KPMG (Registered)

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Independent Accountants' Review Report

The Board of Directors

Cadila Healthcare Limited

We have reviewed the accompanying Reconciliation of Significant Differences in Consolidated Shareholders' Equity and Consolidated Net Income between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP") of Cadila Healthcare Limited and subsidiaries ("the Company") as of March 31, 2004 and 2003, and for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants applicable to review engagements. All information included in the Reconciliation is the representation of the management of the Company.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Reconciliation taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying Reconciliation in order for the Reconciliation to be in conformity with US GAAP.

The United States dollar amounts are presented in the accompanying Reconciliation solely for the convenience of the readers and have been translated to United States dollars on the basis disclosed for the period shown.

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September 25, 2004

CADILA HEALTHCARE LIMITED

Zydus dedicated to life

Reconciliation of Significant Differences in Consolidated Shareholders' Equity and Consolidated Net Income between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP")

1 Reconciliation of consolidated shareholders' equity

	Notes	(Rs in Millions) As at March 31, 2003	(Rs in Millions) As at March 31, 2004	(US $ in thousands)* 2004
Consolidated shareholders' equity in conformity with Indian GAAP	1	4,570	**5,364**	**123,004**
US GAAP adjustments increasing/(decreasing) to consolidated shareholders' equity in conformity with Indian GAAP				
Business combinations	2	1,230	**1,523**	**34,920**
Equity method of accounting	3	(362)	**(283)**	**(6,496)**
Investments	4	(141)	**(118)**	**(2,703)**
Fixed assets / intangibles and depreciation / amortisation	5	(535)	**(393)**	**(9,018)**
Employee related costs	6	(241)	**(142)**	**(3,254)**
Deferred income taxes	7	290	**340**	**7,789**
Revenue Recognition	8	(305)	**(374)**	**(8,572)**
Other adjustments	9	(91)	**(102)**	**(2,348)**
Proposed dividend (including dividend tax thereon)	10	248	**425**	**9,745**
Consolidated shareholders' equity in conformity with US GAAP		4,663	**6,240**	**143,067**

* Solely for the convenience of the reader and without any representation on rates used, the reconciliation as of March 31, 2004 have been translated into United States dollars at $ 1 = Rs 43.61 which is the TT seling rate of commercial banks in India.

See accompanying notes to the Reconciliation.

See Independent Accountants' review report attached.

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Reconciliation of Significant Differences in Consolidated Shareholders' Equity and Consolidated Net Income between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP")

2 Reconciliation of consolidated net income

	Notes	(Rs in Millions) Year ended March 31, 2003	(Rs in Millions) Year ended March 31, 2004	(US $ in thousands)* 2004
Consolidated net income in conformity with Indian GAAP	1	965	**1,331**	**30,529**
US GAAP adjustments increasing/(decreasing) consolidated net income in conformity with Indian GAAP				
Business combinations	2	(192)	**(14)**	**(321)**
Equity method of accounting	3	34	**15**	**344**
Investments	4	41	**-**	**-**
Fixed assets / intangibles and depreciation / amortisation	5	(166)	**-**	**-**
Employee related costs	6	(216)	**99**	**2,270**
Deferred income taxes	7	64	**50**	**1,147**
Revenue Recognition	8	(54)	**(69)**	**(1,582)**
Other adjustments	9	(30)	**(30)**	**(688)**
Consolidated net income in conformity with US GAAP		**446**	**1,382**	**31,699**

* Solely for the convenience of the reader and without any representation on rates used, the reconciliation as of March 31, 2004 have been translated into United States dollars at $ 1 = Rs 43.61which is the TT seling rate of commercial banks in India.

See accompanying notes to the Reconciliation.

See Independent Accountants' review report attached

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Notes to the Reconciliation of Significant Differences between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP") for the year ended 31 March 2004 and 31 March 2003

1 Basis of preparation of the Reconciliation

Cadila Healthcare Limited ('the Company') prepares its consolidated financial statements in rupees in accordance with Indian GAAP, which differ in certain respects from US GAAP. The significant differences between Indian GAAP and US GAAP, which impact consolidated shareholders' equity as at 31 March 2004 and 2003 and consolidated net income for the years ended on those dates are shown as reconciling amounts in the Reconciliation. These significant differences between Indian GAAP and US GAAP are discussed below.

