ENALENI
PHARMACEUTICALS
Health and vitality for all

2006 annual report

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ENALENI
PHARMACEUTICALS

Pharmaceutical division **Consumer and Vitality division**

Group structure

ENALENI
PHARMACEUTICALS

Vision To be recognised as Southern Africa's leading empowerment pharmaceutical company, in step with the heartbeat of the nation

To provide an environment within which our people are challenged and appropriately rewarded, and build a company with which they are proud to be associated

To consistently provide superior returns to shareholders

To be a Top 5 South African pharmaceutical company within three years

Mission To improve and save lives through the use of our branded products

To make affordable medicine for all

Through transformation, contribute to developing a more prosperous and successful company and country

To provide exceptionally high levels of customer service, quality products and competitive prices

Values Our people are our strength

Committed to empowerment

Honesty, integrity and trust are not negotiable

Our focus is on performance

Innovation is the driver of our business

The customer is the central focus of our business

Strategic partnering and alliances are key to our business

At the height of the Zulu Kingdom's strength, when Shaka ruled and the land provided her people with an abundance of wealth in the form of succulent grazing for the cattle and healthy crops for the people, a word was created to embody the idea of a place of promise and opportunity – that word was "ENALENI".

Enaleni Pharmaceuticals Limited is named after the land on which it operates.

It is a truly South African company and the corporate emblem mirrors the warm colours of Africa.

Enaleni at a glance

In just four years Enaleni Pharmaceuticals has established itself as one of South Africa's top ten and fastest growing pharmaceutical and healthcare companies.

Headquartered in Durban, KwaZulu-Natal with a 15 000 m^2 manufacturing facility, Enaleni is a manufacturer, marketer and distributor of an extensive range of pharmaceuticals, OTC medicines, wellness and personal care products.

Listed on the Johannesburg stock exchange with a market cap of R1,8 billion, Enaleni is South Africa's most empowered JSE Limited-listed company and is at the forefront of driving black economic empowerment in the pharmaceutical industry.

The company's operations are grouped into two divisions, the Pharmaceutical division and Consumer and Vitality division.

The Pharmaceutical Division commands a substantial share of the local generic medicines market through its subsidiaries Cipla Medpro and FirstPharm Pharmaceuticals. Cipla Medpro is the third largest local marketer of generics which targets *inter alia*, the respiratory, cardiovascular and ARV markets. A move into new therapeutic classes, access to one of the best generic pipelines in the world through a 20-year supply agreement with Cipla India and strategic associations and acquisitions to achieve critical mass, will see Enaleni's Pharmaceutical division continuing to grow market share.

Within the Pharmaceutical division, the Contract Manufacturing and Tender division services the group's manufacturing requirements as well as providing outsourced manufacturing for leading multinationals and local companies. It is also a large supplier of medicine to the local government. The manufacturing facility is currently undergoing a R100 million upgrade to international PIC/S compliance, making this facility one of the first local companies to achieve this accreditation.

A growing Consumer and Vitality division targeting the rapidly growing vitality, wellness and sporting/active lifestyle markets, forms an additional pillar.

With the increasing trend towards generic medicines, a greater demand for OTC products, the continued growth of the emerging market, a strong sales force, one of the largest manufacturing facilities in South Africa and exceptional BEE credentials, Enaleni is strategically positioned to obtain a greater share of the local market.

Group financial highlights

Value-added statement

for the years ended 31 December

	Note	GROUP 2006 R'000	GROUP 2005 R'000
Revenue		**789 494**	245 078
Other operating income		**7 478**	4 016
Less: purchased materials and services		**(495 993)**	(182 239)
Value added from operations		**300 979**	66 855
Finance income		**7 446**	1 012
Total wealth created		**308 425**	67 867
WEALTH DISTRIBUTION			
Employees (including directors)			
Salaries, wages and other benefits		**104 657**	38 748
Providers of capital		**32 520**	7 196
Finance costs		**32 084**	7 862
Minority interest		**436**	(666)
Monetary exchanges with government	1	**61 027**	5 836
Reinvested in the group		**110 221**	16 087
Depreciation		**4 861**	2 013
Deferred taxation		**1 281**	870
Retained in the group		**104 079**	13 204
Total wealth distribution		**308 425**	67 867
VALUE-ADDED STATISTICS			
Number of full-time employees at year end		**780**	672
Revenue per employee		**1 012**	365
Value added per employee		**386**	99
Wealth created per employee		**395**	101

Note:

	GROUP 2006 R'000	GROUP 2005 R'000
1. MONETARY EXCHANGES WITH GOVERNMENT		
Current taxes (including secondary tax on companies)	**59 575**	4 671
Customs and excise duties	**726**	585
Regional services council levies	**726**	403
Rates and taxes paid to local authorities	**–**	177
Gross contribution to central and local governments	**61 027**	5 836
ADDITIONAL COLLECTIONS ON BEHALF OF GOVERNMENT		
Employees' taxes	**21 512**	5 772
Net value-added tax paid	**28 608**	3 656
	50 120	9 428

Chairman's report

A solid foundation for future growth

The word Enaleni means 'place of promise' and once again, Enaleni Pharmaceuticals has continued to deliver on the promise we made four years ago when we set out to become one of South Africa's leading, and most empowered, pharmaceutical companies.

In 2006 revenue trebled to R789 million, PBIT increased seven times to R190 million, HEPS increased 177% to 24,9 cents and cash flow from operating activities exceeded R80 million.

The past year has been another period of growth and success at Enaleni Pharmaceuticals. The focus over the past twelve months has been to successfully integrate Cipla Medpro, which was acquired for R1,2 billion in November 2005. I am pleased to inform shareholders that this has been achieved and the Cipla Medpro acquisition has proved to be a fantastic accomplishment. We thank Jerome Smith, who has extended his contract until

Opposite page: CSI projects see us continuing our relationship with the Enaleni High School in Umlazi, south of Durban.

2008, and his team for their strong leadership and commitment to the process and the group.

Time will demonstrate the many benefits of this acquisition that are yet to be realised. Through the acquisition, our company has been fortunate to become associated with Cipla India which has one of the best generic pipelines in the world and was the winner of the 2006 Scrip Award for Best Company in an Emerging Market. This association will allow the Enaleni Group to challenge for greater share of the market in years to come.

The group continues to seek new growth opportunities primarily focused on pharmaceuticals. The current R100 million upgrade to our manufacturing facilities and further opportunities within the Pharmaceutical division will ensure that the company continues to increase its market share.

The board has been strengthened through the appointments of Group CFO Andy Hall, Cipla Medpro CEO Jerome Smith and IDC's Ms Mpho Mosweu (non-executive), all of whom bring a considerable wealth of experience and knowledge to the board and we welcome them.

Former Financial Director and Enaleni founder member, Stan Whitfield, has retired with effect from 30 April 2007. On behalf of the Enaleni board and management team, I thank Stan for his valued contribution and exceptional financial steering of the group since its inception.

Umesh Parusnath, another Enaleni founder member, also resigned from the board with effect from 30 April 2007 however remains as head of manufacturing for the Pharmaceutical division.

It is our intention to appoint additional directors to the board who have the pharmaceutical expertise and experience necessary to ensure that we achieve the next stage in the Enaleni group strategy.

At 33% shareholding, our BEE credentials remain the highest within the industry and the group is exceptionally proud to have recently been ranked South Africa's most empowered JSE-listed company in the Financial Mail's 2007 Top Empowerment Companies Survey. I thank our empowerment consortium partners, Sweet Sensations (who hold 20%) for their continuing contribution. We remain strongly focused on increasing our BEE shareholding.

At 33% shareholding, our BEE credentials remain the highest within the industry and the group is exceptionally proud to have recently been ranked South Africa's most empowered JSE-listed company.

The financial growth has been underpinned by the group's adoption of a strong corporate governance policy. The Audit and Risk, and Remuneration Committees are supported by an experienced Executive Committee which has provided additional strategic impetus to the growth of the business.

Enaleni's vision is to provide all South Africans with world class, yet affordable medicines. With the Health Charter expected soon, we remain well positioned to provide affordable healthcare to the public sector. We look forward to a closer working relationship with the Department of Health.

Chairman's report continued

CSI projects see us continuing our relationship with the Enaleni High School in Umlazi, Durban while at a tertiary level, the Adelaide Tambo Bursary is enabling pharmaceutical students to obtain their qualifications. We were very saddened at the recent passing of Adelaide Tambo but are proud to continue this bursary in her name.

The financial growth has been underpinned by the group's adoption of a strong corporate governance policy.

We currently offer Aids Awareness training to all team members, while Bioharmony supports Noah (Nurturing Orphans of Aids for Humanity), Cipla Medpro's Miles for Smiles CSI arm sponsored two local runners on their successful run of the Great Wall of China to raise money for children's surgery, and FirstPharm maintains an ongoing association with a KwaZulu-Natal Aids clinic.

Two acquisitions were made within the Consumer and Vitality division in 2006, notably the remaining 49% of Bioharmony.

Time will demonstrate the many benefits of the Cipla Medpro acquisition that are yet to be realised.

2006 saw the group garner more awards and recognition for its efforts. Notable achievements were a fourth place in the Financial Mail's Top JSE-listed Empowerment Companies, (which we have now bettered in 2007 as mentioned earlier) and Top BEE JSE-listed company in the Health Sector and third place in the Business/Report Business Map Awards in the Top BEE Market Performer category.

I congratulate Trevor Edwards who was nominated as a finalist in the South African Chapter of the Ernst & Young World Entrepreneur of the Year Awards, a well-deserved achievement.

The Enaleni Pharmaceuticals story, from starting out as a contract manufacturer with one client and 76 staff members and growing to a top ten South African pharmaceutical business and brand owner, listed on the JSE and the country's leading BEE pharmaceutical company within four years, is a phenomenal achievement and a credit to the company's leadership, management and all its team members. I thank the executive team for their exceptional performance and commitment.

The next year holds even greater promise and opportunity. While the local generic medicines industry continues to become more competitive, with its strong link to world leading generics manufacturer Cipla and a R100-million manufacturing plant upgrade to PIC/S standards currently under way, Enaleni is strategically well positioned to capitalise on increasing demand from the private healthcare market and the government Health Charter regulations.

I thank my colleagues on the board for their contribution over the past year which has been of tremendous value to Enaleni. Under your guidance the company has gone from strength to strength.

PCS LUTHULI

Chairman

In 2006, Enaleni High School opened its new computer room, complete with a server, 20 monitors, a printer and scanner. The R124 000 facility was a joint initiative between Enaleni Pharmaceuticals and Mondi Shanduka Newsprint. Enaleni High School principal, Bongani Hlope said the computer centre would go a long way towards enhancing the standard of education in Umlazi and increase the school's offering to its learners. The new computer centre resulted in a marked increase in applications for enrolment at the school in 2007. Enaleni also provides HIV/Aids awareness training to Enaleni High School learners through Hope Worldwide.

Chief executive officer's report

Putting the building blocks in place

We are pleased to announce that in addition to a successful year with the group trebling sales over the previous year and increasing operating profit sevenfold, we have also laid firm foundations for strong growth by successfully integrating Cipla Medpro into the group.

Together with FirstPharm's market share, Enaleni has captured 3% of the local pharmaceutical market and growth continues. January 2007 saw Enaleni increase its ranking from tenth to the seventh largest pharmaceutical company in South Africa. The company's performance has been most encouraging and the year-on-year sales performance has begun to gain momentum. This is borne out by the fact that the companies which were developed at the start of 2006 were all showing strong performances in the second half of the year.

The Enaleni group business ethos has evolved from a simple principle: developing high growth businesses which evolve into substantial profit contributors enjoying meaningful shares of the markets they operate in. This is achieved through the creation of an entrepreneurial environment and the retention of highly entrepreneurial managers.

In turn, the group provides a logistical, procurement and manufacturing support system platform to each company, allowing each business to leverage off the strength of the group where appropriate. The success and performance of all our divisions, including those in their infancy, would indicate we have employed a winning formula.

Our business portfolio includes a number of companies at different stages of growth housed within two focused divisions, Pharmaceutical and Consumer and Vitality. With the pharmaceutical and vitality and wellness industries enjoying substantial growth, all the Enaleni companies are following this trend.

PHARMACEUTICAL DIVISION

While many regulatory issues have been resolved, and in spite of the current uncertainty surrounding international benchmarking and capping of distribution fees, the growth of the generics market has increased markedly as health cost pressures continue to rise and we are confident this trend will increase.

CIPLA MEDPRO

Cipla Medpro
THE ETHICAL GENERIC COMPANY

International consolidation continues which has created enormous opportunities for a company with the reputation of Cipla Medpro to increase market share.

Cipla Medpro must be regarded as the industry success story of the year having increased sales over the previous year by 38%. It is the fastest growing, large pharmaceutical company in the South African market, increasing its ranking within local generics companies in 2006 from 15th to 12th. The Cipla Medpro team has exceeded expectations by achieving the maximum earnout.

With one of the best pipelines and fastest product release times, the company continues to focus on chronic medicines, particularly in the cardio-respiratory markets, and 2007 will see the company move into exciting new therapeutic markets. It also boasts a fledgling but fast growing animal health business – Cipla Vet – which has significant potential.

Our relationship with Cipla India grows from strength to strength and Cipla Medpro is one of that company's largest international partners in emerging markets. In 2006 Cipla was awarded the Scrip Award for Best Company in an Emerging Market.

The Enaleni group is extremely fortunate to have this association with Cipla India which is positioned as one of the most valuable healthcare companies on the Mumbai Stock Exchange and our thanks go to them for their support over the past year. They are tremendous partners, having assisted with skills transfer and much more.

FIRSTPHARM

FIRSTPHARM
PHARMACEUTICALS

When acquired in 2005, FirstPharm was a small generic company which has subsequently been realigned into a focused OTC (over-the-counter) business. In addition to a strategic acquisition which initiated the company's move into specialised dermatological products, the company has undergone major growth internally, appointing its own sales force and recruiting additional executives to create a platform for growth. The company is currently exploring options to work closer together with Cipla Medpro to extract maximum sales and marketing impact for the brands in this company and thereby realise synergies.

CONTRACT AND TENDERING DIVISION

Enaleni Pharma
CONTRACT
MANUFACTURING

Our Contract and Tendering division has grown well over the past three years and presently, approximately 30% of revenues are now generated from the group's own brands.

We continue to manufacture for a number of large international and local pharmaceutical companies out of our 10 000 m^2 Medicines Control Council (MCC) approved facility, and there are many opportunities to be realised in the local contract manufacturing market due to limited local manufacturing capabilities. Tenders also form a significant part of the division and we are cautiously optimistic of faring well in the next round of government tenders.

The changing MCC requirements and move towards internationally accepted PIC/S standards together with the increased demand for greater manufacturing capabilities due to our own growing brands, acquisitions and increased

Chief executive officer's report continued

contract manufacturing requirements from multi-nationals looking for a local empowerment partner, has seen us embark on a R100 million upgrade to PIC/S compliance in 2007. This must be one of the largest single investments made in the pharmaceutical industry and is an attempt to reverse the trend of closing factories and relocating manufacturing to other countries.

Due for completion in early 2008 this upgrade, which is being undertaken in conjunction with one of India's leading manufacturing consulting experts CTC-Tech, and one of the foremost international cGMP consultants, Bob Tribe, will create a "world best practice" manufacturing facility in South Africa. We believe it will unleash some exciting local and international opportunities.

The upgrade has been engineered to ensure there is little, if any, impact on production output and capabilities and we will invest heavily in skills training over the next 12 months.

CONSUMER AND VITALITY DIVISION

While at present this division is a small contributor to earnings, sales increased by 23% on the previous year with record figures recorded in November. The growth in the vitality and wellness market is ever-increasing, however it remains essential that the group continues to investigate the most appropriate strategy for this division in enhancing shareholder value.

CONSUMER DIVISION

Sales have shown encouraging growth and ended the year 22% up on the previous year. More encouraging is that in November, growth was in excess of 30%, with the highest ever sales figures recorded in a single month in the division.

The sales mix of the business has evolved with approximately 50% from pharmaceuticals and 50% from ethnic haircare and skincare, including babycare.

BIOHARMONY

Few companies are as well positioned as Bioharmony to capitalise on the growing worldwide trend towards natural health and wellness alternatives. Locally this market is worth in excess of R2 billion. Bioharmony increased sales by 42% over the previous year and this accelerated in the last quarter of 2006.

In July 2006 Enaleni acquired the remaining 49% of Bioharmony, allowing the company to increase investments in growth opportunities. Company founder, Maria Ascencao signed a five-year management contract and became a larger shareholder in the Enaleni group, displaying her confidence and commitment to the Bioharmony business.

With the local market growth and a move into functional foods and organic specialist anti-ageing skin and beauty products, this business is poised for substantial growth over the next two to three years and holds massive potential to extend to becoming an international brand.

MUSCLE SCIENCE

This sports supplements business, the third largest in South Africa, previously targeted the niche bodybuilding market, however exchange rate fluctuations during 2006 saw increasing pressure from imported products. The company repositioned itself to target the much larger weight loss market as well as focus on the recreational and active lifestyle sports markets with ranges such as LeanBody and Staminade respectively. By year end substantial sales growth figures were being recorded and this is expected to continue as new product launches in both areas are planned for 2007.

GROWTH DRIVERS

The evolving South African pharmaceutical industry is underpinning Enaleni's growth and the group has strategically sought to stay abreast of trends. The local pharmaceutical market, which is valued at some R14 billion annually, is seeing a major move towards generics while the government Health Charter (due out later in 2007) calls for 25% black ownership of pharmaceutical firms. While other companies will need to devote time and resources to meeting the BEE criteria, Enaleni's BEE is currently a healthy 33% and our acquisition of Cipla Medpro a year ago sees us well placed to meet generic demand in a number of therapeutic categories.

Other industry growth drivers are:

- As the industry becomes more highly-regulated local manufacturers will need to upgrade to international PIC/S compliance – Enaleni will be one of the first to achieve this.
- Growing importance of the trend towards OTC products presents exciting opportunities for the Enaleni group.
- New focus on local manufacturing and high barriers to entry – Currently one of the largest pharmaceutical manufacturers, Enaleni will have four times greater tabletting capacity when the upgrade is complete.
- Growth of chronic medicines market and ARVs – Cipla Medpro has a number of ARVs registered and ten awaiting MCC registration as well as 300 mg "once daily" Lamivudine due out to market shortly.
- International competition – With its strong empowerment credentials, Enaleni is well placed as a contract manufacturing partner for multinationals who are looking to provide medicines to the South African market.

BUILDING ON THE FOUNDATIONS

In a relatively short time frame, Enaleni has grown to become a significant South African pharmaceutical company. 2006 was a year of consolidation within our Pharmaceutical division and a year of investment in our Consumer and Vitality division, as various acquisitions from 2005 were bedded down.

Now we look ahead to the next three years and achieving our vision of becoming a top five pharmaceutical company. The factory upgrade is an additional step to achieving that objective. The next year will see us investing in and growing our own brands to increase market share, evaluating the strategic fit of business units while also continuing to investigate strategic alliances, partnerships and acquisitions and explore additional opportunities with Cipla India to strengthen our pharmaceutical division.

We look foward to an exciting 2007 where we will continue to grow our market share, capitalise on opportunities and realise synergies with the view of achieving our vision of becoming a top five pharmaceutical company within the next three years.

TD EDWARDS
Chief executive officer

Chief financial officer's report

The annual results for the year are substantially in line with our forecast published at the end of 2005 despite the negative effect of a much increased effective tax rate resulting from the accounting implications of the preference share funding structure within the group.

In the circular issued to shareholders on 28 November 2005, Enaleni forecast revenue of R731 million for 2006 and profit before interest and tax of R178,5 million. We have exceeded those figures by 8% and 6% respectively. Revenue increased on a *pro forma* basis by 26% over 2005, 32% in the Pharmaceutical operations and 23% in the Consumer and Vitality divisions.

The gross margin for the year is 49% (2005: 45%) which is consistent with June 2006. The increase in the gross margin is largely the effect of incorporating Cipla Medpro in the group for an entire year. The Cipla Medpro gross margin is healthy despite the weakening in the local currency during 2006 as the subsidiary benefited from a prudent and well-judged hedging strategy.

Operating expenses for the year as a percentage of revenue is 26% (2005: 36%). Operating profit of R190 million includes net foreign exchange losses of R2,2 million (2005: R0,2 million gain) as a result of significant Rand:Dollar weakness during the second half of the year. This had a significant impact on the results, after having reported a gain on foreign exchange of R8,3 million at the half-year. IFRS 2 (Share-based payment) charges of R2,9 million (2005: R0,2 million) relate to 7,8 million share options for management and staff, almost half of which become exercisable in June and December 2007. The operating margin was positively impacted by a profit on the move of the Phoenix factory of R3,6 million and negative goodwill of R1,2 million brought to account on the purchase of Adroit Pharmaceuticals. This has resulted in an operating margin of 24%, significantly ahead of the 2005 margin of 10%. On a like-for-like basis, after adjusting for foreign exchange movements and capital items, the group earned 57% of its operating profit in the second half of the year.

Net finance costs of R24,6 million are primarily made up of the costs of financing the Cipla Medpro acquisition. Preference share dividends, accounted for as interest in accordance with IAS 39, amounted to R21,3 million, notional interest charges on vendor loans were R7,6 million and debt-raising fees of R3 million were incurred and written off. Against this the group benefited to the extent of R5,2 million from interest rate derivatives. Cipla Medpro, being cash generative, earned interest of R7 million during the year.

This resulted in profit before tax of R165 million, R16 million ahead of the published forecast. Negative tax consequences removed this benefit, resulting in reported profit after tax of R105 million. The effective tax rate for the year is 36,8%, the primary impacts being non-deductible preference share dividends (interest in accordance with IAS 39) of R21,3 million, notional interest charges of R7,6 million, debt-raising fees of R3 million and IFRS 2 charges of R2,9 million.

Basic EPS for the year is 26,0 cents (2005: 11,8 cents), an improvement of 120% over the comparative year.

On a fully diluted basis EPS for the year is 25,5 cents (2005: 11,6 cents), an improvement of 120% over the comparative year. The dilution is related to 7,8 million (2005: 7,1 million) share options in issue to management and staff.

Basic HEPS for the year is 24,9 cents (2005: 9,0 cents), an improvement of 177% over the comparative year.

The reconciliation to headline earnings is made up of the net profit on sale of property, plant and equipment of R3,6 million, adjusted for the CGT effect on the sale of the Phoenix factory, as well as negative goodwill related to the acquisition of Adroit Pharmaceuticals.

