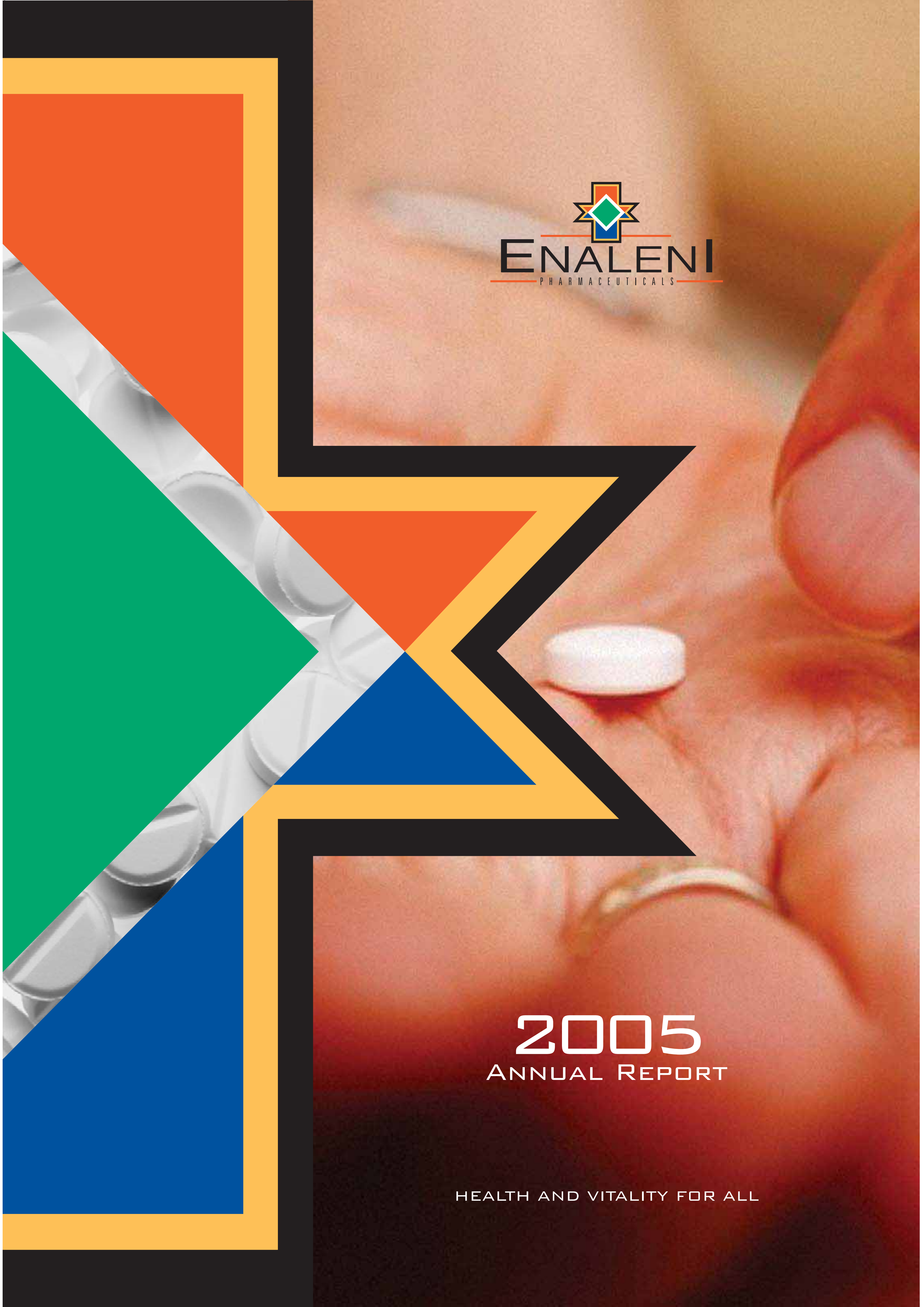


ENALENI
PHARMACEUTICALS

2005
Annual Report

HEALTH AND VITALITY FOR ALL

Contents

ENALENI
PHARMACEUTICALS

Enaleni

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.

Vision

South Africa's leading empowerment pharmaceutical, vitality and personal care company, in step with the heartbeat of the nation.

Offer world class contract manufacturing solutions to pharmaceutical companies and provide affordable medicine to the state.

Pan African opportunities in the medium to longer term.

Provide superior returns to our shareholders.

Mission

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

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

To make affordable medicine available for all.

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

Our people will make the difference.

Group structure

Delivering on our promise

- Successfully listed on the JSE
- Revenues increased by 113% to R245 million
- PBIT increased by 364% to R24,9 million
- Headline earnings 9,0 cents per share – exceeded forecast
- Top JSE empowerment pharmaceutical company – Financial Mail
- R1,2 billion successful acquisition of Cipla Medpro
- Achieved top 10 pharmaceutical company status in South Africa (including FirstPharm)
- Fastest growing large pharmaceutical company in South Africa
- Secured association with Cipla Limited, India's leading pharmaceutical company
- Established a platform to develop a significant Pan African pharmaceutical business

ENALENI PHARMACEUTICALS

PHARMACEUTICAL DIVISION

Cipla Medpro – The Ethical Generic Company

FirstPharm Pharmaceuticals

Enaleni Pharma Contract Manufacturing

CONSUMER AND VITALITY DIVISION

Consumer Division

Bioharmony

Muscle Science

Corporate profile

Listing on the JSE

In January 2003, Enaleni's management team promised to create, within five years, a pharmaceutical company with annual sales of R500 million. The team also committed to being at the forefront of driving black economic empowerment in the pharmaceutical industry. Since inception, Enaleni has been the country's leading empowerment pharmaceutical company and the fastest growing company within the industry.

Three years later, having started out as a contract manufacturer with one client, the company has successfully transformed itself:

- became a leading brand owner and marketer of generic pharmaceuticals, OTC medicines, vitality and wellness and personal care products;
- has provided manufacturing solutions to multi-nationals and local pharmaceutical companies;
- has established strategic joint ventures to increase penetration into the South African market; and
- became a supplier of medicines to the government.

Enaleni, headquartered in Durban, KwaZulu-Natal, manufactures and distributes an extensive range of pharmaceuticals, OTC medicines, vitality and wellness and personal care products. Enaleni operates out of a 15 000 square metre manufacturing facility and is the largest pharmaceutical manufacturing company based in KwaZulu-Natal.

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

The Pharmaceutical division consists of:

- Cipla Medpro, a leading generic pharmaceutical company;
- FirstPharm, a well known affordable generic and OTC company focusing on dispensing doctors;
- The Contract manufacturing business which services the manufacturing requirements of existing divisions and is also a large supplier of medicine to the state.

The Consumer and Vitality division includes:

- Muscle Science which focuses on the rapidly growing sports nutrition market;
- Bioharmony which focuses on the rapidly growing vitality and wellness market; and
- Consumer business which targets the OTC affordable healthcare market and high growth personal care categories, with emphasis on ethnic beauty and hair care as well as baby care.

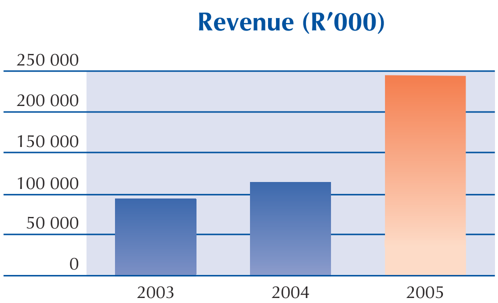
Enaleni is listed on the JSE and has a current market capitalisation of some R1,6 billion.

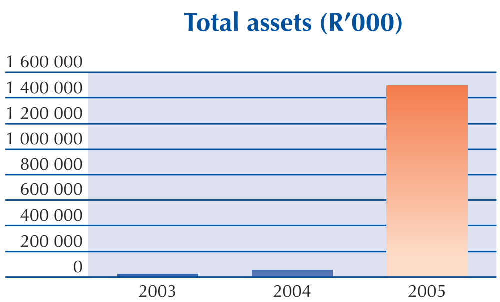
The group currently employs over 650 team members.

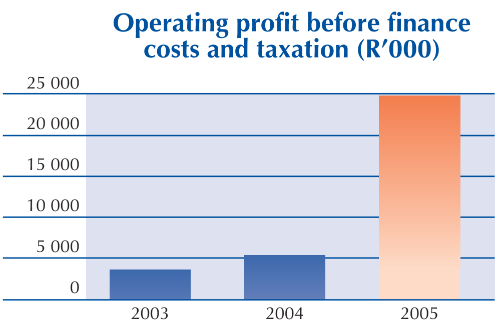
Enaleni remains focused on providing health and vitality for all South Africans and is committed to building a significant pharmaceutical company in Africa. This will include a strategy focusing on organic growth and strategic acquisitions to strengthen the existing core businesses.

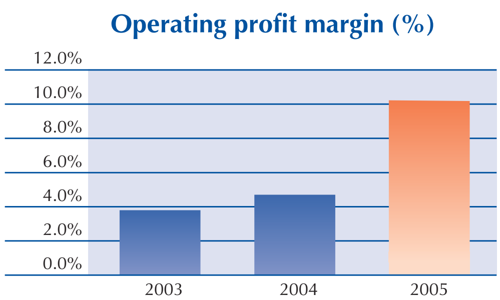
Group financial highlights

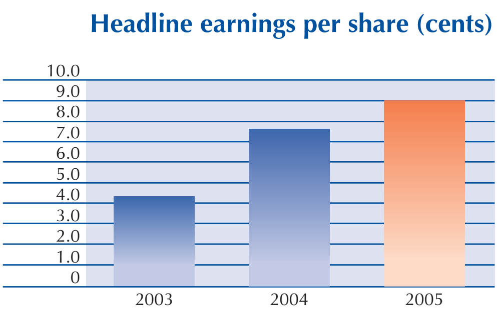
Enaleni has achieved excellent results and has established a significant platform for future growth

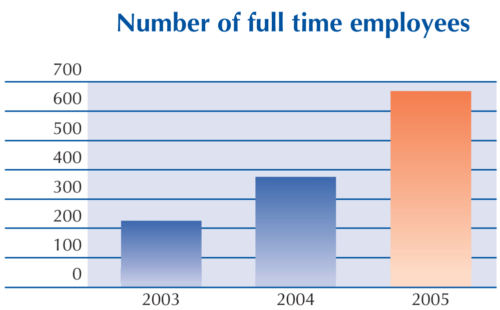












Value added statement

for the year ended 31 December 2005

		GROUP	
		2005	2004*
	Notes	**R'000**	R'000
Revenue		**245 078**	115 202
Other operating income		**4 016**	2 333
Less: purchased materials and services		**(182 239)**	(97 283)
Value added from operations		**66 855**	20 252
Interest received		**1 012**	139
Total wealth created		**67 867**	20 391
WEALTH DISTRIBUTION			
Employees (including directors)			
Salaries, wages and other benefits		**38 748**	14 007
Providers of capital		**7 196**	1 322
Finance costs		**7 862**	1 257
Dividends paid to shareholders		**–**	343
Minority interest		**(666)**	(278)
Monetary exchanges with government	1	**5 836**	2 190
Reinvested in the group		**16 087**	2 872
Depreciation and recurring amortisation		**2 013**	628
Deferred taxation		**870**	(1 045)
Retained in the group		**13 204**	3 289
Total wealth distribution		**67 867**	20 391
VALUE ADDED STATISTICS			
Number of full time employees at year end		**672**	378
Revenue per employee		**365**	305
Value added per employee		**99**	54
Wealth created per employee		**101**	54
Notes:			
1. MONETARY EXCHANGES WITH GOVERNMENT			
Current taxes (including secondary tax on companies)		**4 671**	1 940
Customs and excise duties		**585**	24
Regional services council levies		**403**	153
Rates and taxes paid to local authorities		**177**	73
Gross contribution to central and local governments		**5 836**	2 190
ADDITIONAL COLLECTIONS ON BEHALF OF GOVERNMENT			
Employees' taxes		**5 772**	1 854
Net value added tax paid		**3 656**	1 777
		9 428	3 631

* *Restated under IFRS*

Chairman's message

The place of promise

I am pleased to announce that Enaleni Pharmaceuticals Limited has once again delivered on its promise. The pharmaceutical industry has, notwithstanding the constantly changing regulatory environment in South Africa and the resultant challenges, continued to show resilience. We are pleased to announce that Enaleni was able to significantly increase its market share during the 2005 year. Enaleni has become a substantial player in the pharmaceutical industry and is the fastest growing large pharmaceutical company in South Africa.

The successful acquisition, in November 2005, of Cipla Medpro for R1,2 billion, was one of the largest pharmaceutical transactions in recent times. The listing of Enaleni on the AltX division of the JSE in June 2005, and the subsequent move to the JSE main board in December 2005, have been highly beneficial to the company and well received by the market. The listing has strategically positioned the company to capitalise on the emerging opportunities in the pharmaceutical industry.

Enaleni reflects the successful transformation of a thriving empowerment company. The R270 million BEE transaction, which formed part of the Cipla Medpro acquisition, has firmly secured Enaleni's position as the leading empowerment pharmaceutical company in Southern Africa, well positioned to capitalise on the soon to be finalised Health Charter.

The twelve BEE consortiums which have invested in Enaleni were carefully selected to ensure alignment with the strategies and objectives of Enaleni. The criteria for selection favoured those parties with the following attributes:

- Truly broad-based;
- Women's groupings;
- Significant experience in the wider healthcare sector; and
- Ability to contribute meaningfully on a strategic and operational level to ensure the continued success and growth of the Enaleni group.

The consortiums include:

- Amabubesi Healthcare (Proprietary) Limited, led by Dr Gil Mahlati. This group is one of the leading BEE consortiums and a prominent player in the healthcare industry. Amabubesi has expertise in both the public and private sectors and owns various healthcare investments complementary to Enaleni's business.
- The Inala Consortium, led by Bongani Mlambo. This group is involved in medical aid administration and is the owner of various pharmacies. The Inala Consortium includes healthcare professionals with both retail and government experience.

Welcoming the BEE consortium, the largest single investor in Enaleni.

- The Yonga Consortium, led by Bongani Caga. This group also includes among its members DENOSA, the largest nursing organisation in Africa, representing the interests of 80 000 nurses and midwifery professionals in South Africa.
- Safika Investments (Proprietary) Limited, which was formed in 2005 as a vehicle to invest in private equity transactions with specific emphasis on companies requiring BEE partners.
- The New Era Consortium and the Laxmi Group Limited are companies involved in local and international packaging for pharmaceutical and consumer care products. New Era is part of Golden Era, the only Empowerdex-rated AAA Empowerment company in South Africa.
- Two Ships Trading 237 (Proprietary) Limited, led by Dr Aubrey Mokoape. This group is Durban-based, with significant experience in the healthcare industry and is involved in decision-making on a governmental, parastatal and business level. The group has strong relations with neighbouring countries and will assist Enaleni with exports into SADC regions.
- Aquarella Investments 54 (Proprietary) Limited, a consortium of local and international healthcare and pharmaceutical parties with experience and international links for pharmaceutical dossiers and Active Pharmaceutical Ingredients.
- Koketso Growth (Proprietary) Limited is led by Dali Tambo and Mandla Langa. Koketso was one of the first BEE groups to become a shareholder in Enaleni.
- Other BEE investor groupings include black health professional networks and prominent black business people such as Thembisa Dingaan, Dr Bobby Ramasia and Mbali Ngqula.

As part of the R270 million BEE transaction the executive directors and management of Enaleni acquired a further 8 million shares in the company. The shares were acquired through a management holding company which is 51% owned by black executive directors and management.

In support of the medical, nursing and pharmaceutical professions, Enaleni made a number of shares available to healthcare professionals as part of the capital raising exercise to fund the Cipla Medpro acquisition. Shares were sold to many team members to further increase broad-based black ownership in addition to the large shareholding held by current black directors and executives.