2 Business combinations

Under Indian GAAP, the consolidated financial statements of the 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. Further, the excess/deficit of the cost of the Company's investments in each of its subsidiaries over its share in equities of such respective companies on the date of acquisition is recognized in the consolidated financial statements as Goodwill/Capital reserve.

Under Indian GAAP, the Company's subsidiaries German Remedies Limited ('GRL'), Recon Healthcare Limited, Zydus Pathline Limited and Zoom Properties Limited were merged with effect from April 1, 2002 in accordance with the Orders of the High Courts. Further, the Company's subsidiary Banyan Chemicals Limited was merged with effect from April 1, 2003. Under Indian GAAP, these mergers have been accounted for in accordance with the 'purchase method' (Accounting Standard 14 – 'Accounting for amalgamations'). All the assets and liabilities of the transferor companies were recorded in the books of the Company at their historical amounts, except for land and buildings, which were recorded at fair values. The excess of the investment value over the value of net assets of the transferor companies acquired on the effective date (representing goodwill) was debited to capital reserve, share premium and profit and loss account in accordance with the provisions of the Orders of the High Courts.

Under US GAAP, the business combinations are required to be accounted for in accordance with the purchase method (SFAS 141). The purchase consideration is required to be allocated to all assets and liabilities acquired based on their respective fair values. In this regard, preliminary allocation can also be made based on management estimates, which needs to be finalized within a period of twelve months.

Further, in accordance with SFAS 141, intangible assets acquired in the business combination have to be recognized and reported apart from goodwill. Further, common stock issued on business combination is required to be recorded at fair value. In accordance with SFAS No. 142, the goodwill is required to be tested for impairment and is not required to be amortised. Intangible assets with a finite useful life are to be amortised over management's estimate of the useful life.

Notes to the Reconciliation of Significant Differences between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP") for the year ended 31 March 2004 and 31 March 2003

Under US GAAP, the acquisition date has to be determined in accordance with SFAS 141. The acquisition date determined under US GAAP in respect of the above mentioned mergers is different from the effective date under Indian GAAP, which is based on the High Court Orders.

The above differences may have consequential adjustments impacting the other significant differences noted below.

3 Equity method of accounting

Under Indian GAAP, investments in joint ventures i.e. Zydus Altana Healthcare Private Limited and Sarabhai Zydus Animal Health Limited have been accounted for by using the proportionate consolidation method in accordance with Accounting Standard 27 – 'Financial reporting of interests in joint ventures'.

Under US GAAP, these investments are required to be accounted for under the equity method after considering US GAAP adjustments to the financial statements of the equity investees. Further, under US GAAP, no gain has been recognized by the Company on transfer of assets/interest in subsidiary to its equity investees at the time of their formation.

4 Investments

Under Indian GAAP, the Company classifies all its debt and equity securities as long term investments. These investments are accounted at cost less any diminution other than temporary in carrying value, which is charged against income.

Under US GAAP, investment securities are required to be classified as 'held-to-maturity' and 'available-for-sale'. Held to maturity securities are those securities in which the Company has the ability and intent to hold security until maturity. Securities not classified as held-to-maturity are classified as available-for-sale securities.

Held-to-maturity securities are recorded at cost, adjusted for amortizations or accretions of premiums or discount. Available-for-sale securities are recorded at fair value with unrealised holding gains and losses, net of the related tax effect, excluded from earnings and reported as a separate component of consolidated shareholders' equity until realised.

Premiums and discounts are amortised or accreted over the related available-for-sale security as an adjustment to yield using the effective interest method. Non-readily marketable equity securities for which there is no determinable fair value are recorded at cost subject to an impairment charge for any other than temporary decline in value. A decline in market value of available-for-sale or held-to-maturity security below cost that is deemed to be other than temporary results in reduction in carrying amount to fair value. The impairment is required to be charged to income.