Diluted HEPS for the year is 24,4 cents (2005: 8,9 cents), an improvement of 174% over the comparative year.

We are pleased to report that Cipla Medpro, which was acquired for R1,2 billion in November 2005, has continued to perform extremely well with revenue increasing by 38% over the previous year. The vendors of Cipla Medpro have exceeded their maximum earn-out targets and are thus contractually entitled to a total payment of R300 million. This payment, to be made in two tranches of R150 million each, will be funded through the cash reserves in the business and the issue of up to R154 million of preference shares, bringing the total acquisition cost to R1,4 billion.

Intangible assets with indefinite useful lives increased by R231 million to R1,4 billion, the major portion of the increase being the additional R200 million purchase price incurred on the acquisition of Cipla Medpro. Enaleni purchased Galilee Marketing in October 2006 resulting in goodwill and intangibles of R18 million being recorded in accordance with IFRS 3. An independent valuation of all intangibles on the balance sheet was performed at December 2006 and no indicators for impairment were reported.

Inventory increased to R91,7 million (2005: R60,8 million) with improved days in inventory of 83 since the mid-year. These inventory levels are reflective of the significant revenue growth across the businesses and the necessary safety stock levels required to cover the lead-times on importation of goods from Cipla India.

Accounts receivable increased to R144,3 million (2005: R113,6 million), including financial instrument assets of R6,7 million. This growth is in line with the revenue growth in the group. Days in trade accounts receivable have improved since mid-year to 65 and credit control within the group is satisfactory.

Accounts payable increased to R169,1 million (2005: R148,6 million), reflective of the increased activity in the business and traditionally lower purchase levels in December.

Net cash resources at the end of the year increased to R179,1 million (2005: R107,4 million). Operating cash flows generated after interest and tax payments were R89,3 million, of which R42,8 million was utilised to fund capital expansion and growth. The current ratio has improved to 0,81 (2005: 0,60). A current ratio below 1,00 is acceptable in the business because Cipla Medpro benefits from extended payment terms with Cipla India, thus trade accounts payable run significantly ahead of inventories.

Total loans and borrowings have increased to R659 million (2005: R431 million) of which R309 million was current at December, R294 million (before interest being incurred to the date of settlement) owing to the Cipla Medpro vendors.

Other loans are materially comprised of a R100 million five-year term facility and R222 million of five-year cumulative redeemable preference shares bearing dividends at rates linked to prime. In terms of IAS 39, the preference shares are accounted for as debt instruments and the related dividends as interest. The gearing ratio at the end of the year is 48% and interest cover for the year is a comfortable six times.

AG HALL
Chief financial officer

Directorate

Non-executive directors

PENUELL CORNWELL SIBUSISO LUTHULI

Non-executive chairman

CA(SA)

Chairman of Enaleni since 2003, Sibusiso Luthuli is managing director of Ithala Limited. Prior to joining Ithala Bank, he was with the Specialised Property and Asset Finance Division of Nedbank. S'bu is the chairman of the Audit and Risk Committee of the UKZN Council, a non-executive director of Telkom Limited, a non-executive director of Telkom Media (Proprietary) Limited, a member of the Ethekwini Municipality Audit Committee, a member of the KwaZulu-Natal Provincial Government Audit Committee and a director of the Richards Bay IDZ company. S'bu was recently ranked as one of South Africa's top 50 most influential black directors in a survey conducted by Empowerdex.

DR GILIMAMBA MAHLATI

Non-executive director

MB ChB (Natal); FCS (SA)

Dr Gilimamba Mahlati is a well respected business and healthcare consultant, who has considerable experience and knowledge in the pharmaceutical industry. Gil is also extensively involved in the insurance and financial services industries and currently holds directorships on the boards of Amabubesi Healthcare, African Financial Group and Vuwa Investments.

THEMBISA DINGAAN

Non-executive director

BProc; LLB (Natal); LLM (Harvard); H Dip Tax (Wits)

Thembisa Dingaan is an independent consultant with extensive experience in acquisition and structured finance, banking and corporate law. Thembisa has worked previously in senior positions at Nedbank Capital, Citibank, Wipcapital and White and Case. She holds a number of senior board positions including Royal Bafokeng and is a co-opted member of the audit and finance committees of the board of the Development Bank of Southern Africa.

MPHO MOSWEU

Non-executive director

CA(SA)

Mpho Mosweu is a senior account manager in the Techno Industries Business Unit at the IDC. She is also the chairperson of a shared audit committee at the Mpumalanga Department of Finance and a member of the investment committee panel for the Support Programme for Industrial Innovation. She has significant commercial experience, which together with her technical and governance acumen, adds significant value to the board of Enaleni.

Executive directors

TREVOR EDWARDS

Chief executive officer: Enaleni group

Trevor Edwards is one of the founders of Enaleni and has been with the company since inception as CEO. Trevor is a highly experienced and successful entrepreneur with a history of developing sizeable businesses across a broad range of industries. These have included pharmaceuticals, natural health, packaging, franchising, retail and personal care companies. He has also held senior executive positions in the pharmaceutical, FMCG and franchising industries. In four years, Trevor and his team have transformed Enaleni from a contract manufacturer with one customer into a top ten pharmaceutical company which in 2005 undertook one of the largest transactions within the local industry, the R1,4 billion acquisition of Cipla Medpro. Trevor has been a recipient of many business awards and in 2006 was a finalist in the South African chapter of the Ernst & Young World Entrepreneur of the Year Awards.

ANDREW HALL

Chief financial officer: Enaleni group

CA(SA); B Pharm

Andrew Hall is a chartered accountant with degrees in pharmacy and commerce. Before joining Enaleni he spent more than twelve years at accounting firm Ernst & Young. His most recent position there was partner in charge of health sciences. Andrew spent two years in retail pharmacy and five years in sales and marketing at international pharmaceutical company Pfizer before qualifying as a chartered accountant with Ernst & Young.

JEROME SMITH

CEO: Pharmaceutical Division; CEO: Cipla Medpro

Jerome Smith is a lifelong pharma man and founder of the business of Medpro Pharmaceutica/Cipla Medpro in 1992, one of the first generic companies in South Africa. He strategically aligned the company with Cipla, one of India's largest pharmaceutical companies, leading Cipla Medpro to its current standing as third largest generics manufacturer and a top ten pharmaceutical company in South Africa. Cipla Medpro's relationship with Cipla India remains strong and has been a key factor in allowing Cipla Medpro to continue increasing its market share through the launch of many new molecules.

PAM PILLAY

Logistics director

Pamela Pillay was also one of the founders of Enaleni and has been with the company since January 2003, as logistics director. Pam controls all procurement within the Enaleni facility and has the responsibility for maintaining good relationships with major customers and suppliers. Pam worked in a senior capacity at RBSA for over twenty years where she was responsible for logistics and also held a senior procurement position at Alusaf at Richards Bay.

Business unit review

PHARMACEUTICAL DIVISION

Growth within the generic and over-the-counter (OTC) markets saw the division producing annual revenues of R674 million on the back of increasing volumes and launches of new products. The Contract Manufacturing Division, which services the group's manufacturing requirements, is currently undergoing a R100 million site upgrade to international PIC/S compliancy at its 10 000m^2 premises, making Enaleni one of the first local companies to achieve this accreditation. Due for completion in early 2008, the upgrade is in response to strong growth within the group and advancing regulatory requirements.

CIPLA MEDPRO

Cipla Medpro is one of the three primary suppliers of generics in South Africa. 2006 saw the company continue its strong growth, moving from the fifteenth to twelfth largest pharmaceutical company in South Africa.

With a 20 year product pipeline from Cipla India, the company is a powerful force in the cardiovascular and respiratory markets and has a meaningful share of the ARV, NSAID and antidepressant markets. Through the association with Cipla India and other companies the business

continues to build on its impressive product pipeline. Cipla Medpro will be extending its reach into new therapeutic classes including diabetes, oncology and hormones in the future. Other potential growth areas include:

- Antimalarials – Cipla India has 48 antimalarial dosage forms, with 9 in research and development.
- ARVs – 14 are currently registered, 11 dossiers have been submitted to the MCC and 12 are in the pipeline. Lamivudine, a 300 mg once daily ARV will shortly be released to market.
- Diabetes – Cipla Medpro launched the first generic Pioglitasone in 2006.

2006 saw Cipla Medpro selling 14,1 million units into the South African private sector and 6,5 million units to the government sector. Tenders formed 22% of the company's sales.

Category sales in the private sector were:

• Respiratory	R102,7 million
• NSAIDs	R37,6 million
• Cardiovascular	R31,2 million
• Antidepressants	R22,9 million
• ARVs	R18,5 million
• Diabetes	R4,2 million

There are 32 line extensions and launches planned for 2007 and the company has 133 dossiers currently in the registration process at the MCC.

Cipla Medpro also has a small, but growing, animal health division which comprises two businesses, Cipla Vet which focuses on the companion animal market, and Cipla Agrimed which provides products for livestock. Operating in the estimated R750 million per annum local market, this division is already contributing 1% of Cipla Medpro's sales.

FIRSTPHARM

FirstPharm owns and markets generic equivalents to numerous well known products. FirstPharm's brands, which include Alka-Fizz, Abflex-4, Ibumax and Gelacid are enjoying considerable growth and consumer acceptance as a result of its aggressive media campaigns launched during the second half of 2006. FirstPharm sales grew by 28% for the year ended December 2006.

FirstPharm distributes its products to wholesalers, retail pharmacies, hospitals, food retailers and the South African government on tender.

Last year FirstPharm expanded into the lucrative sun care market through its acquisition of the highly acclaimed SunSafe brand. Sales of SunSafe have more than doubled over the corresponding period last year, and the company has plans to introduce a number of line extensions to further entrench the SunSafe brand.

CONSUMER AND VITALITY DIVISION

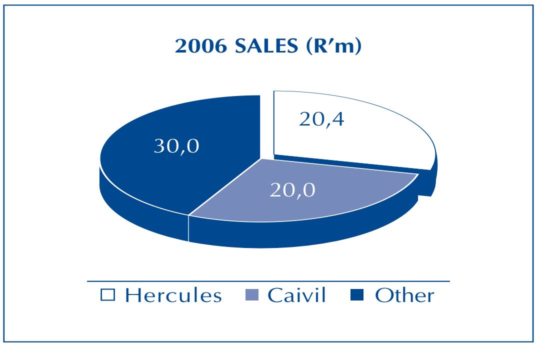
Across the healthcare, vitality and personal care brands, performance was good especially in the latter half of the year. Sales for the year were up 23% on 2005 with record figures in November.

CONSUMER DIVISION

The two focus brands, Hercules, an affordable healthcare range targeting the emerging market, and ethnic hair care range Caivil, showed good growth in 2006, responding well to TV and radio campaigns.

A new range of traditional immune-boosting liquids was launched under the Hercules banner and these products experienced strong initial market acceptance. Additional pharmaceutical product launches are planned within the Hercules range during 2007.

Caivil was supported by TV advertising during November and December and sales responded well to this additional marketing support. This brand is a premium image brand and will be extended into other complementary beauty categories. The recently relaunched Caivil Just for Kids continues to show exceptional growth.



Other brands within this division include Healing Hands, a range of natural-based skincare products, Just for Baby baby care creams and OTC medicinals such as gripe water, Sloans heat rub which last year saw the introduction of an Arnica gel and oil to the range, and Black Chic, an affordable range of permanent colours and treatments for the ethnic haircare market.

2006 saw the Consumer division relocate its administration and manufacturing processes to the Mobeni premises and the management team are complimented on the minimal disruption incurred by the business in the move.

BIOHARMONY

Based in Cape Town, Bioharmony is one of South Africa's foremost natural healthcare companies. The company formulates and markets a comprehensive range of scientifically researched and innovative products. July 2006 saw Bioharmony become a wholly owned subsidiary of the Enaleni group with the acquisition of the remaining 49% of the business and the integration of the company into the Consumer division.

Producing 78 natural health products for the alternative health and wellness market, Bioharmony operates in a fast growing local industry that is valued in excess of R2 billion. A complete review of the business was undertaken last year which resulted in additional sales staff being recruited and strengthening of the management team. Sales increased by 42% over the previous year.

Bioharmony continues its endorsement from renowned international nutrition expert Patrick Holford and the Holford range remains a substantial contributor to the company's revenue.

In October 2006, Enaleni acquired Galilee Marketing, a producer and marketer of natural remedies. The acquisition was undertaken with the specific purpose of integrating MenoClove, a well known natural treatment for menopausal symptoms, into the Bioharmony stable and expanding on the brand through additional product formulations.

MUSCLE SCIENCE

Muscle Science is the third largest sports supplements business in South Africa and a leader in scientifically researched and developed nutritional supplements. 2006 saw a number of new product launches targeting the bodybuilding, weight loss and endurance sports markets.

While the business enjoys strong positioning within the local bodybuilding industry, with exchange rate fluctuations and popular international bodybuilding brands entering the local market during 2006, the company increased its focus on the large local weight loss and recreational and active lifestyle sporting markets through its LeanBody and Staminade brands respectively. The refocusing resulted in double digit sales growth figures by year end. A number of new product launches are planned in these areas during 2007.

Available nationally through health shops, pharmacies and Dis-Chem Pharmacies, the business continues to grow its distribution network having recently obtained listings in Clicks stores.

Muscle Science sponsors a number of South Africa's top athletes across numerous sporting disciplines from bodybuilding, swimming, surf lifesaving, triathlon, cycling, scuba diving, running and sports aerobics. Many of these athletes are highly respected opinion leaders who compete on the international stage.

Corporate governance

Enaleni subscribes to a culture of openness, integrity and accountability in terms of its corporate governance philosophy and remains committed to the principles and practices recommended by the King Code. The group has made significant progress in improving its corporate governance structures and procedures in 2006. Key developments include three new director appointments, and the establishment of an additional board subcommittee, the executive committee, responsible for the day to day operations of the company.

BOARD OF DIRECTORS

The board of Enaleni has been established to retain full and effective control over the company and its subsidiaries. It functions in accordance with a formal board charter and responsibilities include, *inter alia*:

- giving strategic direction to the company;
- ensuring that procedures and practices are in place to protect the company's assets and reputation;
- monitoring and evaluating the implementation of strategies, policies, management performance and business plans;
- ensuring that the company complies with relevant laws, regulations and codes of best practice;
- assessing its performance and effectiveness, as a whole, and of the individual directors;
- ensuring that the company has a succession plan for its executive directors; and
- familiarising itself with issues of concern to stakeholders.

The board comprises eight members, of whom four are executive directors. The roles of chairman and chief executive are separate in accordance with best practice.

Subsequent to the last annual general meeting in June 2006 Andrew Hall, Jerome Smith and Mpho Mosweu have been appointed to the board. Andrew, a pharmacist and chartered accountant, joined the group as CFO in July 2006 and has significant experience in both the professional services and pharmaceutical industries. Jerome was appointed to the board in September 2006. He is the chief executive officer of Cipla Medpro and oversees Enaleni's entire pharmaceutical division. Mpho is a chartered accountant (SA) and is employed as a senior account manager by the IDC in the Techno Industries Business Unit. In addition to her role at the IDC, she is the chairperson of a shared audit committee at the Mpumalanga Department of Finance and a member of the investment committee panel for the Support Programme for Industrial Innovation. She has significant commercial experience and technical accounting and corporate governance acumen.

All directors have unrestricted access to all company information, records, documents and property. All receive detailed information packs on all operating subsidiaries and group affairs to facilitate effective preparation and decision-making. Non-executive directors have full access to management and the company secretary, and may seek independent professional advice at the company's expense.

Directors must at all times observe the legal requirements in respect of the declaration of interests and do everything reasonably possible to

avoid a conflict of interest in the execution of their duties. Any possible conflict of interest must at all times be declared upfront and the director concerned may not participate in a discussion, or vote, on the subject matter. Directors must observe the provisions of the buying or selling of their shares in respect of any relevant rules, legislative or regulatory procedures. Directors are prohibited from any share dealings in closed periods. Directors are required to obtain clearance from the chief financial officer prior to trading in the company's shares and are obliged to provide the chief financial officer with all information required by the company to comply with its disclosure duties in terms of the Listing Requirements of the JSE by no later than 24 hours after dealing.

Directors		Attendance at board meetings
PCS Luthuli	*(Chairman)*	4
T Dingaan	*(appointed April 2006)*	3
GS Mahlati	*(appointed April 2006)*	3
TD Edwards		4
AG Hall	*(appointed July 2006)*	2
U Parusnath		4
PA Pillay		4
EN Rapoo	*(appointed May 2006)*	
	(resigned February 2007)	2
NM Sithole	*(resigned April 2006)*	1
JS Smith	*(appointed September 2006)*	0
DDT Tambo	*(resigned April 2006)*	0
S Whitfield		4
DE Wolfson	*(resigned April 2006)*	1

AUDIT AND RISK COMMITTEE

The audit and risk committee consists of three members, the majority of whom are non-executive directors, and all of whom are appropriately qualified for their roles on the committee. The committee functions in accordance with a formal charter approved by the board. The committee is chaired by Thembisa Dingaan and meets at appropriate times during the year to assist the board with all matters relating to external reporting and risk management including:

- reviewing publicly released financial information;
- establishing processes for monitoring the effectiveness of internal controls and safeguarding of assets;
- developing risk management strategies;
- appointment of independent external auditors, approving their fees and setting principles for utilising the external auditors for non-audit services;
- compliance with statutory and regulatory services; and
- review of the group's insurance portfolio and foreign exchange risk management policies.

The external and internal auditors have unrestricted access to the chairman of the committee and report to the committee at each meeting in accordance with established principles.

The chief executive and chief financial officers attend meetings of the committee by invitation only and were in attendance at all meetings of the committee held during the year under review.

Members		Attendance at audit and risk committee meetings
T Dingaan	*(Chairperson)*	2
EN Rapoo	*(appointed May 2006)*	
	(resigned February 2007)	1
S Whitfield		2
TD Edwards	*(by invitation)*	2
AG Hall	*(by invitation)*	2

RISK MANAGEMENT AND INTERNAL CONTROL

With appropriate input from the audit and risk committee, the board regularly reviews the effectiveness of the company's risk management and internal control systems. These systems are designed to ensure the accuracy of financial reporting and to safeguard the company's assets. The systems include documented organisation structures, and operating policies and procedures. The board's risk management strategy includes matters relating to enterprise risk, including strategic, operational, financial and compliance risks.

Corporate governance continued

INTERNAL AUDIT

During the year under review, the audit and risk committee oversaw the proposal process for the appointment of an independent internal audit function for the entire group. The culmination of the process resulted in Moores Rowland being appointed as internal auditors to the group with effect from 1 January 2007. The internal auditors have assisted the company in further formalising its risk management procedures. The audit and risk committee has approved the strategic internal audit plan of the internal auditors.

REMUNERATION COMMITTEE

The remuneration committee consists of two members, both of whom are non-executive directors. The committee functions in accordance with a formal charter approved by the board. The committee is chaired by Dr Gil Mahlati and meets at appropriate times during the year to assist the board with all matters relating to reward and retention of directors and senior executives in the group including:

- appraisal of the performance of executive directors;
- determining the conditions of employment, service agreements and basic remuneration for executives;
- developing appropriate short and long-term incentives for executives;
- recommending fees for non-executive directors;
- setting the policy for the company's share incentive scheme; and
- monitoring executive succession planning.

The chief executive and chief financial officers attend meetings of the committee by invitation only and were in attendance at all meetings of the committee held during the year under review.

Members	Attendance at remuneration committee meetings
GS Mahlati *(Chairman) (appointed May 2006)*	1
PCS Luthuli	2
TD Edwards *(by invitation)*	2
AG Hall *(by invitation) (appointed July 2006)*	1

EXECUTIVE COMMITTEE

The board established an executive committee in 2006 to facilitate cross-sharing of ideas across the group and effective utilisation of the diverse range of skills amongst the executive team. The committee consists of nine members, four of whom are executive directors, and the balance leaders of operating business units across the group. The committee functions in accordance with a formal charter approved by the board. The committee is chaired by the chief executive officer and meets at least six times per annum to assist him in:

- managing the business of the group, without in any way restricting his authority;
- acting for the board of directors when managing the business of the group;
- guiding and controlling the overall direction of the business of the group; and
- acting as a medium of communication and co-ordination between business units, group companies and the board.

The executive committee is currently comprised of the group chief executive officer, group chief financial officer, chief executives of the pharmaceutical, consumer, and vitality and wellness business units, and the financial director and director of regulatory affairs at Cipla Medpro.

EMPLOYMENT EQUITY

Enaleni is South Africa's leading black economic empowerment pharmaceutical company and employment equity remains prominent on the board's agenda.

The company strives to:

- be an equal opportunity employer, giving preference to and increasing the number of employees from previously disadvantaged backgrounds;
- foster a culture of equity for all employees and awareness of diversity; and
- empower employees through incentive schemes and upliftment projects.

SOCIAL RESPONSIBILITY

The board acknowledges its responsibility towards the communities within which it operates. The following initiatives have been conducted in the year under review:

- sponsorship of the Enaleni High School computer centre;
- sponsoring black university healthcare students through the Enaleni Adelaide Tambo bursary scheme;
- Cipla Medpro undertook a number of initiatives during 2006 including the launch of a non-profit organisation Miles for Smiles, which will undertake various projects to raise money for charities that share the company's vision of providing access to affordable healthcare to all South Africans.
- Bioharmony supports the Noah (Nurturing Orphans of Aids for Humanity) Foundation and contributes a percentage of all sales to this non-profit organisation.
- FirstPharm supports a local HIV/Aids clinic in KwaZulu-Natal.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATION

The company takes an active role in communicating its activities to investors and in paying attention to investor concerns and queries through presentations to, and meetings with, investors and analysts.

The company's standards of relevance and transparency help to ensure that the information passed to the company's stakeholders is of the highest quality and relevance. The communication strategy is complemented by the company's website which is updated regularly with relevant information.

milesforsmiles
great wall challenge

Cipla Medpro's Miles for Smiles initiative is changing lives one smile at a time. Inaugural smile mission, Empangeni, KwaZulu-Natal, September 2006.

