section 309 , 349 & 350 of the Companies Act,1956 :		
		a	Profit as per Profit & Loss Account	**2047**	1649
		b	Add :		
			Depreciation provided in Accounts	**667**	616
			Provision for Taxation - Current , Deferred, Fringe benefit & Prior year tax adjustments	**272**	239
			Managing Director's Remuneration	**124**	99
			Directors' fees [Rs 0.19 { Previous year - Rs. 0.32 } Million]	**0**	0
			Provision for doubtful debts	**17**	12
			Commission to Other Directors	**2**	2
			Loss on sale / disposal of Assets [Net]	**27**	7
				1109	975
		c	Total (a + b)	**3156**	2624
		d	Less: Depreciation as per section 350	**667**	616
		e	Net Profit as per section 198 (c - d)	**2489**	2008
	C		Maximum remuneration payable at the rate of 5% of the net profit as per section 309 of the Companies Act, 1956 .		
			MD remuneration @ 5 %	**124**	100
	D		Commission to Non-Executive Directors :		
			Maximum allowable as per Companies Act, 1956 [1 % of net profit]	**25**	20
			Maximum approved by the Shareholders	**5**	5
			Commission approved by the Board	**2**	2
10	Capital expenditure on Research & Development [Including Capital Work-in-Progress Rs. 39 {Previous Year-Rs.316 } Millions]			**269**	370
11	Miscellaneous Expenses include :				
	A		Auditors' Remuneration [Including Service Tax] :		
		a	Audit Fees	**3**	2
		b	Tax Audit Fees	**1**	1
		c	Certification & Other Charges Rs. 0.2 [Previous Year Rs. 0.3] Millions.	**0**	0
		d	Total	**4**	3
	B		Cost Auditor's Remuneration including fees for other services & including Service Tax	**1**	1
12	During the year , the Company has capitalised the borrowing cost amounting to Rs. 1.7 [Previous Year Rs. 8] Millions.				

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

13 Contingent liabilities not provided for :

		INR - Millions			
		In respect of [*] Amalgamated Companies		In respect of Cadila Healthcare Ltd.	
		Year ended March 31,		Year ended March 31,	
		2007	2006	**2007**	2006
A	In respect of guarantees given by a Bank and counter guarantees given by the Company.	**0**	0	**72**	241
B	In respect of outstanding dues against guarantees / Letter of Comfort given by the Company to a Bank for the loans availed by a Joint Venture Company	**0**	0	**130**	0
C	In respect of guarantees given by the Company to Banks for the outstanding dues of loans availed by Zydus Pharmaceuticals USA Inc, partly owned subsidiary company	**0**	0	**179**	0
D	Claims against the Company not acknowledged as debts	**1.2**	1.4	**35**	284
E	In respect of the demand raised by the Central Excise, State Excise & Service Tax dept. against which the Company has preferred an appeal. The Company has been legally advised that the demand is not tenable.	**9**	9	**54**	255
F	In respect of the demand raised by the Ministry of Chemicals & Fertilizers, Govt. of India under Drug Price Control Order , 1979 for difference in actual price and price of respective bulk drug allowed while fixing the price of certain life saving formulations and disputed by the Company. Based on the legal advice the Company does not foresee the crystallization of the liability.	**27**	27	**0**	0
G	In respect of Income Tax matters pending before appellate authorities which the Company expects to succeed, based on decisions of Tribunals / Courts.	**0**	0	**3**	52
H	In respect of Sales Tax matters pending before appellate authorities / Court which the Company expects to succeed, based on decisions of Tribunals / Courts.	**0**	0	**71**	17

Note : [*] represents contingent liabilities taken over by the Company under the Scheme of Arrangement and Amalgamation of erstwhile Cadila Laboratories Ltd., Cadila Chemicals Ltd. , Cadila Antibiotics Ltd. , Cadila Exports Ltd. and Cadila Veterinary Pvt. Ltd. with the Company w.e.f. 1st June , 1995.

14 Estimated amount of contracts remaining to be executed on capital account and not provided for [Net of Advances] — **291** | 35

15 Derivative Financial Instruments :

A Most of the derivative transactions are considered as off balance sheet items and cash flows arising there from are recognised in the books of accounts as and when the settlements take place in accordance with the terms of the respective contracts over the tenure thereof.

B The details of outstanding derivative transactions are as under :

Nature of derivative transaction	Quantum[*] INR-Mn. As at March 31, 2007	2006	Underline exposure	Purpose
Currency Forward Contracts	639	968	Trade receivable	Hedging the risk of exchange rate fluctuations
Currency Forward Contracts	1359	1000	Trade payable and Debts servicing	Hedging the risk of exchange rate fluctuations
Interest Swap	1030	991	Debts servicing	Hedging the risk of Interest rate
Currency Options	1045	451	Debts servicing	Hedging the risk of exchange rate fluctuations

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

C The details of foreign currency exposures not hedged by derivative transactions are as under :

Underline exposure	Quantum[*] in INR-Mn. As at March 31, 2007	2006
Assets	2011	804
Payables	1718	823

Quantum[*] represents the Indian rupee equivalent of foreign currency contracts and derivatives converted in accordance with the accounting policy followed by the Company

16 The Company's interest in the jointly controlled entities is shown as under in compliance with the requirements of the Accounting Standard - 27 " Financial Reporting of Interest in Joint Ventures ", [AS - 27] issued by the Institute of Chartered Accountants of India :

Name of the Company	% of holdings	Accounting year ending on	Status	INR - Millions Amount of interest based on last audited accounts: Assets	Liabilities	Income	Expenditure
Zydus Altana Healthcare Pvt. Ltd.	50	31-12-06	Audited	**598**	**208**	**777**	**162**
		31-12-05	Audited	396	92	644	176
Zydus Mayne Oncology Pvt. Ltd.	50	31-03-07	Audited	**299**	**24**	**0**	**0**
		31-03-06	Audited	77	2	0	0
Sarabhai Zydus Animal Health Ltd.	50	31-03-07	Unaudited	**336**	**200**	**433**	**385**
		31-03-06	Unaudited	283	188	417	384
Dialforhealth Greencross Limited	50	31-03-07	Audited	**1**	**0.1**	**0.3**	**0.5**
		31-03-06	Audited	1	0.1	0.3	0.4
BSV Research and Development Pvt. Ltd.	50	31-03-07	Audited	**35**	**2**	**0.02**	**4**
		31-03-06	Audited	35	3	0.02	4
BSV Pharma Pvt. Ltd.	50	31-03-07	Audited	**35**	**2**	**0**	**1**
		31-03-06	Audited	5	0.1	0	0.1

The Company's share in contingent liabilities of jointly controlled entities in compliance with the requirement of AS - 27 referred to above is as under :

		INR - Millions Year ended March 31, **2007**	2006
A	In respect of guarantees given by a Bank and counter guarantees given by the jointly controlled entities	**0.2**	0.3
B	In respect of demand raised by the Government of Gujarat on account of stamp duty payable on the trade-marks acquired by one of the jointly controlled entity against which appeal has been preferred before the Hon'able Delhi High Court	**16**	18
C	Custom duty liability which may arise if export obligations are not fulfilled against import of machinery under EPCG Scheme	**0.0**	0.2
D	Claims against the company not acknowledged as debts	**233**	0
	Estimated amount of contracts remaining to be executed on capital account and not provided for [Net of Advances]	**24**	90

17 Segment Information :

Segment Information has been given in the Consolidated Financial Statements of the Company. Hence , as per Accounting Standard - 17 issued by the Institute of Chartered Accountants of India, no separate disclosure on segment information is given in these financial statements.

18 Related Party Transactions :

A Name of the Related Party and Nature of the Related Party Relationship :-

a Subsidiary Companies :

Dialforhealth India Limited
Dialforhealth Unity Limited
German Remedies Limited
Zydus Pharmaceuticals Limited
Zydus International Pvt. Ltd. [Ireland]
Carnation Nutra-Analogue Foods Ltd.
Zydus Healthcare S.A. (Pty) Ltd. [South Africa]
Zydus Healthcare [USA] LLC. [USA]
Zydus Healthcare Brasil Ltda [Brasil]
Zydus Pharmaceuticals (USA) Inc. [USA]
Zydus France SAS [France]
Zydus Japan
SCI Immopharm [France]
Zydus Netherland

b Joint Venture Companies :

Zydus BSV R & D Pvt. Ltd.
Zydus BSV Pharma Pvt. Ltd.
Dialforhealth Greencross Limited
Sarabhai Zydus Animal Health Limited
Zydus Altana Healthcare Pvt. Ltd.
Zydus Mayne Oncology Pvt. Ltd.

