

LETTER OF OFFER

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This document ('Letter of Offer' or 'LoF') is sent to you as a shareholder(s) of Carnation Nutra-Analogue Foods Limited. If you require any clarifications about the action to be taken, you may consult your stock broker or investment consultant or Manager to the Offer or Registrar to the Offer. In case you have recently sold your shares in the Target Company, please hand over this Letter of Offer, the accompanying Form of Acceptance-cum-Acknowledgement and Form of Withdrawal and Transfer Deed to the member of stock exchange through whom the said sale was effected.

CASH OFFER

by

The Acquirer

Cadila Healthcare Limited

Registered Office: Zydus Tower, Satellite Cross Roads, Sarkhej Gandhinagar High Way, Ahmedabad 380 015

Tel: +91 79 268 68100 Fax: +91 79 268 62365, 268 68337

for

the acquisition of up to 11,15,020 fully paid-up equity shares of Rs. 10/- each representing 20% of the paid-up equity share capital of

Carnation Nutra-Analogue Foods Limited

Registered Office: A-204, Samudra, Sardar Patel Nagar, C. G. Road, Ahmedabad – 380 006, India

Tel : +91 079 26562784, 26564999, 26443198, Fax : +91 079 26562784, 26564999

At Rs. 150/- per Equity Share payable in cash

Attention:

(1) This Offer is being made pursuant to the Regulation 10 and 12 of the Regulations (2) The Offer is not subject to a minimum level of acceptance by the shareholders of the Target Company. (3) The Offer is not subject to any statutory and regulatory approvals and clearances required to acquire shares tendered pursuant to the Offer: (4) The Acquirer will make the application for requisite approval to the RBI, if required, on closure of the Offer for acquisition of the Shares tendered and accepted under the Offer. (5) If there is any further upward revision of the Offer Price by the Acquirer till the last date for revision viz. May 12, 2006 or withdrawal of the Offer, the same would be informed by way of a public announcement in the same newspapers in which the Public Announcement had appeared. Such revised Offer Price would be payable for all the Shares tendered anytime during the Offer and accepted under the Offer. (6) Shareholders, who have accepted the Offer by tendering the requisite documents in terms of the Public Announcement / Letter of Offer, can withdraw the same up to three working days prior to the closure of the Offer i.e. May 19, 2006 (7) **If there is a competitive bid: (i) the public offers under all the subsisting bids shall close on the same date; (ii) as the Offer Price cannot be revised during seven working days prior to the closing date of the offers / bids, it would, therefore, be in the interest of shareholders to wait till the commencement of that period to know the final offer price of each bid and tender their acceptance accordingly.** (8) **No competitive bid has been announced as on the date of this Letter of Offer.** (9) A copy of the Public Announcement and Letter of Offer (including Form of Acceptance-cum-Acknowledgement and Form of Withdrawal) is also available on SEBI's website (www.sebi.gov.in).

MANAGER TO THE OFFER	REGISTRAR TO THE OFFER
 <p>ICICI Securities Limited ICICI Centre H.T. Parekh Marg, Churchgate Mumbai 400 020, India Tel: +91 22 2288 2460 Fax: +91 22 2282 6580 Email: cadila_offer@isecltd.com Contact Person: Mr. Vishal Jain</p>	 <p>Sharepro Services (India) Private Limited Satnam Estate, 3rd Floor Cardinal Gracious Road, Chakala Andheri (East), Mumbai – 400 099 Tel: +91 022 28215168, Fax: +91 022 28375646 E-mail: ashokgupta@shareproservices.com Contact Person: Mr. Ashok Gupta</p>

Schedule of the Major Activities of the Offer

	Activity	Day	Date
1	Date of publication of Public Announcement	Saturday	March 18, 2006
2	Specified Date (for the purpose of determining the names of shareholders to whom the Letter of Offer would be sent)	Friday	March 31, 2006
3	Last date for announcement of a competitive bid	Saturday	April 8, 2006
4	Date by which Letter of Offer will be posted to shareholders of Target Company	Tuesday	May 2, 2005
5	Date of Opening of the Offer	Friday	May 5, 2006
6	Last date for revising the Offer Price / number of Shares	Friday	May 12, 2006
7	Last date for withdrawing acceptance from the Offer	Friday	May 19, 2006
8	Date of Closure of the Offer	Wednesday	May 24, 2006
9	Date of communicating rejection / acceptance and payment of consideration for applications accepted	Tuesday	June 6 , 2006

RISK FACTORS

Risks related to the proposed Offer

- The Offer involves an offer to acquire up to 20% of fully paid-up equity share capital of the Target Company (the shares) from the Eligible Persons for the Offer. In the case of oversubscription in the Offer, as per the Regulations, acceptance would be determined on a proportionate basis and hence there is no certainty that all the Shares tendered by the shareholders in the Offer will be accepted.
- In the event that either (a) a statutory and regulatory approval is not received in a timely manner, (b) there is any litigation leading to a stay of the Offer, or (c) SEBI instructing the Acquirer not to proceed with the Offer, then the Offer process may be delayed beyond the schedule of activities indicated in this Letter of Offer. Consequently, the payment of consideration to the shareholders of the Target Company whose Shares have been accepted in the Offer as well as the return of the Shares not accepted by the Acquirer may be delayed. In case of the delay due to non-receipt of the statutory approvals, as per Regulation 22(12) of the Regulations, SEBI may, if satisfied that the non-receipt of approvals was not due to the wilful default or negligence or failure to diligently pursue on the part of the Acquirer, grant an extension for the purpose of completion of the Offer subject to the Acquirer paying interest to the shareholders, as may be specified by the SEBI. Further, shareholders should note that after the last date of withdrawal i.e. May 19, 2006, the shareholders who have lodged the Shares would not be able to withdraw them even if the acceptance of Shares under the Offer and dispatch of consideration gets delayed. The tendered shares and documents would be held by the Registrar to the Offer, till such time as the process of acceptance of tenders and the payment of consideration is completed.

The Offer is not subject to the receipt of statutory and regulatory approvals, for the acquisition of Shares by the Acquirer. If any statutory or regulatory approvals become applicable, the offer would be subject to such statutory or regulatory approvals. The Acquirer may not be able to proceed with the Offer in the event the approvals are not

received in terms of Regulation 27 of the Regulations. Delay, if any, in the receipt of these approvals may delay completion of the Offer.

3. The Shares tendered in the Offer will be held in trust by the Registrar to the Offer, till the completion of the Offer formalities. The Acquirer makes no assurance with respect to the market price of the Shares both during the Offer period and upon the completion of the Offer, and disclaims any responsibility with respect to any decision by the shareholders of the Target Company on whether to participate or not to participate in the Offer.
4. The transaction is subject to completion risks as would be applicable to similar transactions.

Risks involved in associating with the Acquirer

5. The Acquirer proposes to acquire ownership and control of the Target Company through Open offer and Market Acquisition. Currently the Acquirer holds 30.69% (as on 30.03.06) of the paid up equity capital of Carnation. There is a possibility of the Acquirer not being able to acquire control/majority stake in the Company. Further, the Acquirer makes no assurance with respect to the financial performance of the Target Company or its subsidiary, if any.
6. Zydus Cadila is involved in legal proceedings that have been initiated against them. For more details, see para 3.1.6 “Status of Corporate Governance and pending Litigation matters”.

The risk factors set forth above pertain to the acquisition and the Offer and not in relation to the present or future business operations of the Target Company or its subsidiary or other related matters, and are neither exhaustive nor intended to constitute a complete analysis of the risks involved in participation or otherwise by a shareholder in the Offer. Shareholders of the Target Company are advised to consult their stockbroker or investment consultant, if any, for further risk with respect to their participation in the Offer.

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Definitions

Acquirer / Zydus Cadila	Cadila Healthcare Limited
Act	The Companies Act, 1956
ASE	Ahmedabad Stock Exchange Limited
BSE	Bombay Stock Exchange Limited
Business Hours	Monday to Saturdays – 10.00 a.m. to 5.00 p.m. (Closed on Sundays and public holidays)
CDSL	Central Depository Services (India) Limited
DP	Depository Participant
Eligible Persons for the Offer	Registered shareholders of the Target Company appearing in the Register of Members as on the Specified Date and unregistered shareholders who own the equity shares of the Target Company, anytime before the closure of the Offer, except the Acquirer
FEMA	Foreign Exchange Management Act, 1999
Form of Acceptance	Form of Acceptance-cum-Acknowledgement
Letter of Offer	This Letter of Offer dated April 26, 2006

Manager / Manager to the Offer	ICICI Securities Limited
NRIs	Non-Resident Indians
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
Offer / Public Offer / Open offer	Voluntary Open Offer for acquisition of up to 11,15,020 fully paid-up equity shares of face value of Rs. 10/- each of the Target Company representing 20% of the equity share capital at a price of Rs. 150/- per Share, payable in cash
Offer Price	Rs. 150/- per Share
Public Announcement / PA	Announcement of the Offer made by the Acquirer on March 18, 2006
RBI	Reserve Bank of India
Registrar / Registrar to the Offer / Sharepro	Sharepro Services (India) Private Limited
Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto up to the date of Public Announcement
SEBI	The Securities and Exchange Board of India
Share(s) / Equity Share(s)	Fully paid-up equity share(s) of face value of Rs. 10/- each of the Target Company to be acquired pursuant to the Offer not exceeding 11,15,020 Equity Shares
Specified Date	March 31, 2006, being not later than the thirtieth day from the date of PA for the purpose of determining the names of the shareholders of the Target Company to whom the Letter of Offer together with composite form of acceptance will be sent.
Target Company / Carnation	Carnation Nutra-Analogue Foods Limited

1. DISCLAIMER CLAUSE

IT IS TO BE DISTINCTLY UNDERSTOOD THAT FILING OF THE DRAFT LETTER OF OFFER WITH SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED, VETTED OR APPROVED BY SEBI. THE DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI FOR A LIMITED PURPOSE OF OVERSEEING WHETHER THE DISCLOSURES CONTAINED THEREIN ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH THE REGULATIONS. THIS REQUIREMENT IS TO FACILITATE THE SHAREHOLDERS OF CARNATION TO TAKE AN INFORMED DECISION WITH REGARD TO THE OFFER. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF THE ACQUIRER OR OF THE COMPANY WHOSE SHARES ARE PROPOSED TO BE ACQUIRED OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE LETTER OF OFFER. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ACQUIRER IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THIS LETTER OF OFFER, THE MANAGER TO THE OFFER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE ACQUIRER DULY DISCHARGES ITS RESPONSIBILITY ADEQUATELY. IN THIS BEHALF, AND TOWARDS THIS PURPOSE, THE MANAGER TO THE OFFER, ICICI SECURITIES LIMITED, HAS SUBMITTED A DUE DILIGENCE CERTIFICATE DATED MARCH 31, 2006 TO SEBI IN ACCORDANCE WITH THE SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 1997 AND SUBSEQUENT AMENDMENTS THEREOF. THE FILING OF THE LETTER OF OFFER DOES NOT, HOWEVER, ABSOLVE THE ACQUIRER FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE OFFER.

2. DETAILS OF THE OFFER

2.1 Background of the Offer

On March 17, 2006, Zydus Cadila acquired 8,34,000 equity shares of Rs. 10/- each representing about 14.96% of the fully paid up equity voting capital of the Target Company at a price of Rs. 144.82 from open market. Thereafter the Acquirer has made a voluntary open offer to acquire up to 11,15,020 fully paid-up equity shares of face value of Rs. 10/- each, representing 20% of the paid-up equity share capital of the Target Company at a price of Rs. 150/- per share.