Chairman's message *continued*

Adelaide and Dali Tambo at the announcement of the Enaleni Adelaide Tambo Healthcare Bursary.

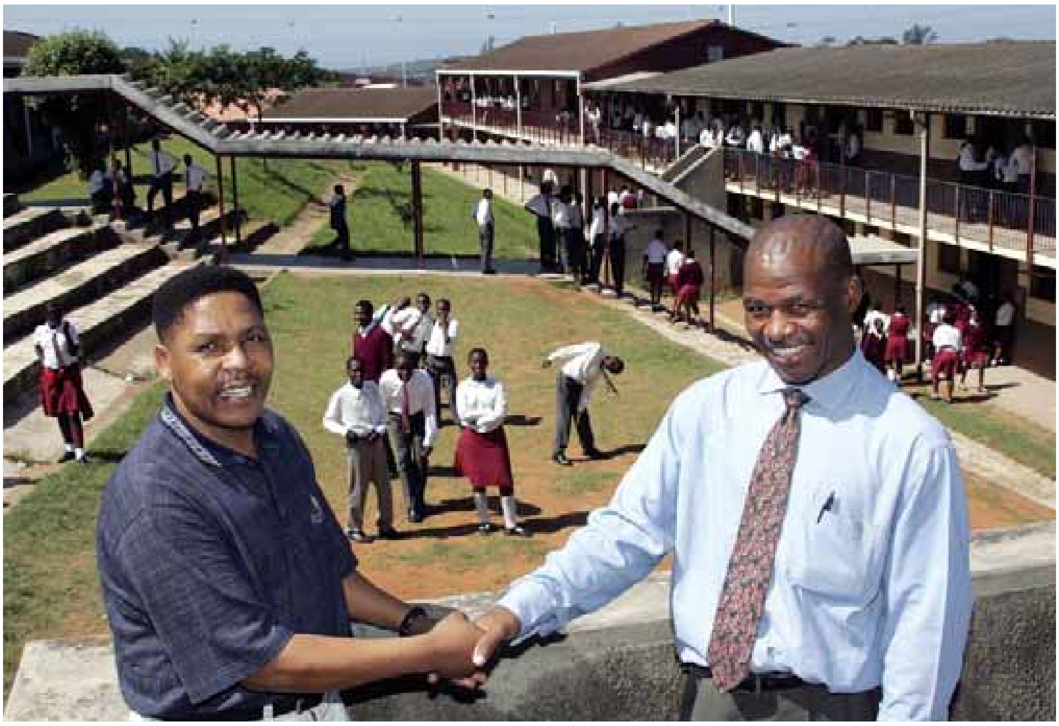
To coincide with the acquisition of Cipla Medpro, the company announced the introduction of the Enaleni Adelaide Tambo Healthcare Bursary. The rationale for the Bursary is to encourage black students to enter into pharmaceutical, medical and nursing fields. The Bursary will assist black students with their study fees.

As part of Enaleni's continuing social responsibility programme, Enaleni is assisting Enaleni High School which is based in Umlazi, KwaZulu-Natal. Enaleni High School currently has 1 200 students from grades 8 – 12. Initial discussions and visits revealed a number of areas in which the company could assist the school in improving its facilities and offerings to learners. Exciting projects have been implemented, including AIDS awareness training for both learners and staff. Although Enaleni High School achieved a high matric pass rate in 2005, it is envisaged this can be increased with the provision of Mathematics and Science tutoring. Enaleni is currently participating in a programme to increase the school's matriculation pass rate and has contributed to establishing a much needed computer room facility.

During the year, Enaleni, which has recently attained an Empowerdex AA rating, received various prestigious awards:

- The Financial Mail's top JSE listed BEE company in the Health Sector;
- The Financial Mail's fourth most empowered company on the JSE;
- Third place in the Business Report/Business Map Awards in the category, Top BEE Market Performer;
- Best Investor Relations by an AltX listed company in the IR Magazine – Investor Relations Awards; and
- The Black Business Quarterly's (BBQ) – Best Established Black Business Award.

The group is committed to effective corporate governance and is guided by a board of directors consisting of skilled and independent thinking individuals. It is with pleasure that we welcome to the board Dr Gil Mahlati, a well respected businessman who has considerable experience and knowledge in the pharmaceutical industry, and Thembisa Dingaan, a merchant banker with an international legal background, who has extensive business experience in acquisitions and mergers, empowerment transactions, and structured corporate finance. Gil and Thembisa both sit on a number of high profile boards. We would also like to welcome Nomini Elizabeth Rapoo who joins the board as a representative of the Industrial Development Corporation of South Africa Limited (IDC). Nomini brings a



Maxwell Sithole congratulating Enaleni High School principal Mr Hlophe on the school's achievements.

wealth of experience in general business, empowerment funded transactions, commercial law and corporate governance and is currently the company secretary for the IDC.

Devan Govender resigned as a director during the year. We are extremely appreciative of the contribution made by Devan to the group. I would also like to thank Dali Tambo, Dave Wolfson and Max Sithole for their contribution to the success of Enaleni; their resignations became effective in April 2006. Dave and Max will continue as executives of the Pharmaceutical division.

It is anticipated that additional appointments will be made during the course of the year to add further depth and experience to the Enaleni board.

Enaleni's delivery of success would not be possible without a team of highly experienced and competent executives. We are very fortunate to have many executives who have invested significant amounts of their own personal wealth into the group, ensuring strategic alignment with all shareholders. Our executive team has further been strengthened as a result of the acquisitions that we have made. We continue to attract highly entrepreneurial executives. Most of the executives whose businesses we acquired are still actively involved in the company.

It is the board's intention to change the name of the company in the near future to Enaleni Cipla Pharmaceuticals Limited, to reflect the new dynamics which have resulted from the acquisition of Cipla Medpro.

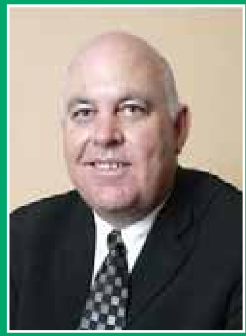
We would like to thank Exchange Sponsors for their assistance and support during the AltX listing, for acting as our designated advisers and their participation in the capital raising exercise and for their assistance with the BEE transaction. I would further like to thank Group CEO Trevor Edwards and Group CFO Stanley Whitfield, for the significant contribution they have made to the business.

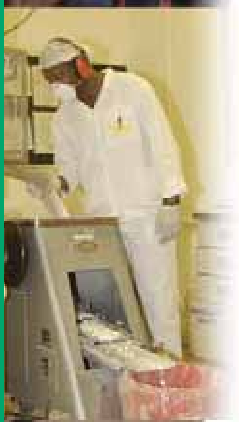
Our thanks must also go to Nedbank Capital, our sponsors, as well as to KPMG, our auditors.

For team members, all stakeholders and the South African pharmaceutical industry in general, *Enaleni truly is a place of promise.*

PCS LUTHULI
Chairman

Chief executive officer's report





We deliver on our promise

The journey over the past year has been an exciting one for Enaleni.

When we started the business in 2003, we made a promise to all team members that they would one day become shareholders and we are pleased to announce that, as part of our listing on the AltX division of the JSE, we were able to deliver on this promise.

The highlight of the year was the acquisition of Cipla Medpro for R1,2 billion in November 2005, one of the largest acquisitions accomplished within the pharmaceutical industry. Enaleni listed on the AltX division of the JSE on 10 June 2005 and then moved to the JSE main board on 15 December 2005, becoming the first company to achieve this transition. The market clearly showed it had an appetite for another listed pharmaceutical company when Enaleni was several times oversubscribed during the capital raising exercise.

During 2005 Enaleni successfully integrated all acquisitions, with the more recent being FirstPharm (September 2005) and Cipla Medpro (November 2005).

As mentioned in the chairman's message, we have also concluded a significant BEE transaction as part of the fundraising for the acquisition of Cipla Medpro.

Enaleni continues to build a highly experienced and qualified team of executives who are passionate about the business. The only way the group can maintain a winning formula is to employ, motivate and retain the best people. We also continue to invest heavily in development programmes and have a formalised succession plan in place.

The group embodies an innovative entrepreneurial culture which we believe has been pivotal to the success of the company.

The focus on innovation and people has been a major factor enabling us to achieve our phenomenal success.

As one of South Africa's largest manufacturers of pharmaceuticals, Enaleni continues to invest in its manufacturing facility. It is anticipated that the present 50% spare manufacturing capacity will potentially be utilised during 2007 for the local manufacture of ARVs and increased tender sales.

The Enaleni group fared well in the government tender market, being awarded some R235 million in tenders for the 2006/2007 period.

“We have delivered on our promise”

Group performance and highlights

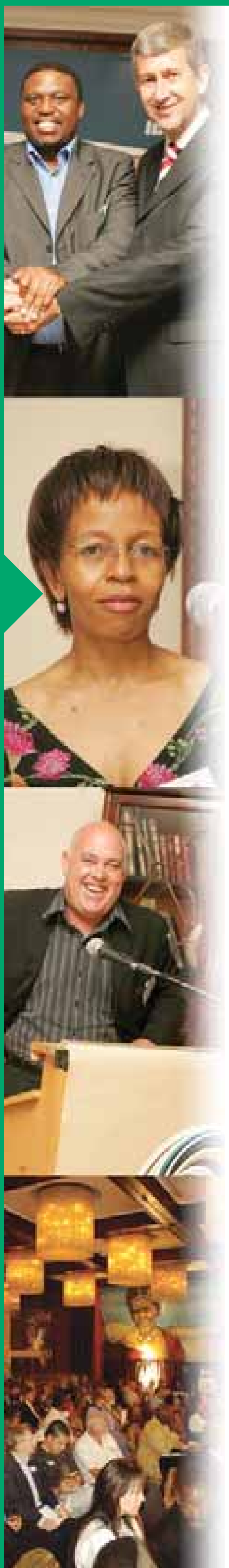
Revenues increased by 113% to R245 million for the year ended 31 December 2005. The group’s operating profit before net financing costs and taxation increased by 364% on the previous year, to R24,9 million. These figures include the consolidation of Cipla Medpro for only one month and exclude the annualisation of other Enaleni subsidiaries which were acquired during the year. The group’s headline earnings of 9,0 cents per share exceeded the forecast published in the circular to shareholders dated 28 November 2005.

The 2005 performance is stated in the context of the group before the Cipla Medpro acquisition and does not demonstrate the full extent of the new group. For illustrative purposes, we include below the unaudited summary of group earnings, annualised as if Cipla Medpro and the other acquisitions were consolidated for the 2005 year. We also include the 2006 forecast figures as included in our circular to shareholders dated 28 November 2005.

Summary of group earnings

	UNAUDITED 31 DECEMBER 2005 R’000	FORECAST 31 DECEMBER 2006 R’000
Revenue	**625 746**	730 949
Operating profit before finance costs and taxation	**144 142**	178 477
Net finance costs	**(38 061)**	(29 128)
Profit before taxation	**106 081**	149 349
Taxation	**(33 733)**	(45 184)
Profit after taxation	**72 348**	104 165
Headline earnings attributable to ordinary shareholders	**70 660**	102 946
Weighted average number of shares in issue (‘000)	**400 360**	400 360
Headline earnings per share (cents)	**17,6**	25,7

Chief executive officer's report *continued*



Enaleni's strategy is to build a well balanced portfolio of two business units: the Pharmaceutical division and Consumer and Vitality division. The Pharmaceutical division continues to perform well and has increased its market share during 2005. The division recently increased its market rating by three places to tenth position (including FirstPharm) (source IMS 2005 – total Rand sales).

The Consumer business continues to focus on affordable healthcare through its power brand, Hercules. The Consumer factory was recently sold for R8,5 million and has been relocated to a 5 500 square metre site adjacent to the group's pharmaceutical manufacturing facility in Mobeni, Durban. The close physical proximity of the group facilities will ensure operational synergies. The group will be investing in growing market share to ensure that the Consumer business will be a significant contributor to profit in the medium term. The company continues to explore acquisition opportunities.

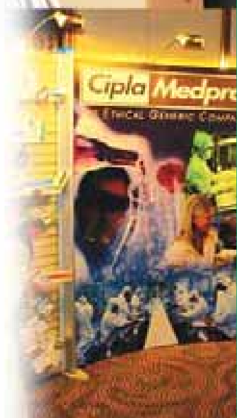
Bioharmony and Muscle Science have increased their market share during the year and continue to show significant growth, albeit off a small base.

The group's balance sheet was strengthened during the year as a result of the Cipla Medpro acquisition. This transaction resulted in an R80 million cash injection which was part of the take on assets of Cipla Medpro.

The group's capital expenditure requirements are limited due to the nature of the business model and as a result of acquiring equipment from RBSA on highly favourable terms. The long-term outlook for capital expenditure is on the low side, although we are planning to make an investment in upgrading the existing pharmaceutical business over the next two to three years as part of our ongoing investment programme.

The Enaleni group is highly cash generative due to the nature of our trading terms. These cash flows will be used to service debt, fund future acquisitions and enable organic growth.

"Enaleni announces forecast sales of R731 million and forecast profit before taxation of R149 million for 2006"



Outlook

In the circular issued to shareholders on 28 November 2005, Enaleni announced forecast sales of R731 million for 2006 and forecast profit before interest and tax of R178,5 million. We are pleased to announce that the group is currently trading in line with the projected forecast. The board anticipates this growth will continue for the rest of the year on the assumption that current market conditions endure.

In terms of the acquisition agreement with Cipla Medpro, further capital of between R100 million and R300 million may be payable to the vendors of Cipla Medpro by 31 May 2007, should Cipla Medpro contribute profit before taxation in excess of R150 million for the year ended 31 December 2006. The intention is to fund such payment through a combination of debt and equity. It should be noted that accumulated cash reserves of R100 million have been set aside for payment to the vendors as and when required.

Appreciation

The phenomenal success and growth that the group has achieved over the past year would not have been accomplished without the people who make it possible. I would like to extend my gratitude to the executive team, all their management and team members and our non-executive directors. Congratulations on a job well done and for having achieved phenomenal success.

I would also like to thank our loyal customers and suppliers for your ongoing support and look forward to an even more successful year together in 2006.

I welcome Cipla India as a major partner to the group. I look forward to a long and prosperous relationship with Cipla India and to unlocking future value.

TD EDWARDS
Chief executive officer

Directorate

NON-EXECUTIVE DIRECTORS

Penuell Cornwell Sibusiso Luthuli

Non-executive chairperson; CA (SA) (32)

Sibusiso Luthuli has been the chairman of Enaleni since 2003 and is the managing director of Ithala Development Finance Corporate Limited. Before joining Ithala Bank, he spent three years in the Specialised Property and Asset Finance Division of Nedbank. S'bu is a member of the SAICA Southern Regional Council, a trustee and treasurer of the Project Preparation Trust, a member and chairman of the Audit Committee of UKZN Council, a non-executive director of Telkom Limited, a member of Ethekwini Municipality Audit Committee and a director of the Richards Bay IDZ company.

Dr Gilimamba Mahlati

Non-executive director; MB ChB (Natal); FCS (SA) (46)

Dr Gilimamba Mahlati is a well respected businessman 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 Vuya Investments. Gil became a director of Enaleni in April 2006.

Thembisa Dingaan

Non-executive director; BProc, LLB (Natal), LLM (Harvard); H Dip Tax (Wits) (33)

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. Thembisa became a director of Enaleni in April 2006.

Nomini Elizabeth Rapoo

Non-executive director; BCom; LLB (Natal, Pmb) (42)

Nomini Rapoo is an admitted attorney of the High Court. She practiced as a commercial lawyer for seven years before joining the IDC as its group company secretary in 2002. Nomini has been involved in a number of projects for the Department of Trade and Industry and has delivered papers on African peer review and corporate governance. Nomini became a director of Enaleni in May 2006.