Annual financial statements
for the year ended 31 December 2006

CONTENTS

Directors' responsibility
for the annual financial statements

The company's directors are responsible for the preparation and fair presentation of the group annual financial statements and separate parent annual financial statements, comprising the balance sheets at 31 December 2006, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the group and company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and separate parent annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the group annual financial statements and separate parent annual financial statements

The group annual financial statements and separate parent annual financial statements, for the year ended 31 December 2006, set out on pages 30 to 88, were approved by the board of directors on 16 March 2007 and signed on its behalf by:

PCS LUTHULI
Chairman

TD EDWARDS
Chief executive officer

Durban
16 March 2007

Company secretary's report

I, Andrew Hall, company secretary of Enaleni Pharmaceuticals Limited, certify that, to the best of my knowledge and belief, all returns required of a public company have, in respect of the year ended 31 December 2006, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

AG HALL
Company secretary
Durban
16 March 2007

Independent auditor's report
to the members of Enaleni Pharmaceuticals Limited

Report on the annual financial statements

We have audited the group annual financial statements and the annual financial statements of Enaleni Pharmaceuticals Limited set out on pages 30 to 88, which comprise the balance sheets at 31 December 2006, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report.

Directors' responsibility for the annual financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Enaleni Pharmaceuticals Limited at 31 December 2006, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.

KPMG Inc.
Registered auditor

Per JAY DATADIN
Chartered accountant (SA)
Registered auditor

Director
16 March 2007

20 Kingsmead Boulevard, Kingsmead Office Park, Durban, 4001

Report of the directors
for the year ended 31 December 2006

The directors have pleasure in presenting their report which forms part of the audited annual financial statements of the company and the group for the year ended 31 December 2006.

Nature of business

Enaleni, Zulu for "place of promise", is the leading empowerment pharmaceutical company in South Africa, following the management buyout in January 2003 of the South African pharmaceutical manufacturing plant of Reckitt Benckiser South Africa (Proprietary) Limited.

The Enaleni Pharmaceuticals Limited group engages in the manufacture, marketing and supply of pharmaceutical, consumer care, and vitality and wellness products.

In addition to owning its own brands within its Pharmaceutical, and Consumer and Vitality divisions, the company is also a contract manufacturer for international and local pharmaceutical and nutraceutical companies.

Financial results and review of operations

The financial results of the group and the company are set out in the attached financial statements.

A summary of the group's results is set out below:

	YEAR ENDED 31 DECEMBER 2006 R'000	YEAR ENDED 31 DECEMBER 2005 R'000	CHANGE %
Revenue	**789 494**	245 078	222
Profit before finance costs and taxation	**190 009**	24 929	662
Profit after tax	**104 515**	12 538	734
Earnings per share (cents)	**26,0**	11,8	120
Headline earnings per share (cents)	**24,9**	9,0	177

- the profit after tax attributable to ordinary shareholders amounted to R104 079 000 (2005: R13 204 000), an almost eight-fold increase over the prior year;
- earnings per ordinary share amounted to 26,0 cents per share (2005: 11,8 cents per share) an increase of 120%; and
- headline earnings per ordinary share amounted to 24,9 cents per share (2005: 9,0 cents per share) an increase of 177%.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Enaleni group has expanded its business operations through the acquisition of subsidiaries as detailed in annexure A to the annual financial statements. During 2006, Enaleni purchased 100% of the shares in the following subsidiaries:

- Galilee Marketing (Proprietary) Limited; and
- Adroit Pharmaceuticals (Proprietary) Limited (indirect interest).

The acquisitions above have been accounted for under IFRS 3 Business Combinations and IAS 38 Intangible Assets. No subsidiaries were disposed of during the year.

The company also acquired the remaining 49% shareholding in Bioharmony (Proprietary) Limited from the minority shareholder.

Report of the directors
for the year ended 31 December 2006

During October 2006 the businesses of the newly acquired Galilee Marketing (Proprietary) Limited and Bioharmony (Proprietary) Limited were onsold to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, a subsidiary of Enaleni Pharmaceuticals Limited.

Capital expenditure

Enaleni is upgrading its site and pharmaceutical manufacturing facilities. The approximately R100 million upgrade, which is in response to strong growth within the group and increasingly complex regulatory requirements, will see Enaleni becoming one of the first Pharmaceutical Inspection Convention (PIC/S) compliant facilities in South Africa and matching the highest standards for pharmaceutical manufacturers in the world. With work having commenced in January 2007 and due for completion in 2008, the upgrade to the 10 000 square metre Mobeni plant will result in four times greater tabletting capacity.

Dividends

No dividend has been declared during the year and none have been recommended (2005: Nil).

Share capital

The authorised share capital of the company comprises 500 000 000 ordinary shares of 0,1 cent each and the issued share capital of the company is R408 491 (consisting of 408 490 792 ordinary shares of 0,1 cent each) (2005: R403 011 consisting of 403 010 792 ordinary shares of 0,1 cent each).

The following shareholder owns more than 5% of the issued share capital of the company:

- Sweet Sensations (Proprietary) Limited is the owner of 82 000 000 ordinary shares in the company, equivalent to 20,1% of the issued share capital.

The unissued share capital is under the control of the directors of the company until the next annual general meeting of shareholders.

Directors' interests in the issued shares of the company

The total direct and indirect interest declared by the directors in the issued share capital of the company was as follows:

31 December 2006	BENEFICIAL DIRECT '000	BENEFICIAL INDIRECT '000	NON-BENEFICIAL INDIRECT '000	TOTAL '000	PERCENTAGE HELD
PCS Luthuli	1 689	1 998	–	3 687	0,90
T Dingaan	–	27	241	268	0,07
GS Mahlati	–	1 640	–	1 640	0,40
TD Edwards	–	14 179	–	14 179	3,47
AG Hall	11	1 045	–	1 056	0,26
U Parusnath	3 591	500	–	4 091	1,00
PA Pillay	3 591	400	–	3 991	0,98
JS Smith	–	17 679	–	17 679	4,33
S Whitfield	–	9 302	–	9 302	2,28
	8 882	**46 770**	**241**	**55 893**	**13,68**

Since 31 December 2006 the following directors have disposed of shares in the company:

S Whitfield	2 000 000	indirect beneficial shares	24 April 2007
PA Pillay	100 000	direct beneficial shares	2 May 2007

Report of the directors
for the year ended 31 December 2005

31 December 2005	BENEFICIAL DIRECT '000	BENEFICIAL INDIRECT '000	NON-BENEFICIAL INDIRECT '000	TOTAL '000	PERCENTAGE HELD
PCS Luthuli	2 439	–	–	2 439	0,61
DDT Tambo *	–	5 543	–	5 543	1,38
TD Edwards	232	18 279	–	18 511	4,59
S Whitfield	210	10 952	–	11 162	2,77
U Parusnath	4 637	–	545	5 182	1,29
PA Pillay	4 633	–	545	5 178	1,28
NM Sithole *	4 633	–	545	5 178	1,28
DE Wolfson *	4 833	–	545	5 378	1,33
	21 617	34 774	2 180	58 571	14,53

** resigned during the year*

Director appointments

Dr GS Mahlati – appointed 4 April 2006
Ms T Dingaan – appointed 4 April 2006
Ms EN Rapoo – appointed 2 May 2006
Mr AG Hall – appointed 3 July 2006
Mr JS Smith – appointed 1 September 2006
Ms MT Mosweu – appointed 22 February 2007

Director resignations

Mr DDT Tambo – resigned 6 April 2006
Mr DE Wolfson – resigned 12 April 2006
Mr NM Sithole – resigned 12 April 2006
Ms EN Rapoo – resigned 14 February 2007

Executive directors

TD Edwards *(CEO)*
AG Hall *(CFO)*
U Parusnath – resigned 30 April 2007
PA Pillay
JS Smith
S Whitfield *(British)* – resigned 30 April 2007

Non-executive directors

PCS Luthuli *(Chairman)*
T Dingaan
GS Mahlati
MT Mosweu

Each of the executive directors has a letter of appointment from Enaleni, containing terms considered to be standard for such contracts. Their letters of appointment include restraint of trade provisions for which no payment was made. The notice period for directors with no fixed-term employment contracts is between three and six months.

An executive director is required to retire from the board at the age of 60, while a non-executive director is required to retire at the age of 70.

The directors of the company have not had any material beneficial interest whether direct or indirect in transactions that were effected by the company during the current and immediately preceding financial year and which remain in any respect outstanding or unperformed.

Refer to note 20 in the annual financial statements for detailed disclosure of directors' emoluments for the year.

Report of the directors
for the year ended 31 December 2006

Special resolutions

At the previous annual general meeting in June 2006, shareholders approved via special resolution that the name of the company be changed to Enaleni Cipla Pharmaceuticals Limited.

In the latter half of 2006 the directors made a decision not to proceed with the proposed name change for the following reasons:

- the Enaleni name on its own has emerged as a powerful local and empowerment brand and the use of the Cipla name may create the impression that the company is not locally owned;
- the marketing advantage of carrying the Cipla name is best leveraged in the operating division (Cipla Medpro) selling the products licensed and sourced from Cipla India;
- the Enaleni Contract Manufacturing division is housed in the holding company and the use of the Cipla name in this company may result in the incorrect perception that the pharmaceutical plant is a party related to Cipla India and not the local manufacturing company, the latter being more important for our manufacturing customers; and
- branding the holding company with a strong pharmaceutical name such as Cipla could have a negative effect on our natural healthcare divisions.

Thus, the special resolution was not registered with the Registrar of Companies (CIPRO). Consequently, in law, the special resolution has lapsed as it was not registered within a period of six months.

Auditors

The auditors of the company are KPMG Inc.

Going concern

At 31 December 2006, the current liabilities of the group exceeded the current assets by R96 million (2005: R195 million). This is due to a R294 million payable (at discounted present value) due to the Cipla Medpro vendors on or before 30 April 2007. The vendors exceeded their maximum earn-out figures in 2006 and are thus contractually entitled to an additional payment of R300 million. This payment, to be made in two tranches of R150 million each, will be funded through cash reserves in the business and the issue of R154 million worth of five-year cumulative redeemable preference shares bearing dividends at rates linked to prime. The directors believe that the company and group will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the company and group annual financial statements.

Registered office	**Postal address**
1474 South Coast Road	PO Box 32003
Mobeni	Mobeni
4052	4060

Event subsequent to balance sheet date

The directors are not aware of any matter or circumstance which is material to the financial affairs of the company, which has occurred between the balance sheet date and date of approval of the annual financial statements, that has not been otherwise dealt with in the annual financial statements.

PCS LUTHULI
Chairman

TD EDWARDS
Chief executive officer

Durban
16 March 2007

Balance sheets
as at 31 December

COMPANY 2005 R'000	COMPANY 2006 R'000		Notes	GROUP 2006 R'000	GROUP 2005 R'000
		ASSETS			
		Non-current assets			
10 316	**20 360**	Property, plant and equipment	3	**30 261**	22 950
4 727	**4 727**	Intangible assets	4	**1 400 848**	1 170 001
1 254 217	**828 410**	Investment in subsidiaries	5	**–**	–
5 001	**5 059**	Other investments	6	**5 071**	5 010
2 651	**18 873**	Loans receivable	7	**–**	1 917
624	**1 477**	Deferred tax	8	**10 159**	9 901
1 277 536	**878 906**	Total non-current assets		**1 446 339**	1 209 779
		Current assets			
19 216	**23 229**	Inventories	9	**91 718**	60 796
12	**12**	Income tax receivable		**24**	61
43 873	**36 450**	Trade and other receivables	10	**144 280**	113 598
–	**317 308**	Amounts due by subsidiaries	5	**–**	–
–	**–**	Loans receivable	7	**3 453**	887
4 771	**2 073**	Cash and cash equivalents		**182 285**	112 188
67 872	**379 072**	Total current assets		**421 760**	287 530
1 345 408	**1 257 978**	**Total assets**		**1 868 099**	1 497 309
		EQUITY			
403	**409**	Issued share capital	11	**409**	403
875 218	**890 728**	Share premium	11	**890 728**	875 218
–	**–**	Treasury shares		**(18 873)**	(2 651)
2 581	**(4 808)**	Retained earnings		**125 557**	18 596
878 202	**886 329**	Total equity attributable to equity holders of the parent		**997 821**	891 566
–	**–**	Minority interest	11	**(213)**	(1 559)
878 202	**886 329**	**Total equity**		**997 608**	890 007
		LIABILITIES			
		Non-current liabilities			
113 386	**17 777**	Loans and borrowings	12	**350 101**	123 608
–	**–**	Accrued operating leases		**315**	245
1 338	**17 266**	Amounts due to subsidiaries	5	**–**	–
–	**–**	Deferred tax	8	**2 134**	595
114 724	**35 043**	Total non-current liabilities		**352 550**	124 448
		Current liabilities			
4 137	**–**	Bank overdraft		**3 175**	4 768
303 337	**306 520**	Loans and borrowings	12	**308 922**	307 711
–	**–**	Income tax payable		**36 744**	21 813
45 008	**30 086**	Trade and other payables	13	**169 100**	148 562
352 482	**336 606**	Total current liabilities		**517 941**	482 854
467 206	**371 649**	**Total liabilities**		**870 491**	607 302
1 345 408	**1 257 978**	**Total equity and liabilities**		**1 868 099**	1 497 309

Income statements
for the years ended 31 December

COMPANY 2005 R'000	**2006 R'000**		Notes	**GROUP 2006 R'000**	2005 R'000
109 283	**118 786**	**Revenue**		**789 494**	245 078
(70 942)	**(99 497)**	Cost of sales		**(401 102)**	(136 008)
38 341	**19 289**	**Gross profit**		**388 392**	109 070
2 881	**15 056**	Other operating income		**7 478**	4 016
(37 756)	**(55 764)**	Operating expenses		**(205 861)**	(88 157)
(21 445)	**(23 198)**	Staff costs		**(104 657)**	(38 748)
(1 002)	**(528)**	Depreciation		**(3 179)**	(2 013)
(15 309)	**(32 038)**	Other operating expenses		**(98 025)**	(47 396)
3 466	**(21 419)**	**Operating profit (loss) before finance costs and taxation**	14	**190 009**	24 929
(6 957)	**(7 962)**	Finance costs	15	**(32 084)**	(7 862)
585	**18 257**	Finance income	15	**7 446**	1 012
(2 906)	**(11 124)**	**Profit (loss) before taxation**		**165 371**	18 079
(183)	**853**	Taxation	16	**(60 856)**	(5 541)
(3 089)	**(10 271)**	**Profit (loss) for the year**		**104 515**	12 538
		Attributable to:			
(3 089)	**(10 271)**	Equity holders of the parent		**104 079**	13 204
–	**–**	Minority interest		**436**	(666)
(3 089)	**(10 271)**	**Profit (loss) for the year**		**104 515**	12 538
		Earnings per share (cents)			
		Basic	17	**26,0**	11,8
		Diluted	17	**25,5**	11,6

Statements of changes in equity
for the years ended 31 December

	NOTES	SHARE CAPITAL R'000	SHARE PREMIUM R'000	TREASURY SHARES R'000	RETAINED EARNINGS R'000	TOTAL R'000	MINORITY INTEREST R'000	TOTAL EQUITY R'000
		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
GROUP								
Balance at 1 January 2005		–*	–	–	5 154	5 154	(278)	4 876
Total recognised income and expenditure (profit for the period)		–	–	–	13 204	13 204	(666)	12 538
Issue of share capital	11	403	875 218	–	–	875 621	–	875 621
Shares held by share incentive trust		–	–	(2 651)	–	(2 651)	–	(2 651)
IFRS 2 Share-based payments	23	–	–	–	238	238	–	238
Acquisition of minority interest		–	–	–	–	–	(615)	(615)
Balance at 1 January 2006		**403**	**875 218**	**(2 651)**	**18 596**	**891 566**	**(1 559)**	**890 007**
Total recognised income and expenditure (profit for the period)		**–**	**–**	**–**	**104 079**	**104 079**	**436**	**104 515**
Issue of share capital	11	**6**	**18 216**	**–**	**–**	**18 222**	**–**	**18 222**
Share issue expenses		**–**	**(2 706)**	**–**	**–**	**(2 706)**	**–**	**(2 706)**
Shares held by share incentive trust		**–**	**–**	**(16 222)**	**–**	**(16 222)**	**–**	**(16 222)**
IFRS 2 Share-based payments	23	**–**	**–**	**–**	**2 882**	**2 882**	**–**	**2 882**
Acquisition of minority interest		**–**	**–**	**–**	**–**	**–**	**910**	**910**
Balance at 31 December 2006		**409**	**890 728**	**(18 873)**	**125 557**	**997 821**	**(213)**	**997 608**
COMPANY								
Balance at 1 January 2005		–*	–	–	5 432	5 432	–	5 432
Total recognised income and expenditure (loss for the period)		–	–	–	(3 089)	(3 089)	–	(3 089)
Issue of share capital	11	403	875 218	–	–	875 621	–	875 621
IFRS 2 Share-based payments	23	–	–	–	238	238	–	238
Balance at 1 January 2006		**403**	**875 218**	**–**	**2 581**	**878 202**	**–**	**878 202**
Total recognised income and expenditure (loss for the period)		**–**	**–**	**–**	**(10 271)**	**(10 271)**	**–**	**(10 271)**
Issue of share capital	11	**6**	**18 216**	**–**	**–**	**18 222**	**–**	**18 222**
Share issue expenses		**–**	**(2 706)**	**–**	**–**	**(2 706)**	**–**	**(2 706)**
IFRS 2 Share-based payments	23	**–**	**–**	**–**	**2 882**	**2 882**	**–**	**2 882**
Balance at 31 December 2006		**409**	**890 728**	**–**	**(4 808)**	**886 329**	**–**	**886 329**

* *At 1 January 2005 the issued share capital of the company was R100 which is less than the rounding threshold.*

Cash flow statements
for the years ended 31 December

COMPANY 2005 R'000	COMPANY 2006 R'000		Notes	GROUP 2006 R'000	GROUP 2005 R'000
		Cash flows from operating activities			
(13 333)	**(10 495)**	Cash generated (utilised) by operations	24.1	**157 345**	7 918
(6 957)	**(6 266)**	Finance costs		**(29 324)**	(7 862)
585	**372**	Finance income		**7 446**	1 012
–	**–**	Dividends paid	24.2	**–**	(478)
–	**20 000**	Dividends received		**–**	–
(1 909)	**–**	Taxation paid	24.3	**(44 073)**	(22 049)
(43)	**–**	Secondary tax on companies paid	24.4	**(2 086)**	(263)
(21 657)	**3 611**	**Net cash flows from operating activities**		**89 308**	(21 722)
		Cash flows from investing activities			
		Expenditure to maintain operating capacity			
(7 431)	**(12 118)**	Acquisition of property, plant and equipment		**(17 440)**	(7 908)
(1 427)	**–**	Acquisition of intangible assets		**(9 253)**	(4 249)
3 742	**406**	Proceeds on disposals of plant and equipment		**8 872**	4 991
		Expenditure for expansion			
(1 248 367)	**(18 930)**	Acquisition of subsidiaries	25	**(20 350)**	(1 122 824)
–	**(4 000)**	Acquisition of minority interest	25	**(4 000)**	–
(5 001)	**–**	Acquisition of unlisted investment		**–**	(5 001)
(667)	**–**	(Increase) decrease in loans receivable		**(649)**	35 189
(1 259 151)	**(34 642)**	**Net cash flows from investing activities**		**(42 820)**	(1 099 802)
		Cash flows from financing activities			
875 621	**–**	Proceeds from the issue of share capital		**–**	875 621
–	**(719)**	Share issue expenses		**(719)**	–
–	**–**	Treasury shares acquired		**–**	(2 651)
399 409	**33 189**	Increase in loans payable		**25 921**	348 174
1 275 030	**32 470**	**Net cash flows from financing activities**		**25 202**	1 221 144
(5 778)	**1 439**	Net increase in cash and cash equivalents		**71 690**	99 620
6 412	**634**	Cash and cash equivalents at beginning of the year		**107 420**	7 800
634	**2 073**	**Cash and cash equivalents at end of the year**	24.5	**179 110**	107 420

Notes to the financial statements

for the year ended 31 December 2006

General information

Enaleni Pharmaceuticals Limited (the "company") is listed on the Main Board of the JSE Limited and is domiciled in the Republic of South Africa. The consolidated financial statements of the group for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the "group").

These annual financial statements were authorised for issue by the directors on 16 March 2007.

1. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated annual financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC).

b) Basis of preparation

The financial statements are presented in South African Rand, rounded to the nearest thousand. They are prepared on the historical cost basis except for certain financial assets and liabilities measured at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 4 (Intangible assets) and note 23 (Share options and share-based payments) for further details.

The accounting policies set out below have been consistently applied by all group entities and to all periods presented in these consolidated financial statements.

Certain comparative amounts have been reclassified to conform to the current year's presentation. Refer to note 27 for further details.

c) Basis of consolidation

(i) Investment in subsidiaries

Subsidiaries are those entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the effective date that control commences until the date that control ceases.

(ii) Special purpose entities

The group has established a special purpose entity (SPE) for the purposes of holding share options on behalf of employees of the group. The group does not have a direct or indirect shareholding in this entity. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE.

1. SIGNIFICANT ACCOUNTING POLICIES continued

c) Basis of consolidation continued

(ii) Special purpose entities *continued*

The SPE which is controlled by the group has been established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the group receiving all of the benefits related to the SPE's operation and net assets.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the group are accounted for using the book value method. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the group's controlling shareholder's consolidated financial statements. The difference between the purchase consideration and the group's carrying amounts are recognised directly in equity.

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into South African Rand at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into South African Rand at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured on the historical cost basis are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined.

e) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

1. SIGNIFICANT ACCOUNTING POLICIES continued

e) Financial instruments continued

(i) Non-derivative financial instruments *continued*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are measured at fair value.

Accounting for finance income and expense is discussed in accounting policy (p).

Investments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, and for any non-derivative financial assets, less any impairment losses. The discount rate used is the market rate of interest for a similar instrument of an issuer with a similar credit rating.

(ii) Derivative financial instruments

The group holds derivative financial instruments to economically hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and gains or losses are recognised through profit or loss. The group does not apply hedge accounting as per the requirements of IAS 39.

(iii) Share capital

Ordinary share capital

Ordinary share capital is classified as equity and carried at original cost. Incremental costs directly attributable to the issue of new shares or options are recognised as a deduction from equity.

Treasury shares

Where any group entity purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity shareholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's equity shareholders.

Preference share capital

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense.

1. SIGNIFICANT ACCOUNTING POLICIES continued

f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- land, buildings and leasehold improvements – up to 50 years;
- plant and machinery 5 to 15 years;
- office and computer equipment 2 to 10 years; and
- motor vehicles 5 to 8 years.