The board of directors of the Acquirer, in its meeting held on March 17, 2006 has unanimously approved and authorised Mr. Pankaj R. Patel, Chairman and Managing Director, and other executives of the Company to do all such acts, deeds and things as might be necessary to complete the acquisition and to comply with the Regulations.

- 2.1.1** The Offer is a voluntary open offer being made under Regulation 10 and 12 of the Regulations for substantial acquisition of shares and control. The Acquirer confirms to acquire 11,15,020 fully paid-up equity shares of Rs. 10/- each of the Target Company representing 20% of the fully paid-up equity share capital.
- 2.1.2** Zydus Cadila is a public limited company incorporated on May 15, 1995 under the Companies Act, 1956 to carry on the business of formulation, bulk drugs, biologicals, vaccines and consumer health products. The registered office of Zydus Cadila is located at Zydus Tower, Satellite Cross Roads, Sarkhej Gandhinagar High Way, Ahmedabad 380 015. The shares of Zydus Cadila are listed on Bombay Stock Exchange Limited ('BSE'), Ahmedabad Stock Exchange Limited ('ASE') and National Stock Exchange of India Limited ('NSE'). Zydus Cadila has been promoted by Mr. Pankaj Patel & family.
- 2.1.3** Zydus Cadila is making a voluntary open offer to acquire up to 11,15,020 fully paid-up equity shares of the face value of Rs. 10/- each, representing in the aggregate 20% of the paid-up equity share capital of Carnation at a price of Rs. 150/- per share payable in cash subject to the terms and conditions mentioned hereinafter. The Offer is being made to all the shareholders of the Target Company other than the Acquirer.
- 2.1.4** The Offer is not conditional upon any minimum level of acceptance, i.e. the Acquirer will acquire all the fully paid-up equity shares of Carnation that are tendered in terms of the Offer up to 11,15,020 Shares representing in the aggregate 20% Shares of the outstanding share capital, subject to the conditions specified in this Public

Announcement, Letter of Offer and Form of Acceptance-cum-Acknowledgement. During the Offer period, the Acquirer may purchase additional shares of the Target Company in accordance with the Regulations.

- 2.1.5** Neither the Acquirer, nor its directors, has been prohibited by SEBI from dealing in securities in terms of directions issued u/s 11B of the SEBI Act or under any of the regulations made under the SEBI Act.

The Target Company has not been prohibited by SEBI from dealing in securities in terms of directions issued u/s 11B of the SEBI Act or under any of the regulations made under the SEBI Act.

- 2.1.6** As on the date of the Public Announcement, ICICI Securities Limited, the Manager to the Offer, did not hold any shares of the Target Company.
- 2.1.7** ICICI Securities Limited shall not deal in the shares of the Target Company during the period commencing from the date of its appointment in terms of Regulation 13 till the expiry of the fifteen days period from the date of Closure of the Offer.

2.2 Details of the proposed Offer

- 2.2.1** The Public Announcement, was published on March 18, 2006 in of the following newspapers in accordance with Regulation 15 of the Regulations:

Newspapers	Language	Editions
The Financial Express	English	All Editions
Jansatta	Hindi	All Editions
The Financial Express	Gujarati	Ahmedabad

The Public Announcement published on March 18, 2006 is also available on the SEBI website, www.sebi.gov.in.

- 2.2.2** Pursuant to and subject to the terms and conditions of this Letter of Offer, the Acquirer is hereby making an Offer to the Eligible Persons for the Offer to acquire from them up to 11,15,020 Shares (representing 20% of the fully paid-up equity share capital of the Target Company) at a price of Rs. 150/- (Rupees One Hundred Fifty Only) per Share, payable in cash. Any upward revision in the Offer with respect to the Offer Price will be announced in the abovementioned newspapers and the revised Offer Price would be payable by the Acquirer for all the Shares tendered anytime during the Offer.
- 2.2.3** The Shares will be acquired by the Acquirer, free from all liens, charges and encumbrances and together with all rights attached thereto, including the right to all dividends, bonus and rights declared hereafter.
- 2.2.4** As per the information provided by the Target Company, as on 22nd March, 2006, there are no partly paid-up equity shares in the Target Company.

2.3 Object of the Offer

- 2.3.1** The Offer to the shareholders of the Target Company is for substantial acquisition of Shares with change in control / management of Carnation, and is made in accordance with Regulation 10 and 12 read with other applicable provisions of the Regulations.

The Acquirer and Carnation are in the business of consumer health products. Pursuant to the acquisition, the Acquirer will have a leading additional brand in the basket of their Consumer Health Products Division. At present, consumer division of Acquirer is marketing leading Table Top Sweetener. Acquisition of one of the leading brand will bring in lot of synergy.

3. BACKGROUND OF THE ACQUIRER

3.1 Zydus Cadila

Zydus Cadila is a public limited company incorporated on May 15, 1995 under the Companies Act, 1956 to carry on the business of formulation, bulk drugs, biologicals, vaccines and consumer health products. The registered office of Zydus Cadila is located at Zydus Tower, Satellite Cross Roads, Sarkhej Gandhinagar High

Way, Ahmedabad 380 015. The shares of Zydus Cadila are listed on Bombay Stock Exchange Limited ('BSE'), Ahmedabad Stock Exchange Limited ('ASE') and National Stock Exchange of India Limited ('NSE'). The closing price of Zydus Cadila on the BSE on March 17, 2006 (last available market price) was Rs. 599.50 (Source:www.bseindia.com). Zydus Cadila is promoted by Mr. Pankaj Patel and his family members. Mr. Pankaj Patel and family members are controlling the Acquirer which belongs to Zydus Cadila Group of Companies. Mr. Pankaj Patel, Managing Director of Cadila Healthcare Limited is a well known industrialist. 72 % stake of the Cadila Healthcare Limited is held by "Zydus Family Trust", the beneficiaries of the trust are the members of Patel family.

- 3.1.1** The issued and paid up share capital of Zydus Cadila consists of 62,806,854 equity shares of Rs. 5/- each aggregating to Rs.31,40,34,270. The shareholding pattern of Zydus Cadila as on March 17, 2006 is as follows:

Shareholder	No. of shares	% holding
Promoters' shareholding		
Indian Promoters	4,52,31,625	72.02
Persons Acting in Concert	-	-
Total Promoters' shareholding	4,52,31,625	72.02
Non-promoters' shareholding		
Institutional Shareholders	1,27,82,642	20.35
Private Corporate Bodies	4,60,212	0.73
NRIs/OCBs	1,25,349	0.20
Indian Public	42,07,026	6.70
Total non-promoter shareholding	1,75,75,229	27.98
Total	6,28,06,854	100.0

- 3.1.2** As Zydus Cadila holds shares in the Target Company, provisions of Chapter II of the Regulations are applicable and Zydus Cadila has duly complied with the same.

- 3.1.3** As on the date of PA, the Board of Directors of Zydus Cadila is as follows:

Name of Director	Experience	Qualifications	Date of Appointment	Address
Mr. Pankaj R. Patel	Promoter of Zydus Cadila Group of Companies and having experience of more than 30 years in pharmaceutical industry and research. And development.	M.Pharm	15-05-1995	16, Azad Society, Ambawadi, Ahmedabad – 380 015
Mr. Mukesh M. Patel	Practising as an advocate and specialised in the field of Tax Planning, Appellate Matters, International Taxation and investment planning for NRIs and Foreign Collaborators.	B.Com,LL.B	01-08-1997	Prakruti, No.II, Ashwamegh Bungalows Part II, Satellite Road, Ahmedabad – 380 015
Mr. Pranlal Bhogilal	Wide experience of about 47 years of the industry. He is associated with the Das Group of Companies having interest in starches, textiles, engineering, real estate, agriculture and dairy products.	Graduation from Sydenham College of Commerce & Economics	15-12-1998	Das & Co., Das Chambers, 25, Dalal Street, Mumbai – 400 023
Mr. Sharvil P. Patel	Actively associated in the business of the Company.	Graduation in Chemical and Pharmaceutical Science (CPS).	01-08-1997	16, Azad Society, Ambawadi, Ahmedabad – 380 015
Mr. Homi K. Bilpodiwala	He was a senior partner of a reputed Chartered Accountant firm. Specialisation in the field	Chartered Accountant	16-08-2003	6C, Crystal, Altamount Road, Mumbai – 400 026

	of accounts, finance, Company Law and Taxation matters. He is on the Board of reputed Companies.			
Mr. Humayun Dhanrajgir	He was a Managing Director of Glaxo India. He has rich experience of the industry and has hold very senior position in the reputed Companies.	B.Tech (Chem Eng) from Loughborough University, U.K., M.I.Chem.E (Lond.) and C.Eng(Lond.), AMP (Harvard)	16-08-2003	F- 41, Dhanraj Mahal, CSM Road, Apollo Bunder, Mumbai – 400 039
Mr. Apurva S. Diwanji	Practising as an advocate and solicitor. He is a partner of reputed law firm – Desai and Diwanji.	MA from Cambridge University. Advocate and Solicitor, Law Society, London	16-08-2003	“Wyoming” , 5 th Floor, Little Gibbs Road, Malabar Hill, Mumbai – 400 006

None of the directors of Zydus Cadila were on the Board of the Target Company as on the date of the PA.

The audited financial information of Zydus Cadila is given below, in compliance with the provisions of Clause 4.1.9 of the standard letter of offer format as prescribed by SEBI:

(Rs lakhs)

Profit & Loss Statement	FY2003	FY2004	FY2005	FY2006
				9 months (Un-audited)
Income from operations	93510	109120	106338	96924
Other Income	2760	7190	7851	6210
Total Income	96270	116310	114189	103134
Total Expenditure	78040	92340	91483	80826
Profit Before Depreciation Interest and Tax	18230	23970	22706	22308
Depreciation	3820	5310	5648	4527
Interest	3880	2320	2022	1793
Profit Before Tax	10530	16340	15036	15988
Provision for Tax	2870	2050	1897	1730
Profit After Tax	7660	14290	13139	14258

Balance Sheet Statement	FY2003	FY2004	FY2005	FY2006
				9 months (Un-audited)
Sources of funds				
Paid up equity share capital	3140	3140	3140	3140
Share Warrants	-	-	-	-
Paid up preference share capital	-	-	-	-
Reserves and Surplus (excluding revaluation reserves)	42980	50810	58300	72560
Net worth	46120	53950	61440	75700
Secured loans	32930	34370	28740	23670
Unsecured loans	11360	6200	8410	13520
Total	90410	94520	98590	112890

Uses of funds				
Net fixed assets	68290	68920	71840	73320
Investments	8400	13810	13680	15940
Net current assets	20070	20050	22440	33540
Deffered Tax Asset (net)	-8570	-9740	-10120	-10120
Total miscellaneous expenditure not written off	2220	1480	750	210
Total	90410	94520	98590	112890

Other Financial Data	FY2003	FY2004	FY2005	FY2006
				9 months (Un-audited)
Dividend (%)	70%	120%	120%	-
Earning Per Share (Rs.)	12.20	22.75	20.93	22.70
Return on Net worth (%)	17.4 %	27.2 %	21.7 %	-
Book Value Per Share (Rs.)	70.00	84.00	97.00	-

(Source : Audited Accounts for the year 2003, 2004 and 2005 and Q-3 results filed by the Acquirer.)

Joint Statutory Auditors to the report: (i) M/s Mukesh M. Shah & Co., Chartered Accountants, having their office at 1st Floor, H. K. House, Opp. Bata Show Room, Ashram Road, Ahmedabad – 380 009 Tel +91 79 265850549, Fax: +91 79 26581236 and (ii) M/s R. R. Patel and Company, having their office at “Mahalaya” 602, 6th Floor, Near Hotel President, Opp. Choice Lane, C. G. Road, Ahmedabad - 380 009. Tel +91 79 26446969, Fax +91 79 26560026.