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

c **Directors and their relatives :**

Shri P.R.Patel	Chairman & Managing Director [C.M.D.]
Shri Sharvil P.Patel	Director & son of C.M.D.
Aarti Trust	Sister of C.M.D. is beneficiary of the Trust
Gira Trust	Sister of C.M.D. is beneficiary of the Trust
Rita Trust	Sister of C.M.D. is beneficiary of the Trust
Zydus Family Trust	C.M.D. & his relatives are beneficiaries of the Trust

d **Enterprises significantly influenced by Directors and / or their relatives**

Cadmach Machinery Company Private Limited
B.A.Research India Ltd.
M/s. Exechon
M/s. C. M. C. Machinery
Ramanbhai Foundation

e **Associate Companies / Concerns :**

M/s. Zydus Healthcare [Previous Year : Carnation Nutra-Analogue Foods Ltd.]

B **Transactions with Related Parties :**

The following transactions were carried out with the related parties in the ordinary course of business .

a Details relating to parties referred to in items 19 - A [a , b, d & e]

Volume of the Transactions [INR - Millions]

Nature of Transactions	Subsidiary Companies		Joint Venture Companies		Enterprises significantly influenced by Directors and/or their relatives		Associate Companies	
	Year ended March 31,							
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Purchases :								
Goods	**28**	26	**1**			1		
Fixed Assets		2			**18**	12		
Services	**17**	20	**1**		**117**	47		
Deputation of personnel		10						
Sales :								
Goods	**896**	543	**7**	7				
Fixed Assets				3		22		
Services	**72**	1	**3**	1				
Investments :								
Purchase / made	**551**	338	**232**	145			**499**	
Dividend Received	**4**	1	**515**	375				
Int. on Capital Recd.							**10**	
Finance :								
Inter Corporate Deposits given	**11**	575	**104**	72				
Deposits Repaid	**404**	50		106				
Guarantees given								
Interest Received	**49**	25	**12**	16				
Others :								
Donation given					**3**	2		
Outstanding								
Payable	**11**							
Receivable	**1192**	1332	**22**	125				

b Details relating to persons referred to in item 19 - A [c] above :

		INR - Millions	
		Year ended March 31,	
		2007	2006
1	Remuneration	**124**	99
2	Rent paid [Rs. 0.2 { previous Year Rs. 0.2 } Millions]	**0**	0
3	Outstanding remuneration payable	**121**	96

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

19 Deferred Tax :

A The Deferred tax liability of Rs. 30 Millions for the year has been recognised in the Profit And Loss Account.

B Break up of Deferred Tax Assets and Liabilities into major components of the respective balances are as under :

INR - Millions

	As at 31-03-06	Charge for the year to Profit & Loss A/c.	As at 31-03-07
Deferred Tax Liabilities :			
Depreciation	1279	58	**1337**
Others	14	0	**14**
Total	1293	58	**1351**
Deferred Tax Assets :			
Retirement benefits	60	(19)	**41**
Receivables	9	0	**9**
Others	127	47	**174**
Total	196	28	**224**
Net Deferred Tax Liability	1097	30	**1127**

20 Calculation of Earnings per Share [EPS] :

The numerators and denominators used to calculate the basic and diluted EPS are as follows :

			Year ended March 31, **2007**	2006
A	Profit after tax attributable to Shareholders :			
	a Before extra-ordinary items	INR - Millions	**2047**	1760
	b After extra-ordinary items	INR - Millions	**2047**	1649
B	Basic and weighted average number of Equity shares outstanding during the year	Nos.	**125613708**	125613708
C	Nominal value of equity share	INR	**5**	5
D	Basic and Diluted EPS :			
	a Before extra-ordinary items	INR	**16.30**	14.01
	b After extra-ordinary items	INR	**16.30**	13.13

21 **A** The names of Small Scale Industrial Undertakings to whom amounts outstanding for more than 30 days are as under :

M/s. Creative Printers Pvt. Ltd., M/s. Kaisha Manufacturers Pvt. Ltd., M/s. Unique Printers, M/s. Temple Packaging Pvt. Ltd., M/s. Klasspack Pvt.Ltd., M/s. Tube Glass Containers Ltd., M/s. Samrat Pharmachem Ltd, M/s. Isha Plastic Industries, M/s. Core Emballage Limited, M/s. Universal Medicap Ltd., M/s. Vial Seal Industries, M/s. Unique Offset, M/s. Autofits, M/s. Ess Dee Aluminium Pvt Ltd., M/s. Precision MachineTools, M/s. J.H.Mehta & Brothers, M/s. Fit-Wel Industries, M/s. Sujako Interiors Pvt. Ltd., M/s. Hi-Tec Power Controls, M/s. Oleya Equipments, M/s. Bharat Network Limited, M/s. Natwarlal & Co., M/s. Silicagel Products Mfg Co., M/s. Darshan Entrprise, M/s. Kantilal Chimanlal, M/s. Shail Vac Engineers, M/s. Harsiddh Industries, M/s. Shree Ganesh Industries, M/s. Rolex Plastic Industries, M/s. Canton Laboratories Pvt. Ltd., M/s. Jewel Packaging Pvt.Ltd., M/s. Varun Engineers, M/s. A Choksey Chemical Industries, M/s. Sujata Chemicals, M/s. Ashok Engineering, M/s. Shreeji Paper Containers, M/s. Optra Power System M/s. Power Pack Systems, M/s. Nits Engineers, M/s. Shreenath Chemicals, M/s. Brajesh Packaging Pvt. Ltd., M/s. Maximaa Systems Ltd., M/s.Premier Aircon, M/s. Mehk Chemicals Private Ltd., M/s. Jabla Electrical Industries, M/s. Roto Polymers India, M/s. Klassic Gold, M/s. Perfect Engineering Works, M/s. Giriraj Coating Industries, M/s. Jai Rubber Enterprises, M/s.Pure Chem Pvt.Ltd., M/s. Perfect Acid And Chemicals, M/s. Sharad Packaging Pvt. Ltd., M/s. Apollo Plastic Industries, M/s. Aries, M/s. HighValley Industrial Corporation, M/s.Monalee Enterprises, M/s. Kanath Engineering Pvt.Ltd., M/s. Kaveri Engineering Works, M/s. Kunal Enterprises, M/s. Jewel Paper (P) Ltd., M/s. D.K. Scientific Industries, M/s.Dhara Engineers, M/s. HBR Packaging, M/s. Makers Polyfilms Pvt Ltd., M/s. Ganesh Engineering Co., M/s. Charun Instruments, M/s. Icon Prints Pvt.Ltd., M/s. Meena Eng. Works, M/s. Gujarat Febrotech, M/s. Hydroflex Hose Industries, M/s. HiTech Engineers, M/s.Carewell Enterprises, M/s. Karnavati Composites Pvt.Ltd., M/s. Jay Engineering, M/s.Daman Foils Pvt Ltd., M/s. Prism Pharma Machinery, M/s. D M Printers, M/s. Beardsell Ltd., M/s.Safeworld Systems Pvt Ltd., M/s. Mangala Associates, M/s. Multiplast, M/s. Xl Coders Pvt. Ltd., M/s. Swami Engineering Works, M/s. Parag Engineering, M/s. Singh Air Systems, M/s. Ajni Interiors, M/s. Acme Environment Control Systems.

B The above information has been compiled in respect of parties to the extent to which they could be identified as Small Scale and ancillary undertakings on the basis of information available with the Company.