EXECUTIVE DIRECTORS

Trevor Edwards

Chief executive officer: Enaleni group (48)

Trevor Edwards is one of the founders of Enaleni and has been with the company since inception, as CEO. Trevor is a highly experienced executive and entrepreneur with a history of success in developing sizeable businesses across a broad range of industries. These have included pharmaceuticals, natural health, packaging, franchising, retail and personal care companies. In just over three years Trevor, together with his team, has transformed Enaleni from a contract manufacturer with one customer, into a top 10 pharmaceutical company, which is acknowledged as a leader in empowerment in the pharmaceutical industry. Trevor has been a recipient of many business awards. He has held senior executive positions in the pharmaceutical, FMCG and franchising industries. Trevor is also a non-executive director of Taste Holdings Limited.

Stanley Whitfield

Chief financial officer: Enaleni group FCA (55)

Stanley Whitfield is one of the founders of Enaleni and has been with the company since inception, as CFO. Stan is a highly experienced executive and entrepreneur with a history of success in developing sizeable businesses across a broad range of industries. These have included pharmaceuticals, natural health, franchising, retail and personal care companies. Stan was responsible as team leader for the successful R1,2 billion acquisition of Cipla Medpro. He has extensive experience in acquisitions and mergers and has worked effectively with owner managed businesses. Stan has held senior executive positions in the pharmaceutical, FMCG and franchising industries.

Umesh Parusnath

Managing director: Contract manufacturing and tenders; BSc (Pharm) (35)

Umesh Parusnath is one of the founders of Enaleni and has been with the company since inception, as managing director. Umesh is a qualified pharmacist and has considerable experience in the pharmaceutical industry in production, logistics, quality assurance and new product development. Umesh previously worked at RBSA and GD Searle (South Africa) (Proprietary) Limited in senior production management positions.

Pamela Pillay

Logistics director (49)

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 group and has the responsibility for maintaining good relationships with major customers and suppliers. Pam worked in a senior capacity at RBSA for over 20 years where she was responsible for logistics and also held a senior procurement position at Alusaf at Richards Bay.

Senior executives

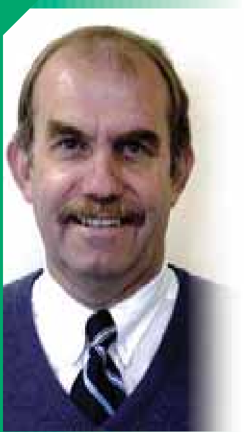
PHARMACEUTICAL DIVISION

Cipla Medpro

Jerome Smith

CEO: Cipla Medpro

Jerome Smith is a successful entrepreneur and had the vision in 1992 to establish Medpro Pharmaceutica as one of the first generic companies in South Africa. He aligned the company with Cipla India, one of the most successful and largest generic pharmaceutical companies in the world. The relationship with Cipla India has enabled the company to achieve its vision to make medicines more accessible and affordable to all South Africans. Jerome has had extensive experience with multi-national pharmaceutical companies including Janssen Pharmaceutica Inc., Akromed Products (Proprietary) Limited and Triomed.



Duncan Watermeyer

Director – Regulatory: Cipla Medpro; B Pharm (Rhodes), Dip Pharm Marketing

Before Duncan Watermeyer joined Cipla Medpro in 1993, he was the national training manager and national sales manager at Akromed Products (Proprietary) Limited for six years. As part of Duncan's overall responsibilities he is also responsible for new product registrations and liaison with the MCC. He is acknowledged to be an expert in regulatory affairs.

Dr Nic de Jongh

Director – Medical: Cipla Medpro; MB ChB and BSc Med Sci Hons (Pharmacology)

Nic de Jongh has been with the Cipla Medpro group since 1993. He qualified as a medical doctor in 1982 and specialised in plastic surgery. Nic has significant experience in intellectual property rights and is involved in the investigation of the validity of patents.

The directors of Cipla Medpro

Chris Aucamp

Director – Finance: Cipla Medpro; CA (SA)

Chris Aucamp qualified as a chartered accountant in 1988 and was the financial director for four years at a large FMCG company before joining Cipla Medpro nine years ago as the financial director. Chris has substantial knowledge of the pharmaceutical industry and is responsible for the overall control of all administrative and financial matters pertaining to the Cipla Medpro group.

Vanessa Liebenberg

Director – Sales: Cipla Medpro

Vanessa started her career as a pharmaceutical sales representative for Maybaker Pharmaceuticals in the Eastern Cape. She then moved to GD Searle (South Africa) (Proprietary) Limited where she was promoted to business unit manager, Western/Eastern Cape and Namibia. Before joining Cipla Medpro, Vanessa was a vice-president of Sekunjalo Healthcare Limited, one of the first BEE pharmaceutical companies. Under her leadership, Cipla Medpro has developed one of the most successful and largest sales teams in the pharmaceutical industry.

FirstPharm

Dave Black

CEO: FirstPharm; BCom

Dave Black is the CEO and founder of FirstPharm and has 23 years' experience in the pharmaceutical industry. He has considerable knowledge in the field of generic medicines and has, over the past 15 years, worked closely with multi-nationals such as Pfizer Consumer Health (Proprietary) Limited, Schering AG Limited, The Boots Company South Africa (Proprietary) Limited, Knoll Pharmaceuticals South Africa (Proprietary) Limited and Parke-Davis Healthcare (Proprietary) Limited.

Senior executives *continued*

Contract manufacturing

Dave Wolfson

Executive manager: Quality assurance, business integration and information technology; DPharm

Dave Wolfson is one of the founders of Enaleni and has been with the company since inception. He is a qualified pharmacist and has owned and managed his own pharmacy. Dave gained nine years' experience as head of quality assurance at the RBSA Durban pharmaceutical plant.

Maxwell Sithole

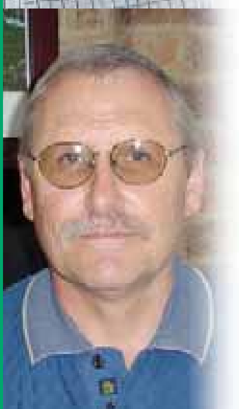
Pharmaceuticals production manager; BSc and BPharm

Maxwell Sithole is one of the founders of Enaleni and has been with the company since inception. Max is a qualified pharmacist and has 12 years' experience in pharmaceutical manufacturing. He has also received comprehensive training in industrial relations and conflict resolution.

Harold Basson

Strategic trade development executive

Harold Basson brings 13 years of valuable local and international pharmaceutical experience to Enaleni. Prior to joining Enaleni, Harold was an executive in a large multi-national pharmaceutical firm where he gained valuable experience in managed healthcare and other key portfolios. Thereafter, he formed a new company, African Healthcare Solutions (AHS), together with colleagues from the industry. Harold was then appointed to manage Feza Pharmaceuticals, a joint venture between AHS and Creative Outsourcing Solutions International (COSI).



Michael Britz

Executive manager: Business development

Michael Britz headed up the Pharmaceutical division of RBSA before he joined the Enaleni team three years ago. Michael has 31 years' experience in the pharmaceutical industry and has been responsible for the launch for some of the most successful pharmaceutical products in Southern Africa.

CONSUMER AND VITALITY DIVISION

Consumer/OTC

Michael Chalmers

General manager: Consumer division; BA

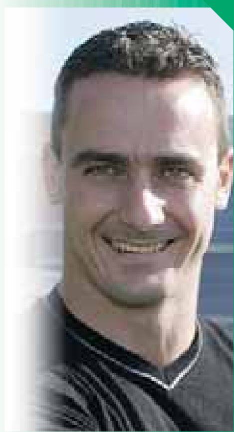
Michael Chalmers has 25 years' experience in the pharmaceutical and consumer industries with multi-national companies such as Unilever South Africa (Proprietary) Limited and Wilkinson Sword. Mike has held senior positions at RBSA, Sara Lee South Africa (Proprietary) Limited and Sara Lee Zimbabwe where he was the managing director for three years. Before joining Enaleni, Mike was the managing director of Alberto Culver South Africa (Proprietary) Limited where he assumed full responsibility for sub-Saharan Africa.

Bioharmony

Maria Ascencao

CEO: Bioharmony

Maria Ascencao is the founder of Bioharmony, one of South Africa's foremost natural healthcare companies and manufacturer of a comprehensive range of herbal and nutraceutical supplements. Maria is also a well-known lobbyist for Natural Health in South Africa and was a founding member of the Cape Lobby for Health Freedom in 1997.



Muscle Science

Mario van Biljon

Joint CEO: Muscle Science; NHDip: Microbiology

Mario van Biljon was employed by Unilever South Africa (Proprietary) Limited as company microbiologist until 1997. He co-founded Muscle Science in 1997 after realising his passion for bodybuilding and sports performance. Mario is actively involved in the body building industry and has represented South Africa in international competitions.

Mark Strydom

Joint CEO: Muscle Science

Mark Strydom has 20 years' experience in the FMCG market with multi-national companies such as Revlon South Africa (Proprietary) Limited and GlaxoSmithKline South Africa Limited and has held senior positions at L'Oreal South Africa Holdings (Proprietary) Limited where he was the sales and marketing director for two years. Before joining Enaleni, Mark was a shareholder in CPF International (Proprietary) Limited and was the managing director of Tutto (Proprietary) Limited, trading as Modex Cosmetics, for four years.

Pharmaceutical division

The Pharmaceutical division, which includes the consolidation of Cipla Medpro for only one month in the 2005 annual financial statements, contributed 71% of group sales and 87% of profit before finance costs and taxation in 2005, an increase of 61% and 352% on the 2004 year respectively. If the sales of Cipla Medpro and FirstPharm are combined, the group is the 10th largest pharmaceutical company in South Africa. Furthermore, if one then includes sales from Enaleni's joint ventures and the sales from the Contract manufacturing business, the group would feature substantially higher in the rankings.

Cipla Medpro: Jerome Smith, CEO

South Africa's third largest generic pharmaceutical company, Cipla Medpro, based in Cape Town, is a market leader in respiratory, cardio and other selected major therapeutic categories and has the potential to become the largest supplier of ARV medicines in southern Africa. The company is committed to bringing benefits of high quality medication to all South Africans by supplying generic medicines which are equivalent to the innovator, at a considerably lower cost.

Enaleni acquired Cipla Medpro in November 2005, providing the group with critical mass and an impressive pipeline of new products to immediately become a significant player within the pharmaceutical industry.

The key facts regarding Cipla Medpro can be summarised as follows:

- third largest generic supplier in the South African private market and one of the fastest growing pharmaceutical companies in South Africa as reported by IMS Health;
- the fifth largest supplier of pharmaceuticals in South Africa by volume, achieved 40% annual growth in sales over the past three years;
- has market leaders in various therapeutic categories, including respiratory, cardiovascular, psychiatry and NSAIDS;
- is well represented in the supply of chronic medication, which generates a regular annuity income stream;
- has made ARV treatment accessible to all. Cipla Medpro currently has eleven ARV medicines in the market place. A further nine ARV medicines are in the process of approval at the MCC;
- has just announced the successful registration of Triomune, the first ever three-in-one combination of a first-line recommended anti-HIV/AIDS treatment regimen. The company is now poised to become a significant player in the ARV market;
- has a significant pipeline of medicines currently being registered with the MCC;
- registered more generic molecules in 2005 than any other pharmaceutical company in South Africa; and
- has a sales force of over 100 employees, the third largest pharmaceutical sales team in South Africa.

In terms of the acquisition by Enaleni, the Cipla Medpro management will remain with the company until at least October 2008 and a succession plan for senior leadership is being progressed. As a result of the acquisition, all Cipla Medpro directors and team members became Enaleni shareholders.

Cipla India, a 70 year old organisation, which is ranked as the number one generics pharmaceutical company in India, is the manufacturer and supplier of most of Cipla Medpro's products. Cipla India forms strategic relationships in every continent and exports over 1 000 products to more than 160 countries across the globe. Cipla India is a world leader in asthma and affordable ARVs. The company has 32 pharmaceutical facilities in India, all approved by the MHRA (UK), MCC, FDA, TGA (Australia) and many other agencies, and manufactures more than 100 basic Active Pharmaceutical Ingredients. As part of this transaction Cipla India recently entered into a 20 year exclusive manufacturing and supply agreement with Cipla Medpro for South Africa, Lesotho, Swaziland, Botswana and Namibia. The agreement gives Cipla Medpro exclusive access to Cipla India's pharmaceutical dossiers and the transfer of technology skills. Cipla Medpro owns all the trademarks and dossiers as part of the agreement. There are few companies in South Africa that are positioned as well as Cipla Medpro to capitalise on the opportunities in generic pharmaceuticals.

Cipla India has also expressed interest in assisting Enaleni with the local manufacturing of selected ARV drugs. The relationship that Enaleni enjoys with Cipla India will benefit each of the group's divisions.

The draft Healthcare Charter, which is expected to be finalised imminently, sets out stringent equity and procurement targets for all pharmaceutical companies operating in South Africa. This presents a significant opportunity for the Enaleni group, since Enaleni is already the most empowered large pharmaceutical company in South Africa. Tenders of R235 million were recently awarded to the group. This has positioned the group as a major pharmaceutical tenderer to Government and it is anticipated that the value of tenders will increase substantially in the future.

Following the November 2005 acquisition of Cipla Medpro, Enaleni is now one of the top ten pharmaceutical companies in South Africa and the leading BEE pharmaceutical company, thus providing investors with an attractive opportunity to participate in the growing generic and pharmaceutical environment in South Africa.

The numerous advantages of the acquisition of Cipla Medpro include:

- Enaleni has substantial spare capacity in its KwaZulu-Natal based, MCC approved pharmaceutical manufacturing facility. It is envisaged that certain Cipla Medpro products will be manufactured at this facility, resulting in substantial savings for the enlarged group;
- Enaleni is considering the cost of converting its current local manufacturing facilities to achieve FDA (US) standards that will qualify it to manufacture significant ARV volumes;
- provide affordable medicines in line with the imminent Healthcare Charter through many opportunities such as licence agreements and joint ventures, and assist Cipla Medpro to comply with its BEE objectives;
- significantly strengthen the government tender platform of the group, with substantial opportunities for growth;
- as a result of the enlarged group and salesforce, it is anticipated that the OTC products of the Consumer business will grow significantly; and
- the enlarged group will benefit from cost savings on synergies, procurement and distribution.

Cipla Medpro enjoys a further competitive advantage, in the guise of its own in-house regulatory department which is responsible for the registration of new products at the MCC. The medical and marketing departments at Cipla Medpro, comprising six doctors and five pharmacists, continuously liaise with the medical profession and handle all medical queries on products. The Cipla Medpro brand is well established and trusted amongst specialists, General Practitioners and pharmacists.


Pharmaceutical division continued

Through the implementation of the National Health System it is estimated that the private sector in South Africa will grow by 600 000 additional insured lives plus a dependent ratio of 1:5. The Old Mutual Healthcare Survey 2005 stated that only 29% of employer respondents indicated that they offer post-retirement subsidies, which is down from 43% in 2003. Companies providing cost-effective chronic medication with an impeccable reputation, such as Cipla Medpro, will be in a position to provide affordable medication to the people who do not qualify for post-retirement subsidies.

In addition to the above the following factors will contribute to increased organic growth in the annual sales of Cipla Medpro:

- Product pipeline – Cipla Medpro has actively been involved in the development and launching of new products. The development of new pharmaceutical dossiers is integral to the sustained success of the business. Cipla Medpro has more than 140 new dossiers in development that will be launched during the next four years;
- ARVs – Cipla Medpro currently has eleven ARV medicines in the market place. A further nine are in the process of approval at the MCC;
- Chronic medicines – Cipla Medpro has a wide range of chronic medicines which generates a regular annuity income stream;
- Government tenders – by utilising Enaleni's BEE credentials, local manufacturing preference and existing Cipla Medpro pharmaceutical dossiers, there is an opportunity to substantially increase tender sales to the public sector in the future; and
- Hospitals – Cipla Medpro will utilise Enaleni's BEE credentials to increase sales to South African hospital groups.