The Joint Statutory Auditors have carried out the Limited Review of the un-audited financial results.

The audited financial information (consolidated) of Zydus Cadila in compliance with the provisions of Clause 4.1.9 of the standard letter of offer format as prescribed by SEBI is as follows:

(Rs lakhs)

Profit & Loss Statement	FY2003	FY2004	FY2005
Income from operations	103530	125250	124300
Other Income	350	1580	3780
Total Income	103880	126830	128080
Total Expenditure	82870	101800	104760
Profit Before Depreciation Interest and Tax	21010	25030	23320
Depreciation	4620	7120	7160
Interest	4440	2760	2450
Profit Before Tax	11950	15150	13710
Provision for Tax	3070	2130	1920
Profit After Tax	8880	13020	11790

Balance Sheet Statement	FY2003	FY2004	FY2005
Sources of funds			
Paid up equity share capital	3140	3140	3140
Share Warrants	-	-	-
Paid up preference share capital	-	-	-
Reserves and Surplus (excluding revaluation reserves)	42560	50500	56200
Net worth	45700	53640	59340

Secured loans	37440	37250	29910
Unsecured loans	11590	6510	8420
Total	94730	97400	97670
Uses of funds			
Net fixed assets	76470	77430	79060
Investments	2170	4790	4670
Net current assets	22410	23370	23260
Deferred Tax Asset (net)	-8570	-9720	-10100
Total miscellaneous expenditure not written off	2250	1530	780
Total	94730	97400	97670

(Source : Audited Accounts for the year 2003, 2004 and 2005.)

- 3.1.4** Zydus Cadila acquired 8,77,183 equity shares of Rs. 10/- each representing 15.73% of the fully paid up equity share capital through open market after the date of public announcement as per the following details.:

Date	No. Of Shares	Average Price (Rs.)	Highest Acquisition Price (Rs.)
22.03.06	2,74,450	143.02	Rs. 143.02
23.03.06	6,020	141.75	Rs. 142.60
24.03.06	2,70,671	142.41	Rs. 142.41
27.03.06	65,795	142.55	Rs. 142.93
28.03.06	2,60,247	140.24	Rs. 142.28
	8,77,183		

Accordingly, Zydus Cadila made a declaration under Regulation 7 of the Regulations and Regulation 13 of SEBI (Prohibition of Insider Trading) Regulations, 1992 and also informed to all stock exchanges regarding the aforesaid acquisition.

3.1.5 Major Significant Accounting Policies for the year ended March 31, 2005

1. Basis of Accounting

The Financial Statements are prepared under the historical cost conversion 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. Revenue Recognition

- A Sales of products in domestic markets are recognised when they are despatched to customers at invoice value and are reported net of trade discounts & 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.

3. Fixed Assets and Depreciation

- A Fixed Assets are stated at historical cost of acquisition / construction less accumulated depreciation & impairment loss. Cost [Net of Cenvat 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 amortised over the period of lease.
 - E The Trade Marks and Technical Know-how Fees are amortised over its estimated 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.
4. **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 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.
5. **Inventories**
- A Raw Materials, Stores & Spare Parts, Packing Materials, Finished Goods and Work-in-progress are valued at lower of cost and net realisable value.
 - B Cost [Net of Cenvat credit availed] of Raw Materials, Stores & Spare Parts, Packing Materials & Finished Goods is determined on FIFO basis.
 - C Cost of Finished Goods & Work-in-Progress is determined by taking material cost [net of cenvat credit availed], labour and relevant appropriate overheads.
6. **Foreign Currency Transactions**
- A The transactions in foreign currencies on revenue accounts are stated at the rate 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 & Loss Account, except in cases where they relate to acquisition of Fixed Assets, the same are adjusted to the carrying cost of respective Fixed Assets.
 - C The foreign currency assets and liabilities covered by forward contracts 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.
7. **Miscellaneous Expenditure Not Written Off**
- A Discount on issue of debentures and debenture issue expenses are amortised proportionately over the tenure of debentures.
 - B Preliminary expenses are written off over a period of five years.
 - C The compensation paid to the employees under the Voluntary Retirement Scheme is amortised over a period of 42 months.
8. **Retirement Benefits**
- A Contribution to Provident Fund and Superannuation Scheme accruing during each year as per the schemes are charged to Profit & Loss Account.
 - B Gratuity and Leave encashment liabilities are charged to Profit & Loss Account on the basis of actuarial valuation.
9. **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 substantially 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.

3.1.6 Status of Corporate Governance and pending Litigation matters

Corporate Governance

Zydus Cadila has five independent directors on its Board and has constituted the Audit Committee, Share Transfer Committee and Shareholders' and Investors' Grievance Committee as required under Clause 49 of the Listing Agreement with the requisite number of independent directors in each committee. The details are as follows:-

Board of Directors	Category	Member of Audit Committee	Member of Share Transfer Committee	Member of Shareholders' and Investors' Grievance Committee
Mr. Mukesh M. Patel	Independent Director	Yes	Yes	Yes
Mr. Pranalal Bhogilal	Independent Director	Yes	Yes	Yes
Mr. Homi K. Bilpodiwala	Independent Director	Yes	No	No
Mr. H. Dhanrajgir	Independent Director	Yes	No	No.
Mr. Apurva Diwanji	Independent Director	No.	No	No.

Zydus Cadila has complied with all other provisions as stipulated in Clause 49 of the Listing Agreement.

A. Following are the material pending litigation against the Company.

1. M/s Cadila Pharmaceuticals Ltd. has filed suit against the company for restraining the company from using design & get up of its generic product Enalapril Maleate which is claimed by them as similar to that of their product Envas. Company may have to pay about Rs. 15 lacs if the final outcome of the litigation goes against the company. An appeal filed by the Company is in the Gujarat High Court and is pending for hearing.
2. Mrs. Vasumati Shah and Ex C & F Agent has filed suit against the company for compensation for loss of profit and related claims upon termination of their agency for Rs.26.73 lacs. The Company has filed its written statement stating that suit is not tenable on various grounds more particularly stated in the written statement.
3. M/s Atul Medicals, Super stockist of Cosmetics at Pune has filed suit for restraining the company from encashing the bank guarantee of Rs.8 lacs upon termination of super stockistship. An application for amending the suit has been filed claiming a sum of Rs.18.34 lacs. The application for amendment is pending for hearing for admission. The company is advised that the application for amendment of suit claim is untenable in law and outside the limitation period for filing a Suit. Application has been rejected, the Plaintiffs have moved the High Court of Bombay. The High Court has upheld the Amendment. The Company has filed an Appeal in the Supreme Court, which is pending.

Ms. Haramani Das has filed a claim in State Consumer Commission at Cuttack for damages in respect of Pacemakers supplied by the company on the ground of failure of the Pacemaker The party has claimed Rs. 16.67 lacs towards compensation. The Company has filed its reply and the matter is pending.

5. M/s Pfizer Inc Vs. B.L. has filed a passing off suit against the Company for infringement of trademark. The trademark of the Company, "Penegra" is deceptively and confusingly similar to their Trademark "Viagra". Interim Injunction has been refused by the Court. Amount of liability cannot be quantified at this stage Suit is pending before Delhi High Court. An appeal is filed by Pfizer against the single Judge order. The Company has filed its reply and the matter is pending.
6. M/s Bhavin Pharmaceuticals has filed a summary suit against the Company for Rs.13.05 lacs for the Drugs Fluconazole - 100 Kgs supplied to the Company for which the payment is not settled by the Company. The Company has filed its reply stating that the Company has not dealt with the partners of the firm who claims the amount and the amount due were already settled by the Company with the firm. Matter came up for hearing of summons for judgement. Unconditional leave granted in favour of the Company.
7. M/s Cascade India Pharma has filed a suit against the Company for infringement of their mark – CADIZYME which is identical and deceptively similar to Plaintiff's mark CADZYME. The Company has filed its reply on the ground that the Plaintiffs has wrongly and fraudulently adopted the trade mark which is deceptively and confusingly similar to our registered mark. Matter is pending for hearing.
8. M/s Rekha Goenka had filed a write petition against the Company challenging the irregularity in the buy-back offer of GRL shares The Company has filed its reply denying the contents therein. No injunction has been granted in the matter and the same is pending for admission before the Hon'ble Court.

9. Mr. N.K. Choudhary has filed a suit against the Company challenging the irregularity in the buy-back offer of GRL Shares. The Company has filed its written statement stating that the Suit filed by the Plaintiff is infructuous and required to be set aside. The Hon'ble Court lacks territorial jurisdiction Cause of action not shown while filing the suit. The suit is not maintainable since the claim of the Plaintiff is for money and the Plaintiffs have filed a suit for declaration, the same is not maintainable under the Specific Relief Act.
10. M/s Noble Labs had filed a consumer complaint against the Company for the defective instrument (ACTO-1) and deficiency in service for Rs.22.25 lacs with interest @ 18% p.a The Company has yet not filed its reply. Matter placed for filing our reply.
11. Drugs Controller had filed a criminal case against the Company with respect to a batch failure of Dexona. The Company has filed writ petition in the Hon'ble High Court of Rajasthan challenging the provisions of the Drugs and Cosmetics Act, 1940 and seeking exemption and discharge of the accused from appearance at the Boondi Court. The Hon'ble High Court while admitting the writ petition has rejected the stay application for exemption of accused from appearance before the Boondi Court. The Company has an appeal in the Hon'ble Supreme Court and the Apex Court has directed the High Court to expedite the hearing. The matter is pending for hearing in the Hon'ble High Court.
12. M/s Cadila Pharmaceuticals Ltd has filed a civil suit against the Company In the District court at Vadodara for injunction on the Company's product HIPEN and HIPENOX LB on the ground that same infringes their process patent for in which one of the ingredient is enterically coated. After hearing the injunction was vacated by the District Court, which was confirmed by High Court and Supreme Court. The suit awaits final TRIAL.
13. M/s. Liliy Icos LLC has filed a suit against the Company alleging that the Company's mark **Zydalis** is deceptively similar to the Plaintiffs mark **Cialis**. Suit filed before the Hon'ble High Court (Single Judge) praying for ad-Interim and interim relief. The High Court was pleased to refuse interim injunction as prayed for by the Plaintiffs in favour of the Company.
14. M/s Abbott Ltd. and Mexcure Drugs had filed a civil suit against the Company for Trademark suit Digene Vs. Cadigene. Exparte injunction granted. The Company has filed its reply. The matter is pending.
15. M/s Shreya Life Sciences has filed a civil suit against the Company for Company's trademark Digeplex Vs. Dygin. Injunction granted. The Company has filed its reply.
16. M/s Medlay Pharma has filed a civil suit against the Company for Company's Trademark O2 Vs. A2 in the High Court of Bombay. No Injunction granted. The Hon'able High Court has directed the Company to write A2 (A Square) in word.