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

22 Quantitative and Value analysis of Sales Turnover :

Class of Goods	Units of Measure	Year ended March 31, 2007 Qty.	2007 INR-Mn.	2006 Qty.	2006 INR-Mn.
Tablets	ML.Nos.	8203	7756	7573	6757
Capsules	ML.Nos.	676	1417	691	1286
Injections	K.Ltrs.	1194	1562	1262	1410
Dry Powder Injections	Kgs.	5710	841	5580	616
Liquids	K.Ltrs.	1342	368	1911	371
Dry Syrups, Powders & Granules	Tonnes	556	650	761	592
Ointments	Tonnes	142	188	126	160
Cosmeceuticals	Tonnes	724	286	612	247
Suppositories	ML.Nos.	9	68	10	62
Bulk Drugs	Tonnes	384	1823	376	1535
Others			55		46
Total			15014		13082

23 Quantitative and Value analysis of Opening / Closing Stock :

Class of Goods	Units of Measure	2007 Qty.	2007 INR-Mn.	As at March 31, 2006 Qty.	2006 INR-Mn.	2005 Qty.	2005 INR-Mn.
Tablets	ML.Nos.	740	356	462	219	490	250
Capsules	ML.Nos.	51	47	52	33	49	37
Injections	K.Ltrs.	257	139	30	97	31	60
Dry Powder Injections	Kgs.	526	64	257	17	540	24
Liquids	K.Ltrs.	139	26	57	23	18	15
Dry Syrups, Powders & Granules	Tonnes	45	7	36	4	26	6
Ointments	Tonnes	20	9	20	7	22	7
Suppositories	ML.Nos.	1	4	1	3	3	3
Bulk Drugs	Tonnes	23	198	38	173	23	134
Others			47		14		19
Total			897		590		555

24 Quantitative and Value Analysis of goods traded in :

	Units of Measure	As at April 1, 2006 Qty.	2006 INR-Mn.	2005 Qty.	2005 INR-Mn.
A Stock at Commencement :					
Tablets	ML.Nos.	538	156	521	176
Capsules	ML.Nos.	44	56	36	39
Injections	K.Ltrs.	148	73	123	88
Dry Powder Injections	Kgs.	397	26	178	38
Liquids	K.Ltrs.	427	42	157	20
Dry Syrups, Powders & Granules	Tonnes	55	12	42	8
Ointments	Tonnes	16	4	1	0
Cosmeceuticals	Tonnes	157	30	96	19
Others			15		25
Total			414		413

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

	Units of Measure	Qty.	INR-Mn.	Qty.	INR-Mn.
		Year ended March 31,			
B Purchases :		**2007**		2006	
Tablets	ML.Nos.	**2787**	**638**	3637	769
Capsules	ML.Nos.	**199**	**208**	289	211
Injections	K.Ltrs.	**627**	**546**	1078	727
Dry Powder Injections	Kgs.	**1914**		1668	
Liquids	K.Ltrs.	**1107**	**96**	1909	269
Dry Syrups, Powders & Granules	Tonnes	**305**	**179**	369	152
Ointments	Tonnes	**35**	**1**	38	6
Bulk Drugs	Tonnes	**5**	**0**	4	0
Cosmeceuticals	Tonnes	**759**	**104**	678	110
Others			**3**		15
Total			**1775**		2259
		As at March 31,			
C Stock at close :		**2007**		2006	
Tablets	ML.Nos.	**821**	**160**	538	156
Capsules	ML.Nos.	**107**	**45**	44	56
Injections	K.Ltrs.	**238**	**52**	148	73
Dry Powder Injections	Kgs.	**893**	**32**	397	26
Liquids	K.Ltrs.	**771**	**40**	427	42
Dry Syrups, Powders & Granules	Tonnes	**205**	**14**	55	12
Ointments	Tonnes	**32**	**5**	16	4
Cosmeceuticals	Tonnes	**180**	**29**	157	30
Others			**10**		15
Total			**387**		414

25 Consumption of Raw materials with Value and Quantity break-up :

	Qty.	INR-Mn.	Qty.	INR-Mn.
	Year ended March 31,			
	2007		2006	
Others (none of which individually accounts for more than 10 % of the total consumption)		**3501**		2468
Total		**3501**		2468

26 Quantitative information in respect of each class of goods manufactured (including manufactured by others, but excluding manufactured for others, on loan license basis) by the Company [As Certified by the management] :

Class of Goods	Units of Measure	Installed Capacity As at March 31, 2007	Installed Capacity As at March 31, 2,006	Actual Production Year ended March 31, 2007	Actual Production Year ended March 31, 2,006
Tablets	ML.Nos.	**7840**	7040	**6178**	4035
Capsules	ML.Nos.	**790**	790	**560**	428
Injections	K.Ltrs.	**513**	513	**930**	229
Dry Powder Injections	Kgs.	**200**	200	**3756**	3263
Liquids	K.Ltrs.	**0**	0	**763**	335
Dry Syrups, Powders & Granules	Tonnes	**5800**	6632	**432**	444
Ointments	Tonnes	**0**	0	**128**	103
Suppositories	ML.Nos.	**7**	7	**11**	10
Bulk Drugs [#]	Tonnes	**552**	373	**432**	387
Lyophised Injections	ML.Nos.	**12**	5	**4**	3
Vaccines	ML.Dosages	**2**	2	**1**	1
Aerosols	ML.Nos.	**3**	3	**1**	0
Transdermals	ML.Nos.	**5**	5	**0**	1

[#] Includes Inter unit Transfer 68 Tonnes [2005-06 - 70 Tonnes] .

Note : Licensed capacities not stated in view of abolition of Industrial licensing for all of the above class of goods vide Notification No. F.NO. 10[11] / 92 - LP dated 25th October, 1994 , issued by Government of India.

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

			Year ended March 31,			
			2007		2006	
			INR-Mn.	% to Total	INR-Mn.	% to Total
27	**A**	**Value of Raw Materials Consumed :**				
		Imported	1289	37	922	37
		Indigenous	2212	63	1546	63
		Total	3501	100	2468	100
	B	**Value of Stores & Spares Consumed :**				
		Imported	12	6	8	5
		Indigenous	196	94	159	95
		Total	208	100	167	100

		INR - Millions	
		Year ended March 31,	
		2007	2006
28	**Value of Imports calculated on CIF basis :**		
	Raw materials	1206	935
	Packing Materials	86	113
	Finished goods	153	145
	Spare Parts	9	5
	Capital goods	206	117
29	**Expenditure in Foreign currency :**		
	Traveling	42	30
	Commission	42	40
	Purchases of Trade-marks & Technical Know-how	26	52
	Interest	190	128
	Others [Salaries, Legal & professional Fees, Research & Development expenses etc.,]	407	473
30	**Earnings in Foreign exchange :**		
	FOB value of Exports	2943	2073
	Others	154	117
31	**Remittances made on account of dividend in Foreign currency :**	Nil	Nil

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 20 - Significant Accounting Policies & Notes on Accounts - Continue :

C Balance Sheet abstract and Company's General Business Profile :-

1 Registration details :	
Registration number	25878 of 1995 - 96
Balance sheet date	**31-03-07**
State code	4
	INR - Thousands
2 Capital raised during the year :	NIL
3 Position of Mobilisation & Deployment of Funds :	
Total Liabilities	18934000
Total Assets	18934000
Sources of Funds :	
Paid up Capital	628000
Reserves & Surplus	8195000
Deferred Tax Liabilities	1127000
Secured Loans	3627000
Unsecured Loans	850000
Application of Funds :	
Net Fixed Assets	7936000
Investments	2928000
Net Current assets	3563000
Miscellaneous Expenditure	0
4 Performance of Company : -	
Turnover [including other income]	15141000
Total Expenditure	12822000
Profit before Tax	2319000
Profit after Tax	2047000
Basic and Diluted E P S [in Rupees] :	
Before Extraordinary items	16.30
After Extraordinary items	16.30
Dividend rate [%]	80 %
5 Generic names of three principal products/services of Company (As per monetary terms) :-	
Item Code Number (ITC Code)	300420.11
Product Description	Ciprofloxacine in capsules etc.
Item Code Number (ITC Code)	300490.38
Product Description	Other antacids
Item Code Number (ITC Code)	300439.03
Product Description	Dexamethasone tablets, injections, eye/ear drops etc.

Signatures to Schedules 1 to 20.

