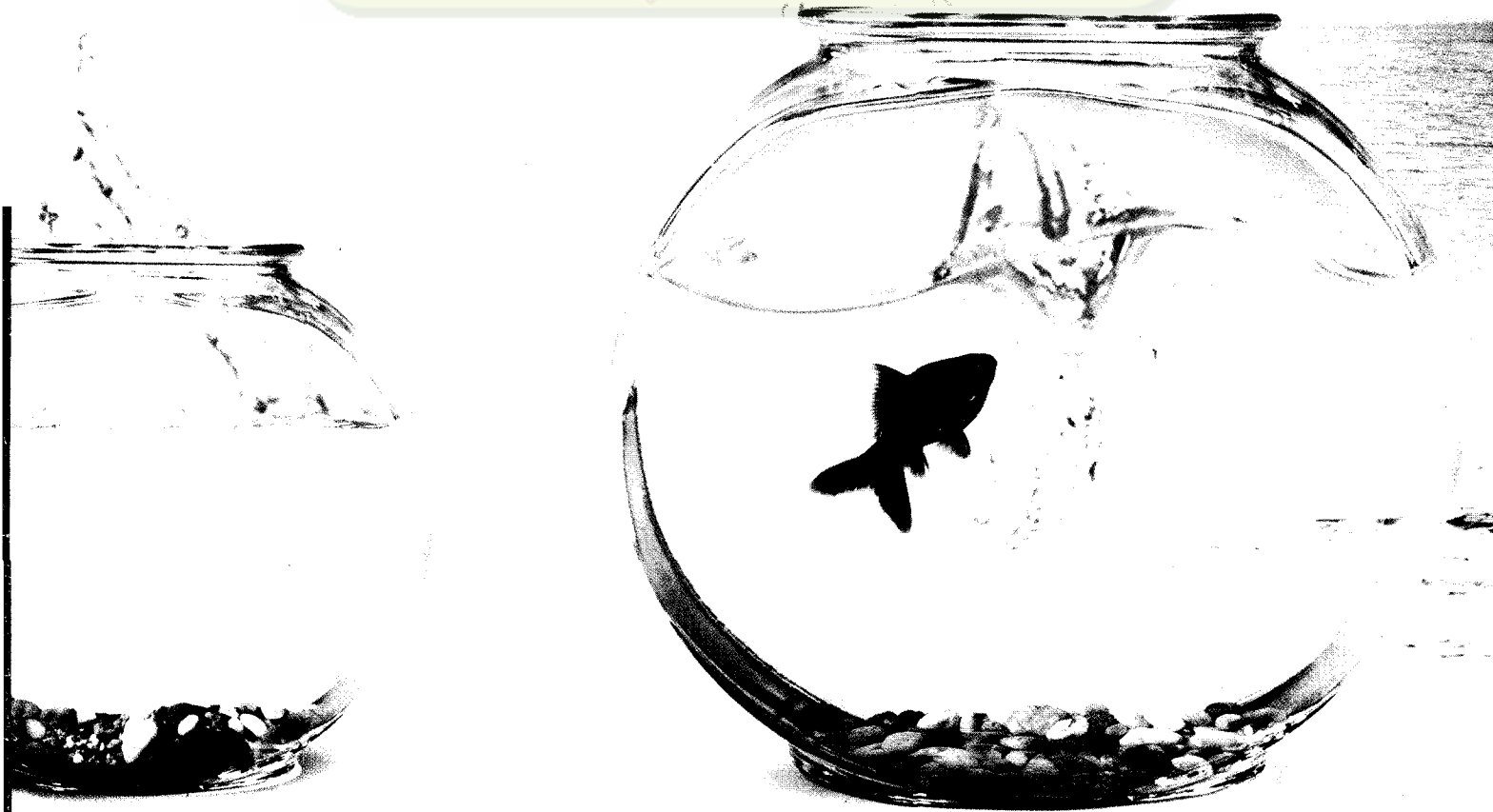


A decade of growth...

Report  Junction.com





...and beyond

Report  Junction.com

Contents

FOUNDER	Late Mr. Ramanbhai B. Patel
BOARD OF DIRECTORS	Pankaj R. Patel Chairman & Managing Director
DIRECTORS	Mukesh M. Patel Pranlal Bhogilal Sharvil P. Patel H.K. Bilpodiwala H. Dhanrajgir A.S. Diwanji
COMPANY SECRETARY	Upen H. Shah
CHIEF ACCOUNTS OFFICER	Jyotindra B. Gor
BANKERS	Bank of Baroda ICICI Bank Limited Corporation Bank State Bank of India State Bank of Saurashtra Citibank IDBI Bank
AUDITORS	R.R. Patel & Co. Mukesh M. Shah & Co. Chartered Accountants
REGISTERED AND CORPORATE OFFICE	'Zydus Tower', Satellite Cross Roads, Ahmedabad - 380 015. www.zyduscadila.com
REGISTRAR AND SHARE TRANSFER AGENTS	M/S Pinnacle Shares Registry Pvt. Ltd. Near Asoka Mills, Naroda Road, Ahmedabad - 380 025.
WORKS	Formulation Unit S.No. 417, 419 & 420, Village Moraiya, Taluka Sanand, District Ahmedabad. Kundaim Industrial Estate, Ponda, Goa 403 401. Village Saraj Mujra P.O. - Baddi Tehsil - Nalagarh Dist. Solan (HP)
API Unit	GIDC Estate, Ankleshwar, Gujarat. Patalganga, Dist. Raigad, Maharashtra - 410 220. Dabhasa, Tal. Padra, Dist. Vadodara
Nutraceutical products	Plot. No. 5504, GIDC Estate, Vatva, Ahmedabad.
Zydus Research Center	Zydus Research Center S.No. 396/403, Village Moraiya, Taluka Sanand, District Ahmedabad.