B. In respect of amalgamated Companies.

1. Ministry of Chemicals and Fertilisers, Government of India has filed a special civil application under Drug Price Equalization Account (DPEA) Recoveries with respect to Bulk Drugs and Formulations covered by demand for Rs.5.29 Cr. Company has challenged the recoveries on various accounts and heads of price fixation formula. The writ petition was dismissed by the Gujarat High Court against which an appeal is filed in the Supreme Court, which is admitted by the Supreme Court, and recovery is stayed. The matter is pending in the Supreme Court for final hearing. The liability of the Company will be to the extent of Rs. 2.64 cr.
2. Drug Controller has filed seven cases against the erstwhile German Remedies Limited / their Director / Officer in default in manufacturing certain products at the Company's manufacturing facilities. The amount is not quantifiable and the same is pending before the respective judiciary authority.
- C. There are 49 cases filed against the Company and the erstwhile amalgamated Companies in the labour courts, by the ex contractual workers and employees of the Company in the matter of their dues / compensation / classification and claim for reinstatement, the amount for which is not ascertainable.
- D. In the matter of Central Excise and Service Tax, total 91 cases for which the show cause notices / demand raised by Central Excise and Service Tax Department for Rs. 26.44 Cr. are under dispute and pending at different levels like adjudication, Commissioner (Appeals), & CESTAT. Against confirmed demands the company has preferred for an appeal to the respective higher authority. If Company could not succeed in defending, the Company may have to pay Rs. 26.44 Cr.
- E. There are 13 cases in respect of income tax matters pending before appellate authorities, which are under appeal. And the Company expects to succeed based on the decisions of Tribunals and Courts. In all the cases, the estimated liability of Income Tax would be appx. Rs.5.65 Cr.
- F. Gujarat Pollution Control Board has initiated prosecution under Environment Protection Act, 1986 for environment clearance in respect of erstwhile Banyan Chemicals Limited which pertains to the period prior to its amalgamation with the Company and when the Company had not taken over the control of the said Company. The matter is pending with Judicial Magistrate, Padra. The liability of the Company is not quantifiable.

3.1.7 Mr. Upen Shah, Company Secretary is the Compliance Officer. The correspondence address is as below:

Cadila Healthcare Limited
 Zydus Tower, Satellite Cross Roads,
 Sarkhej Gandhinagar High Way,
 Ahmedabad 380 015,
 India
 Tel: +91 79 26868100
 Fax: +91 79 26868337
 E-Mail: upen.shah@zyduscadila.com

3.1.8 Mergers, demergers and / or spin-offs involving Zydus Cadila during the last three years

During last three years German Remedies Limited, Zydus Pathline Limited, Zoom Properties Limited, Recon Healthcare Limited and Banyan Chemicals Limited, the subsidiaries of Zydus Cadila were merged pursuant to Scheme of Amalgamation approved by the respective High Courts.

Except German Remedies Limited, all other Companies were wholly owned subsidiaries of the Acquirer and hence no shares were issued upon the Schemes being approved by the respective High Court. Whereas, the Acquirer has issued and allotted seven equity shares of Rs. 5/- each fully paid up as against four equity shares of Rs. 10/- each fully paid up held by the shareholders of German Remedies Limited, other than the transferee Company as per the swap ratio approved by the members of the respective Companies and the Hon'able High Court, Mumbai. The new equity shares (as aforesaid) issued were the equity shares of the transferee Company and were listed on the stock exchanges where the shares of the transferee Company was listed.

Except above, there are no other mergers, de-merger or spin-offs during last three years.

3.2 Details of companies promoted by the Acquirer in last 3 years

The Acquirer has promoted the following Companies during last three years.

Sr. No.	Name of the Company	Date of incorporation	Nature of Business	Equity Capital, Reserves (excluding revaluation reserves)
1.	Zydus Mayne Oncology Pvt. Ltd.* (a JV Company promoted with Mayne Pharma Pty. Ltd. Australia) (50% stake)	13 th June 2005	To manufacture and sell cytotoxic active pharmaceutical ingredients and its Pharmaceutical formulations and their raw materials	Equity Capital : Authorised Capital: Rs. 15,00,00,000/- Issued, Subscribed and Paid-up Capital: Rs. 15,00,00,000/- Reserves : N.A.*
2.	Dialforhealth Unity Limited * (a JV Company promoted by Dialforhealth India Limited, the WOS of Cadila Healthcare Limited with Unity Chemists and Druggists Pvt. Ltd.) (55% stake)	23 rd June 2005	To carry on the business of branded chain of franchisee retail outlets for retails sales of pharmaceuticals, cosmetics, food and beverages and other related products	Equity Capital : Authorised Capital: Rs. 75,00,000/- Issued, Subscribed and Paid-up Capital: Rs. 5,00,000/- Reserves : N.A.*
3.	Dialforhealth Greencross Limited * (a JV Company promoted by Dialforhealth India Limited, the WOS of Cadila Healthcare Limited with Greencross Healthcare Pvt. Ltd.) (50% stake)	8 th July 2005	To carry on the business of branded chain of franchisee retail outlets for retails sales of pharmaceuticals, cosmetics, food and beverages and other related products	Equity Capital : Authorised Capital: Rs. 75,00,000/- Issued, Subscribed and Paid-up Capital: Rs. 5,00,000/- Reserves : N.A.*
4.	BSV Pharma Pvt. Ltd. (a JV Company formed with Bharat	14 th October 2005	To manufacture marketing, distribution and selling of oncology products	Equity Capital : Authorised Capital: Rs. 2,00,00,000/-

	Serums And Vaccines Limited) (50% stake)			Issued, Subscribed and Paid-up Capital: Rs. 1,00,00,000/- Reserves : N.A.*
5.	BSV Research and Development Pvt. Ltd. * (a JV Company formed with Bharat Serums And Vaccines Limited) (50% stake)	14 th October 2005	To carry on the research and development of oncology products	Equity Capital : Authorised Capital: Rs. 2,00,00,000/- Issued, Subscribed and Paid-up Capital: Rs. 1,00,00,000/- Reserves : N.A.*
6.	Zydus France, SAS, France, a wholly owned subsidiary of the Company's overseas special vehicle investment Com pany at Ireland (70 % stake)	30 th September, 2003 #	Marketing of generics (pharmaceuticals) in France	The details of brief financials are summarised hereunder.
7.	SCI Immopharm, a subsidiary of Zydus France, SAS, France	30 th September, 2003 #	Purchase, sale and lease of properties	The details of brief financials are summarised hereunder.
8.	Zydus Pharmaceuticals USA Inc., USA, a Joint Venture between Zydus International Private Limited, Mr. Joseph Renner and Mr. Mahendra Patel (_70_% stake)	18 th November, 2003	Marketing of generics (pharmaceuticals) in USA	The details of brief financials are summarised hereunder.

* The aforesaid Companies were formed in the current financial year and respective first accounting year is ending on 31st March,2006, therefore the financial details are not provided.

The Company acquired by Zydus Cadila through its wholly owned subsidiary – Zydus International Private Limited, a special vehicle investment Company.

None of the aforesaid companies are sick companies.

The financial information of the above Companies for the last two / three years based on their audited accounts is as under.

Zudus France SAS, France (Wholly Owned Subsidiary (WOS) of Zydus International Private Limited, the wos of the Company)

	Euro in lacs			Rs. in Lacs		
	31.12.03	31.12.04	31.12.05	31.12.03	31.12.04	31.12.05 #
Equity Capital	116.03	116.03	135.53	5834.89	5834.89	7122.49
Reserves (Excluding revaluation reserves)	16.54	16.54	16.54	831.76	831.76	882.24
Total Income	49.16	57.29	114.89	2711.81	3225.50	6128.23
Profit before Tax	(19.16)	(33.67)	(49.59)	(796.7)	(1985.99)	(2645.13)
EPS (Rs.)	(54.91)	(136.89)	(156.14)	(54.91)	(136.89)	(156.14)

Exchange Rate Rs. 53.34 Euro to Rupee as on 31.12.2005

SCI Immopharm, France (Wholly Owned Subsidiary (WOS) of Zydus France)

	Euro			Rs. In Lacs		
	31.12.03	31.12.04	31.12.05	31.12.03	31.12.04	31.12.05 #
Equity Capital	1524	1524	1524	0.87	0.87	0.81
Reserves (Excluding revaluation reserves)	-	-	-	-	-	-
Total Income	0	122422	101622	0	68.92	54.21
Net Profit	(33965)	93675	92376	(18.47)	49.83	49.27
EPS (Rs.)	(18471.17)	49837	49270	(18471.17)	49837	49270

Exchange Rate Rs. 53.34 Euro to Rupee as on 31.12.2005

Zydus Pharmaceuticals (USA) Inc., USA (70% subsidiary of Zydus International Private Limited)

	USD in lacs			Rs. in Lacs		
	31.12.03	31.12.04	31.12.05	31.12.03	31.12.04	31.12.05 #
Equity Capital	0	25.50	30.00	0	1112.56	1352.40
Reserves (Excluding revaluation reserves)	0	0	0	0	0	0
Total Income	0	0.15	55.03	0	6.61	2480.75
Profit before Tax	(0.09)	(19.65)	(18.01)	(3.98)	(856.56)	(811.89)
EPS (Rs.)	N.A.	(33.59)	(27.06)	N.A.	(33.59)	(27.06)

Exchange Rate Rs. 45.08 USD to Rupee as on 31.12.2005

- * Basis of conversion : All revenue items have been converted at the average rate of the year.
- All the assets and liabilities have been converted at the year end rates.
- Share Capital is translated at the rate prevailing on the date of allotment.

The net different of translation is taken "exchange rate fluctuation" account in the profit and loss account.

3.3 Disclosure in terms of Regulation 16(ix)

The Acquirer does not intend to dispose of or otherwise encumber any assets of the Target Company, in the succeeding two years except to the extent that may be required (i) in the ordinary course of business of the Target Company and/or (ii) for the purposes of restructuring, rationalising and/or streamlining various operations, assets, liabilities, investments, businesses or otherwise of the Target Company. Notwithstanding the immediately preceding sentence, it will be the responsibility of the board of directors of Carnation to make appropriate decisions in these matters, in accordance with the requirements of the business of Carnation and in line with opportunities or changes in the economic scenario from time to time. Such approvals and decisions will be governed by the provisions of the relevant regulations or any other applicable laws at the relevant time. Further, the Acquirer undertakes not to sell, dispose off or otherwise encumber any substantial assets of Carnation, except with the prior approval of shareholders of Carnation in accordance with the provisions of the Act.

3.4 Future plans/strategies of the Acquirer with regard to the Target Company

The Acquirer intends to review from time to time Carnation's business affairs and financial position. Based on such evaluation and review, as well as general economic and industry conditions existing at the time, the Acquirer may consider from time to time, various alternative courses of action.

Moreover, the Acquirer may integrate its business under a single entity which in its absolute discretion may include, *inter alia*, merger of the Target Company with the Acquirer or any of its Associates at an appropriate point of time. Further, the Acquirer reserves the right to induct its nominees on the board of the Target Company after complying with the provisions of the Regulations.

4. Disclosure in terms of Regulation 21(2) of the Regulations

- 4.1 Pursuant to this Offer, the Acquirers would ensure that they would comply with provisions of Regulation 21(2) of the Regulations.

5. BACKGROUND OF CARNATION

- 5.1 Carnation Nutra-Analogue Foods Limited is a public limited company under the Companies Act and having its registered and corporate office at A-204, Samudra, Sardar Patel Nagar, C. G. Road, Ahmedabad – 380 006, India (Ph – 079 2656 2784, 079 2656 4999, 079 2644 3198). The Target Company carries on the business of manufacturing, buying and selling of all type of health food products, low-fat, low cholesterol, including table margarine, cheese, butter and substitute products. The shares of the Target Company are listed only on Bombay Stock Exchange Limited (BSE). The closing price of the Target Company at BSE as on March 17, 2006 (last available market price) was Rs. 155.25 (Source:www.bseindia.com)

The manufacturing activity of the Target Company is being carried out at 7A, 7B & 8, Saket Industrial Estate, Sarkhej Bavala Road, Village Moraiya, Tehsil Sananad, Dist. Ahmedabad.