In 2005, Cipla Medpro launched 27 molecules with 70 dossiers. This is more than any other company during that period. The company has an excellent current and future pipeline targeting products coming off patent in 2009. In addition, the company has registered two products coming off patent in 2011. Currently, 58 dossiers are awaiting MCC registration, many of which are likely to be the only generics available locally for some time. Notable products launched in 2005 by Cipla Medpro were Lansoloc (a proton pump inhibitor) and Flomist. Within five months of launching, these products had taken 52% and 50% of the innovator market share respectively.

Cipla Medpro has brought a range of quality affordable ARVs to the market which may result in an increase in sales for this group of products in the future. Currently the company holds eleven registered ARVs and is likely to achieve another seven during 2006. Sales from the recently registered Triomune, the revolutionary three-in-one ARV, are expected to have a positive impact on the financial performance of the group. Cipla India has always been at the forefront of ARV development and further combinations, especially fixed dose combinations, bode well for the future.

Cipla Medpro's respiratory range is key to the future success of the company. The Montreal Accord stipulated that South Africa would withdraw all CFC-containing asthma inhalers where HFA substitutes exist. Cipla Medpro has an HFA asthma inhaler or dry powder in virtually every category and it was for this reason that Government awarded a two year tender, totalling R170 million, to Cipla Medpro last year.

The December 2005 IMS report rated Cipla Medpro as the number 15 company by value in SA and number 12 for the month of December 2005. The company has an evolution index of 129 which is unmatched within the top 30 pharmaceutical companies in SA. This indicates that, off a substantial base, Cipla Medpro is growing faster than the industry.

In the year ahead, the company plans to release a number of 'blockbuster' products, including a strong OTC portfolio, as it takes advantage of generic substitution favoured by the Medicines Act.

FirstPharm: Dave Black, CEO

FirstPharm Pharmaceuticals, a leading marketer and brand owner of generic OTC and prescription medications based in Durban, is one of South Africa's leading suppliers of anti-microbial, analgesic, antacid, anti-hypertensive and anti-inflammatory medications to wholesalers, pharmacists, doctors, hospitals and government markets. FirstPharm's power brands include iBumax, Gelacid and Alkafizz.

FirstPharm's turnover in 2005 was derived from sales of its own generic brands to wholesalers, doctors, pharmacists and the South African government, as well as sales from its agency agreements with Alchemy, Pfizer, Micro Healthcare and Schering AG.

Turnover increased by approximately 20% in 2005 with volume sales increasing by even higher levels, despite challenging trading conditions brought about by the new pricing regulations and the resultant decrease in the turnover of its multi-national agency business. A salient feature of the year was the significant change in the "turnover mix" between FirstPharm's own brands and agency lines, with 83% of sales being generated from FirstPharm's own brands, as opposed to approximately 60% in 2004. This is seen as a positive move towards the sustainability of the business with less reliance being placed on potentially vulnerable contracts with outside parties.

Enaleni will manufacture some of the FirstPharm brands in 2006, resulting in cost savings.

The Universal and Zedchem product ranges will be integrated into FirstPharm during 2006. Many of these products will be rebranded and relaunched and products such as Universal Throat Lollies and Gastrolyte are expected to contribute significantly to FirstPharm's future turnover.

Another highlight for 2005 was the fact that FirstPharm was awarded the Proudly South African Marketer of the Year. The company's marketing manager, Althea Williams, was voted Proudly South African Employee of the Year. FirstPharm was also a finalist for the 2006 Proudly South African Company of the Year award.

Significant growth opportunities exist for FirstPharm in the year ahead and various synergies and opportunities with Cipla Medpro are being explored.

Contract manufacturing:
Umesh Parusnath, Managing director

Enaleni's Contract manufacturing business, situated in Mobeni, Durban, manufactures a wide range of pharmaceutical and nutraceutical products for a number of local and international companies including RBSA, Merck Generics, Cipla Medpro, Pharma Dynamics (a joint venture of the Gelusil and Sloan's brands), Bioharmony and Muscle Science.

The division's 10 000 square metre climate controlled facility carries approval by the Medicines Control Council (MCC) and the SA Pharmacy Council to manufacture pharmaceutical products. The facility is a high volume manufacturer of liquids and tablets in addition to significant volumes of capsules, granulations, creams, powders and effervescent products. Manufacturing is supported by the Syspro Impact fully integrated Enterprise Resource Planning system, and boasts a fully equipped quality control testing laboratory and microbiology laboratory, as well as a dedicated quality assurance department to ensure consistent product quality. The facility also conducts New Product Development (NPD) for each division.

The second half of 2005 saw the closure of three manufacturing facilities acquired by Enaleni (Kamillen, Universal and Zedchem) and the integration of these into the manufacturing division at the Mobeni site. During this period, a further 22 pharmaceutical products and 60 nutraceutical products were integrated into the division, bringing the total number of products manufactured to over 250. The company has achieved critical mass in manufacturing and is now one of the top six manufacturers in South Africa.

The facility runs at 50% capacity and areas of low utilisation have been identified as major new business opportunities. It is envisaged that much of this growth will be achieved through contract manufacturing for pharmaceutical multi-nationals that can benefit from Enaleni's empowerment credentials when targeting government contracts.

The company's first venture into government tenders for the public sector proved very successful as business of R68 million was secured over a two year period.

The various business acquisitions in 2005 extended the plant's manufacturing capacity and capability, to include cream and ointment manufacturing, tube filling, high volume sachet filling and much higher liquid filling capacity. The company recently invested R5 million in plant and equipment upgrades, adding new capabilities such as tablet coating, high volume oral liquids, high volume granulating and blister packing to its offerings, thereby increasing business opportunities.

The manufacturing agreement with the division's largest customer, RBSA, has been extended until 2010. Enaleni was recently nominated for RBSA's Top Supplier award.

Consumer and Vitality division

The group is committed to establishing a significant personal care/OTC and vitality division in the future. Although this division's contribution to the group's overall revenue is currently small, opportunities exist to grow the division into a significant business catering for the emerging market and embracing the prevalent vitality and wellness trend.

Consumer division: Mike Chalmers, General manager

The Enaleni Consumer business, based in Mobeni, Durban, focuses on the fast growing emerging personal care and OTC pharmaceutical markets through well known, established brands such as Hercules, Caivil, Black Chic, Just for Baby, Kamillen, Gelusil, Sloan's, Healing Hands and Universal.

The 2005 year was one of internal restructuring and the integration of carefully targeted acquisitions aimed at laying the groundwork for the future. The 2005 highlights included the integration of the Kamillen brands, the acquisition of the Universal brands, and the joint venture acquisition with Pharma Dynamics of the Gelusil and Sloan's brands. A new management team was also introduced which led to a complete strategic review of the total business.

Universal's popular OTC products are in the process of being rebranded under the Hercules brand and this expanded range has massive growth potential. The focus for 2006 is to increase the Hercules brand to include traditional and herbal medicines and to drive the division's power brands, Hercules and Caivil.

The recent relocation to the Mobeni premises has resulted in operational synergies and streamlined distribution activities, bringing significant cost-savings for the division.

Key focus areas for 2006 include investment in core growth brands, increased distribution points, continuous improvement initiatives, investigation of export markets within Africa and strong emphasis on added value new product development, creating winning customer partnerships and effective marketing activities.

The division is currently looking for future acquisitions to increase critical mass and we believe that this business will be a significant profit contributor in the years ahead.

Promising vitality and wellness for all

Bioharmony: Maria Ascencao, CEO

Bioharmony, based in Cape Town, is one of South Africa's foremost natural healthcare companies. Bioharmony formulates and markets a comprehensive range of scientifically researched and innovative herbal and nutraceutical supplements.

Bioharmony is committed to wellness and aims to provide its customers with the highest quality, superior products with formulas designed to meet the needs of women, men, children, vegetarians and vegans.

A number of years ago, Bioharmony's founder and driving force, Maria Ascencao, suffered from a life-threatening illness. Maria proceeded to challenge her illness head-on through the medium of complementary and alternative medicine, hence the birth of Bioharmony a few years later. Maria is a well-known lobbyist for natural health in South Africa and serves on a number of healthcare association committees and is an executive member of the Health Products Association of South Africa. Maria has been working closely with Government to establish guidelines through the association of natural products.

Consumer and Vitality division *continued*

The company's main objective for 2005 was to develop and implement an aggressive new marketing strategy to unlock the inherent value of the brand. This resulted in the successful transaction with Enaleni and the development and launch of four new products.

Bioharmony's winning formula for 2005 was the upgrade of its internal communications and IT structure and the highly successful launch of Appestop by Patrick Holford, which became the company's best selling product. The company's new brand positioning resulted in a 70% sales growth over the previous year. A new look advertising and PR campaign was implemented which assisted in increasing brand awareness and product sales. The company also substantially broadened its distribution channels. The Holford Diet seminars and workshops early in the year were highly successful for the brand. Bioharmony officially adopted NOAH (Nurturing Orphans of AIDS for Humanity) as its core corporate social investment project and is dedicated to bringing relief and awareness to the plight of AIDS orphans throughout South Africa.

Bioharmony is associated with a number of organisations and naturopathic, homeopathic and nutritional experts which lend credibility to the Bioharmony brand, all of which support the company's mission to support healthy lifestyle and quest for wellness through innovative and interactive educational mediums. The company is proud to be associated with England-based Patrick Holford, one of the world's leading authorities on new approaches to health and nutrition and author of over 21 books which have been translated into over 18 languages.

Plans for 2006 are well underway with the launch of 12 exciting new products in the pipeline, three of which have been launched in February 2006:

- Allex, formulated by Patrick Holford, a natural anti-allergy product;
- Optimum Nutrition for Smart Kids, also formulated by Patrick Holford, a new generation sugar-free multi-vitamin and mineral with no additives or preservatives; and
- Bio-Xylosweet, a natural sugar replacement which is recommended by Patrick Holford as the only sugar replacement as it does not interfere with blood sugar levels, is 100% natural, low in calories and protects one's teeth.

Most of Bioharmony's products are manufactured by Enaleni.

Bioharmony is an exciting brand with huge potential and is well positioned to capitalise on the increasing demand by consumers for Vitality and Wellness products.

“Committed to establishing a significant personal care/OTC and vitality business”

Muscle Science International:
Mario van Biljon, Joint CEO
Mark Strydom, Joint CEO

Muscle Science, based in Mobeni, Durban, is one of South Africa’s leading sports and nutritional supplements companies, addressing the needs of both competitive and recreational athletes as well as individuals who embrace an active lifestyle.

The year 2005 saw the company, which has to date had a strong KwaZulu-Natal distribution base, making major strides into the national market with listings in Dis-Chem and Pick ‘n Pay Pharmacies nationwide. In August 2005, Mark Strydom joined the business as a shareholder and director, bringing significant sales and marketing expertise to the company.

The sports nutrition and supplementation market is a rapidly growing R2 billion industry in South Africa and 2006 will see the company establishing a stronger presence within selected, previously untargeted sporting markets. To date, Muscle Science’s core market has been largely from within the bodybuilding/physique arena and the company has established a strong reputation for credibility, innovation and product quality and efficacy of the highest standards. There has always been a substantial, albeit untapped, awareness of the business within the endurance sports’ markets and by shifting the focus in 2006 to include these disciplines and tailoring new products to meet these athletes’ needs, the opportunity exists to take a major share of this market. At the same time, the company will continue to remain at the forefront of product development for the bodybuilding market and build on the existing reputation as a credible source of information. With Muscle Science hosting the SA International Federation of Bodybuilding (IFBB) Championships later in 2006, the company will be well positioned to further entrench the brand within the bodybuilding fraternity.

In line with the current consumer trend towards an active, healthy lifestyle, Muscle Science’s weight management range of products within the Diet Science Series is enjoying significant growth. Late last year, the company launched the Lean Body AM & PM thermogenic fat burner range to coincide with the re-launch of the existing Lean Body Meal Replacement Formula. Initial sales figures indicate the massive opportunity for Lean Body and 2006 will see a strong marketing emphasis placed on the range which will also be expanded through additional products.

Muscle Science proudly sponsors a number of top athletes, from record-breaking deep sea divers to world champion cyclists and bodybuilders. These athletes are all highly respected opinion leaders within their chosen sports and are testimony to the brand’s efficacy. Co-founder Mario van Biljon is also a competitive athlete and sits on the KwaZulu-Natal IFBB Committee.

Most Muscle Science products are manufactured by Enaleni and the manufacturing synergies translate into massive savings for the business. Enaleni believes that through partnering with this entrepreneurial business, significant opportunities exist to increase the size of the business.

By broadening the brand’s appeal across all sports and expanding into new markets while staying true to the company’s objective of offering products based on the latest scientific research and manufactured to the highest pharmaceutical standards, Muscle Science is confident the business will achieve the goals set for 2006 and achieve critical mass within the next two to three years.

Corporate governance

Introduction

Openness, integrity, accountability and best practice are the cornerstones of the group's corporate governance philosophy.

The company realises that the highest ethical standards are vital to its success and, accordingly, has embraced the JSE Listing Requirements as well as the principles and practices recommended by the King II Code of Corporate Practices and Conduct.

Board of directors

The board of Enaleni functions in accordance with a formal Board Charter adopted by Enaleni and takes full responsibility for the company's system of corporate governance. The board comprises eight members, of whom four are executive directors and the remainder non-executive directors. In line with best practice, the roles of chairman and chief executive are separate. The chairman of the board is Sibusiso Luthuli, and the executive management of the group is the responsibility of the chief executive officer, Trevor Edwards.

The board is ultimately responsible for the company's activities. It determines the company's policies and supervises their implementation; it deals with all executive business not specifically delegated to management or committees; it co-ordinates and monitors the use of resources to achieve the aims of the company and the group.

The performance of each executive director is evaluated according to key performance criteria.

- The board retains control of the business, meeting every quarter and more frequently if required.
- All directors have unrestricted access to all company information, records, documents and property. All receive information packs before each board meeting to facilitate effective decision-making.
- Non-executive directors have full access to management and the company secretary and may, in appropriate circumstances, take independent professional advice at the company's expense.
- The board has in place a policy detailing procedures for appointments to the board, which appointments are conducted in a formal and transparent manner. In addition, a clear division of responsibilities at board level exists to ensure a balance of power such that no one individual has unfettered powers of decision-making.

The board has established two committees to help it meet its responsibilities: the audit committee and the remuneration committee.

Audit committee

The audit 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 audit committee is now chaired by Thembisa Dingaan and met regularly during the year under review, to assist the board to:

- review the company's interim results and annual financial statements;
- maintain the effectiveness of management reporting and financial controls;
- develop appropriate risk management strategies;
- set principles for using the external auditors for non-audit services; and
- comply with statutory and regulatory requirements.

The internal and external auditors have unrestricted access to the chairman of the committee, and bring all significant matters arising from their audit to the attention of the committee.

Remuneration committee

During the year under review the remuneration committee consisted of four members, being Sibusiso Luthuli and three executive directors. The committee met regularly during the year.

A new remuneration committee has been established for the future. It will be chaired by Sibusiso Luthuli together with one non-executive and one executive director.

The committee was established to assist the board to:

- appraise the performance of executive directors;
- determine the conditions of employment, service agreements and remuneration packages of executive directors, management and employees;
- recommend fees for non-executive directors; and
- set the policy for the company's share incentive scheme.