As per our report of even date

For R.R.Patel & Co.,
Chartered Accountants

For Mukesh M. Shah & Co.,
Chartered Accountants

Sd/-
(PANKAJ R. PATEL)
Chairman & Managing Director

Sd/-	Sd/-	Sd/-	Sd/-	Sd/-
(R. R. PATEL)	(MUKESH M. SHAH	(JYOTINDRA B. GOR	(UPEN H. SHAH)	(MUKESH M. PATEL)
Proprietor	Partner	Chief Accounts Officer	Company secretary	Directors
Membership No. 7871.	Membership No. 30190.			

Ahmedabad, Dated : 26th April, 2007

Auditors' Report

The Board of Directors,
Cadila Helathcare Limited,
Ahmedabad.

1. We have examined the attached consolidated Balance Sheet of Cadila Healthcare Limited, its subsidiaries, Joint Ventures and Associates as at March 31, 2007, the consolidated Profit and Loss Account and also the consolidated Cash Flow Statement for year then ended annexed thereto.

2. These financial statements are the responsibility of Cadila Healthcare Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components thereof. Our responsibility is to express an opinion on these financial statements based on our audit.

3. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

4. The financial statements of following subsidiaries and joint ventures whose statements have been proportionately consolidated are audited by other auditors and whose reports have been furnished to us. In our opinion, so far as it relates to the amounts included in respect of a subsidiary and joint ventures, is based solely on the report of the other auditors.

   The details of assets and revenues in respect of these subsidiaries and joint ventures to the extent to which they are reflected in their respective financial statements are given below:

(Rs. in Millions)

Name of the Companies	Total Assets	Total Revenues
Subsidiary :		
German Remedies Ltd.	39	2
Joint Ventures		
Zydus BSV Pharma Pvt. Ltd.	35	0
Zydus BSV R & D Pvt. Ltd.	35	0
Zydus Mayne Oncology Pvt. Ltd.	299	0

In case of the following subsidiaries and a joint venture company, their financial statements have been audited by their auditors for their respective accounting period as stated below and whose reports have been furnished to us. The financial statements for remaining period up to 31st March, 2007 are prepared and certified by the management and are subjected to limited review by their auditors which have been considered for the purpose of consolidation.

The details of assets and revenues in respect of these subsidiaries and joint ventures to the extent to which they are reflected in their respective financial statements are given below:

(Rs. in Millions)

Name of the Companies	Total Assets	Total Revenues	Accounting Year / Period ended on
Subsidiaries :			
Zydus International Private Ltd., Ireland	898	14	31-12-2006
Zydus France, SAS France	1152	1574	31-12-2006
SCI Immopharm, France	2	0	31-12-2006
Zydus Pharmaceuticals USA Inc., USA	821	1428	31-12-2006
Zydus Healthcare (USA) LLC., USA	14	25	31-12-2006
Zydus Healthcare Brazil Ltda., Brazil	154	176	31-12-2006
Zydus Healthcare S.A. (Pty.) Ltd., South Africa	0.3	0	28-02-2007
Zydus Netherland BV	1	0	31-12-2006
Zydus Pharma Inc,.Japan	2	0	31-12-2006
Joint Ventures			
Zydus Altana Healthcare Pvt. Ltd.	721	838	31-12-2006

Auditors' Report

5. The unaudited financial statements of a joint venture company viz. Sarabhai Zydus Animal Health Ltd. have been reviewed by M/s Mukesh M. Shah & Co. and M/s Sorab S. Engineer & Co., as joint statutory auditors while the financial statements of subsidiary companies viz. Dialforhealth India Limited and Carnation Nutra Analogue Foods Ltd and a joint venture company viz. Dialforhealth Green Cross Ltd and a Associate Concern viz M/S Zydus Healthcare have been audited by Mukesh M. Shah & Co. whereas the financial statements of subsidiary company viz. Dialforhealth Unity Ltd. are audited by M/s R. R. Patel & Co. The details of total assets and revenue in respect of the said subsidiaries, joint venture companies and Associate Concern to the extent to which they are reflected in their respective financial statements are given below:

(Rs. in Millions)

Name of the Companies	Total Assets	Total Revenues
Subsidiary Companies		
Dialforhealth India Ltd.	41	65
Carnation Nutra Analogue Foods Ltd	256	429
Dialforhealth Unity Ltd.	0.3	0.3
Joint Venture Companies		
Sarabhai Zydus Animal Health Ltd.	336	433
Dialforhealth Greencross Ltd.	1	0.3
Associate Concern		
M/s Zydus Healthcare	606	0

6. We report that the consolidated financial statements have been prepared by the management of Cadila Healthcare Limited in accordance with Accounting Standard 21, "Consolidated Financial Statements" and Accounting Standard 27, " Financial Reporting of Interest in Joint ventures" Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Cadila Healthcare Ltd., its subsidiaries, joint ventures and associates (including unaudited financial statements of some of the subsidiary companies and two joint venture companies) included in the consolidated financial statements.

7. On the basis of the information and explanations given to us and based on our audit and on consideration of the separate audit reports of the individual financial statements of the Company, its subsidiaries, joint ventures (including unaudited financial statements of some of the subsidiaries and two joint ventures) and associates included in the consolidated financial statements read together with significant accounting policies and notes thereon, we are of the opinion that the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   (a) In case of the Consolidated Balance Sheet, of the consolidated state of affairs of Cadila Healthcare Limited, its subsidiaries, joint ventures and associates as at 31st March, 2007;

   (b) In the case of the consolidated Profit and Loss Account, of the consolidated results of operations of Cadila Healthcare Limited, its subsidiaries, joint ventures and associates for the year then ended; and

   (c) In the case of Consolidated Cash flow statements of the consolidated cash flows of Cadila Healthcare Limited, its subsidiaries, joint ventures and associates for the year ended on that date.

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,
Dated: April 26, 2007.

CADILA HEALTHCARE LIMITED

Consolidated Balance Sheet as at March 31 , 2007

	Sch. No.	INR - Millions As at March 31, 2007		2006
SOURCES OF FUNDS :				
[1] Shareholders' Funds :				
Capital	1	628		314
Reserves and Surplus	2	8027		6675
			8655	6989
[2] Minority Interest			142	7
[3] Loan Funds :				
Secured Loans	3	3674		3173
Unsecured Loans	4	861		1259
			4535	4432
[4] Deferred Tax Liability [Net]	21 [B-9]		1137	1097
Total			14469	12525
APPLICATION OF FUNDS :				
[1] Fixed Assets :	5			
Gross Block		13527		12086
Less : Depreciation, Amortisation and Impairment		4968		4393
Net Block		8559		7693
Capital work-in-progress		1192		629
Preoperative & Project Expenses pending capitalisation / allocation		32		7
			9783	8329
[2] Investments	6		261	714
[3] Net Current Assets				
Current Assets, Loans and Advances :				
Inventories	7	3896		2475
Sundry Debtors	8	2784		1990
Cash and Bank Balances	9	990		438
Loans and Advances	10	2201		1588
		9871		6491
Less : Current Liabilities & Provisions :				
Liabilities	11	4588		2404
Provisions	12	858		605
		5446		3009
			4425	3482
Total			14469	12525
Significant Accounting Policies and Notes on Accounts	21			