- 5.2 The issued and paid-up equity share capital of the Target Company consists of 55,75,100 fully paid-up equity shares of the face value of Rs. 10/- each, aggregating to Rs. 5,57,51,000/-. There are no partly paid up equity shares.

- 5.3 As informed by the Target Company the shareholding pattern of the Target Company as on the date of PA is as below:

Shareholder	No. of shares	% holding
Promoters' shareholding		
Indian Promoters	11,30,510	20.27
Persons Acting in Concert	-	-
Total Promoters' shareholding	11,30,510	20.27
Non-promoters' shareholding		
Institutional Shareholders	946559	16.98
Private Corporate Bodies	930199	16.69
NRIs/OCBs	858824	15.40
Indian Public	1709008	30.66
Total non-promoter shareholding	44,44,590	79.73
Total	55,75,100	100.0

As informed by the Target Company the shareholding pattern of the Target Company as on April 26, 2006 is as below:

Shareholder	No. of shares	% holding
Promoters' shareholding		
Indian Promoters	40	-
Persons Acting in Concert	-	-
Total Promoters' shareholding	40	-
Non-promoters' shareholding		
Institutional Shareholders	9,96,559	17.88
Private Corporate Bodies	31,28,974	56.12
NRIs/OCBs	1,71,577	3.08
Indian Public	12,77,950	22.92
Total non-promoter shareholding	55,75,060	100.00
Total	55,75,100	100.0

5.4 The build-up of capital structure of Carnation since incorporation is given below:

Date of Allotment	Number of Shares	%age	Cumulative Paid up Capital	Mode of Allotment	Identity of the Allottee	Status of Compliance
01.11.94	70	-	70	Subscription to the M/A	Subscribers to the M/A	Yes
25.02.95	350000	6.28	350070	Cash at Par	Promoters	Yes
20.12.95	5225030	93.72	5575100*	Cash at Par	IPO	Yes
Total	5575100	100.00				

* As per the information provided by the Target Company out of the above 9,14,200 equity shares were forfeited and were re-issued on June 2, 2005 @ Rs. 70/- per share. The Target Company has complied with the requirements of applicable laws in this regard.

5.5 The Target Company has complied with all the provisions of the Listing Agreement. Further, no punitive action has ever been initiated against Carnation by any of the stock exchanges where its shares are listed.

5.6 As on March 17, 2006 the board of directors of Carnation comprised of the following:

Name	Experience	Qualification	Date of Appointment	Residence Address
Mr. Jayantibhai K. Amin	He was a partner in Kirshna Ind. and has around 12 years of wide exp. in manufacturing textile printing gums and other textile chemicals	B. Pharm	November 1, 1994	263, Satyagrah Chavni, 14th Lane, SM Road, Ahmedabad -
Mr. Ashish J. Amin	He was a partner in Krishna Ind and has 14 years of experience in development in manufacturing chemicals and development in food processing	B. Pharm	November 1, 1994	263, Satyagrah Chavni, 14 th Lane, SM Road, Ahmedabad -
Mr. Manubhai P. Patel	He is associated with tea business and has 22 years of experience in tea manufacturing business	B.Com.	November 1, 1994	74/2, Charraberia Road (G), Kolkatta, West Bengal -
Mr. Bharat V. Patel	He has 24 years of experience in chemical manufacturing	BE (Mechanical)	April 29, 2003	6, Bharat Nivas, Maninagar Co-Operative Housing Society, Maninagar, Ahmedabad -
Mr. Shekhar G. Patel	He has more than 12 years of experience in construction and real estate development	BE (Civil)	March 25, 2003	Ganesh House, Near Dharnidhar Dehrasar, Vasna, Ahmedabad - 380 007.

5.7 The audited financial details of Carnation are as under, in compliance with the provisions of Clause 6.14 of the Standard Letter of Offer format as prescribed by SEBI:

(Rs lakhs)				
Profit and Loss Statement	FY2003	FY2004	FY2005	FY2006
				9 months (Un-audited)
Income from operations	886.48	1801.24	2852.15	2313.30

Other income	18.61	30.70	38.84	16.26
Total Income	905.09	1831.94	2890.99	2329.56
Total Expenditure	751.70	1541.09	2465.92	1939.63
Profit before Depreciation, Interest and Taxes	153.39	290.85	425.07	389.93
Depreciation	34.52	32.53	30.76	54.51
Interest	2.30	0.81	1.09	0.90
Profit Before Tax	116.57	257.51	393.22	334.52
Provision for Tax	23.00	73.28	144.60	90.00
Profit After Tax	93.57	184.23	248.62	244.52

(Rs lakhs)

Balance Sheet Statement	FY2003	FY2004	FY2005	FY2006
				9 months (Un-audited)
Sources of Funds				
Paid-up Equity Share Capital	511.80	511.80	511.80	557.51
Reserves and surplus (excluding revaluation reserves)	21.89	161.19	359.44	1196.29
Net worth	533.69	672.99	871.24	1753.80
Secured Loans	11.75	-	-	-
Unsecured Loans	6.35	-	-	8.49
Total	551.79	672.99	871.24	1762.29
Uses of Funds				
Net fixed Assets (excluding revaluation reserves)	244.25	217.53	227.70	530.00
Investments	-	-	-	-
Net Current Assets	312.59	462.82	657.19	1245.93
Total Miscellaneous Expenditure Not Written-Off	15.08	10.05	5.02	5.03
Deferred Tax Assets (Net)	-20.13	-17.41	-18.67	-18.67
Total	551.79	672.99	871.24	1762.29

Other Financial Data	FY2003	FY2004	FY2005	FY2006
				9 months (Un-audited)
Dividend per Share (%)	6.00	8.00	10.00	-
Earnings per Share (Rs.)	2.0	3.95	5.33	4.39
Return on Net worth (%)	18.0%	27.8%	28.7%	-
Book Value per Share (Rs.)	11.13	14.22	18.69	-

Source: Annual Reports of Carnation for the years ended March 31, 2003, 2004 and 2005 and Q-3 results filed with the Stock Exchange.

The Statutory Auditors of the Target Company have carried out the Limited Review of the un-audited financial results.

The total income has risen from Rs. 1831.94 lakhs to Rs. 2890.99 lakhs from the FY 2004 to FY 2005. The Total income for the 9 months ended 31.12.2005 is Rs. 2329.56 lakhs. Similarly, the Profit after Tax has increased from Rs. 184.23 lakhs to Rs. 248.62 lakhs from the FY 2004 to FY 2005. The Profit after Tax for the 9 months ended 31st December 2005 is Rs. 244.52 lakhs. The rise in Income is mainly due to the aggressive marketing efforts taken by the Company, due to the increased focus on health consciousness by customers for wellness products. The Company has also been able to reach certain untapped markets.

The Net Profit before tax is increasing at a high rate. However, this is mainly on account of increase in sales. Net profit to sales ratio for all the years is in the range of 13.15% to 14.46%.

5.8 The equity shareholding in Carnation before the Offer and after the Offer (assuming full acceptance of the Offer) is given in the table below:

	Shareholders' Category	Shareholding /Voting Rights prior to the Offer		Shares / Voting Rights Purchased through Open Market		Shareholding / Voting Rights to be acquired in the Open Offer (Assuming full acceptances)		Shareholding / Voting Rights after the Acquisition and Offer (A+B +C)	
		(A)		(B)		(C)		(D)	
		No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
1.	Promoter Group of Carnation	2,96,510	5.31	-	-	-	-		
	Total 1	2,96,510	5.31	-	-	-	-	-	-
	ACQUIRER								
2.	Zydus Cadila	8,34,000	14.96	8,77,183	15.73	11,15,020	20.00	28,26,203	50.69
	Total 2	8,34,000	14.96	8,77,183	15.73	11,15,020	20.00	28,26,203	50.69
	Total 3 (1+2)	11,40,510	20.27	8,77,183	15.73	11,15,020	20.00	28,26,203	50.69
3.	Public (other than parties to Agreement, Acquirer)			-	-				
	a) Fis / MFs / FII's / Banks / SFI's/PCB	18,76,758	33.67	-	-	*	*	*	*
	b) Others	25,67,832	46.06	-	-	*	*	*	*
	c) Erstwhile promoters of Carnation	-	-	-	-	-	-	22,060	0.39
	Total 4 (a+b)	44,44,590	79.73	-	-	*	*	27,48,897	49.31
	Grand Total (1+2+3+4)	55,75,100	100.00	-	-	*	*	55,75,100	100.00

Source: The above figures are based on the information as on March 30, 2006

Note *: The entire 20% shares of the Target Company envisaged to be acquired by the Acquirer would be from the categories of the shareholders mentioned in 3(a) and 3(b) above and therefore the post offer holding of these shareholders are not ascertainable at this stage and would depend on the quantum of acceptance received from them. However the post issue holding of these shareholders shall not be less than 25% of the share capital of the Company.

5.9 As on March 17, 2006, there were 1342 shareholders in Carnation.

5.10 The trading in the equity shares of Carnation has neither been suspended by any stock exchange nor has there been any instance of refusal to list its shares.

5.11 The status of compliance with Chapter II of the Regulations by the Acquirer and Target Company with regard to itself, promoters and major shareholders within the time specified in the Regulations and delay if any with regard to the same is disclosed in the Annexure to this Letter of Offer.

5.12 Status of Corporate Governance & Pending Litigation

Corporate Governance

Carnation has two independent directors on its Board and has constituted the Audit Committee, Share Transfer Committee and Shareholders' Grievance Committee as required under Clause 49 of the Listing Agreement with the requisite number of independent directors in each committee. The details are as follows:-

Board of Directors	Category	Member of Audit Committee	Member of Shareholders' Grievance Committee
Mr. Jayantibhai K. Amin	Non Executive Chairman	No.	Yes
Mr. Ashish J. Amin	Executive	No	No
Mr. Shekhar G. Patel	Non Executive Director	Yes	Yes
Mr. Manubhai Patel	Independent Director	Yes	Yes
Mr. Bharat V. Patel	Independent Director	Yes	No

Carnation has complied with all other provisions as stipulated in Clause 49 of the Listing Agreement.

Pending Litigation

Pending Litigations/disputes against Carnation

There are no pending litigations against Carnation, except that the Income Tax department has passed various assessment orders for the assessment years 2001– 02 to 2004 – 05. Though, Carnation has paid the taxes as per the assessment orders but has gone for appeal against the same.

5.13 Mr. Manoj Nair, Company Secretary is the compliance officer. The correspondence address is as below:

Mr. Manoj Nair
Company Secretary
Carnation Nutra-Analogue Foods Limited
A-204, Samudra, Sardar Patel Nagar, C. G. Road,
Ahmedabad – 380 006
India
Tel: +91 79 2656 2784
Fax +91 79 2656 4999
E.mail: manojnairacs@yahoo.com

5.14 Mergers, de-mergers or spin off during the last 3 years.

There has been no merger, de-merger or spin off during last three years.

5.15 There are no outstanding convertible instruments (warrants / FCDs / PCDs) etc. for calculating voting rights of Target Company.

5.16 Carnation has complied with the listing requirements and no penal action has been taken by the Stock Exchange where shares of the Target Company are listed and / or permitted to trade. Target Company and its Promoters have not been prohibited by Securities and Exchange Board of India from dealing in securities in terms of directions issued under section 11B of the SEBI Act.