Directors' share dealings

The company has adopted a closed-period policy during which no director or employee is permitted to buy or sell the company's shares. Such periods occur from the end of the interim and annual reporting periods to the announcement of the interim and annual results and during any period when a director or employee is aware of negotiations or dealings that may affect the company's share price.

In line with JSE Listings Requirements, all directors require prior written clearance to deal in the company's shares.

Risk management and internal control

With input from the audit 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 protect and verify accountability for assets. The systems include documented organisation structures, policies and procedures.

In addition, the board's risk management strategy considers matters relating to enterprise risk, including strategic, operational, financial and compliance risks.

Board attendance

The directors' attendance at board and committee meetings from 1 January 2005 to 31 December 2005 is set out below.

	BOARD		REMUNERATION COMMITTEE		AUDIT COMMITTEE	
DIRECTOR	NO. OF MEETINGS	MEETINGS ATTENDED	NO. OF MEETINGS	MEETINGS ATTENDED	NO. OF MEETINGS	MEETINGS ATTENDED
S'bu Luthuli	7	7	3	3	3	3
Trevor Edwards	7	7	3	3	3	3
Stanley Whitfield	7	7	3	3	3	3
Umesh Parusnath	7	7	3	3		
Maxwell Sithole	7	6				
Pamela Pillay	7	7				
David Wolfson	7	7				
Devan Govender	3	3				
Dali Tambo	3	2				

The board prepares the annual financial statements in accordance with the requirements of the Companies Act in South Africa.

Social responsibility

The board acknowledges its responsibility towards the communities in which its businesses operate. Currently the following initiatives are in place:

- School sponsorship – Enaleni sponsors the aptly named Enaleni High School in Umlazi, KwaZulu-Natal, see page 8 of this report.
- Enaleni Adelaide Tambo healthcare bursary – Enaleni has set up the bursary to assist black students with their study fees.

Employment equity

As South Africa's leading black economic empowerment pharmaceutical company, Enaleni takes particular care with regard to employment equity.

At listing in June 2005, all permanent employees of the company, who were not already members of the Enaleni share incentive scheme, received up to 3 000 shares in terms of the Enaleni broad-based share incentive scheme.

The company strives to:

- be an equal opportunities employer, increasing the number of employees from previously disadvantaged backgrounds;
- create awareness of employment equity as well as tolerance of diversity;
- improve employment opportunities for people with disabilities; and
- empower employees and the previously disadvantaged through incentive schemes and upliftment projects.

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. This is achieved 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.

Report of the independent auditors

To the members of Enaleni Pharmaceuticals Limited

We have audited the company and group annual financial statements of Enaleni Pharmaceuticals Limited set out on pages 32 to 83 for the year ended 31 December 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 31 December 2005 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

KPMG Inc.

KPMG INC.
Registered Accountants and Auditors
Chartered Accountants (SA)

Durban
3 April 2006

Company secretary's certificate

I, Stanley Whitfield, 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 2005, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

S Whitfield

S WHITFIELD
Company secretary

Durban
2 April 2006

Report of the directors

The directors have pleasure in presenting their report which forms part of the audited financial statements of the company and the group for the year ended 31 December 2005.

Nature of business

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

The Enaleni group engages in the manufacture, marketing and supply of pharmaceutical, personal care/OTC and vitality and wellness products.

In addition to owning its own brands within its 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 are set out in the attached financial statements.

- The profit after tax attributable to ordinary shareholders amounted to R13 204 000 (2004: R3 632 000), an increase of 264%.
- Earnings per ordinary share amounted to 11,8 cents per share (2004: 7,6 cents per share), an increase of 55%.
- Headline earnings per ordinary share amounted to 9,0 cents per share (2004: 7,6 cents per share), an increase of 18%.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the group's first IFRS consolidated financial statements and the provisions of IFRS 1 (First Time Adoption of IFRS) have been applied.

Summary of the group's results

	YEAR ENDED 31 DECEMBER 2005 R'000	YEAR ENDED 31 DECEMBER 2004 R'000	CHANGE %
Revenue	**245 078**	115 202	113
Profit before finance costs and taxation	**24 929**	5 367	364
Profit after taxation	**12 538**	3 354	274
Earnings per share (cents)	**11,8**	7,6	55
Headline earnings per share (cents)	**9,0**	7,6	18

On 10 June 2005, Enaleni was listed on the AltX division of the JSE and on 15 December 2005 the company moved to the JSE main board.

The Enaleni group has expanded its business operations through the acquisition of subsidiaries as detailed in annexure A to the annual financial statements. During 2005, Enaleni purchased 100% of the shares in the following subsidiaries:

- Cipla Medpro Holdings (Proprietary) Limited;
- Xeragen Laboratories (Proprietary) Limited (trading as FirstPharm);
- Zedchem (Proprietary) Limited, owner of the Gastrolyte and Zedchem brands, which have been integrated into the group;
- Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited; and
- CPF International (Proprietary) Limited (indirect interest), owner of the remaining 50% of the Caivil brand.

The company also acquired 51% of the shares in Bioharmony (Proprietary) Limited and increased its shareholding in Aldabri 53 (Proprietary) Limited (trading as Muscle Science) to 51% (2004: 50%).

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

Dividends

No dividend has been declared during the year and none is recommended (31 December 2004: R343 000).

Share capital

The authorised share capital of the company comprises 500 000 000 ordinary shares of 0,1 cent each (2004: 1 000 ordinary shares of R1 each) and the issued share capital of the company is R403 010 (consisting of 403 010 792 ordinary shares of 0,1 cent each).

Sweet Sensations 67 (Proprietary) Limited, which is the owner of 82 000 000 ordinary shares, equivalent to 20,3% of the issue share capital, is the only shareholder owning more than 5% of the issued share capital of the company.

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

Directors' interest in the shares of the company

The total direct and indirect interest declared by the directors in the issued share capital of the company at 31 December 2005 is set out in the table below.

Directors

Mr D Govender was appointed on 1 January 2005 and resigned on 1 May 2005.

Mr DDT Tambo was appointed on 11 May 2005.

Executive directors

TD Edwards (CEO)
S Whitfield (CFO) (British)
DE Wolfson
U Parusnath
PA Pillay
NM Sithole

Non-executive directors

PCS Luthuli
DDT Tambo

Number of shares

	BENEFICIAL		NON-BENEFICIAL			
	DIRECT	INDIRECT	DIRECT	INDIRECT	TOTAL	%
DIRECTOR	'000	'000	'000	'000	'000	HELD
PCS Luthuli	2 439		–	–	2 439	0,6
DDT Tambo	–	5 543	–	–	5 543	1,4
TD Edwards	232	18 279	–	–	18 511	4,6
U Parusnath	4 637	–	–	545	5 182	1,3
PA Pillay	4 633	–	–	545	5 178	1,3
NM Sithole	4 633	–	–	545	5 178	1,3
S Whitfield	210	10 952	–	–	11 162	2,8
DE Wolfson	4 833	–	–	545	5 378	1,3
	21 617	**34 774**	**–**	**2 180**	**58 571**	**14,6**

Report of the directors *continued*

Each of the 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 dismissal of a director is three 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 22 in the annual financial statements for detailed disclosure of directors' emoluments for the year.

Special resolutions

A special resolution to alter the share capital of the company was registered on 19 May 2005.

Auditors

The auditors of the company are KPMG Inc.

Comparatives

The comparatives for the year ended 31 December 2004 have been restated in terms of IFRS 1.

Going concern

At 31 December 2005, the current liabilities of the group exceeded the current assets by R195 million. This is due to a R300 million loan from Nedbank Limited that was repayable in January 2006. On 16 January 2006, this loan was replaced with a five year term loan from Nedbank, at similar rates of interest. The directors believe that the company and group will be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the company and group annual financial statements.

Registered office

1474 South Coast Road, Mobeni, 4052

Postal address

1474 South Coast Road, Mobeni, 4060

Events 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
3 April 2006

Directors' statement of responsibility

The directors of Enaleni are responsible for monitoring the preparation of and the integrity of the annual financial statements of the company and its subsidiaries, and related information included in the annual report.

In order for the board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The board has ultimate responsibility for the system of internal control and reviews its operation.

The internal controls include a risk based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and incorporate disclosure in line with the accounting philosophy of the group. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors have no reason to believe that the group, or any company within the group, will not be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the company and group annual financial statements.

The group's external auditors, KPMG Inc., audited the annual financial statements and their report is presented on page 31.

Directors' approval

The company and group annual financial statements for the year ended 31 December 2005 set out on pages 32 to 83, were approved by the board of directors on 3 April 2006 and signed on its behalf:

PCS LUTHULI
Chairman

TD EDWARDS
Chief executive officer

Durban
3 April 2006

Balance sheets

as at 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		Notes	GROUP 2005 R'000	GROUP 2004* R'000
		ASSETS			
		Non-current assets			
7 588	**10 316**	Property, plant and equipment	3	**22 950**	8 753
3 300	**4 727**	Intangible assets	4	**1 170 001**	7 900
4 512	**1 254 217**	Interest in subsidiaries	5	**–**	–
–	**5 001**	Other investments	6	**5 010**	–
1 984	**2 651**	Loans receivable	7	**1 917**	1 984
807	**624**	Deferred taxation assets	8	**9 901**	1 044
18 191	**1 277 536**	Total non-current assets		**1 209 779**	19 681
		Current assets			
13 507	**19 216**	Inventories	9	**60 796**	13 507
–	**12**	Income taxation receivable		**61**	–
18 442	**43 873**	Trade and other receivables	10	**113 598**	18 456
–	**–**	Director's loan	11	**887**	–
6 412	**4 771**	Cash and cash equivalents		**112 188**	7 800
38 361	**67 872**	Total current assets		**287 530**	39 763
56 552	**1 345 408**	**Total assets**		**1 497 309**	59 444
		EQUITY			
–	**403**	Issued share capital	12	**403**	–
–	**875 218**	Share premium	12	**875 218**	–
–	**–**	Treasury shares		**(2 651)**	–
5 432	**2 581**	Retained earnings		**18 596**	5 154
5 432	**878 202**	Total equity attributable to equity holders of the parent		**891 566**	5 154
–	**–**	Minority interest	12	**(1 559)**	(278)
5 432	**878 202**	**Total equity**		**890 007**	4 876
		LIABILITIES			
		Non-current liabilities			
13 170	**113 386**	Long-term loans and borrowings	13	**123 608**	19 159
–	**1 338**	Amounts due to subsidiaries	5	**–**	–
–	**–**	Accrued operating leases		**245**	–
–	**–**	Deferred taxation liabilities	14	**595**	–
13 170	**114 724**	Total non-current liabilities		**124 448**	19 159
		Current liabilities			
–	**4 137**	Bank overdraft		**4 768**	–
4 144	**303 337**	Short-term loans and borrowings	13	**307 711**	4 382
1 940	**–**	Income taxation payable		**21 813**	1 940
31 866	**45 008**	Trade and other payables	15	**145 254**	29 087
–	**–**	Forward exchange contracts	20	**3 308**	–
37 950	**352 482**	Total current liabilities		**482 854**	35 409
51 120	**467 206**	**Total liabilities**		**607 302**	54 568
56 552	**1 345 408**	**Total equity and liabilities**		**1 497 309**	59 444

** Restated under IFRS*

Income statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		Notes	GROUP 2005 R'000	GROUP 2004* R'000
108 275	**126 318**	**Revenue**		**245 078**	115 202
(75 916)	**(87 977)**	Cost of sales		**(136 008)**	(77 995)
32 359	**38 341**	**Gross profit**		**109 070**	37 207
2 324	**2 881**	Other operating income		**4 016**	2 333
(28 536)	**(37 756)**	Other operating expenses		**(88 157)**	(34 173)
(12 642)	**(21 445)**	Staff costs		**(38 748)**	(14 007)
(457)	**(1 002)**	Depreciation		**(2 013)**	(608)
(15 437)	**(15 309)**	Other		**(47 396)**	(19 558)
6 147	**3 466**	**Operating profit before finance costs and taxation**	16	**24 929**	5 367
(1 243)	**(6 957)**	Finance costs	17	**(7 862)**	(1 257)
139	**585**	Interest received	17	**1 012**	139
5 043	**(2 906)**	**Profit (loss) before taxation**		**18 079**	4 249
(1 133)	**(183)**	Taxation	18	**(5 541)**	(895)
3 910	**(3 089)**	**Profit (loss) after taxation**		**12 538**	3 354
		Attributable to:			
3 910	**(3 089)**	Equity holders of the parent		**13 204**	3 632
–	**–**	Minority interest		**(666)**	(278)
3 910	**(3 089)**	**Profit (loss) for the year**		**12 538**	3 354
		Earnings per share (cents)			
		Basic	19	**11,8**	7,6
		Diluted	19	**11,6**	7,6

** Restated under IFRS*

Statement of changes in equity

for the year ended 31 December 2005

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	SHARE CAPITAL R'000	SHARE PREMIUM R'000	TREASURY SHARES R'000	RETAINED INCOME* R'000	TOTAL R'000	MINORITY INTEREST* R'000	TOTAL EQUITY R'000
GROUP							
Balance at 1 January 2004	–	–	–	1 865	1 865	–	1 865
Net profit for the year	–	–	–	3 632	3 632	(278)	3 354
Dividends paid	–	–	–	(343)	(343)	–	(343)
Balance at 1 January 2005	**–**	**–**	**–**	**5 154**	**5 154**	**(278)**	**4 876**
Issue of share capital	**403**	**875 218**	**–**	**–**	**875 621**	**–**	**875 621**
Shares held by share incentive trust	**–**	**–**	**(2 651)**	**–**	**(2 651)**	**–**	**(2 651)**
Net profit for the year	**–**	**–**	**–**	**13 204**	**13 204**	**(666)**	**12 538**
IFRS 2 Share-based payments	**–**	**–**	**–**	**238**	**238**	**–**	**238**
Minority interest acquired	**–**	**–**	**–**	**–**	**–**	**(615)**	**(615)**
Balance at 31 December 2005	**403**	**875 218**	**(2 651)**	**18 596**	**891 566**	**(1 559)**	**890 007**
COMPANY							
Balance at 1 January 2004	–	–	–	1 865	1 865	–	1 865
Net profit for the year	–	–	–	3 910	3 910	–	3 910
Dividends paid	–	–	–	(343)	(343)	–	(343)
Balance at 1 January 2005	**–**	**–**	**–**	**5 432**	**5 432**	**–**	**5 432**
Issue of share capital	**403**	**875 218**	**–**	**–**	**875 621**	**–**	**875 621**
Net loss for the year	**–**	**–**	**–**	**(3 089)**	**(3 089)**	**–**	**(3 089)**
IFRS 2 Share-based payments	**–**	**–**	**–**	**238**	**238**	**–**	**238**
Balance at 31 December 2005	**403**	**875 218**	**–**	**2 581**	**878 202**	**–**	**878 202**

** Restated under IFRS*

Cash flow statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		Notes	GROUP 2005 R'000	GROUP 2004* R'000
		Cash flows from operating activities			
11 574	**(13 333)**	Cash generated (utilised) by operations	29.1	**7 918**	8 153
139	**585**	Interest received		**1 012**	139
(1 243)	**(6 957)**	Finance costs		**(7 862)**	(1 257)
(343)	**–**	Dividends paid	29.2	**(478)**	(343)
(882)	**(1 909)**	Taxation paid	29.3	**(22 049)**	(882)
–	**(43)**	Secondary taxation on companies paid	29.4	**(263)**	–
9 245	**(21 657)**	**Net cash flows from operating activities**		**(21 722)**	5 810
		Cash flows from investing activities			
		Expenditure to maintain operating capacity			
(7 782)	**(7 431)**	Acquisition of property, plant and equipment		**(7 908)**	(9 099)
(3 300)	**(1 427)**	Acquisition of intangible assets		**(4 249)**	(7 900)
52	**3 742**	Proceeds on disposals of plant and equipment		**4 991**	52
		Expenditure for expansion			
(4 512)	**(1 248 367)**	Acquisition of subsidiaries	29.6	**(1 122 824)**	–
–	**(5 001)**	Acquisition of unlisted investments		**(5 001)**	–
(1 984)	**(667)**	Settlement (acquisition) of loans receivable		**36 076**	(1 984)
–	**–**	Increase in director's loan receivable		**(887)**	–
(17 526)	**(1 259 151)**	**Net cash flows from investing activities**		**(1 099 802)**	(18 931)
		Cash flows from financing activities			
–	**875 621**	Proceeds from the issue of share capital		**875 621**	–
–	**–**	Treasury shares raised		**(2 651)**	–
9 107	**399 409**	Loans raised		**348 174**	15 335
9 107	**1 275 030**	**Net cash flows from financing activities**		**1 221 144**	15 335
826	**(5 778)**	Net increase (decrease) in cash and cash equivalents		**99 620**	2 214
5 586	**6 412**	Cash and cash equivalents at beginning of the year		**7 800**	5 586
6 412	**634**	**Cash and cash equivalents at end of the year**	29.5	**107 420**	7 800

** Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

General information

Enaleni Pharmaceuticals Limited (the "company") is listed on the Main Board of the JSE and is domiciled in the Republic of South Africa. The consolidated financial statements of the group for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "group").