As per our report of even date

For R.R.Patel & Co., Chartered Accountants

For Mukesh M. Shah & Co., Chartered Accountants

Sd/- Pankaj R. Patel, Chairman & Managing Director

Sd/- (R. R. PATEL) Proprietor Membership No. 7871

Sd/- (MUKESH M. SHAH) Partner Membership No. 30190

Sd/- (J. B. GOR) Chief Accounts Officer

Sd/- (UPEN H. SHAH) Company Secretary

Sd/- (MUKESH M. PATEL) Directors

Ahmedabad, Dated : 26th April, 2007

CADILA HEALTHCARE LIMITED

Consolidated Profit and Loss Account for the Year ended March 31, 2007

	Sch. No.	INR - Millions		
		Year ended March 31,		
		2007		2006
INCOME :				
Sales and Income from Operations :				
Gross Sales		18747		15078
Less : Excise Duty		892		625
Net Sales		17855		14453
Other Income from Operations	13	433		392
Total			18288	14845
Other Income	14		264	36
Total			18552	14881
EXPENDITURE :				
Consumption of Materials and Finished Goods	15	6372		5688
General Expenses	16	7051		5483
Research Expenses	17	1344		797
Interest and Financial Charges	18	223		251
Depreciation, Amortisation and Impairment	19	823		779
Total			15813	12998
Profit before extra ordinary items and Tax			2739	1883
Less : Extra-ordinary Expenses :				
Compensation under Voluntary Retirement Scheme			0	115
Profit before Taxes			2739	1768
Less : Provision for Taxation	20		324	243
Profit after Tax			2415	1525
Less : Pre-acquisition Profit transferred to Goodwill arising on consolidation			5	0
Less : Profit attributable to Minority Share Holders			72	1
Net Profit			2338	1524
Add : Balance brought forward		1593		932
Add / [Less] : Adjustments on consolidation		20		(3)
			1613	929
PROFIT AVAILABLE FOR APPROPRIATIONS			3951	2453
Appropriations :				
Dividends :				
Proposed Dividend on - Equity Shares		506		377
Corporate Dividend Tax on Distributed Profit		158		106
Total		664		483
Transfer to General Reserve		3003		330
Group's proportionate share in Transfer to General Reserve of Joint Ventures		61		47
			3728	860
Balance carried to Balance Sheet			223	1593
Basic and Diluted E P S [in Rupees] :	21[B-8]			
Before Extraordinary items			18.62	**13.05**
After Extraordinary items			18.62	**12.13**
Significant Accounting Policies and Notes on Accounts	21			

As per our report of even date

For R.R.Patel & Co.,
Chartered Accountants

For Mukesh M. Shah & Co.,
Chartered Accountants

Sd/-
Pankaj R. Patel
Chairman & Managing Director

Sd/-
(R. R. PATEL)
Proprietor
Membership No. 7871

Sd/-
(MUKESH M. SHAH)
Partner
Membership No. 30190

Sd/-
(J. B. GOR)
Chief Accounts Officer

Sd/-
(UPEN H. SHAH)
Company Secretary

Sd/-
(MUKESH M. PATEL)
Directors

Ahmedabad, Dated : 26th April, 2007

Cadila Healthcare Limited

Cash flow Statement for the year ended March 31, 07.

Particulars		**INR Millions**		
	Year ended March 31, 07		**Year ended March 31, 06**	
A **Cash Flows from Operating Activities :-**				
Net profit before taxation and extraordinary items		**2319**		1999
Adjustments for :-				
Depreciation	**667**		616	
[Profit] / Loss on sale of assets [net]	**27**		7	
[Interest income]	**(112)**		(67)	
[Dividend income]	**(520)**		(377)	
Interest expenses	**260**		175	
Bad debts written off	**3**		17	
Provision for doubtful debts	**17**		12	
Provisions for retirement benefits	**(13)**		22	
Provisions for probable product warranty claims and return of goods	**13**		11	
Total		**342**		416
Operating profit before working capital changes		**2661**		2415
Adjustments for :-				
[Increase] / Decrease in trade receivables	**(586)**		(771)	
[Increase] / Decrease in other receivables	**(224)**		(722)	
[Increase] / Decrease in inventories	**(1159)**		(189)	
Increase / [Decrease] in trade payables & other liabilities	**1775**		140	
Total		**(194)**		(1542)
Cash generated from operations		**2467**		873
Interest received	**116**		69	
[Interest paid]	**(268)**		(201)	
[Direct taxes paid] [Net of refunds]	**(209)**		(148)	
Total		**(361)**		(280)
Cash flow before extraordinary items		**2106**		593
Extraordinary income / [expenditure]		**0**		(36)
Net cash from operating activities		**2106**		557
B **Cash flows from investing activities :-**				
Purchase of fixed assets	**(1170)**		(890)	
Purchase of investments	**(1077)**		(483)	
Proceeds from sale of fixed assets	**16**		11	
Dividend received	**520**		377	
Net cash from investing activities		**(1711)**		(985)
C **Cash flows from financing activities :-**				
[Borrowings] [net]	**145**		617	
[Dividends paid]	**(386)**		(377)	
[Tax on dividends paid]	**(53)**		(53)	
Net cash used in financing activities		**(294)**		187
Net increase / (-) decrease in cash and cash equivalents		**101**		(241)
Cash and cash equivalents at the beginning of the year		**23**		264
Cash and cash equivalents at the close of the year		**124**		23

Notes to the cash flow statement

1 All figures in brackets are outflow.
2 Previous year's figures have been regrouped wherever necessary.
3 Cash and cash equivalent at the close [beginning] of the year includes Rs. 14.3 [Rs. 3.3] millions not available for immediate use.

As per our report of even date

For R.R.Patel & Co.,
Chartered Accountants

For Mukesh M. Shah & Co.,
Chartered Accountants

Sd/-
(PANKAJ R. PATEL)
Chairman & Managing Director

Sd/-
(R. R. PATEL)
Proprietor
Membership No. 7871.

Sd/-
(MUKESH M. SHAH
Partner
Membership No. 30190.

Sd/-
(JYOTINDRA B. GOR
Chief Accounts Officer

Sd/-
(MUKESH M. PATEL)
Directors

Ahmedabad, Dated : 26th April, 2007

Schedules forming part of the Consolidated Balance Sheet		
	INR - Millions	
	As at March 31,	
	2007	2006
Schedule : 1 - Capital :		
Authorised :		
130,000,000 [90,000,000] Equity Shares of Rs.5/- each	650	450
500,000 Preference Shares of Rs. 100/- each	50	50
	700	500
Issued, Subscribed & Paid-up :		
125,613,708 [62,806,854] Equity Shares of Rs.5/- each fully paid-up	628	314
Notes : Of the above shares,		
[A] 33,034,332 shares were allotted as fully paid-up pursuant to the Scheme of Arrangement & Amalgamation without payments being received in cash.		
[B] 77,691,976 [14,885,122] shares were allotted as fully paid-up by way of Bonus shares by capitalisation of Share Premium Account [General reserve].		
Total	628	314
Schedule : 2 - Reserves & Surplus :		
Capital Reserve:		
Balance as per last Balance Sheet	207	229
Add / (Less) : Capital Reserve arising due to Consolidation	32	(22)
	239	207
Capital Redemption Reserve Account :		
Balance as per last Balance Sheet	32	32
Share Premium Account :		
Balance as per last Balance Sheet	2561	2561
Less : Utilised for the issue of Bonus Shares	314	0
	2247	2561
Debenture Redemption Reserve :		
Balance as per last Balance Sheet	75	247
Less : Transfer to General Reserve	50	172
	25	75
Foreign Currency Reserves :		
Balance as per last Balance Sheet	30	(10)
Add : Other movements in Equity Reserves	0	4
(Less) / Add : Exchange differences on consolidation	(60)	36
	(30)	30
General Reserve :		
Balance as per last Balance Sheet	2031	1529
Add : Transfer from Debenture Redemption Reserve	50	172
Add : Transfer from Profit and Loss Account	3003	330
	5084	2031
Balance in Profit and Loss Account	223	1593
	7820	6529
Group's proportionate share in reserves (other than balance in P & L Account) of JV's	207	146
Total	8027	6675

Schedules forming part of the Consolidated Balance Sheet

			INR - Millions	
		As at March 31,		
		2007		2006
Schedule : 3 - Secured Loans :				
1	**Privately Placed Debentures :**			
	60, 7 % Redeemable Non Convertible Debentures of Rs. 1,666,666.67			
	[As at 31-03-06 Rs.5,000,000/-] each			
	[Redeemable in six equal half yearly instalments commencing from Nov., 2004]		100	300
2	**Loans and Advances from Banks**			
	A Term Loans	447		447
	B Working Capital Loans	924		626
	C External Commercial Borrowings	2156		1752
			3527	2825
			3627	3125
3	**Group's proportionate share in secured loans of Joint Ventures**		47	48
	Total		3674	3173
Schedule : 4 - Unsecured Loans :				
1	**Fixed Deposits [Rs. 0.02 { As at 31-03-06 Rs. 0.05 } Million]**		0	0
2	**Short - term Loans from Banks**			
	A From Banks [Including foreign currency loans of Rs. 435 { As at 31-03-06 - Rs. 177 } Millions]	435		349
	B From a Financial Institution	0		458
			435	807
3	**Other Loans and Advances :**			
	A Interest free deemed loan against deferment of sales tax			
	a From a Financial Institution	193		193
	b Deferred amount	220		217
		413		410
	B From a Financial Institution	2		2
	C From Others	0		33
	D Total		415	445
			850	1252
4	**Group's proportionate share in unsecured loans of Joint Ventures**		11	7
	Total		861	1259