5.17 The details of shareholding of the promoters in the Target Company are as follows:

Name of promoters	20.12.95 (No. and %)	20.3.99 (No. and %)	20.11.01 (No. and %)	31.5.03 (No. and %)	14.6.03 (No. and %)	19.9.03 (No. and %)	27.9.05 (No. and %)	20.12.05 (No. and %)
Jayantibhai Amin (HUF)	93050 (1.99)	-	93000 (1.99)	-	-	-	9900 (0.17)	-
Ashish Jayantibhai Amin	110310 (2.37)	-	12500 (0.26)	11500 (0.24)	78400 (1.68)	4700 (0.10)	-	41000 (0.87)
Jayantibhai Amin	83610 (1.79)	63200 (1.36)	76100 (1.63)	-	-	-	-	-
Sumatiben Jayantibhai Amin	128710 (2.76)	84700 (1.82)	38700 (0.83)	-	-	-	-	-
Shaily Jayantibhai Amin	57510 (1.23)	-	38700 (0.83)	-	-	-	-	-
Ashish Jayantibhai Amin(HUF)	35000 (0.75)	-	35000 (0.75)	-	-	-	-	-
Manubhai P Patel	2510 (0.05)	-	-	-	-	-	-	-
Kamal B Patel	25100 (0.53)	-	-	-	-	-	-	-
JK Amin & SJ Amin	3000 (0.06)	-	-	-	-	-	-	-
Archana J Amin	60000 (1.28)	-	-	-	-	-	-	-
TOTAL	598800	147900	294000	11500	78400	4700	9900	41000

The aforesaid shares were acquired by the Promoters from the public.

The Target Company has complied with all the relevant provisions of SEBI (SAST) Regulations, 1997 and other applicable provisions.

6. OFFER PRICE AND FINANCIAL ARRANGEMENTS

6.1 Justification of Offer Price

6.1.1 The shares of the Target Company are listed on BSE. The Public Announcement by the Acquirer, pursuant to Regulation 10 and 12 and other applicable provisions of Chapter III of, and in compliance with, the Regulations was made on March 18, 2006. The annualised trading turnover during the preceding six calendar months ended February 2006 on BSE is detailed in the table below.

Name(s) of stock exchange(s)	Total number of shares listed on BSE	Total number of shares traded during six calendar months ended February 2006	Annualised trading turnover (in terms % of total listed shares)
BSE	55,75,100	2,779,365	99.71%

Source: www.bseindia.com

In terms of Regulation 20(5) of the Regulations, the shares of the Target Company are liquid.

6.1.2 The Offer Price of Rs. 150/- per Share is justified in terms of Regulation 20(11) of the Regulations, as it is more than the highest of the following:

a	Negotiated price under the Agreement referred to in Regulation 20(4)(a)	-
b	Highest price paid by the Acquirer for acquisition, if any, including by way of allotment in a public or rights or preferential issue during the 26-week period prior to the date of the Public Announcement	144.82
c	The average price calculated as per Regulations 20(4) during the 26-week period prior to the date of the Public Announcement on BSE, where it is most frequently traded	124.82
d	The average price calculated as per Regulations 20(4) during the 2-week period prior to the date of the Public Announcement on BSE, where it is most frequently traded	149.88

The details of the price and volume data on the BSE are as under:

26-week Weekly High / Low

Week No	Week ending	Weekly High (Rs.)	Weekly Low (Rs.)	Average (Rs.)	Volume
1	March 17, 2006	155.25	144.10	149.68	941164
2	March 10, 2006	153.25	147.45	150.35	60513
3	March 3, 2006	156.40	147.90	152.15	105589
4	February 24, 2006	151.40	143.95	147.68	90074
5	February 17, 2006	147.60	145.15	146.38	7840
6	February 10, 2006	144.05	139.90	141.98	91822
7	February 3, 2006	140.00	136.40	138.20	310232
8	January 27, 2006	146.25	137.00	141.63	97649
9	January 20, 2006	136.40	126.45	131.43	53100
10	January 13, 2006	138.35	132.00	135.18	154118
11	January 6, 2006	138.35	120.05	129.20	246548
12	December 30, 2005	119.85	116.10	117.98	43106
13	December 23, 2005	120.35	116.80	118.58	38731
14	December 16, 2005	120.10	118.15	119.13	38977
15	December 9, 2005	120.70	114.75	117.73	37799
16	December 2, 2005	124.10	117.80	120.95	106107
17	November 26, 2005	115.80	106.80	111.30	76599
18	November 18, 2005	107.05	106.15	106.60	53541
19	November 11, 2005	108.95	94.40	101.68	178352
20	November 2, 2005	101.60	84.00	92.80	77376
21	October 28, 2005	87.00	84.15	85.58	187205
22	October 21, 2005	99.90	86.00	92.95	145282
23	October 14, 2005	108.95	101.10	105.03	55404
24	October 7, 2005	125.75	113.85	119.80	30192
25	September 30, 2005	136.50	116.50	126.50	41577
26	September 23, 2005	162.60	127.00	144.80	159672

Source: www.bseindia.com

The average price calculated as per Regulations 20(4) during the 26-week period prior to the date of the Public Announcement on BSE, where it is most frequently traded is Rs. 124.82

2-week Daily High / Low

Day Number	Date	High (Rs.)	Low (Rs.)	Average (Rs.)	Volume
1	March 17, 2006	158.85	144.45	151.65	890513
2	March 16, 2006	150.00	144.00	147.00	33260
3	March 14, 2006	150.00	144.00	147.00	8766
4	March 13, 2006	154.00	145.00	149.50	8625
5	March 10, 2006	152.00	147.00	149.50	1590
6	March 9, 2006	155.00	146.00	150.50	16675
7	March 8, 2006	155.00	146.00	150.50	24726
8	March 7, 2006	155.00	145.00	150.25	8936
9	March 6, 2006	156.00	150.00	153.00	8586

Source: www.bseindia.com

The average price calculated as per Regulations 20(4) during the 2-week period prior to the date of the Public Announcement on BSE, where it is most frequently traded is Rs. 149.88

In the opinion of the Manager to the Offer and the Acquirer, the Offer Price is justified as per Regulation 20(4) and Regulation 20(5) of the Regulations.

- 6.1.3 Subsequent to the Public Announcement dated March 18, 2006, Zydus Cadila has acquired 13,52,591 equity shares of the Target Company aggregating 24.26% of the paid-up equity share capital of the Target Company. The highest price paid per share for these acquisitions was Rs. 143.02 per share which is less than the offer price of Rs. 150/- per shares. The provision of Regulation 20(7) of the Regulations has been complied with.

6.2 Financial Arrangement for the Offer

- 6.2.1 The total fund requirement for implementation of the Offer at Rs. 150/- per share is Rs. 16.73 crore assuming that full acceptance for the Offer is received.

- 6.2.2 The Acquirer has made firm financial arrangements to implement the Offer and meet their obligations in full under the Offer. The Offer obligation shall be met from the internal accruals and borrowings from domestic Banks/Financial Institutions.

M/s. Mukesh M. Shah & Co., Chartered Accountants, 1st Floor, H. K. House, Opp Bata Show Room, Ashram Road, Ahmedabad – 380 009, Tel: +91 79 26580549, Fax: +91 79 26581236, Membership Number: 30190 vide their letter dated March 17, 2006 has certified that Zydus Cadila has made adequate arrangements to meet the financial obligations under this Offer:

- 6.2.3 The Manager to the Offer confirms that it is satisfied about the ability of the Acquirer to implement the Offer in accordance with the Regulations as firm arrangements for funds and money for payment through verifiable means to fulfil the Offer obligations.

- 6.2.4 In accordance with Regulation 28 of the SEBI (SAST) Regulations, 1997, Zydus Cadila has created a lien in favour of ICICI Securities Limited against a fixed deposit amounting to Rs. 17 lakh (being more than 1% of the total consideration payable under the Offer) standing in the name of Cadila Healthcare Limited with ICICI Bank Limited JMC Branch, Ahmedabad. This fixed deposit receipt is duly discharged in favour of ICICI Securities Limited. Further, a share escrow has been created for value of Rs 5.47 Crore as on date of the Public Announcement, being more than 25 % of the amount required in accordance with the said regulations.

The details of the share escrow as on March 17, 2006 is as under:

Name	Quantity	Face Value	Paid-Up Value	Last Traded Price	Market Value (Rs lakhs)
Housing Development Finance Corporation Limited	40,800*	10/-	10/-	1340.60	5,47,00,000

* These equity shares are free from lien / encumbrances and carry voting rights. These equity shares are held in the name of Zyduş Cadila. Zyduş Cadila has given its consent / no objection for depositing these shares in the Escrow Account.

ICICI Securities has been authorised to realise the value of the share escrow. In case, there is a deficit on realisation of value of the securities, ICICI Securities shall make good the deficit, if any.

7. TERMS AND CONDITIONS OF THE OFFER

- 7.1** The voluntary open offer to the shareholders of the Target Company to acquire up to 11,15,020 fully paid-up equity shares representing 20% of the paid-up equity share capital of Carnation at Rs. 150/- per Share is being made pursuant to Regulation 10 and 12 read with other applicable provisions of Chapter III of, and in compliance with, the Regulations.
- 7.2** Carnation has furnished the copy of the Register of Members as on the Specified Date. The Letter of Offer together with the Form of Acceptance-cum-Acknowledgement and Form of Withdrawal will be mailed to the shareholders of Carnation whose names appear on the Register of Members of Carnation as on March 31, 2006 and beneficial owners of the shares of Carnation, whose names appear as beneficiaries on the records of the respective Depositories, at the close of the Business Hours on the Specified Date, except to the Acquirer. Accidental omission to dispatch this Letter of Offer to any person to whom this Offer is made or the non-receipt or delayed receipt of this Letter of Offer by any such person will not invalidate this Offer in any way.
- 7.3** Equity shares of Carnation, if any, that are subject matter of litigation or are held in abeyance due to pending court cases, wherein the shareholder(s) of Carnation may be precluded from transferring the shares during pendency of the said litigation are liable to be rejected in case directions / orders releasing these shares are not received together with the shares tendered under the Offer. The Letter of Offer in some of these cases, wherever possible, would be forwarded to the concerned statutory authorities for further action at their end.
- 7.4** The shares will be acquired by the Acquirer, free from all liens, charges and encumbrances and together with all rights attached thereto, including the right to all dividends, bonus and rights declared hereafter.
- 7.5** The Offer is not conditional on any minimum level of acceptance i.e. the Acquirer will acquire all the Shares that are tendered in terms of the Offer up to 11,15,020 Shares, subject to the conditions specified in the Public Announcement published on March 18, 2006 and this Letter of Offer and Form of Acceptance-cum-Acknowledgement.
- 7.6** If there is any further upward revision of the Offer price by the Acquirer till the last date for revision viz. May 12, 2006 or withdrawal of the Offer, the same would be informed by way of a public announcement in the same newspapers in which the Public Announcement published on March 18, 2006 had appeared. Such revised Offer Price would be payable for all the shares tendered anytime during the Offer and accepted under the Offer.
- 7.7** Shareholders who wish to tender their Shares should submit documents in accordance with the procedure specified in Section 7 of this Letter of Offer and the Form of Acceptance-cum-Acknowledgement.
- 7.8** Shareholders who hold shares in physical form and who wish to tender their Shares will be required to send the Form of Acceptance-cum-Acknowledgement, original share certificate(s) and transfer deed(s) duly signed to the Registrar to the Offer – Sharepro Services (India) Private Limited, either by hand delivery to the collection centres during business hours (Mondays to Saturdays between 10.00 a.m. and 5.00 p.m.) or by registered post at Sharepro Services (India) Private Limited so that the same are received on or before the close of the Offer i.e. May 24, 2006 in accordance with the instructions specified in the Letter of Offer and in the Form of Acceptance-cum-Acknowledgement.
- 7.9** The Registrar has opened a special depository account with HDFC Bank Limited a Depository Participant with National Securities Depository Limited ('NSDL'), styled 'Sharepro Services – Escrow A/c – Carnation Open Offer'. The DP ID is IN301151 and Beneficiary Client ID is 21750798 Shareholders holding their beneficiary account in Central Depository Services India Limited ('CDSL') will have to use an inter-depository delivery instruction slip for the purpose of crediting their Shares in favour of the special depository account with NSDL. Beneficial owners should ensure to credit their shares in favour of the special depository account before the closure of the Offer.