02 A Journey of Growth
04 Chairman's Message
08 Ten Year Financial Highlights
10 Highlights of 2004-05
12 Economic Value Added
13 Market Value Added
14 Management's Discussion & Analysis
42 Directors' Report and Relevant Annexures
52 Corporate Governance
65 Auditors' Report
68 Balance Sheet
69 Profit & Loss Account
70 Cash Flow Statement
72 Schedules
95 Section 212 Statement
98 Consolidated Financial Accounts
115 Subsidiary Accounts
138 Glossary

Safe Harbour Statement

In this Annual Report we have disclosed forward-looking information (within the meaning of various laws) to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

“Our aspirations are our possibilities.”

Robert Browning

A decade of growth...and beyond

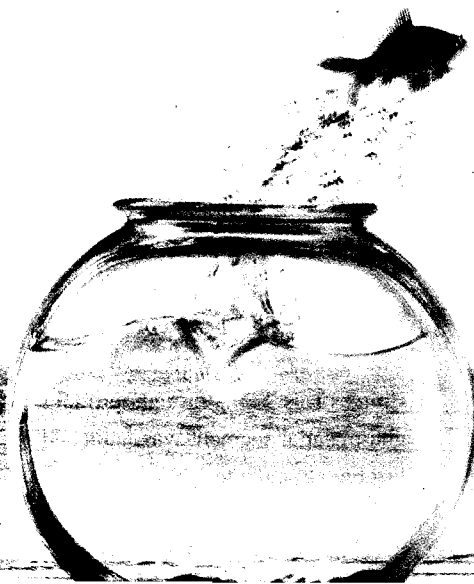
It has been a decade of growth, a decade of achievements at Zydus Cadila. It was a defining moment, when backed by an expertise of 50 years, we started out with a new identity and new aspirations in 1995.

Report

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

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

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



A Journey of Growth

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

Enters into a strategic alliance with Mallinckrodt Pharmaceuticals Generics, a

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

Signs a Joint Venture Agreement with Mayne Pharma, a leading injectable specialty pharmaceuticals company based in Australia to set up 50:50 joint venture company to manufacture Generic Injectable, Cytotoxic (anti-cancer) medicines as well as

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

Enters the French generics market with 43 generics.

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

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

Nucxia, the first Etoricoxib brand to be launched in 2004 in India became the 'Best Launch of the Year' from amongst 2200 new brands (ORG:Dec, MAT 2004). The other

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

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

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

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

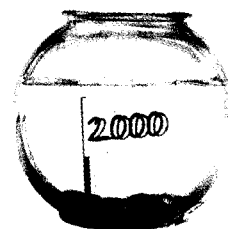
Zydus Cadila and U.S. based Onconova enter into a joint venture in 2001 for collaborative research in the field of oncogenomics.

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

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

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

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



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

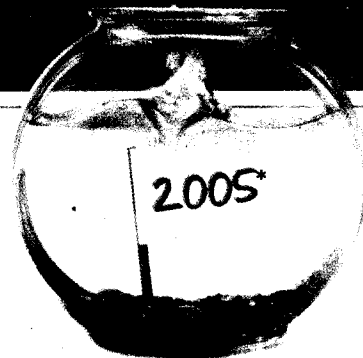


Cadila Healthcare launches Falcigo in strategic alliance with Guilin Pharma of China. This breakthrough product in the anti-malarial segment was launched for the first time in India in 1996.

Active Pharmaceutical Ingredients (API), for global markets.

Receives approval from Drug Controller General of India (DCGI) for its first Investigational New Drug (IND) application for the New Molecular Entity (NME) - ZYH1.

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



best launches from Zydus Cadila were Mifegest, Penegra, Revaldo, Levoday and Novospar.

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



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

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

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

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

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

Emerges as a 'Partner of Choice' for Schering AG, a leading global pharma player in women's healthcare segment, to manufacture and market existing products of the company in India.

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

(U.S.A.) Inc. to market formulations generics business in the U.S.A. in 2003.

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

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

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

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

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

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

Chairman's Message



Dear Shareholders,

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

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

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

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

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

Key Achievements of 2004-05

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

A Challenging Year for the Indian Pharma Industry

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

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

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

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

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

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

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

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

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

The Way Ahead: We Will Continue to Grow...

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