These annual financial statements were authorised for issue by the directors on 3 April 2006.

1. Significant accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) for the first time. The disclosures required by IFRS 1 concerning the transition from SA GAAP to IFRS have been applied and an explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the group is provided in note 30.

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 that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments held for trading.

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.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are disclosed in the notes.

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements and in preparing a reconciliation of equity at 1 January 2004 for the purposes of the transition to IFRS.

The accounting policies have been applied consistently by group entities.

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. 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.

1. Significant accounting policies *continued*

c) Basis of consolidation *continued*

(ii) 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 the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency 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 into South African Rand at foreign exchange rates ruling at the dates the fair values were determined.

e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy k).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposals are calculated as the difference between the disposal proceeds and the carrying value of the asset, and are recognised in the income statement.

(ii) Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer accounting policy k). Lease payments are accounted for as described in accounting policy s.

(iii) Subsequent expenditure

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item, including major inspections and overhaul expenditure, when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

1. Significant accounting policies *continued*

e) Property, plant and equipment *continued*

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The current estimated useful lives are as follows:

Land and buildings	up to 50 years
Plant and machinery	5 – 15 years
Office and computer equipment	2 – 10 years
Motor vehicles	5 – 8 years

The assets' depreciation methods, residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

f) Intangible assets

The group has applied IFRS 3 to all business combinations that have occurred since the date of transition, 1 January 2004.

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is subject to impairment testing at least annually (see accounting policy k).

(ii) Excess of assets acquired over purchase price

The excess of the fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in profit or loss.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if:

- the product or process is technically and commercially feasible;
- the group has the intention to complete the product or process and use or sell it;
- the group has the ability to use or sell the product or process;
- the group can demonstrate how the product or process will generate probable future economic benefits;

Notes to the financial statements

for the year ended 31 December 2005

1. *Significant accounting policies* *continued*

f) *Intangible assets* *continued*

(iii) Research and development continued

- the group has adequate technical, financial and other resources to complete the development; and
- the group has the ability to measure reliably the expenditure attributable to the product or process during its development.

(iv) 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.

The following intangible assets currently have an indefinite useful life:

- Pharmaceutical dossiers
- Trademarks and registrations
- Brands

Intangible assets with finite useful lives are stated at cost less accumulated amortisation (if applicable) and impairment losses (refer accounting policy k). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(v) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(vi) Amortisation

Goodwill and intangible assets with an indefinite useful life are not amortised, but tested at least at the end of each financial year for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets having a finite useful life. Intangible assets with finite useful lives are amortised from the date they are available for use. The current estimated useful lives are as follows:

- Product development costs 3 years

g) *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 (see accounting policy f). If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Notes to the financial statements

for the year ended 31 December 2005

1. Significant accounting policies *continued*

h) Other investments

The group classifies all of its investments as non-current assets. The investment in quoted equity securities is stated at fair value, with any resultant gain or loss recognised in profit or loss. The fair value of listed shares is their quoted bid price at the balance sheet date. The investment in the unlisted co-operative is measured at cost.

i) Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. The cost of other inventories is determined using the weighted average cost method and includes all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Obsolete, redundant and slow-moving inventories are identified on a regular basis and are written-down to their estimated net realisable values.

j) Financial instruments

Financial assets and liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

(i) Trade and other receivables

Trade receivables do not bear interest and are carried at their amortised cost, less impairment losses. Impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of sale. Significant financial difficulties of the debtor or delinquency in payments are considered indicators that the trade receivables are impaired. The impairment is recognised immediately in profit or loss.

(ii) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group, unless otherwise stated.

(iii) Trade and other payables

Trade and other payables are not interest bearing and are stated at fair value or alternatively carried at amortised cost using the effective interest rate method.

(iv) Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

(v) Loans receivable

Loans receivable are stated at amortised cost less impairment losses using the effective interest rate method by applying the interest rates determined on initial recognition. Cumulative interest is recognised in profit or loss on an effective rate basis over the period of the loan.

Loans receivable which have no fixed repayment terms and bear no interest are stated at the amount initially recognised less impairment losses.

1. *Significant accounting policies* continued

j) *Financial instruments* *continued*

(vi) Forward exchange contracts

The group uses forward exchange contracts to reduce exposure to foreign exchange risks arising from operational activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, the derivatives used by the group do not qualify for hedge accounting and are accounted for as trading instruments.

The forward exchange contracts are subsequently stated at fair value with any resultant gain or loss on re-measurement recognised in profit or loss.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

k) Impairment

The carrying amounts of the group's assets, other than inventories (see accounting policy note i) and deferred tax assets (see accounting policy t), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of the group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The net selling price is the amount obtainable from the sale of an asset or a cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An annual test for impairment is performed for certain intangible assets including:

- goodwill acquired in a business combination – goodwill is tested for impairment annually and at any point during the year when an indicator of impairment exists; and
- intangible assets with an indefinite useful life and intangible assets not yet available for use – the recoverable amount of these assets is measured annually, irrespective of whether there is an indication that the related assets may be impaired, as well as whenever there is any indication that they may be impaired.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated thereto and then, to reduce the carrying amount of the other assets in the unit on a *pro rata* basis.

1. Significant accounting policies *continued*

k) Impairment *continued*

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been an indication that the impairment loss may no longer exist and if there has been a change in the estimate 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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

l) Share capital

(i) 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 shown in equity as a deduction, net of tax, from the proceeds.

(ii) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Borrowings with no fixed repayment terms and which bear no interest are measured at cost.

The deferred purchase considerations are initially recognised at fair value. The fair value is the future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the borrowing.

Subsequent to initial recognition, the deferred purchase considerations are measured at amortised cost being the present value of the estimated future cash flows discounted at the original effective interest rates.

The contingent purchase consideration is initially recognised at fair value. The fair value is the estimated future cash flows discounted to its present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the borrowing.

Subsequent to initial recognition, the contingent purchase consideration is measured at amortised cost being the present value of the estimated future cash flows discounted at the original effective interest rates.

1. Significant accounting policies *continued*

n) Employee benefits

(i) Share-based payment transactions

The group has adopted IFRS 2 from the transitional date of 1 January 2004.

In terms of the share option programme, group employees are allowed to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the vesting period. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(ii) Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related services. The accruals for employee entitlements to wages, salaries, annual and sick leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to balance sheet date.

(iii) Bonus plans

The group recognises a liability and an expense for bonuses. The group recognises a liability where it is contractually obligated or where there is a past practice that has created a constructive obligation.

(iv) Retirement benefits

Certain of the companies in the group operate defined contribution plans. The assets are held in separately administrated funds. The plans cover full-time employees. The group's contributions relating to defined contribution plans are charged to the income statement in the period to which it relates.

o) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

p) Bank overdrafts

Interest-bearing bank loans and overdrafts are recorded at fair value, both on initial recognition and subsequent measurement.

q) Government grants

Government grants towards staff training costs are recognised within other operating expenses in profit or loss over the period necessary to match them with the costs that they are intended to compensate. As these grants only relate to the current period, no liability has been recognised.

1. Significant accounting policies *continued*

r) Revenue recognition

Revenue comprises the sale of goods in the normal course of business, net of value-added tax and volume rebates. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the group and the amount of revenue can be estimated reliably. Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

s) Expenses

(i) Operating lease payments

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Instalment sale agreements

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge 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.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

t) Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

1. Significant accounting policies *continued*

t) Taxation *continued*

The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged, or credited, directly to equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets 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

u) Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment), which are subject to risks and rewards that are different from those of other segments. Geographical segments have not been presented as the company operates mainly in South Africa.

v) Earnings per share

(i) Basic

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares outstanding during the year.

(ii) Diluted

The objective of diluted earnings per share is consistent with that of basic earnings per share, while giving effect to all dilutive potential ordinary shares outstanding during the period. The company has a share option scheme in place which falls within the category of dilutive potential ordinary shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares on the assumption that the share options will be exercised. Dilution does not have an effect on profit attributable to ordinary shareholders.

w) Related parties

A party is related to the group if any one of the following is met:

(i) Directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control within the group;

(ii) The party is a member of the key management personnel of the entity or its parent;

(iii) The party is a close member of the family of any individual referred to in (i) or (ii) close family member of the family of an individual includes:

- the individual's domestic partner and children;
- children of the individual's domestic partner; and
- dependents of the individual or the individual's domestic partner;

(iv) The party is a post-employment benefit plan for the benefit of employees of the company that is a related party of the group.

Notes to the financial statements

for the year ended 31 December 2005

2. Segment reporting

Segment information is presented in respect of the group's business segments. The primary format, business segments, is based on the group's management and internal reporting structure. Geographical 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 segment assets that are expected to be used for more than one period.

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.

	2005				2004*			
	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	**173 794**	**71 284**	**–**	**245 078**	108 275	6 927	–	115 202
Inter-segment revenue	**–**	**7 655**	**(7 655)**	**–**	–	–	–	–
Total revenue	**173 794**	**78 939**	**(7 655)**	**245 078**	108 275	6 927	–	115 202
Segment operating profit	**17 849**	**3 280**	**3 800**	**24 929**	6 146	(779)	–	5 367
Non-cash expenses:								
Depreciation	**(1 205)**	**(808)**	**–**	**(2 013)**	(457)	(151)	–	(608)
Amortisation	**–**	**(20)**	**–**	**(20)**	–	–	–	–
Profit on disposal of property, plant and equipment	**41**	**34**	**–**	**75**	13	–	–	13
Excess of assets acquired over purchase price recognised in profit or loss for the year	**3 856**	**–**	**–**	**3 856**	–	–	–	–
Segment assets	**1 589 346**	**63 033**	**(155 070)**	**1 497 309**	47 772	11 672	–	59 444
Segment liabilities	**583 331**	**82 434**	**(58 463)**	**607 302**	42 340	12 228	–	54 568
Capital expenditure	**7 649**	**259**	**–**	**7 908**	7 782	1 317	–	9 099

** Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

3. Property, plant and equipment

GROUP	2005 COST R'000	2005 ACCUMULATED DEPRECIATION R'000	2005 CARRYING VALUE R'000	2004 CARRYING VALUE R'000
Land and buildings	**6 541**	**(1 134)**	**5 407**	3 493
Plant and machinery	**15 427**	**(5 366)**	**10 061**	2 775
Motor vehicles	**3 644**	**(1 388)**	**2 256**	1 750
Office furniture and computer equipment	**11 800**	**(6 574)**	**5 226**	735
	37 412	**(14 462)**	**22 950**	8 753

GROUP MOVEMENT SUMMARY – 2005	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBI-NATIONS R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Land and buildings	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**

GROUP	2004 COST R'000	2004 ACCUMULATED DEPRECIATION R'000	2004 CARRYING VALUE R'000	2003 CARRYING VALUE R'000
Land and buildings	3 525	(32)	3 493	–
Plant and machinery	2 936	(161)	2 775	41
Motor vehicles	1 927	(177)	1 750	–
Office furniture and computer equipment	1 069	(334)	735	260
	9 457	(704)	8 753	301

GROUP MOVEMENT SUMMARY – 2004	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBI-NATIONS R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Land and buildings	–	–	3 525	–	(32)	3 493
Plant and machinery	41	–	2 932	(39)	(159)	2 775
Motor vehicles	–	–	1 927	–	(177)	1 750
Office furniture and computer equipment	260	–	715	–	(240)	735
	301	–	9 099	(39)	(608)	8 753

Notes to the financial statements

for the year ended 31 December 2005

3. Property, plant and equipment *continued*

COMPANY	2005 COST R'000	2005 ACCUMULATED DEPRECIATION R'000	2005 CARRYING VALUE R'000	2004 CARRYING VALUE R'000
Land and buildings	**–**	**–**	**–**	3 469
Plant and machinery	**9 673**	**(587)**	**9 086**	2 558
Motor vehicles	**701**	**(210)**	**491**	954
Office furniture and computer equipment	**1 327**	**(588)**	**739**	607
	11 701	**(1 385)**	**10 316**	7 588

COMPANY MOVEMENT SUMMARY – 2005	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Land and buildings	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**

COMPANY	2004 COST R'000	2004 ACCUMULATED DEPRECIATION R'000	2004 CARRYING VALUE R'000	2003 CARRYING VALUE R'000
Land and buildings	3 500	(31)	3 469	–
Plant and machinery	2 681	(123)	2 558	41
Motor vehicles	1 059	(105)	954	–
Office furniture and computer equipment	900	(293)	607	260
	8 140	(552)	7 588	301

COMPANY MOVEMENT SUMMARY – 2004	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Land and buildings	–	3 500	–	(31)	3 469
Plant and machinery	41	2 676	(39)	(120)	2 558
Motor vehicles	–	1 059	–	(105)	954
Office furniture and computer equipment	260	547	–	(201)	607
	301	7 782	(39)	(457)	7 588

3. Property, plant and equipment *continued*

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 are secured in terms of a loan from the Industrial Development Corporation of South Africa Limited.

Refer to note 13 which details property, plant and equipment secured through borrowings.

In 2005 plant and machinery with a net book value of R1 177 989 was leased under instalment sale agreements (refer to note 13e).

In 2005 office equipment with a net book value of R87 235 was leased under instalment sale agreements (refer to notes 13h and 13q).

In 2005 motor vehicles with a net book value of R458 864 were leased under instalment sale agreements (refer to note 13r).