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

g) Intangible assets

(i) Goodwill

Acquisitions prior to 1 January 2004

As part of its transition to IFRS, the group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the group's previous accounting framework, SA GAAP.

1. SIGNIFICANT ACCOUNTING POLICIES continued

g) Intangible assets continued

(i) Goodwill *continued*

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the residual after measuring the cost of the additional investment and the fair value of the identifiable net assets at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

The useful lives of all other intangible assets acquired by the group are assessed to determine if the useful life is finite or indefinite. Useful lives of intangible assets are reviewed at least at the end of each financial year and altered if estimates have changed significantly. Any change is accounted for by changing the amortisation charge for the current and future periods.

Intangible assets with finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

Intangible assets with indefinite useful lives and goodwill are measured at cost and are not amortised, but are tested for impairment at least annually or whenever any indication of impairment exists.

The following intangible assets currently have an indefinite useful life:

- pharmaceutical dossiers;
- trademarks and registrations; and
- brands.

1. SIGNIFICANT ACCOUNTING POLICIES continued

g) Intangible assets continued

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

h) Investment in subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is goodwill (refer to accounting policy (g)). If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in profit or loss.

i) Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset (refer to accounting policy (f)).

Other leases are classified as operating leases whereby the leased assets are not recognised on the group's balance sheet.

j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Obsolete, redundant and slow-moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

k) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses and reversals of impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

1. SIGNIFICANT ACCOUNTING POLICIES continued

k) Impairment continued

(ii) Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories (refer to accounting policy (j)) and deferred tax assets (refer to accounting policy (q)), are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Termination benefits

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

An accrual is recognised for the amount expected to be paid under short-term cash or performance bonuses and leave pay if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1. SIGNIFICANT ACCOUNTING POLICIES continued

l) Employee benefits continued

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for when forfeiture is only due to share prices not achieving the threshold for vesting.

m) Provisions

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

n) Revenue

Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, and value-added tax. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

p) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

q) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

1. SIGNIFICANT ACCOUNTING POLICIES continued

q) Income tax expense continued

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

r) Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

s) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The group's primary format for segment reporting is based on business segments.

t) Determination of fair values

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

1. SIGNIFICANT ACCOUNTING POLICIES continued

t) Determination of fair values continued

(iii) Investments in equity securities

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted bid price at the reporting date.

(iv) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(v) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(vi) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The fair value of financial guarantees is the price that an independent party is willing to accept in order to assume the risk attached to the guarantee.

(vii) Other

Refer to note 4 for a description of how the fair value of intangible assets are determined and to note 23 for details on the determination of the fair value of share options issued to employees.

Notes to the financial statements
for the year ended 31 December 2006

2. SEGMENT REPORTING

Segment information is presented in respect of the group's business segments. The primary format of the business segments, is based on the group's management and internal reporting structure. Geographical (secondary) segments have not been presented as the group operates mainly in South Africa.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets, other than goodwill.

All segments are continuing operations.

Business segments

The group comprises the following main business segments:

Pharmaceutical: Manufacture and supply of pharmaceutical products.

Consumer and Vitality: Production and distribution of personal care, health, beauty and nutritional products.

	2006				2005			
	PHARMA-CEUTICAL R'000	CONSUMER & VITALITY R'000	ELIMI-NATIONS R'000	GROUP R'000	PHARMA-CEUTICAL R'000	CONSUMER & VITALITY R'000	ELIMI-NATIONS R'000	GROUP R'000
Revenue								
External customers	**673 586**	**115 908**	**–**	**789 494**	166 139	78 939	–	245 078
Inter-segment revenue	**16 732**	**690**	**(17 422)**	**–**	7 655	–	(7 655)	–
Total segment revenue	**690 318**	**116 598**	**(17 422)**	**789 494**	173 794	78 939	(7 655)	245 078
Segment result	**171 172**	**5 386**	**13 451**	**190 009**	17 849	3 280	3 800	24 929
Net finance costs				**(24 638)**				(6 850)
Taxation				**(60 856)**				(5 541)
Profit for the period				**104 515**				12 538
Segment assets	**3 230 214**	**98 827**	**(1 471 125)**	**1 857 916**	1 588 707	53 710	(155 070)	1487 347
Unallocated taxation assets				**10 183**				9 962
Total assets				**1 868 099**				1 497 309
Segment liabilities	**2 069 585**	**114 240**	**(1 352 212)**	**831 613**	560 928	82 429	(58 463)	584 894
Unallocated taxation liabilities				**38 878**				22 408
Total liabilities				**870 491**				607 302
Capital expenditure	**23 262**	**3 431**	**–**	**26 693**	11 898	259	–	12 157
Significant non-cash expenses								
Depreciation (gross)	**(3 806)**	**(1 055)**	**–**	**(4 861)**	(1 205)	(808)	–	(2 013)
Amortisation	**–**	**–**	**–**	**–**	**–**	(20)	–	(20)
Impairment losses on property, plant and equipment and intangible assets	**(4)**	**(9)**	**–**	**(13)**	–	–	–	–
Impairment losses on investments in subsidiaries	**(17 885)**	**–**	**17 885**	**–**	–	–	–	–
Gain on disposal of property, plant and equipment	**119**	**3 486**	**–**	**3 605**	41	34	–	75
Excess of assets acquired over purchase price recognised in profit or loss for the period	**1 184**	**–**	**–**	**1 184**	3 856	–	–	3 856

3. PROPERTY, PLANT AND EQUIPMENT

Group 2006	COST R'000	ACCUMULATED DEPRECIATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Buildings and leasehold improvements	**3 321**	**(529)**	**–**	**2 792**
Plant and machinery	**26 970**	**(6 712)**	**–**	**20 258**
Motor vehicles	**3 236**	**(1 521)**	**–**	**1 715**
Office furniture and computer equipment	**14 015**	**(8 510)**	**(9)**	**5 496**
	47 542	**(17 272)**	**(9)**	**30 261**

Group movement summary 2006	OPENING CARRING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBI-NATIONS R'000	OTHER ACQUI-SITIONS R'000	DIS-POSALS R'000	DEPRE-CIATION R'000	IMPAIR-MENT LOSS R'000	CLOSING CARRYING VALUE R'000
Land, buildings and leasehold improvements	5 407	–	2 246	(4 421)	(440)	–	**2 792**
Plant and machinery	10 061	–	12 124	(410)	(1 517)	–	**20 258**
Motor vehicles	2 256	–	385	(317)	(609)	–	**1 715**
Office furniture and computer equipment	5 226	9	2 685	(120)	(2 295)	(9)	**5 496**
	22 950	9	17 440	(5 268)	(4 861)	(9)	**30 261**

Group 2005	COST R'000	ACCUMULATED DEPRECIATION R'000	CARRYING VALUE R'000
Land, buildings and leasehold improvements	6 541	(1 134)	5 407
Plant and machinery	15 427	(5 366)	10 061
Motor vehicles	3 644	(1 388)	2 256
Office furniture and computer equipment	11 800	(6 574)	5 226
	37 412	(14 462)	22 950

Group movement summary 2005	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBI-NATIONS R'000	OTHER ACQUI-SITIONS R'000	DIS-POSALS R'000	DEPRE-CIATION R'000	CLOSING CARRYING VALUE R'000
Land, buildings and leasehold improvements	3 493	6 178	79	(4 091)	(252)	5 407
Plant and machinery	2 775	1 259	6 993	(168)	(798)	10 061
Motor vehicles	1 750	1 376	–	(506)	(364)	2 256
Office furniture and computer equipment	735	4 354	836	(100)	(599)	5 226
	8 753	13 167	7 908	(4 865)	(2 013)	22 950

Land and buildings is described as remainder of ERF 111, Phoenix Industrial Park, Registration divisions FT, situated in the Durban Entity Province of KwaZulu-Natal, in extent of 8 914 square metres. These were secured in terms of a loan from the Industrial Development Corporation of South Africa Limited. During the 2006 financial period, the land and buildings were disposed of.

Impairment loss

The group acquired certain computer equipment from Galilee Marketing (Proprietary) Limited to the value of R9 000 which was subsequently considered to have a nil recoverable value. Accordingly, these were fully impaired through profit and loss, within the other operating expenses line. Refer to note 14 for separate disclosure thereof.

3. PROPERTY, PLANT AND EQUIPMENT continued

Company 2006	COST R'000	ACCUMULATED DEPRECIATION R'000	CARRYING VALUE R'000
Plant and machinery	**20 977**	**(1 716)**	**19 261**
Motor vehicles	**492**	**(246)**	**246**
Office furniture and computer equipment	**1 813**	**(960)**	**853**
	23 282	**(2 922)**	**20 360**

Company movement summary 2006	OPENING CARRYING VALUE R'000	ACQUI-SITIONS R'000	DISPOSALS R'000	DEPRE-CIATION R'000	CLOSING CARRYING VALUE R'000
Plant and machinery	9 086	11 586	(281)	(1 130)	**19 261**
Motor vehicles	491	–	(129)	(116)	**246**
Office furniture and computer equipment	739	532	(6)	(412)	**853**
	10 316	12 118	(416)	(1 658)	**20 360**

Company 2005	COST R'000	ACCUMULATED DEPRECIATION R'000	CARRYING VALUE R'000
Plant and machinery	9 673	(587)	9 086
Motor vehicles	701	(210)	491
Office furniture and computer equipment	1 327	(588)	739
	11 701	(1 385)	10 316

Company movement summary 2005	OPENING CARRYING VALUE R'000	ACQUI-SITIONS R'000	DISPOSALS R'000	DEPRE-CIATION R'000	CLOSING CARRYING VALUE R'000
Buildings and leasehold improvements	3 469	–	(3 422)	(47)	–
Plant and machinery	2 558	6 992	–	(464)	9 086
Motor vehicles	954	–	(273)	(190)	491
Office furniture and computer equipment	607	439	(6)	(301)	739
	7 588	7 431	(3 701)	(1 002)	10 316

Carrying values of leased plant and equipment

COMPANY 2005 R'000	COMPANY **2006 R'000**		GROUP **2006 R'000**	GROUP 2005 R'000
1 178	**9 054**	Plant and machinery	**9 054**	1 178
–	**–**	Motor vehicles	**888**	459
–	**–**	Office furniture and computer equipment	**54**	40
1 178	**9 054**		**9 996**	1 677

Refer to note 12 which details loans and borrowings secured by property, plant and equipment.

Notes to the financial statements
for the year ended 31 December 2006

4. INTANGIBLE ASSETS

Group 2006	COST R'000	ACCUMULATED AMORTISATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Pharmaceutical dossiers	**1 317 145**	**–**	**–**	**1 317 145**
Trademarks and registrations	**39 427**	**–**	**(4)**	**39 423**
Brands	**43 338**	**–**	**–**	**43 338**
Goodwill	**942**	**–**	**–**	**942**
	1 400 852	**–**	**(4)**	**1 400 848**

Group movement summary 2006	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBINATIONS R'000	OTHER ACQUISITIONS R'000	AMORTISATION R'000	IMPAIRMENT R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	1 118 459	198 686	–	–	–	**1 317 145**
Trademarks and registrations	29 894	280	9 253	–	(4)	**39 423**
Brands	21 648	21 690	–	–	–	**43 338**
Goodwill	–	942	–	–	–	**942**
	1 170 001	221 598	9 253	–	(4)	**1 400 848**

Group 2005	COST R'000	ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000
Pharmaceutical dossiers	1 118 459	–	1 118 459
Trademarks and registrations	29 894	–	29 894
Brands	21 648	–	21 648
	1 170 001	–	1 170 001

Group movement summary 2005	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBINATIONS R'000	OTHER ACQUISITIONS R'000	AMORTISATION R'000	IMPAIRMENT R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	–	1 118 459	–	–	–	1 118 459
Trademarks and registrations	3 300	23 772	2 822	–	–	29 894
Brands	4 600	15 621	1 427	–	–	21 648
Product development costs	–	20	–	(20)	–	–
	7 900	1 157 872	4 249	(20)	–	1 170 001

4. INTANGIBLE ASSETS continued

Company 2006	COST R'000	ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000
Trademarks and registrations	**3 300**	**–**	**3 300**
Brands	**1 427**	**–**	**1 427**
	4 727	**–**	**4 727**

Company movement summary 2006	OPENING CARRYING VALUE R'000	ACQUISITIONS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Trademarks and registrations	3 300	–	–	**3 300**
Brands	1 427	–	–	**1 427**
	4 727	–	–	**4 727**

Company 2005	COST R'000	ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000
Trademarks and registrations	3 300	–	3 300
Brands	1 427	–	1 427
	4 727	–	4 727

Company movement summary 2005	OPENING CARRYING VALUE R'000	ACQUISITIONS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Trademarks and registrations	3 300	–	–	3 300
Brands	–	1 427	–	1 427
	3 300	1 427	–	4 727

Refer to notes 12 (f) and 12 (h) which detail loans and borrowings secured by intangible assets.

a) Assessment of the group's intangible assets

Determining the useful life of an intangible asset requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. For example, the useful life of the right associated with a pharmaceutical product's exclusive patent will be finite and will result in amortisation expense being recorded in the results of operations over a determinable period. However, the useful life associated with a brand that has no patent protection but that retains, and is expected to retain, a distinct market identity could be considered to be indefinite and the asset would not be amortised.

Enaleni has classified its intangible assets as having indefinite useful lives. This conclusion is supported by the following factors:

- the group is able to use the pharmaceutical dossiers, brands and trademarks for the forseeable future;
- typical product life cycles for the pharmaceutical dossiers, brands and trademarks acquired against public information on estimates of useful lives indicate that the intangibles have an indefinite period of forseeable usage; and
- the stability of the pharmaceutical industry and the strong demand in markets within which these products are marketed and sold.

4. INTANGIBLE ASSETS continued

b) Impairment tests for intangible assets with indefinite useful lives

Detailed impairment testing is performed for goodwill and indefinite-life intangible assets annually and for all other intangible assets whenever impairment indicators are present.

Our impairment review process is as follows:

For indefinite-life intangible assets, such as brands, each year and whenever impairment indicators are present, we calculate the fair value of the asset and record an impairment loss for the excess of the carrying value over the fair value, if any. Fair value is generally measured as the net present value of projected cash flows. In addition, a re-evaluation of the remaining useful life of the asset is performed to determine whether continuing to characterise the asset as having an indefinite life is appropriate.

The values of the companies Aldabri 53 (Proprietary) Limited, Bioharmony (Proprietary) Limited, Cipla Medpro Holdings (Proprietary) Limited, Xeragen Laboratories (Proprietary) Limited and Zedchem (Proprietary) Limited, considered to be the smallest cash generating units, have been determined based on a value-in-use calculation. The calculation is based on the projected sustainable free cash flows derived from the intangible asset taking into account the views of future performance as at 31 December 2006. The discount rate used to present value these cash flows takes systematic risks into account.

The recoverable amounts of the brands Sunsafe, Caivil, MenoClove, Kamillen and Universal, considered to be the smallest cash generating units, have been determined based on a value-in-use calculation. The calculation uses a free cash flow model that discounts the free cash flows available from profit after tax generated by the brands.

If the resulting net present value exceeds the carrying value of the intangible asset, the intangible asset is not impaired, however, if the resulting net present value is less than the carrying value, an impairment loss is recorded.

Key assumptions used in value-in-use calculations

Growth in revenue	Determined from financial budgets approved by management covering a five-year period. The growth rates used range between 4% and 46%. A growth rate of between 10% and 30% was used to value Cipla Medpro Holdings (Proprietary) Limited.
Pretax operating margin	Based on previous year's margins as well as past valuation assumptions and approved management budgets. This rate ranges between 8% and 30%. For Cipla Medpro Holdings (Proprietary) Limited a rate of 30% was used.
Survival period	15 years (reasonable in relation to the average life of a dossier).
Book value realised on termination	90% of the value of assets are assumed to be recoverable.
Fair rate of return	11,9% – common fair rate of return used as all companies are exposed to the same risk.
Pretax risk-free rate	8,8% – R194 at 31 December 2006.
Systematic risk premium	6% – generally accepted in South Africa.
Beta	1,1 – average beta of a company exposed to normal systematic risk is 1.
Unsystematic risk premium	0% – investment is part of a diversified portfolio .

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COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		5. INVESTMENT IN SUBSIDIARIES		
1 230 168	**39 407**	Shares at cost less impairment losses	**–**	–
24 049	**789 003**	Amounts due by subsidiaries – non-current	**–**	–
1 254 217	**828 410**	Investment in subsidiaries	**–**	–
–	**317 308**	Amounts due by subsidiaries – current	**–**	–
(1 338)	**(17 266)**	Amounts due to subsidiaries – non-current	**–**	–
1 252 879	**1 128 452**	Net investment in subsidiaries	**–**	–
		Refer to note 25 and Annexure A which detail the group's acquisitions during the year as well as a description of the terms and conditions attached to intergroup borrowings.		
		6. OTHER INVESTMENTS		
		Listed		
–	**–**	Fair value of 500 shares in Old Mutual plc	**12**	9
		The investment in Old Mutual plc shares was designated at fair value through profit or loss on initial recognition		
		Unlisted		
5 001	**5 059**	Investment in Universal Pharmaceuticals (Proprietary) Limited	**5 059**	5 001
5 001	**5 059**		**5 071**	5 010

The company has entered into a call and put option agreement with the shareholders of Universal Pharmaceuticals (Proprietary) Limited, whereby the company has granted the shareholders of Universal Pharmaceuticals (Proprietary) Limited a put option which requires Enaleni to purchase 100% of the issued share capital in Universal Pharmaceuticals (Proprietary) Limited on 1 April 2008, for a total consideration of R6 000 000. In substance the transaction has been accounted for as a business combination in terms of IFRS 3 and the assets of the business have been consolidated into the group. This deferred payment has been discounted to its net present value based on a discount rate of 10,5%, which represents the market rate of interest for a similar instrument of an issuer with a similar credit rating. The discount is being unwound until payment date.

COMPANY 2005 R'000	COMPANY 2006 R'000			GROUP 2006 R'000	GROUP 2005 R'000
		7. LOANS RECEIVABLE			
		Non-current			
2 651	**18 873**	Enaleni Share Incentive Trust	(a)	**–**	–
–	**–**	Kamillen Products (Proprietary) Limited	(b)	**–**	100
–	**–**	TPG Holdings (South Africa) (Proprietary) Limited	(c)	**–**	274
–	**–**	Cipla Agrimed (Proprietary) Limited	(d)	**–**	1 458
–	**–**	Cipla Dibcare (Proprietary) Limited	(d)	**–**	85
2 651	**18 873**			**–**	1 917
		Current			
–	**–**	Cipla Agrimed (Proprietary) Limited	(d)	**2 694**	–
–	**–**	JS Smith	(e)	**759**	887
–	**–**			**3 453**	887

(a) The loan to the Enaleni Share Incentive Trust is in respect of share options granted. The loan is interest free and has no fixed terms of repayment. Refer to note 23 for further details thereof.

(b) The unsecured loan to Kamillen Products (Proprietary) Limited bearing no interest and no fixed terms of repayment, was fully impaired during the financial year as the loan was considered to be irrecoverable.

(c) The loan to TPG Holdings (South Africa) (Proprietary) Limited was repaid during the year. The loan was secured under surety with interest being charged at the prime overdraft rate. The loan was being repaid in monthly instalments of R5 000.

(d) The loans to Cipla Agrimed (Proprietary) Limited and Cipla Dibcare (Proprietary) Limited are unsecured and interest free. There are no fixed terms of repayment.

(e) The loan to JS Smith, approved by the shareholders in a general meeting, is unsecured and interest free. There are no fixed terms of repayment. This loan was repaid during January 2007.

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8. DEFERRED TAX

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2006	2005	**2006**	2005	**2006**	2005
Group	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Property, plant and equipment	**–**	–	**1 623**	491	**1 623**	491
Trademarks	**(785)**	(1 441)	**1 352**	854	**567**	(587)
Inventory	**(252)**	–	**–**	–	**(252)**	–
Operating leases	**(327)**	(209)	**–**	–	**(327)**	(209)
Employee benefit accruals	**(1 386)**	(807)	**–**	–	**(1 386)**	(807)
Impairment of trade receivables	**(624)**	(247)	**–**	–	**(624)**	(247)
Other	**(667)**	(541)	**2 015**	488	**1 348**	(53)
Tax losses carried forward	**(8 974)**	(7 894)	**–**	–	**(8 974)**	(7 894)
Tax (assets) liabilties	**(13 015)**	(11 139)	**4 990**	1 833	**(8 025)**	(9 306)
Setoff of tax	**2 856**	1 238	**(2 856)**	(1 238)	**–**	–
Net tax (assets) liabilities	**(10 159)**	(9 901)	**2 134**	595	**(8 025)**	(9 306)

Movement in temporary differences during the year	BALANCE 1 JANUARY 2005 R'000	RECOGNISED IN PROFIT OR LOSS R'000	ACQUIRED IN BUSINESS COMBI-NATIONS R'000	BALANCE 1 JANUARY 2006 R'000	RECOGNISED IN PROFIT OR LOSS R'000	BALANCE 31 DECEMBER 2006 R'000
Property, plant and equipment	47	140	304	**491**	**1 132**	**1 623**
Trademarks	–	131	(718)	**(587)**	**1 154**	**567**
Inventory	–	–	–	**–**	**(252)**	**(252)**
Operating leases	–	(141)	(68)	**(209)**	**(118)**	**(327)**
Employee benefit accruals	(36)	(300)	(471)	**(807)**	**(579)**	**(1 386)**
Impairment of trade receivables	(126)	271	(392)	**(247)**	**(377)**	**(624)**
Other	–	123	(176)	**(53)**	**1 401**	**1 348**
Tax losses carried forward	(929)	646	(7 611)	**(7 894)**	**(1 080)**	**(8 974)**
Tax (assets) liabilities	(1 044)	870	(9 132)	**(9 306)**	**1 281**	**(8 025)**

8. DEFERRED TAX continued

Company	ASSETS 2006 R'000	ASSETS 2005 R'000	LIABILITIES 2006 R'000	LIABILITIES 2005 R'000	NET 2006 R'000	NET 2005 R'000
Property, plant and equipment	**–**	–	**1 479**	258	**1 479**	258
Operating leases	**(146)**	(138)	**–**	–	**(146)**	(138)
Employee benefit accruals	**(762)**	(204)	**–**	–	**(762)**	(204)
Provision for doubtful debts	**(110)**	–	**–**	–	**(110)**	–
Other	**–**	(16)	**23**	–	**23**	(16)
Tax losses carried forward	**(1 961)**	(524)	**–**	–	**(1 961)**	(524)
Tax (assets) liabilties	**(2 979)**	(882)	**1 502**	258	**(1 477)**	(624)
Set off of tax	**1 502**	258	**(1 502)**	(258)	**–**	–
Net tax (assets) liabilities	**(1 477)**	(624)	**–**	–	**(1 477)**	(624)

Movement in temporary differences during the year	BALANCE 1 JANUARY 2005 R'000	RECOGNISED IN PROFIT OR LOSS R'000	BALANCE 1 JANUARY 2006 R'000	RECOGNISED IN PROFIT OR LOSS R'000	BALANCE 31 DECEMBER 2006 R'000
Property, plant and equipment	47	211	**258**	**1 221**	**1 479**
Operating leases	–	(138)	**(138)**	**(8)**	**(146)**
Employee benefit accruals	(36)	(168)	**(204)**	**(558)**	**(762)**
Provision for doubtful debts	(126)	126	**–**	**(110)**	**(110)**
Other	–	(16)	**(16)**	**39**	**23**
Tax losses carried forward	(692)	168	**(524)**	**(1 437)**	**(1 961)**
Tax (assets) liabilities	(807)	183	**(624)**	**(853)**	**(1 477)**

There were no adjustments to deferred tax that were recognised directly in equity in either the group or the company, with the exception of the IFRS 1, First-time adoption adjustment to depreciation of R47 000. This was deducted from opening retained earnings at 1 January 2005.