7.10 Locked-in Shares

There are no equity shares of Carnation under lock-in.

7.11 Eligibility for Accepting the Offer

The present Offer is being made to all the shareholders of Carnation, except the Acquirer, whose names appear as on the Specified Date and also to those persons, who own the shares at any time prior to the closure of the Offer but are not registered shareholders.

7.12 Marketable Lot

The marketable lot for the shares of Carnation is 1 (one) share as the shares of Carnation can be traded on the secondary market only in dematerialised form.

7.13 Statutory Approvals and Conditions of the Offer

To the best of the knowledge of the Acquirer, as on the date of the Public Announcement, there are no other statutory or regulatory approvals required to implement the Offer. If any statutory or regulatory approvals become applicable, the Offer would be subject to such statutory or regulatory approvals. The Acquirer will have a right not to proceed with the Offer in the event the statutory approvals indicated above or new requirements becoming applicable are refused in terms of Regulation 27 of the Regulations.

In case of delay in receipt of statutory or regulatory approvals, SEBI has the power to grant extension of time to the Acquirer for payment of consideration to the shareholders of Carnation, subject to the Acquirer agreeing to pay interest for the delayed period as directed by SEBI in terms of Regulation 22(12) of the Regulations. Further, if the delay occurs on account of wilful default by the Acquirer in obtaining the requisite approvals, Regulation 22(13) of the Regulations will also become applicable.

8. PROCEDURE FOR ACCEPTANCE AND SETTLEMENT OF THE OFFER

- 8.1** Shareholders of Carnation who wish to avail of this Offer should forward the undermentioned documents by hand delivery or registered post to at their Office – Sharepro Services (India) Private Limited Who are acting as the Registrar to the Offer (the ‘Registrar to the Offer’) at their office, either by hand delivery during business hours (Mondays to Saturdays between 10.00 a.m. and 5.00 p.m.) or by registered post so that the same are received on or before the closure of the Offer, i.e. by May 24, 2006. **Shareholders are advised to ensure that the Form of Acceptance-cum-Acknowledgement and other documents are complete in all respects otherwise the same is liable to be rejected. In the case of dematerialised shares, the shareholders are advised to ensure that their shares are credited in favour of the special depository account, before the closure of the Offer. The Form of Acceptance-cum-Acknowledgement of such dematerialised shares not credited in favour of the special depository account before the closure of the Offer is liable to be rejected.**

Physical shares tendered under the Offer and subsequently withdrawn by the shareholders will be returned to the shareholders by registered post.

8.2 Registered shareholders (holders of shares in physical form) should enclose:

- Form of Acceptance-cum-Acknowledgement duly completed and signed in accordance with the instructions contained therein, by all shareholders whose names appear on the share certificates
- Original share certificate(s)
- Valid share transfer deed(s) duly signed as transferors by all registered shareholders (in case of joint holdings) in the same order and as per specimen signatures registered with Carnation and duly witnessed at the appropriate place(s)

8.3 Beneficial owners (holders of shares in dematerialised form) should enclose:

- Form of Acceptance-cum-Acknowledgement duly completed and signed in accordance with the instructions contained therein by all the beneficial holders of shares, as per the records of the DP
- Photocopy of the delivery instruction slip in ‘Off-market’ mode or counterfoil of the delivery instruction slip in ‘Off-market’ mode, duly acknowledged by the DP

The details of the special depository account with NSDL are as follows:

Name of the Depository Participant	Depository Identification No. (DP ID)	Client Identification No. (Beneficial Client ID)
HDFC Bank Limited	IN301151	2175 0798

8.4 Unregistered shareholders should enclose:

- Form of Acceptance-cum-Acknowledgement or an application on plain paper, duly completed and signed in accordance with the instructions contained therein
- Original share certificate(s)
- Copy of the original contract note issued by the broker through whom the shares were acquired
- Proof of lodgement of shares for transfer and acknowledgement thereof by Carnation or its registrar and share transfer agent (if the share certificates have already been lodged for transfer)
- Valid share transfer deed(s) duly signed by a registered holder and an additional valid transfer deed duly signed by the unregistered shareholder as the transferor

No indemnity is required from the unregistered owners.

8.5 Owners of shares who have tendered their shares for transfer should enclose:

- Form of Acceptance-cum-Acknowledgement duly completed and signed in accordance with the instructions contained therein
- Copy of the letter sent to Carnation or its Registrar and Share Transfer Agent for transfer of shares
- Valid share transfer deed(s) including valid transfer deed duly signed by the unregistered shareholder as the transferor

8.6 Shareholders who have sent their physical shares for dematerialisation may participate in the Offer by submitting the Form of Acceptance-cum-Acknowledgement along with a copy of the dematerialisation request form duly acknowledged by the Depository Participant. Shareholders who have sent their physical shares for dematerialisation need to ensure that the process of getting shares dematerialised is completed well in time so that the credit in the special depository account should be received on or before the closure of the Offer, i.e. by May 24, 2006, else the application would be rejected.

8.7 Valid share transfer deed/ form(s) duly signed as transferors by all registered shareholders (in case of joint holdings) in the same order and as per specimen signatures registered with Carnation and duly witnessed at the appropriate place.

8.8 The share certificate(s), share transfer deed(s) and the Form of Acceptance-cum-Acknowledgement should be sent only to the Registrar to the Offer and NOT to the Manager to the Offer or the Acquirer or the Target Company.

8.9 In case of non-receipt of the Letter of Offer, the eligible persons may send their consent to the Registrar to the Offer on a plain paper stating acceptance of the Offer with name, address, number of shares held, distinctive numbers, folio numbers, number of shares offered, along with documents as mentioned above, so as to reach the Registrar to the Offer on or before the closure of the Offer, i.e. May 24, 2006 or in case of beneficial owners they may send their application in writing to the Registrar to the Offer on a plain paper stating acceptance of the Offer with name, address, number of shares held, number of shares offered, DP name, DP ID, beneficiary account number and a photocopy of the delivery instruction slip in 'Off-market' mode or counterfoil of the delivery instructions slip in 'Off-market' mode, duly acknowledged by the DP, in favour of the special depository account, so as to reach the Registrar to the Offer, on or before the closure of the Offer, i.e. May 24, 2006.

8.10 Alternatively, the Letter of Offer and Form of Acceptance-cum-Acknowledgement will be available on SEBI's website: www.sebi.gov.in, from the date of opening of the Offer. The eligible persons can download the Form of Acceptance-cum-Acknowledgement from the SEBI's website and apply in the same.

8.11 While tendering the Shares under the Offer, NRIs/ OCBs/ foreign shareholders will be required to submit the previous RBI Approvals (specific or general) that they would have obtained for acquiring the shares of Carnation. In case the previous RBI approvals are not submitted, the Acquirer reserves the right to reject such Shares tendered.

8.12 As per the provisions of Section 196D(2) of the Income Tax Act, 1961 ('the Income Tax Act'), no deduction of tax at source shall be made from any income by way of capital gains arising from the transfer of securities referred to in Section 115AD payable to a Foreign Institutional Investor ('FII') as defined in Section 115AD of the Income Tax Act. However, while tendering their shares under the Offer, NRIs, OCBs and other non-resident shareholders will be required to submit a No Objection Certificate (NOC) or Tax Clearance Certificate or Certificate for Deduction of Tax at Lower Rate from Income Tax authorities under the Income Tax Act indicating the amount of tax to be deducted by the Acquirer before remitting the consideration. In case the aforesaid NOC or Tax Clearance Certificate or Certificate for Deduction of Tax at Lower Rate is not submitted, the Acquirer will arrange to deduct tax at the maximum marginal rate as may be applicable to the category of shareholders on the entire consideration amount payable to such shareholders.

- a) If any of the above stated documents (as applicable) are not enclosed along with the Form of Acceptance-cum-Acknowledgement, the Shares tendered under the Offer are liable to be rejected.
- b) As per Section 10(36) of the Income Tax Act, any income arising from the transfer of a long-term capital asset, being an equity share for which the transactions of purchase and sale of such share are entered into on a recognised stock exchange, is exempt from tax. However, gains on transfer of shares tendered under the Offer would not be eligible for the exemption under section 10(36), as the transfer would not be effected through a recognised stock exchange. As such, gains on transfer of the shares offered pursuant to this letter of offer would be liable to tax as per the normal provisions of the Income Tax Act. This position has been intimated to the Acquirer by the tax advisers of the Acquirer. However, the Acquirer by this Letter of Offer, is not providing any tax advice to the shareholders and the shareholders are requested to seek their own advice on such matters.

8.13 The Form of Acceptance-cum-Acknowledgement along with the share certificate(s), signed transfer deed and other documents should be submitted at any of the collection centres mentioned below in accordance with the procedure as set out in the Letter of Offer. All the centres mentioned hereinbelow would be open on all working days as follows :

Business Hours: Mondays to Saturdays 10.00 a.m. to 5.00 p.m. The centres will be closed on Sundays and any other public holidays.

City	Contact Person	Address	Tel. No.
Mumbai	Mr. Ashok Gupta	Sharepro Services (India) Private Limited, Satnam Estate, 3 rd Floor, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai – 400 099	022 282 15168 022 283 29828 Fax: 022 283 75646
Ahmedabad	Mr. Suresh Shah	Sharepro Services (India) Private Limited, Shah Consultancy Services, 3, Sumatinath Complex, Pritamnagar Akhada Road, Ahmedabad – 380 006	079 265 76038 Fax: 079 265 76038

8.14 Applicants who cannot hand deliver their documents at the collection centres referred to above, may send the same by Registered Post, at their own risk and cost, to the Registrar to the Offer at its address given below:

Sharepro Services (India) Private Limited

Satnam Estate, 3rd Floor,
Cardinal Gracious Road, Chakala,
Andheri (East), Mumbai – 400 099
Tel: +91 22 282 15168
Fax: +91 22 283 75646
E-mail: ashokgupta@shareproservices.com
Contact Person: Mr. Ashok Gupta

8.15 Payment of consideration will be made by the Acquirer through crossed account payee cheque, demand draft or pay order whose shares / share certificates and other documents are found in order and accepted by the acquirer. Amounts exceeding Rs. 1,500/- will be sent by registered post. If the amount payable is less than Rs. 1500/- will be sent by UCP, which would be dispatched to the shareholders / unregistered owners at their own risk, whose shares / share certificates and other documents are found in order and accepted by the Acquirer. In case of

joint registered holders, cheques / demand drafts / pay orders will be drawn in the name of the sole / first named holder / unregistered owner and will be sent to him / her. It is desirable that shareholders provide their bank details in the Form of Acceptance-cum-Acknowledgement, so that the same can be incorporated in the cheque / demand draft / pay order.