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Notes to the Reconciliation of Significant Differences between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP") for the year ended 31 March 2004 and 31 March 2003

Under Indian GAAP, the Company has capitalised directly attributable interest costs as part of cost of acquisition of the underlying investment. Under US GAAP, these costs are required to be charged to income.

5 Fixed assets/intangibles and depreciation/amortisation

Under Indian GAAP, fixed assets are recorded at historical costs including interest on borrowings and pre-operative expenses. Depreciation is provided based on the minimum rates specified in the Schedule to the Indian Companies Act, 1956 that may not necessarily be reflective of the useful lives of the assets. Under US GAAP, fixed assets including intangibles are required to be recorded at historical cost and depreciated/amortised on a systematic basis over their estimated useful lives. Further, interest costs on specific and non-specific borrowings are required to be capitalised on the qualifying assets when construction activities are in progress. Pre-operative expenses have been charged to income.

Under Indian GAAP, foreign exchange gains/losses on translation and settlement of foreign currency liability incurred to acquire specific items of fixed assets are adjusted to the carrying cost of the respective fixed asset. Under US GAAP, such gains/ losses are required to be charged to income.

Under US GAAP, assets, including building, given on lease which meets the criteria for direct financing leases are carried at the gross investment in the lease less unearned income. Unearned income is recognized as financing income over the term of the lease. Under Indian GAAP, these assets have been capitalized as fixed assets and depreciated in accordance with the Company's depreciation policy. Further, recoveries in accordance with the contractual agreement are recognized as income.

6 Employee related costs

Retirement benefits

Under Indian GAAP, the liability for gratuity is charged to the profit and loss account on the basis of actuarial valuation. Under US GAAP, current services costs for the defined benefit plan for gratuity is accrued in the period to which it relates on the basis of actuarial valuation carried out by an independent actuary.

Compensation paid under Voluntary Retirement Scheme

Under Indian GAAP, compensation paid to employees under the Voluntary Retirement schemes is recognised over a period of 42 months. Under US GAAP, such compensation is charged to income on acceptance of the schemes by the employees.

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Notes to the Reconciliation of Significant Differences between Indian Generally Accepted Accounting Principles ("Indian GAAP") and US Generally Accepted Accounting Principles ("US GAAP") for the year ended 31 March 2004 and 31 March 2003

7 Deferred income taxes

Under Indian GAAP, deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences that result between the profits offered for income taxes and the profits as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Other deferred tax assets are recognized only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Under US GAAP, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and carry forward losses. Deferred tax assets and liabilities are measured using enacted tax rates. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for tax benefits whose future realization is uncertain.

8 Revenue recognition

Under Indian GAAP, the Company recognizes revenue on sale of goods when they are invoiced to the customer. Under US GAAP, revenue is recognized when significant risks and rewards in respect of ownership of the goods are transferred to the customer. Further, under US GAAP, the Company has recorded an allowance for sales returns in the year of sales, which is estimated based on historical trend.

9 Other adjustments

Preliminary expenses

Under Indian GAAP, preliminary expenses are written off over a period of five years. Under US GAAP, they are charged to income in the year in which they are incurred.

Debt origination costs

Under Indian GAAP, debt origination costs are charged to income in the year in which they are incurred. Under US GAAP such costs are deferred and amortised over the tenure of the debt.

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Gains/losses on derivative contracts

Under Indian GAAP, in respect of forward exchange contracts, the difference between the forward rate and the exchange rate at the inception of the forward exchange contracts has been recognised as income/expense over the period of the contract. Gains/losses on other derivative contracts are recognised when realised.

Under US GAAP, unrealized gains/losses on mark-to-market of forward exchange contracts, options and interest rate swaps not qualifying for hedge accounting are recognised in the statement of income.

10 Proposed Dividend

Under Indian GAAP, dividends on equity shares and the related dividend tax are recorded as liabilities when it is proposed by the Board of Directors. Under US GAAP, dividends are recognised when approved by shareholders'.