Deferred tax assets and liabilities are recognised on the assumption that the assets and liabilities will be recovered through use. A tax rate of 29% was used to compute deferred tax balances.

Deferred tax assets of R980 000 originating from unutilised tax losses were not recognised during the period.

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COMPANY			GROUP	
2005	**2006**		**2006**	2005
R'000	**R'000**		**R'000**	R'000
		9. INVENTORIES		
17 991	**14 960**	Raw materials	**18 650**	21 583
1 061	**615**	Finished goods	**14 585**	9 833
–	**–**	Merchandise	**50 829**	29 216
164	**7 654**	Work-in-progress	**7 654**	164
19 216	**23 229**		**91 718**	60 796
		There are no inventories included above that are stated at net realisable value. Inventories that are considered as obsolete are fully provided for.		
		Carrying value of inventories subject to retention of title clauses:		
–	**–**	Value of inventories owned by Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited which are held on consignment by outside parties	**382**	205

Inventories held as security for loans granted are as described in notes 12 (a) and 12 (f) and for banking facilities, as per note 24.5.

Impairment losses on inventory relate mainly to changes in artwork and design of product packaging. Refer to note 14 for impairment losses recognised during the year.

Notes to the financial statements
for the year ended 31 December 2006

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		10. TRADE AND OTHER RECEIVABLES		
3 974	**5 266**	Trade receivables due from related parties	**–**	–
30 554	**19 900**	Trade receivables due from external parties	**122 039**	99 696
317	**1 187**	Other receivables	**3 046**	2 422
9 028	**10 097**	Prepayments	**12 496**	11 480
–	**–**	Forward exchange contracts	**1 564**	–
–	**–**	Fair value of interest rate swaps	**5 135**	–
43 873	**36 450**		**144 280**	113 598
(703)	**(505)**	Trade receivables are shown net of impairment losses	**(3 359)**	(1 718)

Trade and other receivables held as security for loans granted are as described in notes 12 (a), 12 (f) and 12 (h) and for banking facilities, as per note 24.5.

Financial assets designated at fair value through profit or loss on initial recognition:

Forward exchange contracts

The group uses forward exchange contracts to economically hedge its foreign currency risk. The table below sets out the revaluation of open forward exchange contracts at 31 December:

	GROUP 2006	GROUP 2005
United States Dollar ($'000)	**$1 750**	–
Average forward exchange rate (R/$)	**6,10**	–
Forward Rand value	**10 683**	–
Mark-to-market valuation	**12 247**	–
Recognised fair value gain	**1 564**	–
Dates of maturity: 26 January 2007 – 27 February 2007		

COMPANY 2005 R'000	COMPANY **2006 R'000**		GROUP **2006 R'000**	GROUP 2005 R'000
		10. TRADE AND OTHER RECEIVABLES continued		
		Fair value of interest rate swaps		
		Interest rate swaps were entered into with Nedbank Limited to economically hedge the interest rate exposure of the preference shares that were entered into by Inyanga Trading 386 (Proprietary) Limited with Nedbank Limited.		
		The interest rate swaps are stated at fair value. On subsequent measurement, the gains on the interest rate swaps are recognised in profit and loss and disclosed within net finance costs. At year end the fair values were as follows:		
–	**–**	(i) R125 000 000 fixed at 7,4%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011	**2 137**	–
–	**–**	(ii) R62 669 654 fixed at 7,35%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011	**5 476**	–
–	**–**	(iii) R100 000 000 fixed at 9,18%, linked to the three-month JIBAR, effective 30 April 2007 and expiring on 30 April 2012	**(2 478)**	–
–	**–**		**5 135**	–

Notes to the financial statements
for the year ended 31 December 2006

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		11. SHARE CAPITAL AND RESERVES		
		Authorised share capital		
500	**500**	500 000 000 ordinary shares of 0,1 cent each	**500**	500
		Issued share capital		
		2005: 403 010 792 ordinary shares		
403	**–**	of 0,1 cent each	**–**	403
		2006: 408 490 792 ordinary shares		
–	**409**	of 0,1 cent each	**409**	–
		Number of shares in issue		
100	**403 010 792**	Opening balance	**403 010 792**	100
2 651 000	**4 480 000**	Issue of shares to Enaleni Share Incentive Trust	**4 480 000**	2 651 000
400 359 692	**1 000 000**	Issue of shares to other shareholders	**1 000 000**	400 359 692
403 010 792	**408 490 792**	Closing balance	**408 490 792**	403 010 792
		At 31 December 2006 7 131 000 (2005: 2 651 000) treasury shares were held in the Enaleni Share Incentive Trust which are available to be utilised for the exercise of share options.		
		Share premium		
–	**875 218**	Opening balance	**875 218**	–
875 218	**18 216**	Issue of shares	**18 216**	875 218
–	**(2 706)**	Share issue expenses	**(2 706)**	–
875 218	**890 728**	Closing balance	**890 728**	875 218

Minority interest

Minority interest is disclosed as a debit balance as there is a contractual obligation that binds minority shareholders to share in the losses of the respective subsidiaries.

COMPANY 2005 R'000	COMPANY 2006 R'000			GROUP 2006 R'000	GROUP 2005 R'000
		12. LOANS AND BORROWINGS			
		This note provides information about the contractual terms of the group's loans and borrowings. For more information about the group's exposure to interest-rate risk, refer to note 18.			
981	**72**	Nedbank Limited	(a)	**72**	981
–	**–**	Nedbank Limited	(b)	**151**	233
300 000	**–**	Nedbank Limited	(c)	**–**	300 000
9 596	**7 971**	Nedbank Limited	(d)	**7 971**	9 596
990	**8 760**	Nedbank Limited	(e)	**8 760**	990
–	**–**	Nedbank Limited	(f)	**100 024**	–
–	**–**	Nedbank Limited – preference shares	(g)	**222 000**	–
–	**–**	Nedbank Limited	(h)	**4 000**	–
311 567	**16 803**	**Nedbank Limited**		**342 978**	311 800
–	**–**	ABSA Bank Limited	(i)	**122**	181
–	**–**	Standard Bank Limited	(j)	**27**	49
–	**–**	Industrial Development Corporation of South Africa Limited	(k)	**–**	1 413
–	**–**	The Strydom Trust and the van Biljon Trust	(l)	**4 622**	4 717
–	**–**	The Strydom Trust	(l)	**444**	463
–	**–**	The van Biljon Trust	(l)	**463**	463
1 155	**659**	The Azanian Trust	(m)	**3 104**	5 432
7 155	**5 735**	The Black Family Trust & The Forman Trust	(n)	**5 735**	7 155
91 896	**294 189**	STD Pharma Limited & Shelsley Chemicals (Proprietary) Limited	(o)	**294 189**	91 896
4 950	**4 911**	Universal Pharmaceuticals (Proprietary) Limited	(p)	**4 911**	4 950
–	**–**	STD Pharma Limited	(q)	**–**	5
–	**–**	Coney Limited	(q)	**–**	664
–	**–**	JSSTD Properties (Proprietary) Limited	(q)	**–**	60
–	**2 000**	MJB De Ascencao	(r)	**2 047**	1 599
–	**–**	Wesbank	(s)	**381**	472
105 156	**307 494**	**Total other**		**316 045**	119 519
416 723	**324 297**	**Total loans and borrowings**		**659 023**	431 319

Notes to the financial statements
for the year ended 31 December 2006

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		12. LOANS AND BORROWINGS continued		
416 723	**324 297**	**Total loans and borrowings brought foward**	**659 023**	431 319
		Comprising:		
		Current portion		
302 842	**4 101**	Nedbank Limited	**4 253**	302 984
–	**–**	ABSA Bank Limited	**81**	62
–	**–**	Standard Bank Limited	**27**	49
–	**–**	Industrial Development Corporation of South Africa Limited	**–**	1 413
495	**495**	The Azanian Trust	**2 328**	2 328
–	**5 735**	The Black Family Trust & The Forman Trust	**5 735**	–
–	**294 189**	STD Pharma Limited & Shelsley Chemicals (Proprietary) Limited	**294 189**	–
–	**–**	STD Pharma Limited	**–**	5
–	**–**	Coney Limited	**–**	664
–	**–**	JSSTD Properties (Proprietary) Limited	**–**	60
–	**2 000**	MJB De Ascencao	**2 047**	–
–	**–**	Wesbank	**262**	146
303 337	**306 520**	**Total current portion**	**308 922**	307 711
113 386	**17 777**	**Total non-current portion**	**350 101**	123 608
		Finance lease liabilities		
		The future minimum lease payments under finance leases are as follows:		
360	**3 033**	– Less than one year	**3 481**	816
895	**7 812**	– Between two and five years	**8 314**	1 593
–	**–**	– More than five years	**–**	–
1 255	**10 845**	Total future minimum lease payments	**11 795**	2 409
(265)	**(2 085)**	Interest	**(2 354)**	(484)
990	**8 760**	Present value of future minimum lease payments	**9 441**	1 925

12. LOANS AND BORROWINGS continued

a) This loan facility of R16 million will reduce to nil by 30 April 2009. It bears interest at prime (12,5%) less 1,5% and has no fixed repayment terms. This loan is secured by a general notarial bond over inventory, the cession of book debts and plant and equipment of Enaleni Pharmaceuticals Limited and the cession of the shares and loan accounts held in Aldabri 53 (Proprietary) Limited and Kamillen Pharmaceuticals (Proprietary) Limited.

b) This loan is secured in terms of two suspensive sale agreements over vehicles having a carrying value of R282 945. The average interest rate varies between 10,5% and the prime overdraft rate. These loans are repayable in equal monthly instalments of R19 160 ending in July and September 2007 respectively.

c) During the current financial year, this loan was settled with Nedbank Limited. The group financed this transaction through the issue of preference shares to the value of R222 million as described in note 12 (g) and the remainder of the liability was settled in cash.

d) This loan is repayable in 60 equal instalments of R214 507. The loan currently bears interest at 10,5% per annum linked to the prime overdraft rate, and is secured by an unlimited suretyship by Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited and an unlimited pledge of shares held in Xeragen Laboratories (Proprietary) Limited by Enaleni Pharmaceuticals Limited.

e) This liability relates to the lease of plant and machinery with a carrying value of R9 053 571 (2005: R1 177 989) secured under instalment sale agreements ending in 2009 and 2010. These are repaid in fixed equal monthly instalments of R209 564. Interest is charged at the prime overdraft rate.

f) This loan bore interest at rates linked to the prime overdraft rate until 31 December 2006 and at rates linked to the JIBAR rate thereafter. The loan is repayable in full on 28 September 2011, with interest payable bi-annually. The loan is secured through guarantees and subordination of their claims against Cipla Medpro Holdings (Proprietary) Limited by each of Cipla Medpro Holdings (Proprietary) Limited subsidiaries and its holding company, Inyanga Trading 386 (Proprietary) Limited, the pledge and cession of Inyanga's shares in Cipla Medpro Holdings (Proprietary) Limited, a general notarial bond over the movable assets of Cipla Medpro Holdings (Proprietary) Limited and its subsidiaries, the cession of trade receivables, cash balances, insurances and claims of the Cipla Medpro Group and Inyanga Trading 386 (Proprietary) Limited, and the pledge and hypothecation of rights in intellectual property held by Cipla Medpro Holdings (Proprietary) Limited and its subsidiaries.

g) This financial liability relates to a variable rate cumulative compulsory redeemable preference share investment entered into on 29 September 2006 between Inyanga Trading 386 (Proprietary) Limited and Depfin Investments (Proprietary) Limited, a subsidiary company of Nedbank Limited. These preference shares have been accounted for as a financial liability as the group has an obligation to settle in cash both the redemption and servicing of the interest thereon. The preference shares in issue at 31 December 2006 are a combination of classes 'A' and 'B' preference shares, each with a par value of 1 cent. There are presently 17 500 'A' preference shares and 4 700 'B' preference shares in issue, at a subscription price of R10 000 each.

The group has the right to redeem the issued shares at any time, with compulsory redemption required on 1 October 2011. The redemption price is an amount equal to the subscription price. All classes of preference shares bear interest at rates linked to the prime overdraft rate, payable semi-annually in arrears.

There are 37 600 preference shares which have been authorised for issue in total, all with similar terms attached. The unissued shares are expected to be issued during April 2007, and comprise 2 900 'B' preference shares and 12 500 'C' preference shares.

This facility is secured via a put option to Enaleni Pharmaceuticals Limited of Inyanga Trading 386 (Proprietary) Limited's obligations under the agreement with Depfin Investments (Proprietary) Limited and by the cession of Enaleni Pharmaceuticals Limited's shareholding against Inyanga Trading 386 (Proprietary) Limited and the Cipla Medpro Holdings (Proprietary) Limited subsidiary companies.

12. LOANS AND BORROWINGS continued

h) This loan is a five-year term facility of R24 million granted to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited. The amount currently utilised of R4 million, currently bears interest at 13,46% per annum linked to the JIBAR rate and is secured through:

– the pledge and hypothecation of rights to the trade marks and patents acquired through the purchase of the net assets of Bioharmony (Proprietary) Limited and Galilee Marketing (Proprietary) Limited;

– the pledge and cession of the book debts, cash deposits, insurances and claims of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, Bioharmony (Proprietary) Limited and Galilee Marketing (Proprietary) Limited; and

– a guarantee by Bioharmony (Proprietary) Limited, Galilee Marketing (Proprietary) Limited, Inyanga Trading 386 (Proprietary) Limited and Cipla Medpro Holdings (Proprietary) Limited and their group of companies.

i) This loan is secured in terms of suspensive sale agreements over vehicles having a carrying value of R193 071 and computer equipment having a carrying value of R26 485. Interest is charged at a rate between 10,5% per annum and the prime overdraft rate. This loan is repayable in equal monthly instalments of R6 889 with final settlement dates varying between January 2008 and March 2009.

j) This amount, repayable in equal monthly instalments of R2 248, relates to an instalment sale agreement capitalised at an effective rate of 0,674% above the prime overdraft rate and secured over computer equipment with a carrying value of R27 735.

k) This loan was repaid during the year. It bore interest at 4,5% below the prime overdraft rate and was secured by a mortgage bond over land and buildings with a carrying value of R4,5 million, and a general notarial bond for R6,6 million over all the moveable assets of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited.

l) These loans are unsecured, interest free and have no fixed terms of repayment.

m) This loan bears interest at rates linked to the CPIX rate. The loan is repayable in 36 equal monthly instalments of R194 000 ending on 30 April 2008.

n) This liability represents the present value of the deferred purchase consideration payable for the acquisition of Xeragen Laboratories (Proprietary) Limited. The loan is interest free and is repayable by 1 September 2007.

o) This liability represents the present value of the deferred purchase consideration payable for the acquisition of Cipla Medpro Holdings (Proprietary) Limited. Up to 31 December 2006, the contingent portion of the deferred purchase consideration was dependent upon predetermined earn-out figures, which have since been achieved. The loan is interest free and is repayable by 30 April 2007.

p) This liability represents the present value of the deferred purchase price payable for the acquisition of Universal Pharmaceuticals (Proprietary) Limited. The loan is interest free, and is due by 1 April 2008.

q) These loans were unsecured and interest free. They were repaid during the year.

r) This liability is interest free and the portion above R2 million has no fixed terms of repayment. R2 million of the outstanding balance was settled in February 2007, via the issue of shares in the Company at a market-related price, as agreed between the Company and MJB De Ascencao.

s) This loan is secured in terms of suspensive sale agreements over vehicles having a carrying value of R411 709 (2005: R458 864). The average interest rate varies between 9,4% and the prime bank overdraft rate, repayable in monthly instalments of R12 844 (2005: R15 137) ending in December 2010.

Notes to the financial statements

for the year ended 31 December 2006

COMPANY			GROUP	
2005	**2006**		**2006**	2005
R'000	**R'000**		**R'000**	R'000
		13. TRADE AND OTHER PAYABLES		
653	**315**	Trade payables due to related parties	**–**	–
19 459	**15 841**	Trade payables due to external parties	**127 095**	100 548
24 896	**13 930**	Other payables and accruals	**36 858**	44 706
–	**–**	Forward exchange contracts	**–**	3 308
–	**–**	Interest payable on preference shares	**5 147**	–
45 008	**30 086**		**169 100**	148 562
		Financial liabilities designated at fair value through profit or loss on initial recognition:		
		Forward exchange contracts		
		The group uses forward exchange contracts to economically hedge its foreign currency risk. The table below sets out the revaluation of open forward exchange contracts at 31 December:		
		United States Dollar ($'000)	**–**	$15 200
		Average forward exchange rate (R/$)	**–**	6,61
		Forward Rand value	**–**	100 399
		Mark-to-market valuation	**–**	97 091
		Recognised fair value loss	**–**	3 308
		Dates of maturity:		
		17 January 2006 – 27 November 2006		
		Interest payable on preference shares		
		This relates to interest payable on variable rate cumulative redeemable preference shares in issue. Refer to note 12 (g) for the terms thereof.		
		Arrear interest payable:		
–	**–**	17 500 'A' preference shares	**4 001**	–
–	**–**	4 700 'B' preference shares	**1 146**	–
–	**–**		**5 147**	–
		14. OPERATING PROFIT (LOSS) BEFORE FINANCE COSTS AND TAXATION		
		Operating profit (loss) before finance costs and taxation is stated after:		
		Income		
(41)	**–**	Gain on disposal of property, plant and equipment	**(3 616)**	(75)
–	**–**	Gain on fair value adjustment of listed investment	**(3)**	(1)
–	**–**	Excess of assets acquired over purchase price (negative goodwill)	**(1 184)**	(3 856)
–	**–**	Unrealised gain on forward exchange contracts	**(1 564)**	(155)
–	**(56)**	Unrealised gain on foreign exchange	**(56)**	–

Notes to the financial statements

for the year ended 31 December 2006

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		14. OPERATING PROFIT (LOSS) BEFORE FINANCE COSTS AND TAXATION continued		
		Expenditure		
–	**11**	Loss on disposal of property, plant and equipment	**11**	–
1 002	**1 658**	Depreciation (gross)	**4 861**	2 013
–	**–**	Amortisation	**–**	20
21 445	**23 198**	Staff costs	**104 657**	38 748
238	**2 882**	– share options	**2 882**	238
308	**438**	– defined contribution costs	**853**	669
3 530	**6 459**	– directors' remuneration (refer to note 20 for detailed disclosure of emoluments paid to the company's directors)	**20 222**	6 039
17 369	**13 419**	– other staff costs	**80 700**	31 802
678	**1 206**	Auditor's remuneration	**2 516**	1 000
665	**890**	– audit fees	**2 145**	964
13	**316**	– other	**371**	36
2 496	**222**	Lease rentals	**8 203**	3 059
1 144	**20 381**	Impairment losses	**4 494**	5 525
–	**–**	– property, plant and equipment	**9**	–
–	**–**	– intangible assets	**4**	–
703	**96**	– trade receivables	**1 027**	1 718
441	**2 400**	– inventories	**3 454**	3 807
–	**17 885**	– investments in subsidiaries	**–**	–
–	**–**	Realised losses on foreign exchange	**3 806**	–
–	**–**	Research costs	**–**	116
		15. FINANCE COSTS AND FINANCE INCOME		
3 264	**2 125**	Borrowings	**18 730**	4 122
–	**–**	Bank overdraft	**1 035**	15
3 667	**1 382**	Notional interest	**7 581**	3 667
–	**3 000**	Raising fees	**3 000**	–
26	**412**	Suspensive sale agreements and finance leases	**510**	45
–	**1 043**	Other	**1 228**	13
6 957	**7 962**	Finance costs	**32 084**	7 862
(585)	**(18 257)**	Finance income	**(7 446)**	(1 012)
6 372	**(10 295)**	**Net finance costs and finance income**	**24 638**	6 850

A dividend of R20 million declared by Galilee Marketing (Proprietary) Limited to the company is included in finance income above. Of this amount, R2,1 million was declared out of pre-acquisition profits.

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		16. TAXATION		
		Current tax expense		
–	–	Current year	**56 432**	4 671
–	–	Prior year underprovision	**518**	–
–	–		**56 950**	4 671
		Deferred tax expense		
156	**(853)**	Origination and reversal of temporary differences	**1 327**	672
27	–	Reduction in tax rate	–	135
–	–	Prior year (over) underprovision	**(46)**	63
183	**(853)**		**1 281**	870
		Secondary taxation on companies		
–	–	Current year	**2 625**	–
183	**(853)**	**Total income tax expense**	**60 856**	5 541

Reconciliation of effective tax rate	**2006 %**	**2006 R'000**	2005 %	2005 R'000
Group				
Profit for the year		**104 515**		12 538
Total income tax expense		**60 856**		5 541
Profit excluding income tax		**165 371**		18 079
Income tax using the company's domestic tax rate	**29,00**	**47 958**	29,00	5 243
Learnership allowance	–	–	(1,00)	(181)
Non-deductible expenses net of tax exempt income	**5,34**	**8 821**	3,05	551
Unutilised assessed losses	**0,59**	**980**	–	–
Reduction in tax rate	–	–	(0,75)	(135)
Secondary taxation on companies	**1,59**	**2 625**	–	–
Current tax – prior year adjustments	**0,31**	**518**	–	–
Deferred tax – prior year adjustments	**(0,03)**	**(46)**	0,35	63
	36,80	**60 856**	30,65	5 541
Company				
Loss for the year		**(10 271)**		(3 089)
Total income tax expense		**(853)**		183
Loss excluding income tax		**(11 124)**		(2 906)
Income tax using the company's domestic tax rate	**29,00**	**(3 226)**	29,00	(843)
Learnership allowance	–	–	6,09	(177)
Non-deductible expenses net of tax exempt income	**(12,52)**	**1 393**	(40,46)	1 176
Unutilised assessed losses	**(8,81)**	**980**	–	–
Reduction in tax rate	–	–	(0,93)	27
	7,67	**(853)**	(6,30)	183

No provision has been made for current taxation as the company has an estimated tax loss of R10 139 975 (2005: R1 805 520). The company recognises deferred tax assets to the extent that is probable that taxable profits will be available against which the associated unutilised tax losses can be utilised.