Notes to the financial statements

for the year ended 31 December 2005

4. Intangible assets

GROUP	COST R'000	2005 ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000	2004 CARRYING VALUE R'000
Pharmaceutical dossiers	**1 118 459**	**–**	**1 118 459**	–
Trademarks and registrations	**29 894**		**29 894**	3 300
Brands	**21 648**	**–**	**21 648**	4 600
Product development costs	**–**	**–**	**–**	–
	1 170 001	**–**	**1 170 001**	7 900

GROUP MOVEMENT SUMMARY – 2005	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBINATIONS R'000	OTHER ACQUISITIONS R'000	AMORTISATION 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**
Brand	4 600	15 621	1 427	–	**21 648**
Product development costs	–	20	–	(20)	**–**
	7 900	1 157 872	4 249	(20)	**1 170 001**

GROUP	COST R'000	2004 ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000	2003 CARRYING VALUE R'000
Pharmaceutical dossiers	–	–	–	–
Trademarks and registrations	3 300	–	3 300	–
Brands	4 600	–	4 600	–
Product development costs	–	–	–	–
	7 900	–	7 900	

GROUP MOVEMENT SUMMARY – 2004	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBINATIONS R'000	OTHER ACQUISITIONS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	–	–	–	–	–
Trademarks and registrations	–	–	3 300	–	3 300
Brands	–	–	4 600	–	4 600
Product development costs	–	–	–	–	–
	–	–	7 900	–	7 900

Notes to the financial statements

for the year ended 31 December 2005

4. *Intangible assets continued*

COMPANY	2005 COST R'000	2005 ACCUMULATED AMORTISATION R'000	2005 CARRYING VALUE R'000	2004 CARRYING VALUE R'000
Pharmaceutical dossiers	**–**	**–**	**–**	–
Trademarks and registrations	**3 300**	**–**	**3 300**	3 300
Brands	**1 427**	**–**	**1 427**	–
Product development costs	**–**	**–**	**–**	–
	4 727	**–**	**4 727**	3 300

COMPANY MOVEMENT SUMMARY – 2005	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	–	–	–	**–**
Trademarks and registrations	3 300	–	–	**3 300**
Brands	–	1 427	–	**1 427**
Product development costs	–	–	–	**–**
	3 300	1 427	–	**4 727**

COMPANY	2004 COST R'000	2004 ACCUMULATED AMORTISATION R'000	2004 CARRYING VALUE R'000	2003 CARRYING VALUE R'000
Pharmaceutical dossiers	–	–	–	–
Trademarks and registrations	3 300	–	3 300	–
Brands	–	–	–	–
Product development costs	–	–	–	–
	3 300	–	3 300	–

COMPANY MOVEMENT SUMMARY – 2004	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	–	–	–	–
Trademarks and registrations	–	3 300	–	3 300
Brands	–	–	–	–
Product development costs	–	–	–	–
	–	3 300	–	3 300

Amortisation

The amortisation is recognised in the following line item in the income statement:

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
–	**–**	Other operating expenses	**20**	–

** Restated under IFRS*

Refer to note 27 which explains how the recoverable amount of intangible assets is determined.

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		5. Interest in subsidiaries		
–	**1 230 168**	Share at cost less provisions and amounts written off	**–**	–
4 512	**24 049**	Amounts due by subsidiaries	**–**	–
4 512	**1 254 217**		**–**	–
–	**(1 338)**	Amounts due to subsidiaries	**–**	–
4 512	**1 252 879**	Net investment in subsidiaries	**–**	–
		Refer to Annexure A which details the group's acquisitions during the year.		
		6. Other investments		
		Listed		
–	**–**	Shares at fair value	**9**	–
–	**–**	Market value of listed shares	**9**	–
		This investment consists of 500 shares in Old Mutual plc.		
		Unlisted		
–	**5 001**	Investment in Universal Pharmaceuticals (Proprietary) Limited	**5 001**	–
–	**5 001**	Unlisted investment	**5 001**	–
–	**5 001**	Other investments	**5 010**	–
		Enaleni has agreed to purchase 100% of the issued share capital in Universal Pharmaceuticals (Proprietary) Limited on 1 April 2008 for a total consideration of R6 million. 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.		
		7. Loans receivable		
1 984	**–**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	1 984
–	**2 651**	Enaleni Share Incentive Trust	**–**	–
–	**–**	Kamillen Products (Proprietary) Limited	**100**	–
–	**–**	TPG Holdings (South Africa) (Proprietary) Limited	**274**	–
–	**–**	Cipla Agrimed (Proprietary) Limited	**1 458**	–
–	**–**	Cipla Dibcare (Proprietary) Limited	**85**	–
1 984	**2 651**		**1 917**	1 984

* Restated under IFRS

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		7. Loans receivable *continued*		
		The loan to the Enaleni Share Incentive Trust was in respect of share options granted. The loan is interest free and has no fixed terms of repayment. Refer to note 27a for further details thereof.		
		The loan to Kamillen Products (Proprietary) Limited bears no interest and has no fixed terms of repayment.		
		The loan to TPG Holdings (South Africa) (Proprietary) Limited is secured by a surety by Constantinous Kapinas. Interest is charged at the prime overdraft rate and the loan is being repaid in monthly instalments of R5 000.		
		The loans to Cipla Agrimed (Proprietary) Limited and Cipla Dibcare (Proprietary) Limited are unsecured and interest free. There is uncertainty as to the timing of the repayment of these loans and they are therefore recorded at cost.		
		8. Deferred taxation assets		
–	**807**	Balance at beginning of year	**1 044**	–
807	**(183)**	Movements during the year attributable to:	**8 857**	1 044
164	**(628)**	– temporary differences	**(1 108)**	164
690	**–**	– income received in advance	**–**	690
–	**472**	– assessed loss created (utilised)	**(14)**	237
–	**(27)**	– change in tax rate	**(138)**	–
(47)	**–**	– IFRS adjustments	**–**	(47)
–	**–**	– prior year under-provision	**63**	–
–	**–**	– acquisitions of subsidiaries	**10 054**	–
807	**624**	Balance at end of year	**9 901**	1 044
		Comprising:		
690	**–**	– income received in advance	**467**	690
–	**472**	– assessed losses of R24 131 000	**6 998**	237
164	**(102)**	– provisions	**983**	164
(47)	**254**	– capital allowances and prepayments	**1 453**	(47)
807	**624**		**9 901**	1 044

* Restated under IFRS

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		9. Inventories		
9 846	**17 991**	Raw materials	**21 583**	9 846
3 661	**1 225**	Finished goods	**39 213**	3 661
13 507	**19 216**		**60 796**	13 507
		10. Trade and other receivables		
17 433	**34 528**	Trade receivables	**99 696**	17 447
80	**317**	Other receivables	**2 422**	80
929	**9 028**	Prepayments	**11 480**	929
18 442	**43 873**		**113 598**	18 456

Cipla Medpro Holdings (Proprietary) Limited has ceded its trade and other receivables to the value of R54,5 million to ABSA Bank Limited as security for banking facilities granted to Medpro Pharmaceutica (Proprietary) Limited, a 100% held subsidiary of Cipla Medpro Holdings (Proprietary) Limited.

Xeragen Laboratories (Proprietary) Limited has ceded its trade receivables of R4 million to its bankers for overdraft facilities granted.

Bioharmony (Proprietary) Limited has ceded its trade and other receivables to the value of R1,9 million to its bankers for overdraft facilities granted.

The banking overdraft facility of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, amounting to R5 million, is secured by an unrestricted cession of book debts of R13 million and an unlimited suretyship by Enaleni Pharmaceuticals Limited.

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		11. Director's loan		
–	**–**	JS Smith	**887**	–

** Restated under IFRS*

This loan is unsecured, interest free and has since been repaid on 20 February 2006.

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000			GROUP 2005 R'000	GROUP 2004* R'000
		12. Share capital and reserves			
		Authorised share capital			
1	**–**	2004: 1 000 ordinary shares of R1 each		**–**	1
–	**500**	2005: 500 000 000 ordinary shares of 0,1 cent each		**500**	–
		Issued share capital			
–	**–**	2004: 100 ordinary shares of R1 each		**–**	–
–	**403**	2005: 403 010 792 ordinary shares of 0,1 cent each		**403**	–
		Share premium			
–	**–**	Opening balance		**–**	–
–	**875 218**	Issue of shares		**875 218**	–
–	**875 218**	Closing balance		**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.

During the year Enaleni Pharmaceuticals Limited acquired 51% of the share capital of Bioharmony (Proprietary) Limited and a further 1% of the share capital of Aldabri 53 (Proprietary) Limited, both of which were in an accumulated loss position.

COMPANY 2004* R'000	COMPANY 2005 R'000			GROUP 2005 R'000	GROUP 2004* R'000
		13. Loans and borrowings			
3 565	**981**	Nedbank Limited	(a)	**981**	3 565
–	**–**	Nedbank Limited	(b)	**233**	594
–	**300 000**	Nedbank Limited	(c)	**300 000**	–
–	**9 596**	Nedbank Limited	(d)	**9 596**	–
–	**990**	Nedbank Limited	(e)	**990**	–
8 063	**–**	Nedbank Limited	(f)	**–**	8 063
11 628	**311 567**	Nedbank Limited		**311 800**	12 222

** Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000			GROUP 2005 R'000	GROUP 2004* R'000
		***13. Loans and borrowings** continued*			
–	–	ABSA Bank Limited	(g)	**129**	166
–	–	Standard Bank (Stannic Division)	(h)	**49**	–
		Industrial Development Corporation of			
–	–	South Africa Limited	(i)	**1 413**	–
–	–	Bruce and Van Biljon CC	(j)	**4 717**	4 717
–	–	The Bruce Trust	(j)	**463**	375
–	–	The Van Biljon Trust	(j)	**463**	375
1 484	**1 155**	Azanian Trust	(k)	**5 432**	1 484
–	**7 155**	The Black Family Trust and The Forman Trust	(l)	**7 155**	–
		S.T.D. Pharma Limited and Shelsley Chemicals			
–	**91 896**	(Proprietary) Limited	(m)	**91 896**	–
–	**4 950**	Universal Pharmaceuticals (Proprietary) Limited	(n)	**4 950**	–
–	–	S.T.D. Pharma Limited	(o)	**5**	–
–	–	Coney Limited	(o)	**664**	–
–	–	JSSTD Properties (Proprietary) Limited	(o)	**60**	–
–	–	MJB Ascencao	(p)	**1 599**	–
–	–	ABSA Bank Limited	(q)	**52**	–
–	–	Wesbank	(r)	**472**	–
752	–	T Edwards Family Trust	(s)	–	752
442	–	S Whitfield Family Trust	(s)	–	442
806	–	Management Consortium	(s)	–	806
2 202	–	Baranov	(t)	–	2 202
5 686	**105 156**	**Total other**		**119 519**	11 319
		Short-term portion			
1 612	**302 842**	Nedbank Limited		**302 984**	1 810
–	–	ABSA Bank Limited		**62**	40
–	–	Standard Bank (Stannic Division)		**49**	–
		Industrial Development Corporation			
–	–	of South Africa Limited		**1 413**	–
330	**495**	Azanian Trust		**2 328**	330
–	–	S.T.D. Pharma Limited		**5**	–
–	–	Coney Limited		**664**	–
–	–	JSSTD Properties (Proprietary) Limited		**60**	–
–	–	Wesbank		**146**	–
2 202	–	Baranov		–	2 202
4 144	**303 337**	Short-term loans and borrowings		**307 711**	4 382
13 170	**113 386**	**Long-term loans and borrowings**		**123 608**	19 159

** Restated under IFRS*

13. Loans and borrowings *continued*

(a) This loan facility will reduce to nil by 30 April 2009. It bears interest at prime less 1,5% and has fixed repayment terms. This loan is secured by a general notarial bond of R20 million and the cession of the shares and loan accounts in Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited and Aldabri 53 (Proprietary) Limited.

(b) This loan is repayable in 36 monthly instalments ending on 1 July 2007. The loan bears interest at 11,5% per annum.

(c) This loan bears interest at JIBAR plus an interest rate ranging between 2,95% to 3,95% per annum. On 16 January 2006 this loan was replaced with a five year term loan from Nedbank Limited, at similar rates of interest.

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

(e) This relates to the lease of machinery with a net book value of R1 177 989 under instalment sale agreements. These are repaid in fixed equal monthly instalments of R27 683. Interest is charged at the prime rate.

(f) This loan, on which interest was paid at the prime rate, was repaid during the year.

(g) This loan bears interest at 11,5% per annum and is repayable in equal monthly instalments ending in January 2008.

(h) This amount, repayable in equal monthly instalments, relates to an instalment sale agreement capitalised at an effective rate of 0,674% above the prime lending rate and secured over equipment with a net book value of R39 622.

(i) This loan bears interest at 4,5% below the prime overdraft rate and is secured by a mortgage bond over land and buildings with a book 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. Subsequent to year end, this loan has been repaid.

(j) These loans are interest free and there are no fixed terms of repayment.

(k) This loan bears interest at the CPIX rate plus 3,5%. The loan is repayable in 36 equal monthly instalments of R194 000 ending on 31 May 2008.

(l) This loan is the deferred purchase consideration payable for the acquisition of Xeragen Laboratories (Proprietary) Limited. The loan is interest free and is payable in 2007.

(m) This loan is the deferred purchase consideration payable for the acquisition of Cipla Medpro Holdings (Proprietary) Limited. The loan is interest free and is repayable on 31 March 2007, reducing on a sliding scale based on warranted profit before tax of R150 million.

(n) This loan is interest free, and is repayable by 1 April 2008.

(o) These loans are unsecured and interest free. There is uncertainty as to the timing of the repayment of these loans and they are therefore recorded at cost.

Notes to the financial statements

for the year ended 31 December 2005

13. Loans and borrowings *continued*

(p) This shareholder loan bears interest by mutual agreement between the shareholders of Bioharmony (Proprietary) Limited. During the financial year no interest was charged. The loan has been subordinated in terms of an agreement dated 22 February 2006. The subordination is limited to MJB Ascencao's share of the accumulated deficit amounting to 50% of R2 million.

(q) This relates to a lease of office equipment with a net book value of R47 613 under instalment sale agreement. The instalment term is five years. During the year the effective borrowing rate ranged between 12,1% to 17,9% as per the loan agreements. The lease obligation is secured by the lessor's charge over the leased assets.

(r) This loan is secured in terms of suspensive sale agreements over vehicles having a book value of R458 864. The average interest rate varies between 8,4% and the prime bank overdraft rate, repayable in monthly instalments of R15 137.

(s) These loans, on which interest was paid at prime rate, were repaid during the year.

(t) This loan, on which interest was paid at prime less 1,5%, was repaid during the year.