- 8.16** In case the Shares tendered in the Offer are more than the shares to be acquired under the Offer, the acquisition of Shares from each shareholder will be in accordance with Regulation 21(6) of the Regulations, on a proportionate basis.
- 8.17** Rejected and unaccepted share certificate(s), transfer deed(s) and other documents, if any, will be returned by Registered Post at the shareholders' / unregistered owners' sole risk to the sole / first named shareholder / unregistered owner. Except that, in case the share certificates tendered have to be split, the Acquirer will arrange to split the share certificates and send the balance share certificates (for Shares not accepted in the Offer) by Registered Post at the shareholders' / unregistered owners' sole risk to the sole / first named shareholder / unregistered owner. Unaccepted Shares held in dematerialised form will be credited back to the beneficial owners' depository account with the respective depository participant as per the details furnished by the beneficial owner in the Form of Acceptance-cum-Acknowledgement or otherwise.
- 8.18** The Registrar to the Offer will hold in trust the Share(s) / share certificate(s), shares lying in credit of the special depository account, Form of Acceptance-cum-Acknowledgement and the transfer deed(s), if any, on behalf of the shareholders / unregistered owner(s) of Carnation who have accepted the Offer, till the Acquirer completes the Offer obligations in terms of the Regulations latest by June 6, 2006. Upon completion of the above, the Registrar to the Offer will debit the special depository account to the extent of Shares accepted by the Acquirer and give instruction to credit the beneficial account of the Acquirer.
- 8.19** The Acquirer shall complete all procedures relating to the Offer latest by June 6, 2006. In case of delay in receipt of statutory approvals, SEBI has the power to grant extension of time to the Acquirer for payment of consideration to the shareholders, subject to the Acquirer agreeing to pay interest for the delayed period as directed by SEBI in terms of Regulation 22(12) of the Regulations. Further, if the delay occurs on account of wilful default by the Acquirer in obtaining the requisite approvals, Regulation 22(13) of the Regulations will also become applicable.
- 8.20** In terms of Regulation 22(5A) of the Regulations, shareholders desirous of withdrawing their acceptances tendered in the Offer can do so up to three working days prior to the closure of the Offer.. The withdrawal option can be exercised by submitting the Form of Withdrawal as per the instructions below, so as to reach the Registrar to the Offer – Sharepro Services (India) Private Limited Tel: +91 22 28215168, Fax: +91 22 28375646 either by hand delivery on all days (excluding Sundays and public holidays): Mondays to Saturdays 10.00 a.m. to 5.00 p.m. or by Registered Post at Mumbai, on or before May 19, 2006.

The withdrawal option can be exercised by submitting the Form of Withdrawal along with the copy of acknowledgement slip issued at the time of submission of the Form of Acceptance cum Acknowledgement. In case of non-receipt of the Form of Withdrawal, the withdrawal option can be exercised by making an application on plain paper along with the following details:

- In case of physical shares: name, address, distinctive numbers, folio number, share certificate number, number of shares tendered, date of tendering the shares;
- In case of dematerialised shares: name, address, number of shares tendered, DP name, DP ID, date of tendering the shares, beneficiary account number and a photocopy of the delivery instructions in 'off-market' mode or counterfoil of the delivery instruction in 'off-market' mode, duly acknowledged by the DP, in favour of 'Sharepro Services – Escrow A/c – Carnation Open Offer'.

9. DOCUMENTS FOR INSPECTION

The following material documents are available for inspection at the office of the Manager to the Offer, ICICI Securities Limited, ICICI Centre, H.T. Parekh Marg, Churchgate, Mumbai 400 020, India from 10.30 a.m. to 1.00 p.m. on any working day, except Saturdays, Sundays and holidays, until the closure of the Offer:

- a) Certificate of Incorporation, Memorandum of Association and Articles of Association of Zydus Cadila.
- b) Certificate dated March 17, 2006 from M/s. Mukesh M. Shah & Co., Chartered Accountants, certifying that Zydus Cadila has adequate resources to meet the financial obligations relating to the Offer.
- c) Certificate of Incorporation, Memorandum of Association and Articles of Association of Carnation.
- d) Audited annual reports of Zydus Cadila for the financial years ended March 31, 2003, 2004 and 2005
- e) Audited annual reports of Carnation for the financial years ended March 31, 2003, 2004 and 2005
- f) Copy of Public Announcement published on March 18, 2006
- g) Copy of the letter no. CFD/DCR/TO/MM/65371/06 dated April 21, 2006 from SEBI in terms of proviso to Regulation 18(2) of the Regulations
- h) Letter from ICICI Bank Limited confirming the amount placed in fixed deposit receipt, towards the proposed Offer, with a lien in favour of ICICI Securities Limited, Manager to the Offer
- i) Pledge order for the shares pledged under Escrow by the Acquirer.
- j) Copy of agreement with the Depository Participant for opening a special depository account for the purpose of the Offer
- k) Copy of Board Resolutions/letters from the Acquirer authorising the Offer

10. DECLARATION BY THE ACQUIRER

The Acquirer and the Board of Directors of the Acquirer respectively accept full responsibility for the information contained in this Letter of Offer and Form of Acceptance-cum-Acknowledgement and Form of Withdrawal. The Acquirer shall be jointly and severally responsible for ensuring compliance with the Regulations. All information contained in this document is as on the date of the Public Announcement, unless stated otherwise. Mr. Upen Shah, Company Secretary has been severally authorised by the board of directors of Cadila Healthcare Limited to be the authorised signatory to the Letter of Offer.

For and on behalf of the Acquirer

Sd/-

Upen Shah

Company Secretary

Cadila Healthcare Limited

Place: Ahmedabad

Date: April 26, 2006

Attached:

1. Form of Acceptance-cum-Acknowledgement
2. Form of Withdrawal
3. Share Transfer Deed (for physical shares)

Annexure to Letter of Offer (Refer Para 5.11)

A Status of compliance with the provisions of Chapter II of the Takeover Regulations (as applicable) for major shareholders of Carnation is as follows:

Sl. No.	Regulation / Sub-regulation	Due date for compliance as mentioned in the regulation	Actual date of compliance	Delay, if any (in no. of days) Col. 4 – Col. 3	Remarks
1	2	3	4	5	6
1	6(1)	20.04.1997	15.04.1997	-	-
2	6(3)	20.04.1997	15.04.1997	-	-
3	8(1)	21.04.1998	N.A.	-	-
4	8(2)	21.04.1998	N.A.	-	-
5	8(1)	21.04.1999	N.A.	-	-
6	8(2)	21.04.1999	N.A.	-	-
7	8(1)	21.04.2000	N.A.	-	-
8	8(2)	21.04.2000	N.A.	-	-
9	8(1)	21.04.2001	N.A.	-	-
10	8(2)	21.04.2001	N.A.	-	-
11	8(1)	21.04.2002	N.A.	-	-
12	8(2)	21.04.2002	N.A.	-	-
13	8(1)	21.04.2003	N.A.	-	-
14	8(2)	21.04.2003	N.A.	-	-
15	8(1)	21.04.2004	N.A.	-	-
16	8(2)	21.04.2004	N.A.	-	-
17	8(1)	21.04.2005	N.A.	-	-
18	8(2)	21.04.2005	N.A.	-	-
19	7(1)	31.12.2005	30.12.2005	-	-
20	7(1)	19.03.2006	17.03.2006	-	-
21	7(1A)	24.03.2006	22.03.2006	-	-
22	7(1A)	26.03.2006	24.03.2006	-	-
23	7(1A)	30.03.2006	29.03.2006	-	-

B. Status of compliance with the provisions of Chapter II of the Takeover Regulations (as applicable) for the Acquirer:

Sl. No.	Regulation / Sub-regulation	Due date for compliance as mentioned in the regulation	Actual date of compliance	Delay, if any (in no. of days) Col. 4 – Col. 3	Remarks
1	2	3	4	5	6
1	6(1)	20.04.1997	N.A.	-	-
2	6(3)	20.04.1997	N.A.	-	-
3	8(1)	21.04.1998	N.A.	-	-
4	8(2)	21.04.1998	N.A.	-	-
5	8(1)	21.04.1999	N.A.	-	-
6	8(2)	21.04.1999	N.A.	-	-
7	8(1)	21.04.2000	N.A.	-	-
8	8(2)	21.04.2000	N.A.	-	-
9	8(1)	21.04.2001	N.A.	-	-
10	8(2)	21.04.2001	N.A.	-	-
11	8(1)	21.04.2002	N.A.	-	-
12	8(2)	21.04.2002	N.A.	-	-
13	8(1)	21.04.2003	N.A.	-	-
14	8(2)	21.04.2003	N.A.	-	-
15	8(1)	21.04.2004	N.A.	-	-
16	8(2)	21.04.2004	N.A.	-	-
17	8(1)	21.04.2005	N.A.	-	-
18	8(2)	21.04.2005	N.A.	-	-
19	7(1) & (2)	19.03.2006	17.03.2006	-	-
20	7(1A) & (2)	24.03.2006	22.03.2006	-	-
21	7(1A) & (2)	26.03.2006	24.03.2006	-	-
22	7(1A) & (2)	30.03.2006	29.03.2006	-	-

C. Status of compliance with the provisions of Chapter II of the Take-over Regulations (as applicable) for the sellers (promoter) of the Target Company:

Sl. No.	Regulation / Sub-regulation	Due date for compliance as mentioned in the regulation	Actual date of compliance	Delay, if any (in no. of days) Col. 4 – Col. 3	Remarks
1	2	3	4	5	6
1	6(1)	20.04.1997	15.04.1997	-	-
2	6(3)	20.04.1997	15.04.1997	-	-
3	8(1)	21.04.1998	N.A.	-	-
4	8(2)	21.04.1998	16.04.1998	-	-
5	8(1)	21.04.1999	N.A.	-	-
6	8(2)	21.04.1999	16.04.1999	-	-
7	8(1)	21.04.2000	N.A.	-	-
8	8(2)	21.04.2000	16.04.2000	-	-
9	8(1)	21.04.2001	N.A.	-	-
10	8(2)	21.04.2001	16.04.2001	-	-
11	8(1)	21.04.2002	N.A.	-	-
12	8(2)	21.04.2002	16.04.2002	-	-
13	8(1)	21.04.2003	N.A.	-	-
14	8(2)	21.04.2003	16.04.2003	-	-
15	8(1)	21.04.2004	N.A.	-	-
16	8(2)	21.04.2004	16.04.2004	-	-
17	8(1)	21.04.2005	N.A.	-	-
18	8(2)	21.04.2005	15.04.2005	-	-

D. Status of compliance with the provisions of Chapter II of the Takeover Regulations (as applicable) for Carnation:

Sr.No.	Regulation/ Sub-Regulation	Due date of compliance as mentioned in the Regulation	Actual Date of Compliance	Delay, if any (in no. of days) (Col.4 – Col.3)	Remarks
1	2	3	4	5	6
1	6(2)	20.5.1997	N.A.	-	-
2	6(4)	20.5.1997	22.04.1997	-	-
3	8(3)	30.4.1998	13.04.1998	-	-
4	8(3)	30.4.1999	17.04.1999	-	-
5	8(3)	30.4.2000	14.04.2000	-	-
6	8(3)	30.4.2001	20.04.2001	-	-
7	8(3)	30.4.2002	20.04.2002	-	-
8	8(3)	30.4.2003	07.04.2003	-	-
9	8(3)	30.4.2004	21.04.2004	-	-
10	8(3)	30.04.2005	25.04.2005	-	-
11	7(3)	07.01.2006	30.12.2005	-	-
12	7(3)	24.03.2006	20.03.2006	-	-
13	7(3)	29.03.2006	22.03.2006	-	-
14	7(3)	31.03.2006	24.03.2006	-	-
15	7(3)	04.04.2006	29.03.2006	-	-