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COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		17. EARNINGS PER SHARE		
		Basic earnings per share		
		The calculation of basic earnings per share at 31 December 2006 is based on the profit attributable to ordinary shareholders of R104 079 000 (2005: R13 204 000) and a weighted average number of ordinary shares outstanding of R400 609 107 (2005: 112 118 705), calculated as follows:		
		Profit attributable to ordinary shareholders	**104 079**	13 204
		Weighted average number of ordinary shares:		
		Issued ordinary shares at 1 January	**403 010 792**	75 000 000
		Effect of own shares held included above (treasury shares)	**(2 651 000)**	(1 648 704)
		Effect of shares issued in October 2006	**249 315**	–
		Effect of shares issued in May 2005	**–**	17 752 660
		Effect of shares issued in June 2005	**–**	5 726 026
		Effect of shares issued in October 2005	**–**	1 260 274
		Effect of shares issued in December 2005	**–**	14 028 449
		Weighted average number of ordinary shares	**400 609 107**	112 118 705
		Basic earnings per share (cents)	**26,0**	11,8
		Diluted earnings per share		
		The calculation of diluted basic earnings per share at 31 December 2006 is based on the profit attributable to ordinary shareholders of R104 079 000 (2005: R13 204 000) and a weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 408 529 608 (2005: 113 988 341), calculated as follows:		
		Profit attributable to ordinary shareholders	**104 079**	13 204
		Weighted average number of ordinary shares (diluted):		
		Weighted average number of ordinary shares at 31 December	**400 609 107**	112 118 705
		Effect of share options in issue	**7 395 658**	1 869 636
		Effect of contingently issuable ordinary shares	**524 843**	–
		Weighted average number of ordinary shares (diluted) at 31 December	**408 529 608**	113 988 341
		Diluted earnings per share (cents)	**25,5**	11,6

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COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		17. EARNINGS PER SHARE continued		
		Headline earnings per share		
		The calculation of headline earnings per share at 31 December 2006 is based on the headline earnings attributable to ordinary shareholders of R99 822 000 (2005: R10 103 000) and a weighted average number of ordinary shares outstanding 400 609 107 (2005: 112 118 705), calculated as follows:		
		Reconciliation of headline earnings:		
		Profit attributable to ordinary shareholders	**104 079**	13 204
		Adjusted for non-trading items	**(4 257)**	(3 101)
		Restructuring costs	**–**	830
		Gain on disposals of property, plant and equipment	**(3 073)**	(75)
		Excess of assets acquired over purchase price (negative goodwill)	**(1 184)**	(3 856)
		Headline earnings	**99 822**	10 103
		Headline earnings per share (cents)	**24,9**	9,0
		Diluted headline earnings per share		
		The calculation of diluted headline earnings per share at 31 December 2006 is based on the headline earnings attributable to ordinary shareholders of R99 822 000 (2005: R10 103 000) and a weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 408 529 608 (2005: 113 988 341):		
		Diluted headline earnings per share (cents)	**24,4**	8,9

18. FINANCIAL RISK MANAGEMENT

Exposure to foreign currency, interest rate, credit and liquidity risk arises in the normal course of the group's business. Derivatives are used to economically hedge exposure to fluctuations in foreign exchange rates and interest rates.

The group's financial instruments consists mainly of deposits with banks, short-term investments, accounts receivable, accounts payable, loans to and from subsidiaries and derivative financial instruments.

Foreign currency risk management

The group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of group entities i.e. South African Rand. The currencies giving rise to this risk are primarily Pounds Sterling (GBP) and United States Dollars (USD). The group uses forward exchange contracts to economically hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after the reporting date. Where necessary, the forward exchange contracts are rolled over at maturity. Refer to note 10 which sets out the revaluation of open forward exchange contracts at 31 December 2006 and to note 13 for the revaluation of the open forward exchange contracts at 31 December 2005.

Interest rate management

The group's investments in fixed-rate debt securities and its fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The group's investments in variable-rate debt securities and its variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk. Refer to note 12(g) which describes the terms and conditions attached to variable rate preference shares in issue.

The group adopts a policy of regularly reviewing interest rate exposure, and maintains both fixed and floating rate borrowings. During the year, the group entered into interest rate swaps to economically hedge against fluctuations in interest rates. Refer to note 10 for further details of the interest rate swaps.

Credit risk management

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables comprise a wide customer base. Where appropriate, credit guarantee insurance cover is purchased.

At the reporting date the group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives in the balance sheet.

Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash resources and ensuring the availability of funding through an adequate amount of credit facilities. The group aims to maintain flexibility by monitoring cash flow forecasts, good working capital management and ensuring adequate borrowing facilities are maintained.

Fair values

All loans and receivables and financial liabilities not at fair value through profit or loss are carried at amortised cost. The carrying value of trade and other receivables, trade and other payables, instalment sale and deferred purchase consideration obligations approximate fair value as the effective interest rate method is used to determine the carrying value. The credit terms of trade payables and trade receivables are of short duration and the time value of money is not expected to have a significant influence on these balances. It is not viable to determine the fair value of intercompany receivables and payables with no fixed repayment or interest terms.

19. RELATED PARTIES

Transactions with related parties, except where otherwise noted, are conducted on an arm's length basis and on the same payment terms as those transacted with third parties. None of the balances are secured. Intragroup balances and material unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

The group has a related party relationship between its holding company, fellow subsidiaries and with its directors and key management personnel.

(i) Transactions with directors and key management personnel

a) Loans (direct/indirect)

At 31 December 2006, Cipla Medpro Holdings (Proprietary) Limited, a subsidiary company in the group, had a loan outstanding of R758 871 (2005: R886 986) owed by JS Smith, a director of Cipla Medpro Holdings (Proprietary) Limited. This loan is unsecured, interest free and has no fixed terms of repayment. The loan was repaid during January 2007.

At 31 December 2006, Cipla Medpro Holdings (Proprietary) Limited, a subsidiary company in the group, had a loan receivable of R2 693 957 (2005: R1 457 838) from associate company Cipla Agrimed (Proprietary) Limited, of which JS Smith is also a director. This loan is unsecured, interest free and has no fixed terms of repayment.

At 31 December 2006, Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, a subsidiary company in the group, had a loan payable of R46 616 (2005: R1 599 176 owed by Bioharmony (Proprietary) Limited) to MJB De Ascencao, a director of Bioharmony (Proprietary) Limited. This loan is unsecured, interest free and has no fixed terms of repayment.

At 31 December 2006, Enaleni Pharmaceuticals Limited, had a loan payable of R2 000 000 to MJB De Ascencao, a director of Bioharmony (Proprietary) Limited. This represents the balance owing for the purchase of the remaining 49% shareholding in Bioharmony (Proprietary) Limited, that Enaleni Pharmaceuticals Limited did not own. This loan was settled in February 2007.

At 31 December 2006, Aldabri 53 (Proprietary) Limited, a subsidiary company in the group, had the following loans payable to outside shareholders which were interest free and bore no fixed terms of repayment:

COMPANY			GROUP	
2005 R'000	**2006 R'000**		**2006 R'000**	2005 R'000
–	**–**	The Strydom Trust and the van Biljon Trust	**4 622**	4 717
–	**–**	The Strydom Trust	**444**	463
–	**–**	The van Biljon Trust	**463**	463
–	**–**		**5 529**	5 643

At 31 December 2006, Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, a subsidiary company in the group, and Enaleni Pharmaceuticals Limited, had loans payable to the Azanian Trust of R3 104 000 (2005: R5 432 000). These loans bear interest at rates linked to the CPIX rate. DJ Cullen is a director of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited and a trustee of the Azanian Trust.

b) Property leases

During the year, Cipla Medpro Holdings (Proprietary) Limited, leased property from JSSTD Properties (Proprietary) Limited. JS Smith is a director of both Cipla Medpro Holdings (Proprietary) Limited and JSSTD Properties (Proprietary) Limited. Lease rentals paid during the year amounted to R465 072 (2005: R387 560), with an amount of R352 188 (2005: R59 940) still outstanding at 31 December 2006.

During the year, Xeragen Laboratories (Proprietary) Limited, leased property from Glen Park Trust. T Edwards and D Black are directors of Xeragen Laboratories (Proprietary) Limited and trustees of the Glen Park Trust. Lease rentals paid during the year amounted to R108 200 (2005: R3 400). There were no amounts outstanding at the end of the year (2005: nil).

During the year, Xeragen Laboratories (Proprietary) Limited, leased property from Phormpak SA (Proprietary) Limited. D Black is a director of both Xeragen Laboratories (Proprietary) Limited and Phormpak SA (Proprietary) Limited. Lease rentals paid during the year amounted to R233 096 (2005: R79 366). There were no amounts outstanding at the end of the year (2005: nil).

19. RELATED PARTIES continued

(i) Transactions with directors and key management personnel continued

c) Compensation

In addition to their salaries, the group also provide non-cash benefits in the form of share options to directors. Refer to note 23 for details of share options granted to directors.

Key management personnel participate in the group's share option programme. As set out in note 23, 250 000 share options were granted to key management personnel during the year, with a total of 2 581 000 share options outstanding at the end of 31 December 2006.

(ii) Transactions with subsidiaries

The group is controlled by Enaleni Pharmaceuticals Limited. The group's subsidiaries are as follows:

Direct interest

Xeragen Laboratories (Proprietary) Limited
Zedchem (Proprietary) Limited
Aldabri 53 (Proprietary) Limited
Bioharmony (Proprietary) Limited
Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited
Kamillen Pharmaceuticals (Proprietary) Limited
Kamillen Products (Botswana) (Proprietary) Limited
Inyanga Trading 386 (Proprietary) Limited
Galilee Marketing (Proprietary) Limited

Indirect interest

Cipla Medpro Holdings (Proprietary) Limited
CPF International (Proprietary) Limited
Adroit Pharmaceuticals (Proprietary) Limited

Indirect interest through Cipla Medpro Holdings (Proprietary) Limited

Cipla Dibcare (Proprietary) Limited
Gardian Cipla (Proprietary) Limited
Cipla Medpro ARV (Proprietary) Limited
Medpro Holdings (Proprietary) Limited
Cipla Vet (Proprietary) Limited
Cipla Medpro Distribution Centre (Proprietary) Limited
Medpro Gen (Proprietary) Limited
Medpro Pharmaceutica (Proprietary) Limited
Cipla-Medpro (Proprietary) Limited
Smith and Couzin (Proprietary) Limited
Medpro-On-Line (Proprietary) Limited
Cipla Health Care (Proprietary) Limited
Cipla Personal Care (Proprietary) Limited
Cipla Medpro Cardio Respiratory (Proprietary) Limited
Cipla Life Sciences (Proprietary) Limited
Cipla Agrimed (Proprietary) Limited – associate

The Enaleni Group also includes the Enaleni Pharmaceuticals Share Incentive Trust

Notes to the financial statements
for the year ended 31 December 2006

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		19. RELATED PARTIES continued		
		(ii) Transactions with subsidiaries continued		
		a) Transactions		
		The following transactions were carried out by Enaleni Pharmaceuticals Limited with subsidiary companies:		
		(i) Revenue		
(757)	**(4 715)**	Bioharmony (Proprietary) Limited	**–**	–
–	**(1 935)**	Xeragen Laboratories (Proprietary) Limited	**–**	–
–	**(689)**	Cipla Medpro Holdings (Proprietary) Limited	**–**	–
(6 898)	**(9 393)**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
(7 655)	**(16 732)**	Subtotal subsidiaries	**–**	–
–	**–**	MJB De Ascencao	**–**	(625)
(7 655)	**(16 732)**		**–**	(625)
		(ii) Management fees		
–	**(12 363)**	Cipla Medpro Holdings (Proprietary) Limited	**–**	–
–	**(457)**	Xeragen Laboratories (Proprietary) Limited	**–**	–
–	**(100)**	Aldabri 53 (Proprietary) Limited	**–**	–
–	**(87)**	Bioharmony (Proprietary) Limited	**–**	–
–	**(676)**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
–	**(13 683)**		**–**	–
		(iii) Interest on intercompany loan		
–	**654**	Cipla Medpro Holdings (Proprietary) Limited	**–**	–
		(iv) Dividends received		
–	**(20 000)**	Galilee Marketing (Proprietary) Limited	**–**	–
		The following transaction was carried out by Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited with related parties:		
		(v) Revenue		
		Zedchem (Proprietary) Limited – R89 000		
		The following transaction was carried out by Cipla Medpro Holdings (Proprietary) Limited with related parties:		
		(vi) Dividends paid		
		Inyanga Trading 386 (Proprietary) Limited R20 000 000		

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		19. RELATED PARTIES continued		
		b) Amounts due (to) from subsidiary companies		
(644)	**(3 098)**	Xeragen Laboratories (Proprietary) Limited	**–**	–
(694)	**(599)**	Zedchem (Proprietary) Limited	**–**	–
870	**6 606**	Aldabri 53 (Proprietary) Limited	**–**	–
1 634	**–**	Bioharmony (Proprietary) Limited	**–**	–
21 545	**38 424**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
–	**1 057 907**	Inyanga Trading 386 (Proprietary) Limited	**–**	–
–	**(10 195)**	Cipla Medpro Holdings (Proprietary) Limited – indirectly	**–**	–
22 711	**1 089 045**		**–**	–
		Refer to Annexure A for the terms and conditions of the above balances.		
		c) Amounts due from Share Incentive Trust		
2 651	**18 873**	Enaleni Share Incentive Trust	**–**	–
		d) Trade and other receivables/payables due (to) from subsidiary companies		
(653)	**–**	Aldabri 53 (Proprietary) Limited	**–**	–
852	**–**	Bioharmony (Proprietary) Limited	**–**	–
–	**462**	Xeragen Laboratories (Proprietary) Limited	**–**	–
3 122	**4 804**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
–	**(315)**	Cipla Medpro Holdings (Proprietary) Limited – indirectly	**–**	–
3 321	**4 951**		**–**	–

e) Amounts due between fellow subsidiaries

Due from Inyanga Trading 386 (Proprietary) Limited to Cipla Medpro Holdings (Proprietary) Limited – R180 814 702.

Due from Adroit Pharmaceuticals (Proprietary) Limited to Xeragen Laboratories (Proprietary) Limited – R268 597.

Due from CPF International (Proprietary) Limited to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited – R35 951.

Due from Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited to Bioharmony (Proprietary) Limited – R5 120 861.

Due from Cipla Dibcare (Proprietary) Limited to Cipla Medpro Holdings (Proprietary) Limited – 2006: nil (2005: R85 043).

f) Related party guarantees and securities

Refer to notes 12 and 24.5 for details of guarantees given or received by group companies.

Notes to the financial statements
for the year ended 31 December 2006

20. DIRECTORS' EMOLUMENTS

31 December 2006	FEES FOR OTHER SERVICES R'000	BASIC SALARY FOR SERVICES AS DIRECTOR R'000	BONUS R'000	OTHER BENEFITS R'000	RETIREMENT AND MEDICAL BENEFITS [1] R'000	TOTAL 2006 R'000
Executive directors						
TD Edwards *(CEO)*	–	1 507	84	90	365	2 046
AG Hall *(CFO)*	–	636	–	38	141	815
U Parusnath	–	499	68	84	56	707
PA Pillay	–	360	52	76	80	568
NM Sithole [2]	–	226	31	61	24	342
JS Smith	–	5 601	63	190	38	5 892
S Whitfield	–	1 103	75	72	76	1 326
DE Wolfson [2]	–	237	35	69	78	419
Total A	**–**	**10 169**	**408**	**680**	**858**	**12 115**
Non-executive directors						
PCS Luthuli *(Chairman)*	135	–	–	–	–	135
T Dingaan	46	–	–	–	–	46
GS Mahlati	39	–	–	–	–	39
MT Mosweu	–	–	–	–	–	–
EN Rapoo [2]	16	–	–	–	–	16
Total B	**236**	**–**	**–**	**–**	**–**	**236**
Total directors' emoluments paid (A + B)	**236**	**10 169**	**408**	**680**	**858**	**12 351**
Emoluments paid by:						
Enaleni Pharmaceuticals Limited	**236**	**4 568**	**345**	**490**	**820**	**6 459**
Emoluments paid by subsidiaries	**–**	**5 601**	**63**	**190**	**38**	**5 892**

Directors' emoluments for the year ended 31 December 2005	FEES FOR OTHER SERVICES R'000	BASIC SALARY FOR SERVICES AS DIRECTOR R'000	BONUS R'000	OTHER BENEFITS R'000	RETIREMENT AND MEDICAL BENEFITS [1] R'000	TOTAL 2005 R'000
Executive directors						
TD Edwards *(CEO)*	–	718	–	90	176	984
S Whitfield *(CFO)*	–	736	–	78	71	885
U Parusnath	–	350	–	80	56	486
PA Pillay	–	261	–	76	63	400
NM Sithole	–	257	–	73	28	358
DE Wolfson	–	264	–	76	60	400
Total A	**–**	**2 586**	**–**	**473**	**454**	**3 513**
Non-executive directors						
PCS Luthuli *(Chairman)*	17	–	–	–	–	17
Total B	**17**	**–**	**–**	**–**	**–**	**17**
Total emoluments paid by Enaleni Pharmaceuticals Limited (A + B)	**17**	**2 586**	**–**	**473**	**454**	**3 530**

[1] *This relates to the company's contributions to the defined contribution plan and medical aid.*

[2] *Resigned during the year.*

Refer to note 23 which provides further details of share options in issue to directors.

Notes to the financial statements
for the year ended 31 December 2006

COMPANY			GROUP	
2005 R'000	**2006 R'000**		**2006 R'000**	2005 R'000
		21. COMMITMENTS		
		Operating lease commitments		
		The future minimum lease payments under non-cancellable operating leases are as follows:		
2 412	**2 453**	– Less than one year	**9 149**	6 287
9 648	**11 372**	– Between two and five years	**26 126**	20 782
2 412	**15 388**	– More than five years	**21 225**	7 971
14 472	**29 213**		**56 500**	35 040

The group leases certain factory facilities, property, plant and equipment under operating leases. The leases typically run for a period of 10 years, with an option to renew the lease after that date.

In determining lease classification, the group evaluated whether both land and buildings were clearly operating leases or finance leases. Since land title does not pass and because rentals paid to the landlord for the buildings are increased to market-related rates at regular intervals, and because the group does not participate in the residual value of the building, it was judged that substantially all the risks and rewards of the building are with the landlord. Based on these factors it was concluded that the leases were operating leases.

During the year ended 31 December 2006 R8 203 000 was recognised as an expense in the income statement in respect of operating leases (2005: R3 059 000).

Capital commitments: contracted but not provided for

Enaleni Pharmaceuticals Limited is to upgrade its site and manufacturing facilities for approximately R100 million. Work on the site commenced in January 2007 and is due for completion in 2008.

Subsequent to the financial year end, management has hedged the contracted portion of the site and manufacturing upgrade of US$11,44 million at an average rate of R7,38/US$. The cover extends to May 2008.

Under the general authority to issue shares for cash, granted to the board of directors at the annual general meeting held on 28 June 2006, the board of directors has approved the issue of new ordinary shares to finance the upgrade of the site and manufacturing facilities.

22. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance which is material to the financial affairs of the company, which has occurred between the balance sheet date and date of approval of the annual financial statements, that has not been otherwise dealt with in the annual financial statements, with the exception of capital commitments entered into to upgrade the manufacturing facilities as disclosed above.

23. SHARE OPTIONS AND SHARE-BASED PAYMENTS

In May 2005 the company established a broad-based employee share plan that allows the company to issue shares at par value to employees. In May 2005, 575 000 shares were issued to employees in terms of this broad-based scheme. This resulted in a cost of R575 000 being expensed to the income statement in 2005.

In May 2005 the company also established a share incentive scheme that entitles directors and key management personnel to purchase shares in the company. Such share options are exercisable at either the market price of the shares at the date of grant, or at a price determined by the shareholders in a general meeting. In accordance with IFRS 2 Share-based Payments, an amount of R2 882 000 (2005: R238 000) was expensed in 2006.

The fair value of services received from employees in return for share options granted are measured with reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial lattice method which takes into account share price on date of grant, exercise price, expected volatility, option life, expected dividends and risk-free interest rate. All options are granted at the 30-day volume weighted average market price of Enaleni Pharmaceuticals Limited shares preceding the option grant date, unless otherwise authorised by the Enaleni board. All vested share options must be exercised, paid for and taken up within seven years of grant date. Share options may be taken up in two tranches: 50% of share options vest two years after grant date and the balance of the options vest three years after grant date.

All options are granted in accordance with the rules of the respective schemes which have been approved by the board and the JSE Limited.

Fair value

The group accounts for share option expenses in accordance with IFRS 2 Share-based Payments, which requires the fair value of share options granted to employees to be valued at the grant date and expensed through the income statement over the vesting period of the share options. The fair value of each option grant in Enaleni Pharmaceuticals Limited has been estimated on the grant date using the binomial lattice model. The assumptions used in determining the fair value of the options granted to directors and employees in each financial year are summarised below.