Schedules forming part of the Consolidated Balance Sheet

Schedule : 5 - Fixed Assets :

INR - Millions

Nature of Fixed Assets	Gross Block As at 31-03-07	Gross Block As at 31-03-06	Depreciation Up to 31-03-07	Depreciation Up to 31-03-06	Impairment Up to 31-03-07	Impairment Up to 31-03-06	Net Block As at 31-03-07	Net Block As at 31-03-06
Goodwill	**413**	30	**42**	1	**0**	0	**371**	29
Freehold Land	**118**	117	**0**	0	**0**	0	**118**	117
Leasehold Land	**111**	111	**10**	8	**0**	0	**101**	103
Buildings	**2463**	2203	**407**	331	**0**	0	**2056**	1872
Plant & Machinery	**5536**	4706	**1757**	1462	**110**	116	**3669**	3128
Furniture, Fixture & Office Equipments	**429**	407	**141**	147	**0**	6	**288**	254
Vehicles	**228**	193	**71**	65	**0**	0	**157**	128
Trade Marks, Patents & Design	**2635**	2741	**1179**	1009	**223**	356	**1233**	1376
Technical Know-how	**684**	683	**379**	320	**52**	52	**253**	311
Commercial Rights	**56**	56	**52**	51	**0**	0	**4**	5
Total	**12673**	11247	**4038**	3394	**385**	530	**8250**	7323
Share in assets of Joint Ventures	**854**	839	**545**	411	**0**	58	**309**	370
Grand Total	**13527**	12086	**4583**	3805	**385**	588	**8559**	7693
2005-06	**12086**	11158	**3805**	3078	**588**	599	**7693**	

Schedule : 6 - Investments [At cost] :

INR - Millions

	As at March 31, 2007		2006
Long Term Investments :			
In Government Securities [Unquoted] : [Rs. 0.03 { As at 31-03-06 Rs. 0.03 } Millions]		**0**	0
In Shares, Debentures and Bonds :			
Trade Investments [Unquoted} :			
In fully paid-up Series B and C Convertible Preferred Stock		**187**	187
Investments in Associates [Quoted]			
In fully paid-up Equity Shares of Associate Companies		**0**	245
Other Investments : [Quoted]			
In fully paid-up Equity Shares	**10**		3
In Mutual funds	**43**		43
Total	**53**		46
Unquoted :			
In Fully paid-up equity shares	**20**		19
In Fully paid-up Bonds	**0**		215
Total	**20**		234
Total Other Investments		**73**	280
		260	712
Contribution to the Corpus of Gujarat Venture Capital Fund		**1**	2
Group's proportionate share in investments of Joint Ventures		**0**	0
Total [Aggregate Book Value of Investments]		**261**	714

Schedules forming part of the Consolidated Balance Sheet

	INR - Millions	
	As at March 31,	
	2007	2006
Schedule : 7 - Inventories :		
[As taken, valued and certified by the management] - [Valued at lower of cost and net realisable value]		
Stores , Spare Parts	29	32
Stock in Trade :		
Raw Materials	984	578
Packing Materials	198	145
Finished Goods	1675	1200
	2857	1923
Works-in-progress	831	383
	3717	2338
Group's proportionate share in inventories of Joint Ventures	179	137
Total	3896	2475
Schedule : 8 - Sundry Debtors [Unsecured, unless otherwise stated] :		
Debts outstanding for a period exceeding six months :		
Considered good	241	133
Considered doubtful	42	21
	283	154
Less: Provision for doubtful debts	42	21
	241	133
Other debts - Considered good	2488	1808
	2728	1941
Group's proportionate share in sundry debtors of Joint Ventures	56	49
Total	2784	1990
Schedule : 9 - Cash and Bank Balances :		
Cash balance on hand	6	5
Bank Balances : With Scheduled Banks :		
In Current Accounts	353	133
In Fixed Deposit Accounts	287	55
In Foreign Currency Current Accounts	10	10
	650	198
With Other Banks : In Current Accounts in foreign currency with :		
International Moscow Bank, Moscow,	2	2
International Exchange Bank, Philippines,	1	1
JSP Pension Bank Aval Kiev, Ukraine	0	1
	3	4
	659	207
Group's proportionate share in cash and balances of Joint Ventures	331	231
Total	990	438

Schedules forming part of the Consolidated Balance Sheet

	INR - Millions		
	As at March 31,		
	2007		2006
Schedule : 10 - Loans and Advances :			
[Considered Good , unsecured unless otherwise stated]			
Advances recoverable in cash or in kind or for value to be received :			
Secured			
Advances to a Joint Venture Company	11		62
Others [As at 31-03-06 Rs. 0.2 Million]	2		0
Total		13	62
Unsecured :			
Others		1703	1298
		1716	1360
Advance payment of direct taxes [net of provision]		20	49
Balances with Custom / Central Excise / Sales tax Authorities		160	76
Interest receivable from others		4	9
		1900	1494
Group's proportionate share in loans and advances of Joint Ventures		301	94
Total		2201	1588
Schedule : 11 - Current Liabilities :			
Acceptances		399	190
Sundry Creditors :			
Small Scale Industrial undertakings	38		20
For Capital Goods	123		59
Others	3683		1894
Total		3844	1973
Advances from Debtors		40	58
Trade Deposits		21	14
Bank Book Overdraft		36	14
Investor Education and Protection Fund [*] :			
Unclaimed dividends	11		9
Matured but unclaimed Fixed Deposits [Rs. 0.01 { As at 31-03-06 Rs. 0.01 } Million]	0		0
Interest payable on matured but unclaimed fixed deposits [Rs. 0.01			0
{ As at 31-03-06 Rs. 0.01 } Million]	0		0
Total [*][There are no amounts due and outstanding to be credited to Investor Education and Protection Fund]		11	9
Interest accrued but not due on loans		31	39
		4382	2297
Group's proportionate share in current liabilities of Joint Ventures		206	107
Total		4588	2404
Schedule : 12 - Provisions :			
Proposed dividend	508		377
CDT on Proposed Dividend	86		53
Provision for claims for Product Warranties & Return of Goods	13		11
Provision for retirement benefits	144		156
		751	597
Group's proportionate share in provisions of Joint Ventures		107	8
Total		858	605

Schedules forming part of the Consolidated Profit and Loss Account

	INR - Millions		
	Year ended March 31,		
	2007		2006
Schedule : 13 - Other Income from Operations :			
Export Incentive	101		55
Income from Contract Manufacturing and Processing Charges	267		251
Surplus on account of fluctuations in foreign exchange rates [net]	0		37
Miscellaneous Income	61		62
Total		429	405
Group's proportionate share in surplus (deficit) on account of fluctuation in foreign exchange rates and other income of Joint Ventures		4	(13)
Total		433	392
Schedule : 14 - Other Income :			
Dividends [Gross] :			
From Long Term Non - Trade Investments - Others		1	1
Rent Received		4	0
Profit on assets sold / discarded [net]		259	35
Total		264	36
Schedule : 15 - Consumption of Materials and Finished Goods			
Raw Materials :			
Stock at commencement	592		502
Add : Purchases	4186		2553
	4778		3055
Less : Stock at close	984		578
		3794	2477
Packing Materials		728	415
Purchases of Finished Goods		2447	2568
[Increase] / Decrease in Stock of Finished Goods & Work-in-process			
Stock at close :			
Finished Goods	1675		1200
Works-in-progress	831		383
	2506		1583
Less : Stock at commencement			
Finished Goods	1211		1131
Works-in-progress	383		367
	1594		1498
		(912)	(85)
		6057	5375
Group's proportionate share in material cost of Joint Ventures		315	313
Total		6372	5688