DATE OF GRANT	NUMBER OF OPTIONS GRANTED ('000)	NUMBER OF OPTIONS OUT-STANDING 2006 ('000)	NUMBER OF OPTIONS OUT-STANDING 2005 ('000)	EXPECTED LIFE OF OPTIONS (years)	SHARE PRICE AT GRANT DATE (cents)	EXERCISE PRICE (cents)	EX-PECTED VOLA-TILITY (A) %	EX-PECTED DIVI-DEND YIELD (B) %	RISK-FREE RATE (C) %
June 2005	2 651	**2 651**	2 651	2 – 5	120	100	25 – 29	–	7,08 – 7,60
December 2005*	4 480	**4 480**	4 480	2 – 5	331	300	25 – 27	–	7,17 – 7,34
July 2006	400	**400**	–	2 – 5	400	395	27 – 29	–	8,55 – 8,60
October 2006	250	**250**	–	2 – 5	473	458	27 – 31	–	8,13 – 8,64

* The share options were granted to employees in December 2005, but issued to the Share Incentive Trust during the 2006 financial year.

A – The volatility of a company in the same industry was used as a proxy, commensurate with the grants date and expected life of the option.

B – The expected dividend yield is the best estimate of the forward-looking dividend yield over the expected life of the option. Management is of the assumption that no dividend will be declared over the vesting period of the grants.

C – The risk-free rate is the GOVI index as supplied by the Bond Exchange used as a proxy for the risk-free rate.

No share options were exercised during the year.

23. SHARE OPTIONS AND SHARE-BASED PAYMENTS continued

Share-based payments recognised in retained earnings

The movement in share-based payments is as follows:

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
–	**238**	Opening balance	**238**	–
238	**2 882**	Share options expensed during the year	**2 882**	238
238	**3 120**	Closing balance	**3 120**	238

Share options granted to directors and key personnel

Shares under option offered to and accepted by executive directors and key personnel in terms of the Enaleni Pharmaceuticals Share Incentive Scheme total 7 781 000 and were calculated as follows:

	OPTIONS GRANTED DURING THE YEAR '000	OPTIONS OUTSTANDING AT 31 DECEMBER 2006 '000	EXERCISE PRICE CENTS	NON-VESTED '000	EXPIRY DATE
TD Edwards	–	232	100	232	June 2012
TD Edwards	–	2 300	300	2 300	December 2012
U Parusnath	–	46	100	46	June 2012
U Parusnath	–	100	300	100	December 2012
PA Pillay	–	42	100	42	June 2012
PA Pillay	–	70	300	70	December 2012
S Whitfield	–	210	100	210	June 2012
S Whitfield	–	1 800	300	1 800	December 2012
AG Hall	400	400	395	400	July 2013
	400	5 200		5 200	
Other key personnel	250	2 581		2 581	
Total	**650**	**7 781**		**7 781**	

Notes to the financial statements
for the year ended 31 December 2006

COMPANY 2005 R'000	COMPANY 2006 R'000		GROUP 2006 R'000	GROUP 2005 R'000
		24. NOTES TO THE CASH FLOW STATEMENTS		
		24.1 Cash generated (utilised) by operations		
(2 906)	**(11 124)**	Profit (loss) before taxation	**165 371**	18 079
		Adjustments for:		
1 002	**1 658**	Depreciation	**4 861**	2 013
6 957	**7 962**	Finance costs	**32 084**	7 862
(585)	**(18 257)**	Finance income	**(7 446)**	(1 012)
–	**–**	Excess of assets acquired over purchase price (negative goodwill)	**(1 184)**	(3 856)
–	**(56)**	Loss (gain) on foreign exchange	**5 455**	127
(41)	**11**	(Gain) loss on disposals of property, plant and equipment	**(3 605)**	(75)
–	**–**	Fair value adjustment of listed investments	**(3)**	(1)
–	**–**	Fair value adjustment of forward exchange contracts	**(4 871)**	1 903
238	**2 882**	Equity-settled share-based payment expenses	**2 882**	238
–	**17 885**	Impairment losses	**13**	–
–	**582**	Straight-lining of leases	**924**	–
4 665	**1 543**	**Operating profit before working capital changes**	**194 481**	25 278
(5 709)	**(4 013)**	Increase in inventories	**(30 922)**	(3 902)
(25 431)	**7 423**	(Increase) decrease in trade and other receivables	**(23 983)**	(17 238)
13 142	**(15 448)**	Increase (decrease) in trade and other payables	**17 769**	3 780
(13 333)	**(10 495)**		**157 345**	7 918
		24.2 Reconciliation of dividends paid		
–	**–**	Balance at beginning of year	**–**	–
–	**–**	Income statement charge	**–**	(478)
–	**–**	Balance at end of year	**–**	–
–	**–**		**–**	(478)
		24.3 Reconciliation of taxation paid		
(1 897)	**12**	Balance at beginning of year	**(21 002)**	(1 897)
–	**–**	Income statement charge	**(56 950)**	(4 591)
–	**–**	Acquisition of subsidiaries	**(1 297)**	(36 563)
(12)	**(12)**	Balance at end of year	**35 176**	21 002
(1 909)	**–**		**(44 073)**	(22 049)
		24.4 Reconciliation of STC paid		
(43)	**–**	Balance at beginning of year	**(750)**	(43)
–	**–**	Income statement charge	**(2 625)**	–
–	**–**	Acquisition of subsidiaries	**(255)**	(970)
–	**–**	Balance at end of year	**1 544**	750
(43)	**–**		**(2 086)**	(263)
		24.5 Cash and cash equivalents		
4 771	**2 073**	Cash and cash equivalents	**182 285**	112 188
(4 137)	**–**	Bank overdrafts used for cash management purposes	**(3 175)**	(4 768)
634	**2 073**	Cash and cash equivalents in the statement of cash flows	**179 110**	107 420

24. NOTES TO THE CASH FLOW STATEMENTS continued

24.5 Cash and cash equivalents *continued*

Enaleni Pharmaceuticals Limited has an overdraft facility of R2 million, a revolving credit facility of R15 million and letters of guarantee amounting to R450 000 held with Nedbank Limited. These are secured through:

- an unlimited deed of suretyship given by Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited.

The company also has an amortising working capital facility with Nedbank Limited which will reduce to nil by April 2009. The is secured through:

- the cession of the company's trade receivables;
- a negative pledge over plant and equipment;
- a general notarial bond over inventory; and
- the cession and pledge of Enaleni Pharmaceutical Limited's shares and loan accounts in Aldabri 53 (Proprietary) Limited and Kamillen Pharmaceuticals (Proprietary) Limited.

Aldabri 53 (Proprietary) Limited has a revolving credit facility of R202 396 held with Nedbank Limited secured through:

- an unlimited deed of suretyship given by Mario van Biljon; and
- an unlimited deed of suretyship given by Enaleni Pharmaceuticals Limited.

Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited has an overdraft facilty of R5 million held with Nedbank Limited. This is secured through:

- an unlimited deed of suretyship given by Enaleni Pharmaceuticals Limited; and
- a *pari passu* ranking of the security held under the R24 million term facility as described in note 12 (h).

Xeragen Laboratories (Proprietary) Limited has an overdraft facilty of R4 million held with First National Bank Limited. This is secured through a cession of trade receivables.

The banking facilities of Inyanga Trading 386 (Proprietary) Limited, are secured as follows:

- guarantee of the obligations of Cipla Medpro Holdings (Proprietary) Limited and its subsidiaries;
- guarantee of the obligations of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited;
- pledge and cession of Inyanga Trading 386 (Proprietary) Limited's shares;
- pledge and cession of Inyanga Trading 386 (Proprietary) Limited's investment in and claims against Cipla Medpro Holdings (Proprietary) Limited and its subsidiaries; and
- cession of Inyanga Trading 386 (Proprietary) Limited's trade receivables, deposits, cash, rights to insurances and government authorisations.

The R5 million overdraft facility from ABSA Bank Limited granted to Medpro Pharmaceutica (Proprietary) Limited, a subsidiary company of Cipla Medpro Holdings (Proprietary) Limited, is secured as follows:

- the cession of trade receivables and Credit Guarantee Insurance Cover policy; and
- an unlimited deed of suretyship given by Cipla Medpro Holdings (Proprietary) Limited.

25. ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS

Acquisitions of subsidiaries

Business combinations

On 2 October 2006 the company acquired 100% of the shares in Galilee Marketing (Proprietary) Limited for R20 million. The business of the newly acquired subsidiary was onsold to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited on 3 October 2006 for R20 million. After the sale of the net assets to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, the investment in the subsidiary was impaired in the books of the company. There is no effect on the group figures, as the subsidiary still retains its value within the group.

Galilee Marketing (Proprietary) Limited is in the business of selling and marketing pharmaceutical products. Currently, Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited markets and sells all product lines of Galilee Marketing (Proprietary) Limited. The revenue and profit earned by Galilee Marketing (Proprietary) Limited for the seven month period prior to acquisition date were R13 million and R2 million respectively.

On 1 September 2006 the Xeragen Laboratories (Proprietary) Limited, a subsidiary of Enaleni Pharmaceuticals Limited, acquired 100% of the shares in Adroit Pharmaceuticals (Proprietary) Limited for R1,4 million. The company is in the business of selling and marketing pharmaceutical products. Currently Xeragen Laboratories (Proprietary) Limited markets and sells all product lines of Adroit Pharmaceuticals (Proprietary) Limited. During the six month period prior to acquisition date, Adroit Pharmaceuticals (Proprietary) Limited did not engage in any significant trading activities.

Refer to Annexure A which details the group's subsidiary acquisitions.

During the year ended 31 December 2006, the acquisitions had the following effect on the group's assets and liabilities on acquisition date:

Acquiree's net assets at acquisition date	GALILEE MARKETING (PROPRIETARY) LIMITED (DIRECT INTEREST) R'000	ADROIT PHARMACEUTICALS (PROPRIETARY) LIMITED (INDIRECT INTEREST) R'000	TOTAL R'000
Tangible assets	**9**	**–**	**9**
Intangible assets	**15**	**265**	**280**
Inventories	**494**	**–**	**494**
Trade and other receivables	**3 535**	**–**	**3 535**
Cash and cash equivalents	**1 070**	**2**	**1 072**
Loans and borrowings – non-current	**–**	**(269)**	**(269)**
Current tax liability	**(1 307)**	**–**	**(1 307)**
Secondary tax on companies	**(255)**	**–**	**(255)**
Trade and other payables	**(1 446)**	**(4)**	**(1 450)**
Pre-acquisition carrying values	**2 115**	**(6)**	**2 109**
Fair value adjustments on intangible assets	**17 419**	**2 316**	**19 735**
Recognised values on acquisition	**19 534**	**2 310**	**21 844**
Shareholder loans acquired	**–**	**269**	**269**
Goodwill on acquisition	**466**	**–**	**466**
Excess over purchase consideration	**–**	**(1 157)**	**(1 157)**
Total purchase consideration	**20 000**	**1 422**	**21 422**
Cash acquired	**(1 070)**	**(2)**	**(1 072)**
Net cash outflow	**18 930**	**1 420**	**20 350**

Pre-acquisition carrying amounts were determined based on the applicable IFRS immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values.

The goodwill recognised on the acquisition of Galilee Marketing (Proprietary) Limited is attributable mainly to the synergies expected to be achieved from integrating the company into the group's existing consumer business.

25. ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS continued

Acquisitions of subsidiaries continued

During the year ended 31 December 2005, the acquisitions had the following effect on the group's assets and liabilities on acquisition date:

Acquiree's net assets at acquisition date	CIPLA MEDPRO HOLDINGS (PROPRIETARY) LIMITED R'000	XERAGEN LABORATORIES (PROPRIETARY) LIMITED R'000	ENALENI PHARMACEUTICALS CONSUMER DIVISION (PROPRIETARY) LIMITED R'000	ZEDCHEM (PROPRIETARY) LIMITED R'000	BIOHARMONY (PROPRIETARY) LIMITED R'000	ALDABRI 53 (PROPRIETARY) LIMITED R'000	KAMILLEN PHARMACEUTICALS (PROPRIETARY) LIMITED R'000	TOTAL R'000
Tangible assets	5 114	1 471	6 292	210	208	1 181	–	14 476
Intangible assets	14 377	468	–	–	20	4 600	–	19 465
Investments	8	–	13 700	–	–	–	–	13 708
Loans receivable	35 910	–	–	–	–	3 599	100	39 609
Inventories	34 137	2 726	3 844	484	2 195	–	–	43 386
Trade and other receivables	61 988	4 855	7 520	1 308	2 232	127	–	78 030
Forward exchange contracts	1 334	–	–	–	–	–	–	1 334
Cash and cash equivalents	74 147	294	24	1 494	(411)	606	–	76 154
Deferred taxation	(706)	(174)	10 054	(47)	5	238	–	9 370
Loans and borrowings – non-current	–	(775)	(43 088)	(1 879)	(1 776)	(11 058)	–	(58 576)
Loans and borrowings – current	(669)	(69)	(11 329)	–	(19)	(200)	–	(12 286)
Taxation	(35 727)	(1 196)	–	(646)	33	–	3	(37 533)
Trade and other payables	(98 271)	(2 936)	(5 967)	(277)	(3 690)	(210)	(3)	(111 354)
Shareholders for dividend	–	(478)	–	–	–	–	–	(478)
Provisions	(1 408)	–	–	–	(75)	–	–	(1 483)
Pre-acquisition carrying values	90 234	4 186	(18 950)	647	(1 278)	(1 117)	100	73 822
Percentage acquired	100%	100%	100%	100%	51%	1%	100%	
	90 234	4 186	(18 950)	647	(652)	(11)	100	75 554
Fair value adjustments on intangible assets	1 095 575	27 079	(3 756)	2 302	1 833	86	(100)	1 123 019
Recognised values on acquisition	1 185 809	31 265	(22 706)	2 949	1 181	75	–	1 198 573
Goodwill on acquisition	–	–	–	–	–	–	–	–
Total purchase consideration	1 185 809	31 265	(22 706)	2 949	1 181	75	–	1 198 573
Cash acquired	(74 147)	(294)	(24)	(1 494)	210	–	–	(75 749)
Net cash outflow (inflow)	1 111 662	30 971	(22 730)	1 455	1 391	75	–	1 122 824

A portion of the cost of the acquisition of Cipla Medpro Holdings (Proprietary) Limited in 2005, was contingent upon certain earn-out figures being achieved by the Cipla Medpro Group. Since the earn-out figures have been achieved and therefore the additional payment become probable, the cost of the acquisition has subsequently been adjusted for this additional consideration that is due to the Cipla Medpro vendors. Refer to note 12 (o) for further details.

25. ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS continued

Acquisition of minority interest

In August 2006, the group acquired the remaining 49% interest in Bioharmony (Proprietary) Limited for R3,9 million, and the shareholder loan account for R2,1 million. The total purchase consideration of R6 million was settled in cash of R4 million and by the issue of R2 million worth of ordinary shares in the company. Ordinary shares amounting to 524 843 were issued to the minority shareholder at a price of R3,81, representing a 30-day volume weighted average price on the effective date of the sale. This increased the group's ownership in the subsidiary from 51% to 100%. The carrying amount of Bioharmony's net assets in the consolidated financial statements on the date of the acquisition was R7 million. The group recognised intangible assets at fair value of R4,3 million, goodwill of R476 000 and a decrease in minority interests of R910 000. Goodwill was calculated as the residual after measuring the cost of the additional investment of R3,9 million and 49% of the fair value of the identifiable net assets at the date of exchange of R3,4 million.

The business of Bioharmony (Proprietary) Limited was onsold to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited on 3 October 2006 for R5,1 million.

The acquisition of the 49% interest in Bioharmony (Proprietary) Limited can be illustrated as follows:

	R'000
Purchase consideration – cash component	4 000
Purchase consideration – liability component	2 000
Total purchase consideration	6 000
Shareholder loans acquired	(2 089)
Cost of the additional 49% of the shares	3 911
Comprising:	
Brands acquired	4 345
Minority interest	(910)
Goodwill	476

26. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the current year, the group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. At the date of authorisation of these financial statements, the standards and interpretations listed below were in issue but not yet effective and have not been applied in preparing these consolidated group financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures. This standard requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the group's 2007 financial statements, will require additional disclosures with respect to group's financial instruments and share capital.

26. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED continued

- IFRS 8 Operating Segments. IFRS 8 was issued in November 2006 and is effective for periods beginning on or after 1 January 2009. It replaces IAS 14 Segment Reporting.

  Upon adoption of IFRS 8, the identification of an entity's segments may or may not change. IAS 14 requires an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. One set of segments is regarded as primary and the other as secondary. If under IAS 14 an entity identifies its primary segments on the basis of the reports provided to the person whom IFRS 8 regards as the chief operating decision maker, those might become the 'operating segments' for the purposes of IFRS 8. Accordingly, Enaleni's identification of segments under the previous IAS 14 remains the same as under IFRS 8, as the Enaleni group previously identified primary segments based on the reports provided to the chief operating decision maker. IFRS 8 will be formally adopted in the group's 2009 financial statements.

- IFRIC 8 Scope of IFRS 2 Share-based Payments addresses the accounting for share-based payment transactions in which some or all of the goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the group's 2007 financial statements, with retrospective application required. The group has not yet determined the potential effect of the interpretation.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004). No impairment losses have been recognised by the group in a previous interim reporting period.

- IFRIC 11 Group and Treasury Share Transactions is applicable to annual periods beginning on or after 1 March 2007. Early adoption is permitted. The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 11 Group and Treasury Share Transactions in November 2006. The Interpretation clarifies the application of IFRS 2 Share-based Payments to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. IFRIC 11 will be adopted by the group in 2007.

- IFRIC 7 Applying the Restatement Approach under IAS 29 (AC 124) Financial Reporting in Hyper-inflationary Economies and IFRIC 12 Service Concession Agreements are not considered applicable to the group's annual financial statements.

27. RESTATEMENT OF PRIOR YEAR COMPARATIVE

In the previous financial year, the agent/principal relationship was incorrectly classified between Enaleni Pharmaceuticals Limited and Aldabri 53 (Proprietary) Limited. The risks and rewards of the sale is that of the subsidiary company, however, this was recorded in the accounting records of Enaleni Pharmaceuticals Limited. The restatement has a R17 035 000 effect on both sales and cost of sales resulting in a nil effect on the earnings of the company and the group.

Annexure A
Interest in subsidiary companies

All subsidiary companies within the group with the exception of Kamillen Products (Botswana) (Proprietary) Limited, were incorporated and are domiciled in the Republic of South Africa.

	DATE ACQUIRED	SHARE CAPITAL R
Direct interest		
Cipla Medpro Holdings (Proprietary) Limited	1 November 2005 [1]	10
Xeragen Laboratories (Proprietary) Limited	1 September 2005	120
Zedchem (Proprietary) Limited	1 July 2005	100
Aldabri 53 (Proprietary) Limited	1 April 2004 (1% on 1 June 2005)	100
Bioharmony (Proprietary) Limited	1 May 2005 (49% on 1 July 2006) [3]	100
Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	31 December 2004 (92% on 1 January 2005)	4 577
Kamillen Pharmaceuticals (Proprietary) Limited	2 July 2004	100
Kamillen Products (Botswana) (Proprietary) Limited	2 July 2004	Pula 100
Inyanga Trading 386 (Proprietary) Limited	15 December 2005	100
Galilee Marketing (Proprietary) Limited	2 October 2006	100
Total direct interest		
Indirect interest		
Cipla Medpro Holdings (Proprietary) Limited	16 January 2006 [2]	10
Adroit Pharmaceuticals (Proprietary) Limited	1 September 2006	100
CPF International (Proprietary) Limited	31 December 2004 (92% on 1 January 2005)	100
Total indirect interest		
Total interest		

1. Although the effective date of the transaction was 1 November 2005, control passed to Enaleni on 1 December 2005.
2. Cipla Medpro Holdings (Proprietary) was purchased by Inyanga Trading 386 (Proprietary) Limited, both wholly owned subsidiaries of Enaleni Pharmaceuticals Limited, on 16 January 2006.
3. On 1 July 2006, Enaleni Pharmaceuticals Limited acquired the remaining 49% shareholding in Bioharmony (Proprietary) Limited. All suspensive conditions of sale were met on 31 July 2006, leading to 100% of profits being recognised after this date.
4. All amounts owing by (to) subsidiaries are unsecured and non-interest-bearing, with the exception of R10 million loaned by Cipla Medpro Holdings (Proprietary) Limited to Enaleni Pharmaceuticals Limited. This loan bears interest at rates linked to the prime overdraft rate. There are no specific repayment terms attached to the above loans.

Annexure A
Interest in subsidiary companies

		COMPANY'S INTEREST			
EFFECTIVE GROUP HOLDING		SHARES AT COST		AMOUNTS OWING BY (TO) SUBSIDIARIES [4]	
2006	2005	**2006**	2005	**2006**	2005
%	%	**R**	R	**R**	R
– [2]	100	**–**	1 194 693 168	**–**	–
100	100	**31 274 203**	31 265 203	**(3 098 151)**	(643 518)
100	100	**2 949 309**	2 949 309	**(599 351)**	(694 259)
51	51	**75 051**	75 051	**6 606 480**	869 890
100	51	**5 103 606**	1 180 625	**–**	1 633 836
100	100	**4 576**	4 576	**38 423 705**	21 545 526
100	100	**–**	–	**–**	–
100	100	**–**	–	**–**	–
100	100	**100**	100	**1 057 907 182**	–
100	–	**100**	–	**–**	–
		39 406 945	1 230 168 032	**1 099 239 865**	22 711 475
100	–	**1 391 053 876**	–	**(10 194 619)**	–
100	–	**1 423 000**	–	**–**	–
100	100	**13 700 000**	13 700 000	**–**	–
		1 406 176 876	13 700 000	**(10 194 619)**	–
		1 445 583 821	1 243 868 032	**1 089 045 246**	22 711 475

Annexure A continued
Interest in subsidiary companies

Amounts due by (to) subsidiaries

As described in note 5 to the financial statements, intercompany loans are due for payment as follows:

	2006 R	2005 R
Non-current portion of intercompany loans		
Xeragen Laboratories (Proprietary) Limited	**(3 238 775)**	(643 518)
Zedchem (Proprietary) Limited	**(599 351)**	(694 259)
Aldabri 53 (Proprietary) Limited	**(3 232 856)**	–
Cipla Medpro Holdings (Proprietary) Limited	**(10 194 619)**	–
Amounts due (to) subsidiaries	**(17 265 601)**	(1 337 777)
Aldabri 53 (Proprietary) Limited	**9 055 022**	869 890
Bioharmony (Proprietary) Limited	**–**	1 633 836
Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**15 945 527**	21 545 526
Inyanga Trading 386 (Proprietary) Limited	**764 002 702**	–
Amounts due by subsidiaries	**789 003 251**	24 049 252
Total non-current portion of intercompany loans	**771 737 650**	22 711 475
Current portion of intercompany loans		
Amounts due (to) subsidiaries	**–**	–
Xeragen Laboratories (Proprietary) Limited	**140 624**	
Aldabri 53 (Proprietary) Limited	**784 314**	–
Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**22 478 177**	–
Inyanga Trading 386 (Proprietary) Limited	**293 904 480**	–
Amounts due by subsidiaries	**317 307 595**	–
Total current portion of intercompany loans	**317 307 595**	–
Net amounts owing by (to) subsidiaries	**1 089 045 245**	22 711 475

Annexure B

Analysis of shareholders at 29 December 2006

Issued number of shares: 408 490 792

Shareholder spread	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 – 1 000 shares	693	20,8	453 109	0,1
1 001 – 10 000 shares	1 804	54,1	7 654 151	1,9
10 001 – 100 000 shares	690	20,7	21 598 026	5,3
100 001 – 1 000 000 shares	91	2,7	28 966 339	7,1
1 000 001 shares and over	55	1,7	349 819 167	85,6
	3 333	**100,0**	**408 490 792**	**100,0**

Public/non-public shareholders	NUMBER OF SHAREHOLDINGS	%	NUMBER OF SHARES	%
Non-public shareholders	**12**	**0,36**	**148 138 900**	**36,26**
Directors of the company	9	0,27	55 893 022	13,68
Strategic holdings (more than 10%)	1	0,03	82 000 000	20,07
Empowerment [1]	1	0,03	3 114 878	0,76
Share trusts	1	0,03	7 131 000	1,75
Public shareholders	**3 321**	**99,64**	**260 351 892**	**63,74**
	3 333	**100,00**	**408 490 792**	**100,00**

Beneficial shareholders holding of 4% or more	NUMBER OF SHARES	%
Sweet Sensations 67 (Proprietary) Limited	**82 000 000**	**20,07**
STD Pharma Limited	**19 642 857**	**4,81**
Liberty Group	**19 830 818**	**4,85**
Public Investment Corporation	**17 925 000**	**4,39**
JS Pharm Trust	**17 678 571**	**4,33**

[1] The total BEE shareholding at 29 December 2006 including black public shareholders was 33%.