Schedules forming part of the Consolidated Profit and Loss Account

	INR - Millions		
	Year ended March 31,		
	2007		2006
Schedule : 16 - General Expenses			
Personnel expenses :			
Salaries, wages and bonus	1622		1390
Company's contribution to provident & other funds	136		130
Staff welfare expenses	92		64
		1850	1584
Stores and spare parts consumed		209	167
Power & fuel		348	309
Processing Charges		211	99
Insurance		71	50
Repairs :			
Buildings	23		18
Plant and Machinery	41		34
Others	26		23
		90	75
Rent		42	39
Rates and Taxes		90	49
Managing Director's Remuneration		123	99
Commission to Directors		2	2
Traveling Expenses		399	307
Legal & Professional fees		297	224
Miscellaneous Expenses		488	377
Deficit on account of fluctuations in foreign exchange rates [net]		44	0
Selling & Distribution Expenses :			
Commission on sales	267		208
Freight and forwarding on sales	509		289
Sales promotion expenses	539		251
Advertisements	294		202
Seminar, Conference and Exhibition	109		100
Representative Allowance and Incentives	294		281
Bad debts written off	3		17
Provision for Doubtful Debts	25		12
Other marketing expenses	573		585
		2613	1945
Directors' fees [Rs 0.19 { Previous year - Rs. 0.32 } Million]		0	0
Donations		16	5
		6893	5331
Group's proportionate share in general expenses of Joint Ventures		158	152
Total		7051	5483

Schedules forming part of the Consolidated Profit and Loss Account

	INR - Millions		
	Year ended March 31,		
	2007		2006
Schedule : 17 - Research Expenses			
Research Materials		340	194
Personnel expenses :			
Salaries, wages and bonus	188		157
Company's contribution to provident & other funds	13		10
Staff welfare expenses	7		5
		208	172
Stores and spare parts consumed		41	22
Power & fuel		28	26
Analytical expenses		515	281
Insurance		8	6
Repairs :			
Building		2	3
Plant & machinery		3	2
Rent		0	2
Traveling Expenses		20	10
Legal and Professional fees		5	3
Others		174	76
		1344	797
Group's proportionate share in general expenses of Joint Ventures		0	0
Total		1344	797
Schedule : 18 - Interest and Financial Charges			
Interest :			
On term loans	217		121
On debentures	12		42
On working capital loans from banks	31		12
Others	0		3
		260	178
Deficit [Surplus] on account of fluctuations in foreign exchange rates on loans		(11)	57
Bank commission & charges		41	43
		290	278
Less : Interest earned on others [Gross]			
From Long Term Investments	0		15
Others	74		22
Total		74	37
		216	241
Group's proportionate share in net interest and financial charges of Joint Ventures		7	10
Total		223	251
Schedule : 19 - Depreciation, Amortisation, Impairment and Miscellaneous Expenditure written off			
Depreciation		746	703
Group's proportionate share in depreciation of Joint Ventures		77	76
Total		823	779
Schedule : 20 - Provision for Taxation			
Current Tax	235		130
Deferred Tax	37		87
Fringde Benefit Tax	43		15
Total		315	232
Add [Less] : Prior year's tax adjustments		0	10
		315	242
Group's proportionate share in tax provisions made by Joint Ventures		9	1
Total		324	243

CADILA HEALTHCARE LIMITED

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

Schedule : 21 - Significant Accounting Policies and Notes on Accounts

A Significant Accounting Policies :

1 Basis of Accounting :

The financial statements are prepared under the historical cost convention on the "Accrual Concept" of accountancy in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable & with the applicable provisions of the Companies Act, 1956

2 Basis of consolidation:

The Consolidated Financial Statements [CFS] relate to Cadila Healthcare Limited , its Subsidiaries , Joint Ventures and Associates. The CFS have been prepared on the following basis :

A The financial statements of the parent company and its subsidiaries have been consolidated on a line by line basis by adding together the book values of the items like assets, liabilities, income and expenses.

B CFS have been prepared using uniform accounting policies for like transactions and other events in similar circumstances , except : In case of Zydus Altana Healthcare Private Limited , a Joint Venture Company which is providing the depreciation at the following rates on straightline method which are higher than the rates specified in Schedule - XIV of the Companies Act , 1956 :

- Buildings - Factory	5 %
- Buildings - Non Factory	2.5 %
- Plant & Machinery [including containers , which are being depreciated at 50 %]	15 %
- Office and Other Equipments	20 %
- Computers and Peripherals	20 %
- Vehicles	20 %
- Furniture and Fixtures	16.66 %

C a The excess / deficit of the cost of the Company's investments in each of its subsidiaries & Joint Ventures over its share in equities of such respective companies on the date of acquisition is recognised in the financial statements as Goodwill/capital reserve. However, such excess or deficit arising after the date of acquisition on account of currency fluctuations in respect of the foreign subsidiaries is transferred to Profit and Loss Account / Foreign Currency Translation Reserves in accordance with para D below.

b Goodwill arising on consolidation is amortised over a period of 10 years.

D a The operations of foreign subsidiaries are classified into Integral and Non Integral operations using the criteria specified in AS -11 " The Effect of changes in Foreign Exchange Rates" issued by the Institute of Chartered Accountants of India.

b In case of Foreign operations classified as Integral operations, the Financial Statements are converted as under :

I All Monetary Assets and Liabilities using closing exchange rates

ii All Non Monetary items using Historical exchange rates.

iii All Revenue and Expenses using yearly Average Exchange Rates prevailing during the year

iv Exchange differences arising on conversion are recognised in Profit and loss Account.

c In case of Foreign operations classified as Non Integral operations, the Financial Statements are converted as under :

I All Assets and Liabilities using closing exchange rates

ii All Revenue and Expenses using yearly Average Exchange Rates prevailing during the year

iii Exchange differences arising on conversion are accumulated in the " Foreign Currency Translation Reserves " untill the disposal of Investments in such Operations.

E Investments in the Joint ventures have been accounted for by using the "Proportionate Consolidation method" in accordance with the Accounting Standard - 27 on "Financial reporting of Interests in Joint Ventures" issued by the Institute of Chartered Accountants of India.

F CFS are prepared after fully eliminating intra group balances, intra group transactions and unrealised profits from the intra group transactions.

CADILA HEALTHCARE LIMITED

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

Schedule : 21 - Significant Accounting Policies and Notes on Accounts - Continue :

H CFS as at 31st March, 2007 comprise the financial statements of Cadila Healthcare Limited [CHL] and its subsidiaries as well as its interest in Joint Ventures as at 31st March, 2007, which are as under:

a Subsidiaries:

Sr. No.	Name of the Company	Country of incorporation	% Shareholding and voting power	Status	Financial statements as on
A	**Indian Subsidiaries:**				
1	Zydus Pharmaceuticals Limited	India	WOS *	Audited	31st March, 2007
2	Dialforhealth India Limited [DFH]	India	WOS	Audited	31st March, 2007
3	Dialforhealth Unity Limited	India	55% holding of DFH	Audited	31st March, 2007
4	German Remedies Limited [GRL]	India	WOS	Audited	31st March, 2007
5	Carnation Nutra Analogue Foods Ltd. #	India	62% holding of CHL	Audited	31st March, 2007
B	**Foreign Subsidiaries:**				
1	Zydus International Private Limited [ZIPL]	Ireland (UK)	WOS	**	31st March, 2007
2	Zydus Healthcare SA (Pty.) Limited	South Africa	WOS of ZIPL	**	31st March, 2007
3	Zydus Healthcare (USA) LLC	U. S.A.	WOS of ZIPL	**	31st March, 2007
4	Zydus Healthcare Brazil Ltda.	Brazil	WOS of ZIPL	**	31st March, 2007
5	Zydus Pharmaceuticals USA Inc.	U. S.A.	70% holding of ZIPL	**	31st March, 2007
6	Zydus France , SAS , France.	France	WOS of ZIPL	**	31st March, 2007
7	SCI Immopharm	France	WOS of Zydus France SAS	**	31st March, 2007
8	Zydus Netherlands BV ##	Netherland	WOS of ZIPL	Unaudited	31st March, 2007
9	Zydus Pharma Inc., Japan ###	Japan	WOS of ZIPL	Unaudited	31st March, 2007

* WOS = Wholly Owned Subsidiary

\# Became subsidiary w.e.f. from 8th June, 2006 during the year.

\## Became subsidiary w.e.f. from 25th August, 2006 during the year.

\### Became subsidiary w.e.f. from 18th January, 2007 during the year

b Joint Ventures:

Sr. No.	Name of the Company	Country of incorporation	% Shareholding and voting power	Status	Financial statements as on
1	Zydus Altana Healthcare Pvt. Ltd.	India	50% holding of CHL	**	31st March, 2007
2	Zydus Mayne Oncology Pvt. Ltd.	India	50% holding of CHL	Audited	31st March, 2007
3	Zydus BSV R & D Pvt Ltd	India	50% holding of CHL	Audited	31st March, 2007
4	Zydus BSV Pharma Pvt Ltd	India	50% holding of CHL	Audited	31st March, 2007
5	Sarabhai Zydus Animal Health Limited	India	50% holding of CHL	****	31st March, 2007
6	Dialforhealth Greencross Limited	India	50% holding of DFH	Audited	31st March, 2007

** Financial statements have been audited by the auditors for its respective accounting period and are subjected to limited review by their auditors for the remaining period upto 31st March, 2007.

**** Unaudited Financial accounts but reviewed by its auditors.

c Partnership Firm :

Sr. No.	Name of the Firm	Country of incorporation	% Shareholding and voting power	Status	Financial statements as on
1	M/s. Zydus Healthcare - Sikkim	India	96% holding of CHL & 2% holding of GRL	Audited	31st March, 2007

3 Accounting Policies and Notes on Accounts of the financial statements of the Parent Company and its subsidiaries are set out in their respective financial statements. However, the Company has disclosed such notes and details which represents the needed disclosure to serve as a guide for better understanding of the Group's position.

CADILA HEALTHCARE LIMITED

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

Schedule : 21 - Significant Accounting Policies and Notes on Accounts - Continue :

B Notes on Accounts :

1 **A** The figures for the previous year have been regrouped wherever necessary so as to make them comparable with those of the current year.

B During the year, Carnation Nutra Analogue Foods Ltd Limited became subsidiary w.e.f. 8th June 2006. The figures for the Current year are , therefore , not comparable with those of the previous year.

2 Hitherto, Carnation Nutra Analogue Foods Ltd (became subsidiary w.e.f. 8th June 2006) has been providing depreciation on its fixed assets on Written Down Value method in accordance with section 205(2)(a)of the Companies Act, 1956. However, in order to align with the Holding Company's policy of depreciation, the Company has changed the method of depreciation from Witten Down Value to Straight Line Method. Due to this change, the profit of the company for the year is higher by Rs. 19 Millions.

3 The Sales include Rs. 1282 Millions [Previous year Rs. 1067 millions] Group's proportionate share in net sales of Joint Ventures.

4 **Contingent liabilities not provided for :**

		INR - Millions		
		Cadila Healthcare Ltd. and Subsidiaries		Joint Ventures
		As at 31-03-07	As at 31-03-06	**As at 31-03-07**
A	In respect of guarantees given by a Bank and counter guarantees given by the Company.	**72**	241	**0.2**
B	In respect of outstanding dues against guarantees given by the Company to Banks for the loans availed by a Joint Venture Company		0	**0**
C	Claims against the Company not acknowledged as debts	**35**	287	**0**
D	In respect of the demand raised by the Central and State Excise and custom dept. against which the company has preferred an appeal. The Company has been legally advised that the demand is no tenable.	**54**	264	**1**
E	In respect of the demand raised by the Ministry of Chemicals & Fertilizers, Govt. of India under Drug Price Control Order , 1979 for difference in actual price and price of respective bulk drug allowed while fixing the price of certain life saving formulations and disputed by the Company. Based on the legal advice the Company does not foresee the crystallization of the liability.		27	**0**
F	In respect of Income Tax matters pending before appellate authorities which the Company expects to succeed, based on decisions of Tribunals / Courts.	**3**	64	**232**
G	In respect of Sales Tax matters pending before appellate authorities which the Company expects to succeed, based on decisions of Tribunals / Courts.	**71**	17	**0**
H	In respect of demand raised by the Government of Gujarat on account of stamp duty payable on the trade-marks acquired by one of the jointly controlled entity against which appeal has been preferred before the Hon'able Delhi High Court		0	**16**
5	Estimated amount of contracts remaining to be executed on capital account and not provided for [Net of Advances]	**313**	35	**24**

6 **Segment Information :**

A **Primary Business Segment :** There is only one Segment namely Pharmaceutical Products.

B **Secondary Business Segment - By Geographical market :**

		Within India		Outside India		Total	
		Year Ended		Year Ended		Year Ended	
		31-03-07	31-03-06	**31-03-07**	31-03-06	**31-03-07**	31-03-06
a	Sales revenue by geographical market	**12695**	11380	**6052**	3698	**18747**	15078
b	Carrying amount of segment assets	**18200**	14463	**1715**	1073	**19915**	15536
c	Additions to fixed assets	**1673**	822	**122**	191	**1796**	1013

C **Notes :**

a The segment revenue in the geographical segments considered for disclosure are as follows :

- Revenue within India includes sales to customers located within India .
- Revenue outside India includes sales to customers located outside India.

CADILA HEALTHCARE LIMITED

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

Schedule : 21 - Significant Accounting Policies and Notes on Accounts - Continue :

7 Related Party Transactions :

A Name of the Related Party and Nature of the Related Party Relationship :-

Joint Venture Companies

Sarabhai Zydus Animal Health Limited	Zydus Altana Healthcare Pvt. Ltd.
Zydus BSV R & D Pvt Ltd	Zydus BSV Pharma Pvt Ltd
Zydus Mayne Oncology Pvt Ltd	Dialforhealth Greencross Ltd

B Transactions with Related Parties :

The following transactions were carried out with the related parties in the ordinary course of business .

Nature of Transactions	Volume of the Transactions [INR - Millions]			
	Joint Venture Companies		Associate Enterprises	
	Year Ended March,31			
	2007	2006	**2007**	2006
1 **Purchases :**				
Goods	**1**			
Fixed Assets				
Services	**1**			
2 **Sales :**				
Goods	**7**	7		
Fixed Assets		3		
Services	**3**	1		
3 **Investments :**				
Purchase	**232**	145	**0**	245
Dividend Received	**515**	375		
4 **Finance**				
Inter Corporate Deposits given	**104**	72		
Deposits Repaid		106		
Guarantees given				
Interest Received	**12**	16		
5 **Outstanding**				
Receivable	**22**	125		

CADILA HEALTHCARE LIMITED

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule : 21 Significant Accounting Policies & Notes on Accounts - Continue :

8 Calculation of Earnings per Share [EPS] :

The numerators and denominators used to calculate the basic and diluted EPS are as follows :

			Year ended	
			31-03-07	31-03-06
A	Profit attributable to Shareholders			
a	Before Extra-ordinary items	INR - Millions	**2338**	1639
b	After Extra-ordinary items	INR - Millions	**2338**	1524
B	Basic and weighted average number of Equity shares outstanding during the year	Nos.	**125613708**	125613708
C	Nominal value of equity share	INR	**5**	5
D	Basic and Diluted EPS	INR		
a	Before Extra-ordinary items		**18.62**	13.05
b	After Extra-ordinary items		**18.62**	12.13

9 Deferred Tax :

A The Deferred tax liability of Rs. 37 Millions for the year has been recognised in the Profit And Loss Account.

B Break up of Deferred Tax Assets and Liabilities into major components of the respective balances are as under :

	INR - Millions	
	As on 31-03-07	As on 31-03-06
Deferred Tax Liabilities :		
Depreciation	**1318**	1279
Others	**16**	14
Total	**1334**	1293
Deferred Tax Assets :		
Retirement benefits	**61**	60
Receivables	**9**	9
Others	**127**	127
Total	**197**	196
Net Deferred Tax Liability	**1137**	1097

As per our report of even date

For R.R.Patel & Co., Chartered Accountants

For Mukesh M. Shah & Co., Chartered Accountants

Sd/- Pankaj R. Patel, Chairman & Managing Director

Sd/- (R. R. PATEL) Proprietor, Membership No. 7871

Sd/- (MUKESH M. SHAH) Partner, Membership No. 30190

Sd/- (J. B. GOR) Chief Accounts Officer

Sd/- (UPEN H. SHAH) Company Secretary

Sd/- (MUKESH M. PATEL) Directors

Ahmedabad, Dated : 26th April, 2007