Share trading statistics
for the year ended 31 December 2006

Enaleni Pharmaceuticals Limited ordinary shares

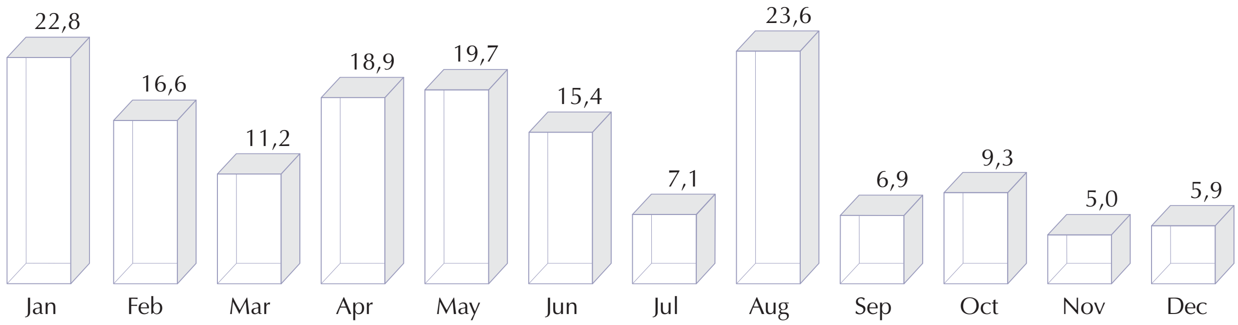
MONTH	HIGH (cents)	LOW (cents)	CLOSE (cents)	VOLUME	VALUE (Rand)	NUMBER OF TRANSACTIONS
January	465	365	455	22 839 288	92 744 167	2 166
February	485	420	430	16 635 304	75 232 175	1 568
March	440	333	415	11 167 972	43 778 642	1 813
April	450	400	430	18 930 858	79 850 174	1 625
May	441	377	400	19 664 223	82 053 263	992
June	410	374	400	15 387 035	60 163 089	862
July	406	350	401	7 096 022	26 676 978	691
August	480	380	462	23 583 853	100 632 994	1 649
September	500	453	474	6 901 123	31 928 926	844
October	490	432	440	9 315 499	41 949 100	964
November	465	439	450	4 984 947	22 534 168	821
December	465	405	447	5 920 863	26 160 839	664
				162 426 987	683 704 515	14 659

Market price per share

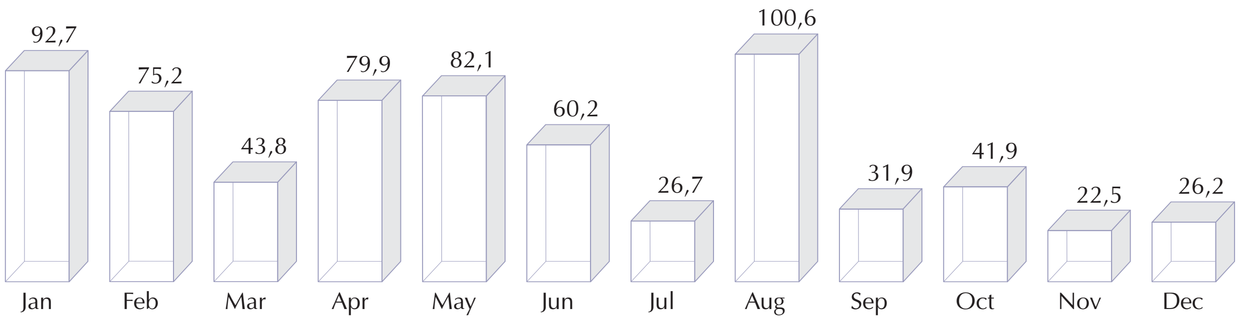
High	(cents)	500
Low	(cents)	333
Year end	(cents)	447
Volume of shares traded		162 426 987
Volume as % of capital	(%)	39,8
Value of shares traded		683 704 515
Number of transactions		14 659
Earnings yield at year end	(%)	5,8
Dividend yield at year end	(%)	–
Price earnings ratio at year end	times	17,2
Market capitalisation at year end net of treasury shares	R’000	1 794 078
Market capitalisation to shareholders equity at year end	times	1,8

Share trading statistics
for the year ended 31 December 2006

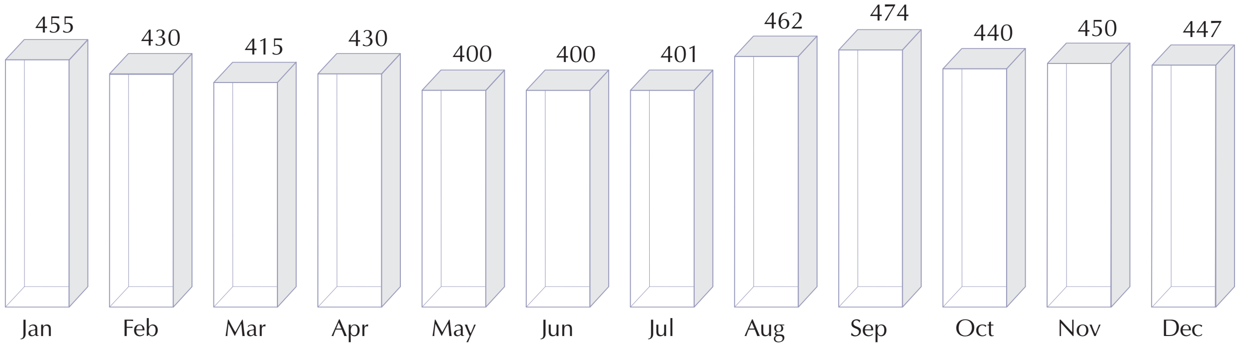
Volume (millions)



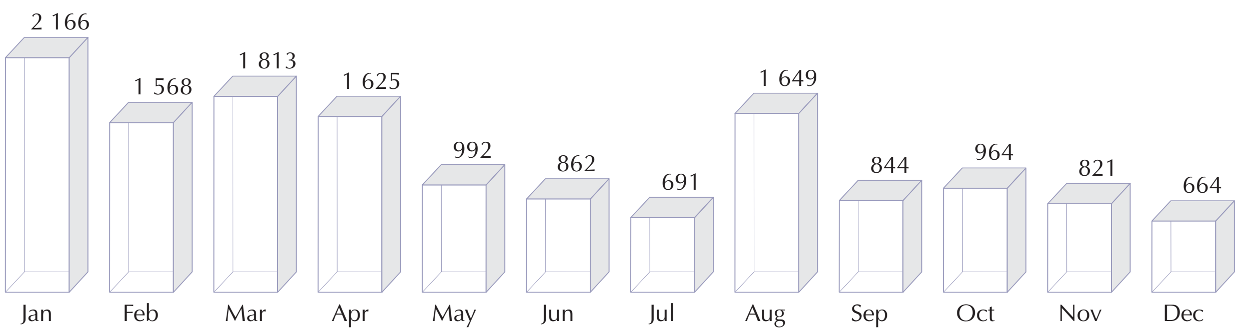
Value (R millions)



Close (cents)



Number of transactions



Shareholders' diary

Annual general meeting	29 June 2007
Interim reporting period	30 June 2007
Interim report	August 2007
Financial year end	31 December 2007

Notice of annual general meeting

Enaleni Pharmaceuticals Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/018027/06)
(JSE code: ENL & ISIN: ZAE000067740)
("Enaleni" or "the company")

Notice is hereby given that the annual general meeting of the company will be held at the Cape of Good Hope Room, 5th Floor, BOE Building, Clocktower Precinct, V & A Waterfront, Cape Town at 09:00 on 29 June 2007 for the following purposes:

1. To receive, consider and adopt the annual financial statements of the group for the financial year ended 31 December 2006.

2. To elect directors of the company, namely:

2.1 Mr AG Hall

2.2 Ms MT Mosweu

2.3 Mr JS Smith

2.4 Mr TD Edwards

2.5 Dr GS Mahlati

2.6 Mr PCS Luthuli

who, in the case of the individuals in paragraphs 2.1, 2.2 and 2.3 above, whose appointments are being ratified in terms of the Articles of Association by reason of having been appointed by the board subsequent to the last annual general meeting, and who in the case of the individuals in paragraphs 2.4, 2.5 and 2.6 retire by rotation in terms of the company's Articles of Association but, all being eligible, offer themselves for re-election.

A brief *curriculum vitae* in respect of each director referred to in 2 above appears on pages 16 and 17 of this annual report. [3.84(e)]

As special business, to consider, and if deemed fit, to pass with or without modification the following ordinary and special resolutions.

3. ORDINARY RESOLUTION NUMBER 1

Control of authorised but unissued shares

"Resolved that all of the ordinary shares in the authorised but unissued share capital of the company be and are hereby placed under the control and authority of the directors, and that the directors be and are hereby authorised and empowered, subject to the provisions of the Companies Act No. 61 of 1973, as amended ("the Companies Act"), the Articles of Association of the company and the Listing Requirements of the JSE Limited ("JSE") to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit."

4. ORDINARY RESOLUTION NUMBER 2

Approval to issue shares for cash [5.50]

"Resolved that the directors of the company be and are hereby authorised by way of a general authority, to issue all or any of the authorised but unissued shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the Companies Act, the Articles of Association of the company, the JSE Listing Requirements, when applicable, and the following limitations, namely that:

- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue; [5.52 (a)]
- any such issue will be made only to "public shareholders" as defined in the JSE Listing Requirements and not related parties, unless the JSE otherwise agrees; [5.52 (b)]

- the number of shares issued for cash shall not in the aggregate in any one financial year exceed 10% (ten per cent) of the company's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced; [5.52 (c) (i) and (iii)]
- this authority be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given; [5.50 (b)]
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five per cent) or more of the number of shares in issue prior to the issue; and [11.22]
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the directors of the company. [5.52 (d)]"

Ordinary Resolution Number 2 is required, under the JSE Listing Requirements, to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote, at the annual general meeting.

5. **ORDINARY RESOLUTION NUMBER 3**

Directors' authorisation

"Resolved that any director of the company be and is hereby authorised to do all such things and sign all such documents as may be necessary to give effect to the above resolutions."

6. **SPECIAL RESOLUTION NUMBER 1**

Approval to repurchase shares

"RESOLVED THAT, the company and/or any subsidiary of the company be and is hereby authorised by way of a general approval contemplated in sections 85(2) and 85(3) of the Companies Act, to acquire the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the Articles of Association of the company, the provisions of the Companies Act and the JSE Listing Requirements, where applicable, and provided that:

- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party; [5.72 (a)]
- this general authority shall only be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution; [5.72 (c)]
- in determining the price at which the company's ordinary shares are acquired by the company in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten per cent) of the weighted average of the market price at which such ordinary shares are traded on the JSE, as determined over the 5 (five) trading days immediately preceding the date of the repurchase of such ordinary shares by the company; [5.72 (d)]
- the acquisitions of ordinary shares in the aggregate in any one financial year do not exceed 20% (twenty per cent) of the company's issued ordinary share capital from the date of the grant of this general authority; [5.68]
- the company and the group are in a position to repay their debt in the ordinary course of business for a period of 12 (twelve) months from the company first acquiring securities under this general approval; [5.69(c) (i)] [11.26 (d) (i)]

- the assets of the company and the group, being fairly valued in accordance with International Financial Reporting Standards, are in excess of the liabilities of the company and the group at the time of the company first acquiring securities under this general approval; [5.69(c) (ii)] [11.26 (d) (ii)]
- the ordinary capital and reserves of the company and the group are adequate for a period of 12 (twelve) months from the company first acquiring securities under this general approval; [5.69 (c) (iii)] [11.26 (d) (iii)]
- the available working capital is adequate to continue the operations of the company and the group for a period of 12 (twelve) months from the company first acquiring securities under this general approval; [5.69(c) (iv)] [11.26 (d) (iv)]
- upon entering the market to proceed with the repurchase, the company's Sponsor has complied with its responsibilities contained in Schedule 25 of the JSE Listing Requirements; [2.12 and Schedule 25]
- after such repurchase the company will still comply with paragraphs 3.37 to 3.41 of the JSE Listing Requirements concerning shareholder spread requirements; [5.69 (g)]
- the company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listing Requirements; [5.72 (g)]
- when the company has cumulatively repurchased 3% (three per cent) of the initial number of the relevant class of securities, and for each 3% (three per cent) in aggregate of the initial number of that class acquired thereafter, an announcement will be made; and [11.27]
- the company only appoints one agent to effect any repurchase(s) on its behalf [5.72 (e)]".

Reason for and effect of Special Resolution Number 1

The reason and effect for Special Resolution Number 1 is to authorise the company and/or its subsidiaries by way of a general authority to acquire its own issued shares on such terms, conditions and such amounts determined from time to time by the directors of the company, subject to the limitations set out above.

The directors of the company have no specific intention to effect the provisions of Special Resolution Number 1 but will, however, continually review the company's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of Special Resolution Number 1. [11.26 (c)]

7. **MATERIAL CHANGE** [11.26 (b) (iii)]

There have been no material changes in the affairs or financial position of Enaleni and its subsidiaries since the date of signature of the audit report and the date of this notice.

8. **DIRECTORS' RESPONSIBILITY STATEMENT** [11.26 (b) (vi)]

The directors, whose names are given on page 16 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to Special Resolution Number 1 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all such information.

9. **LITIGATION STATEMENT** [11.26 (b) (vii)]

In terms of section 11.26 of the Listing Requirements of the JSE, the directors, whose names are given on pages 16 and 17 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the group's financial position.

Notice of annual general meeting continued

VOTING AND PROXIES

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and speak and, on a poll, vote in his stead. Such proxy need not be a member of the company. A proxy form is included in this report and may also be obtained from the transfer secretaries.

The attached form of proxy is only to be completed by those shareholders who are:

- holding Enaleni Pharmaceuticals Limited ordinary shares in certificated form; or
- are recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker. Shareholders are reminded that the onus is on them to communicate with their CSDP.

Proxy forms must be lodged with the transfer secretaries, Computershare Investor Services (2004) (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than 09:00 on 27 June 2007.

By order of the board

AG HALL
Company secretary

Durban
16 March 2007

Form of proxy

Enaleni Pharmaceuticals Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/018027/06)
(JSE code: ENL & ISIN: ZAE000067740)
("Enaleni" or "the company")

For use by shareholders that hold shares in certificated form ("certificated shareholders") or shareholders who have dematerialised their shares ("dematerialised shareholders") and registered with "own-name" registration only, at the annual general meeting of shareholders of the company to be held at the Cape of Good Hope Room, 5th Floor, BOE Building, Clocktower Precinct, V & A Waterfront, Cape Town at 09:00 on 29 June 2007.

Dematerialised shareholders holding shares other than with "own-name" registration, must inform their CSDP or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the necessary Letter of Representation to attend the annual general meeting in person and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting in person. These shareholders must not use this form of proxy.

I/We (name/s in block letters)

of

being the holders of shares in the capital of the company do hereby appoint (see note):

1. or failing him/her,

2. or failing him/her,

3. the Chairperson of the annual general meeting,

as my/our proxy to act for me/us at the annual general meeting for purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof; and to abstain from voting for and/or against the resolutions in respect of the shares registered in my/our name in accordance with the following instructions:

	Number of shares		
	For	Against	Abstain
1. To receive, consider and adopt the annual financial statements of the company for the financial year ended 31 December 2006			
2. Election of directors 2.1 To elect as a director, Mr AG Hall in terms of the Articles of Association by reason of having been appointed by the board subsequent to the last annual general meeting			
2.2 To elect as a director, Ms MT Mosweu in terms of the Articles of Association by reason of having been appointed by the board subsequent to the last annual general meeting			
2.3 To elect as a director, Mr JS Smith in terms of the Articles of Association by reason of having been appointed by the board subsequent to the last annual general meeting			
2.4 To re-elect as a director, Mr TD Edwards who is retiring by rotation			
2.5 To re-elect as a director, Dr GS Mahlati who is retiring by rotation			
2.6 To re-elect as a director, Mr PCS Luthuli who is retiring by rotation			
3. Ordinary resolution number 1 – control of authorised but unissued shares			
4. Ordinary resolution number 2 – approval to issue shares for cash			
5. Ordinary resolution number 3 – directors' authorisation			
6. Special resolution number 1 – approval to repurchase shares			

Signed at on 2007

Signature

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in place of that shareholder at the meeting.

Notes

1. The form of proxy must only be used by certificated shareholders or dematerialised shareholders who hold dematerialised shares in their "own name".
2. Shareholders are reminded that the onus is on them to communicate with their CSDP, or broker.
3. A shareholder entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the annual general meeting". A proxy need not be a shareholder of the company. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held. A shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the shareholder in the appropriate box(es). Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the transfer secretaries not less than 48 (forty eight) hours before the commencement of the annual general meeting.
6. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.
7. The Chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
9. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company or unless this requirement is waived by the Chairperson of the annual general meeting.
10. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
11. Where there are joint holders of shares:
    - any one holder may sign the form of proxy;
    - the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in the company's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
12. Forms of proxy should be lodged with or mailed to Computershare Investor Services 2004 (Proprietary) Limited:

    Hand deliveries to:
    Computershare Investor Services 2004 (Proprietary) Limited
    Ground Floor, 70 Marshall Street
    Johannesburg, 2001

    Postal deliveries to:
    Computershare Investor Services 2004 (Proprietary) Limited
    PO Box 61051
    Marshalltown, 2107

    to be received by no later than 09:00 on 27 June 2007 (or 48 hours before any adjournment of the annual general meeting which date, if necessary, will be notified in the press).
13. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.

Corporate information

Enaleni Pharmaceuticals Limited
Registration number 2002/018027/06
JSE code: ENL
ISIN: ZAE000067740

Company secretary and registered office
Andrew Hall CA(SA)
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Attorneys
Deneys Reitz Inc.

Transfer secretaries
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Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

Sponsor
Nedbank Capital
A division of Nedbank Limited
Registration number 1951/000009/06
155 Rivonia Road
Sandown, 2196
PO Box 1144, Johannesburg, 2000

Auditors
KPMG Inc.

Commercial banker
Nedbank Limited

Contact details

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http://www.musclescience.co.za

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Terms and expressions

"Act"	the Companies Act, 1973 (Act 61 of 1973), as amended;
"ARV(s)"	Antiretroviral(s);
"BEE"	as defined in the Broad-Based Black Economic Empowerment Act, 53 of 2003, and which means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies;
"Cipla India"	Cipla Limited, (Registration number 11-2380), a company incorporated in India;
"CSDP"	Central Securities Depository Participant accepted as a participant in terms of the Custody and Administration of Securities Act, 1992 (Act 85 of 1992), appointed by an individual shareholder for purposes of, and in regard to the dematerialisation of documents of title for purposes of incorporation into the STRATE system;
"Dematerialised shareholder(s)"	ordinary shareholders who hold dematerialised ordinary shares;
"Dematerialised shares"	those ordinary shares that have been incorporated into the STRATE system and which are held in electronic form in terms of the South African Custody and Administration Securities Act of 1992;
"Enaleni" or "the company"	Enaleni Pharmaceuticals Limited (Registration number 2002/018027/06), a public company incorporated in accordance with the laws of South Africa, all the ordinary shares of which are listed on the JSE;
"Enaleni Share Incentive Trust"	the Enaleni Pharmaceuticals Share Incentive Trust, Masters reference IT 865/2005/PMB;
"FMCG"	fast moving consumer goods;
"Healthcare Charter"	the Charter of the Public and Private Health Sectors of the Republic of South Africa;
"IFRS"	International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, International Financial Reporting Interpretations Committee and International Accounting Standards, and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee;
"JSE"	JSE Limited (Registration number 2005/022939/06), a company duly registered and incorporated with limited liability under the company laws of South Africa, licensed as an exchange under the Securities Services Act, 2004;
"MCC"	Medicines Control Council of South Africa;
"NSAIDS"	Non-steroidal anti-inflammatory drugs;
"OTC"	over-the-counter pharmaceutical products;
"PIC/S	Pharmaceutical Inspection Convention/Pharmaceutical Inspection Cooperation Scheme;
"RBSA"	Reckitt Benckiser South Africa (Pty) Limited (Registration number 1970/014554/07), a private company incorporated in accordance with the laws of South Africa;
"SA GAAP"	South African Generally Accepted Accounting Practice; and
"Sweet Sensations"	Broad-based Black Economic Empowerment Consortium which has a 20% shareholding in Enaleni Pharmaceuticals Limited.

ENALENI
PHARMACEUTICALS

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