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		14. Deferred taxation liabilities		
–	**–**	Balance at beginning of year	**–**	–
–	**–**	Movements during the year attributable to:	**595**	–
–	**–**	– temporary differences	**(382)**	–
–	**–**	– change in tax rate	**(3)**	–
–	**–**	– IFRS adjustments	**58**	–
–	**–**	– acquisitions of subsidiaries	**922**	–
–	**–**	Balance at end of year	**595**	–
		Comprising:		
–	**–**	– assessed losses	**(209)**	–
–	**–**	– provisions	**(580)**	–
–	**–**	– capital allowances and prepayments	**1 384**	–
–	**–**		**595**	–
		15. Trade and other payables		
15 337	**20 112**	Trade payables	**100 548**	17 087
16 529	**24 896**	Other payables and accruals	**44 706**	12 000
31 866	**45 008**		**145 254**	29 087

* *Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		16. Operating profit before finance costs and taxation		
		Operating profit before finance costs and taxation is stated after:		
		Income		
(13)	**(41)**	Profit on disposal of property, plant and equipment	**(75)**	(13)
–	**–**	Fair value adjustment of listed investment	**(1)**	–
–	**–**	Excess of assets acquired over purchase price	**(3 856)**	–
–	**–**	Fair value adjustment on forward exchange contracts	**(155)**	–
		Expenditure		
457	**1 002**	Depreciation	**2 013**	608
12 642	**21 445**	Staff costs	**38 748**	14 007
–	**238**	– share options	**238**	–
3 110	**3 530**	– directors' remuneration (refer to note 22 for detailed disclosure of directors' emoluments)	**6 039**	3 110
9 532	**17 677**	– other staff costs	**32 471**	10 897
47	**678**	Auditors' remuneration	**1 000**	74
47	**665**	– audit fees	**964**	74
–	**13**	– other	**36**	–
–	**2 496**	Lease rentals	**3 059**	–
569	**703**	Impairment loss on receivables	**1 718**	569
630	**441**	Impairment loss on inventory	**3 807**	630
		17. Net financing costs		
(139)	**(585)**	Interest received	**(1 012)**	(139)
715	**3 264**	Borrowings	**4 122**	**729**
–	**–**	Bank overdraft	**15**	–
–	**–**	Finance leases	**5**	–
–	**3 667**	Notional interest	**3 667**	–
–	**26**	Suspensive sale agreements	**40**	–
528	**–**	Other	**13**	528
1 243	**6 957**	Finance costs	**7 862**	1 257
1 104	**6 372**	Net financing costs	**6 850**	1 118

* *Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		18. Taxation		
		South African normal taxation		
1 897	**–**	Current	**4 671**	1 897
		Deferred		
(807)	**156**	– current year	**735**	(1 045)
–	**27**	– reduction in taxation rate	**135**	–
43	**–**	Secondary taxation on companies	**–**	43
1 133	**183**		**5 541**	895
		Reconciliation of taxation rate		
22,5%	**(6,3%)**	Current year charge as a percentage of profit	**30,6%**	21,1%
		Adjusted for:		
8,4%	**(6,1%)**	– Learnership allowance	**1,0%**	9,9%
–	**40,5%**	– Disallowable expenditure (exempt income)	**(3,0%)**	–
–	**0,9%**	– Change in taxation rate	**0,7%**	–
–	**–**	– Prior year under-provision	**(0,3%)**	–
(0,9%)	**–**	– Secondary taxation on companies	**–**	(1,0%)
30,0%	**29,0%**	South African normal taxation rate	**29,0%**	30,0%

** Restated under IFRS*

	GROUP	
	2005	2004*
	R'000	R'000
19. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share at 31 December 2005 is based on the profit attributable to ordinary shareholders of R13 204 000 (2004: R3 632 000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 112 118 705 (2004: 47 770 700), calculated as follows:		
Weighted average number of ordinary shares:		
Balance brought forward	**47 770 700**	47 770 700
Issued ordinary shares at 1 January	**27 229 300**	–
Effect of own shares held (treasury shares)	**(1 648 704)**	–
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	**112 118 705**	47 770 700
Basic earnings per share (cents)	**11,8**	7,6

* *Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

	GROUP 2005 R'000	2004* R'000
***19. Earnings per share** continued*		
Diluted earnings per share		
The calculation of diluted basic earnings per share at 31 December 2005 is based on the profit attributable to ordinary shareholders of R13 204 000 (2004: R3 632 000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 113 988 341 (2004: 47 770 700), calculated as follows:		
Weighted average number of ordinary shares (diluted):		
Weighted average number of ordinary shares at 31 December 2005	**112 118 705**	47 770 700
Effect of share options on issue	**1 869 636**	–
Weighted average number of ordinary shares (diluted) at 31 December 2005	**113 988 341**	47 770 700
Diluted earnings per share (cents)	**11,6**	7,6
Headline earnings per share		
Reconciliation of headline earnings:		
Profit attributable to ordinary shareholders	**13 204**	3 632
Adjusted for non-trading items	**(3 101)**	–
Restructuring costs	**830**	–
Profit on sale of fixed assets	**(75)**	–
Excess of assets acquired over purchase price	**(3 856)**	–
Headline earnings	**10 103**	3 632
Headline earnings per share (cents)	**9,0**	7,6
Diluted headline earnings per share (cents)	**8,9**	7,6

** Restated under IFRS*

20. Financial risk management

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

Foreign currency risk management

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 2005:

United States Dollar	$15 200 000
Average forward exchange rate	6,61
Forward Rand value	R100 399 000
Mark to market valuation	R97 091 131
Recognised fair value loss	R3 307 869

Dates of maturity: 17 January 2006 – 27 November 2006

Interest rate management

The group adopts a policy of regularly reviewing interest rate exposure, and maintains both fixed and floating rate borrowings.

Credit risk management

Management has a credit risk policy in place and exposure to credit risk is monitored on an on-going basis.

The group has no significant concentrations of credit risk. The group has policies in place to ensure that sales are made to customers with an appropriate credit history. Trade receivables comprise a wide customer base. Where appropriate, credit guarantee insurance cover is purchased.

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 forecast, good working capital management and ensuring adequate borrowing facilities are maintained.

21. Related parties

The group has a related party relationship with its holding company, fellow subsidiaries and with its directors and executive officers.

(i) Transactions with directors

a. *Loan from director (direct/indirect)*

At 31 December 2005, Cipla Medpro Holdings (Proprietary) Limited, a subsidiary company in the group, had a loan outstanding of R886 986 owed by JS Smith, a director of Cipla Medpro Holdings (Proprietary) Limited. This loan has subsequently been repaid on 20 February 2006.

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

At 31 December 2005, Bioharmony (Proprietary) Limited, a subsidiary company in the group, had a loan payable of R1 599 176 to MJB Ascencao, a shareholder and director of Bioharmony (Proprietary) Limited. This loan bears interest by mutual agreement between the shareholders of Bioharmony (Proprietary) Limited and during the current financial year no interest was charged. This loan has been subordinated in terms of an agreement dated 22 February 2006.

At 31 December 2005, Aldabri 53 (Proprietary) Limited, a subsidiary company in the group, had the following outside shareholder loans payable which were interest free and bore no fixed terms of repayment:

COMPANY			GROUP	
2004* R'000	**2005 R'000**		**2005 R'000**	2004* R'000
–	**–**	Bruce and Van Biljon CC	**4 717**	4 717
–	**–**	The Bruce Trust	**463**	375
–	**–**	The Van Biljon Trust	**463**	375
–	**–**		**5 643**	5 467

* *Restated under IFRS*

At 31 December 2005, Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, a subsidiary company in the group, had a loan payable to the Azanian Trust of R4 277 776 which bore interest at the CPIX rate plus 3,5%. DJ Cullen is a common director of both Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited and the Azanian Trust.

b. *Property leased from a director*

During the year, a subsidiary company, 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 R387 560, with an amount of R59 940 still outstanding at 31 December 2005.

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		21. Related parties *continued*		
		(ii) Transactions with subsidiaries		
		The group is controlled by Enaleni.		
		The group's subsidiaries are as follows:		
		Cipla Medpro Holdings (Proprietary) Limited		
		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		
		CPF International (Proprietary) Limited		
		a. *Transactions*		
		The following transactions were carried out with related parties:		
		(i) *Revenue*		
–	**756**	Bioharmony (Proprietary) Limited	**–**	–
–	**6 898**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
–	**7 654**	Subsidiaries' sub-total	**–**	–
–	**–**	MJB Ascencao	**625**	–
–	**7 654**		**625**	–

* *Restated under IFRS*

Transactions with related parties are conducted on an arm's length basis and on the same payment terms as those transacted with third parties. Intragroup balances and material unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		21. Related parties *continued*		
		b. Amounts due to (from) holding company		
–	**(644)**	Xeragen Laboratories (Proprietary) Limited	**–**	–
–	**(694)**	Zedchem (Proprietary) Limited	**–**	–
4 512	**870**	Aldabri 53 (Proprietary) Limited	**–**	–
–	**1 634**	Bioharmony (Proprietary) Limited	**–**	–
1 984	**21 545**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
6 496	**22 711**		**–**	–
		c. Amounts due from Share Incentive Trust		
–	**2 651**	Enaleni Share Incentive Trust	**–**	–
		d. Trade and other receivables/payables due to (from) holding company		
(668)	**(653)**	Aldabri 53 (Proprietary) Limited	**–**	–
–	**(10)**	Bioharmony (Proprietary) Limited	**–**	–
–	**862**	Bioharmony (Proprietary) Limited	**–**	–
–	**3 122**	Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited	**–**	–
(668)	**3 321**		**–**	–

* *Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

22. Directors' emoluments

Directors' emoluments for the year ended 31 December 2005

NAME	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 R'000	TOTAL 2005 R'000
Executive directors						
S Whitfield (CFO)	**–**	**736**	**–**	**78**	**71**	**885**
T Edwards (CEO)	**–**	**718**	**–**	**90**	**176**	**984**
D Wolfson	**–**	**264**	**–**	**76**	**60**	**400**
U Parusnath	**–**	**350**	**–**	**80**	**56**	**486**
P Pillay	**–**	**261**	**–**	**76**	**63**	**400**
M Sithole	**–**	**257**	**–**	**73**	**28**	**358**
Total A	**–**	**2 586**	**–**	**473**	**454**	**3 513**
Non-executive directors						
S Luthuli	17	–	–	–	–	17
Total B	**17**	**–**	**–**	**–**	**–**	**17**
Total emoluments paid by Enaleni Pharmaceuticals Limited A + B	**17**	**2 586**	**–**	**473**	**454**	**3 530**

Directors' emoluments for the year ended 31 December 2004

NAME	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 R'000	TOTAL 2004 R'000
Executive directors						
S Whitfield (CFO)	–	479	216	78	11	784
T Edwards (CEO)	–	477	250	90	67	884
D Wolfson	–	134	110	75	43	362
U Parusnath	–	150	118	75	47	390
P Pillay	–	157	108	75	19	359
M Sithole	–	128	105	73	19	325
Total A	–	1 525	907	466	206	3 104
Non-executive directors						
S Luthuli	6	–	–	–	–	6
Total B	6	–	–	–	–	6
Total emoluments paid by Enaleni Pharmaceuticals Limited A + B	6	1 525	907	466	206	3 110

No share options vest before June 2007 (refer to note 23 for details of share options granted).

23. Share options granted to directors

Shares under option offered to and accepted by executive directors in terms of the Enaleni Pharmaceuticals Share Incentive Scheme totalled 5 024 000 and were calculated as follows:

	OPTIONS GRANTED DURING THE YEAR '000	OPTIONS OUTSTANDING 31 DECEMBER 2005 '000	EXERCISE PRICE Cents	NON-VESTED '000	EXPIRY DATE
TD Edwards	232	232	100	232	June 2012
TD Edwards	2 300	2 300	300	2 300	December 2012
U Parusnath	46	46	100	46	June 2012
U Parusnath	100	100	300	100	December 2012
PA Pillay	42	42	100	42	June 2012
PA Pillay	70	70	300	70	December 2012
NM Sithole	42	42	100	42	June 2012
NM Sithole	70	70	300	70	December 2012
S Whitfield	210	210	100	210	June 2012
S Whitfield	1 800	1 800	300	1 800	December 2012
DE Wolfson	42	42	100	42	June 2012
DE Wolfson	70	70	300	70	December 2012
Total	**5 024**	**5 024**		**5 024**	

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		24. Commitments		
		Operating lease commitments		
		The future minimum lease payments under non-cancellable operating leases are as follows (the straight lining effect has not been taken into account to show future commitments):		
–	**2 412**	– Less than one year	**6 287**	–
–	**9 648**	– Between two and five years	**20 782**	–
–	**2 412**	– More than five years	**7 971**	–
–	**14 472**		**35 040**	–

** Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

25. Contingencies

The directors are defending an action by the South African Revenue Services (SARS) Customs & Excise for Ad Valorem Duty that SARS alleges is owed by Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited. No assessment or calculation has been submitted by SARS to the company at the time of these financial statements. It is the opinion of the directors of the company, after consulting with experts on the matter, that the company is not liable for the duties. Should the matter be resolved in favour of SARS, there is a potential liability at year end, which management estimate to be a maximum of R215 000, excluding any penalties.

26. Subsequent events

Except as noted under note 25, 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.

27. Accounting estimates and judgments

Effects of standards issued but not yet effective:

– New standard IFRS 7: Financial Instruments – Disclosures

The disclosures provided in respect of financial instruments in the financial statements for the year ending 31 December 2007, as well as comparative information, will be compliant with IFRS 7. The disclosure requirements of IFRS 7 require additional disclosure compared to that required in terms of existing IFRS in respect of credit risk, market risk, liquidity risk and capital objectives and policies. The adoption of IFRS 7 is not expected to have an impact on the accounting policies adopted by the group for financial instruments.

a. Share-based payments

In May 2005 the company established a broad based employee share plan that allows the company to issue shares to employees at par value. 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 which was expensed to the income statement.

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 an amount of R238 000 was expensed in 2005.

The fair value of services received in return for share options granted is measured by 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 the risk-free interest rate.

The following inputs and assumptions were used in the binomial model to calculate the IFRS 2 expense:

Weighted average share price	the Enaleni share price on each grant date was used
Exercise price	see table below
Expected volatility	25%
Option life	7 years from grant date
Dividend yield	0%
Risk-free interest rate	GOVI index as supplied by the Bond Exchange
Vesting conditions	service condition – 50% of share options vest two years after grant date and the balance of the options vest three years after grant date

27. Accounting estimates and judgments *continued*

No listed options are traded for Enaleni shares, and implied volatilities are therefore not available. As Enaleni only listed in 2005 the history is not a true reflection of the volatility. Therefore, management used the volatility of a company in the same industry as a proxy, commensurate with the grant date and expected life of the option.

In June 2005 and December 2005 share options were granted in terms of the scheme to certain directors and employees. The options granted since June 2005 are summarised below:

DATE	OPTIONS GRANTED DURING THE YEAR '000	OPTIONS OUTSTANDING 31 DECEMBER 2005 '000	EXERCISE PRICE Cents	NON-VESTED '000	EXPIRY DATE
June 2005	**2 651**	**2 651**	**100**	**2 651**	**June 2012**
December 2005	**4 480**	**4 480**	**300**	**4 480**	**December 2012**
Total	**7 131**	**7 131**		**7 131**	

The following table reflects the number of shares that will be issued on the assumption that all options are exercised on the earliest date:

YEAR	NUMBER OF OPTIONS '000	OPTION CONSIDERATION R'000
2006	3 566	8 046
2007	3 565	8 045
Total	**7 131**	**16 091**

b. Impairment testing of intangible assets

The test for impairment of intangible assets is based on the measurement of the fair net present value of the intangible assets. To arrive at a fair net present value, the future cash flows derived from the intangible assets are estimated by taking into consideration the forecasted sales of the products and dossiers, variable costs, risk-free rate of interest, risk discount rate and terminal value where appropriate. If the resulting net present value exceeds the carrying value of the intangible asset, no impairment is provided for and if the resulting net present value is less than the carrying value, impairment is provided for.

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		28. Prior year error		
		In the previous financial year, certain inter-company sales and cost of sales were not eliminated in arriving at the consolidated group figures. This had the effect of sales and cost of sales being overstated, with the net effect being nil on earnings for the year.		
		The consolidated group financial statements for the year ended 31 December 2004 have been restated to correct this error. The effect of this restatement on those financial statements are summarised below:		
–	–	Decrease in sales	–	(5 200)
–	–	Decrease in cost of sales	–	5 200
–	–	Taxation effect	–	–
–	–	Net effect on net profit	–	–
		29. Notes to the cash flow statements		
		29.1 Cash generated (utilised) by operations		
6 147	**3 466**	Operating profit before finance costs and taxation	**24 929**	5 367
		Adjustments for:		
457	**1 002**	Depreciation	**2 013**	608
–	–	Excess of assets acquired over purchase price	**(3 856)**	–
–	–	Foreign exchange losses	**127**	–
(13)	**(41)**	Profit on disposal of property, plant and equipment	**(75)**	(13)
–	–	Fair value adjustment of listed investments	**(1)**	–
–	–	Fair value adjustment of forward exchange contracts	**1 903**	–
–	**238**	Equity-settled share-based payment expenses	**238**	–
6 591	**4 665**	Operating profit before working capital changes	**25 278**	5 962
(2 921)	**(5 709)**	Increase in inventories	**(3 902)**	(2 921)
(6 267)	**(25 431)**	Increase in trade and other receivables	**(17 238)**	(6 281)
14 171	**13 142**	Increase in trade and other payables	**3 780**	11 393
11 574	**(13 333)**		**7 918**	8 153

* *Restated under IFRS*

Notes to the financial statements

for the year ended 31 December 2005

COMPANY 2004* R'000	COMPANY 2005 R'000		GROUP 2005 R'000	GROUP 2004* R'000
		29. Notes to the cash flow statements continued		
		29.2 Reconciliation of dividends paid		
–	–	Balance at beginning of year	**–**	–
(343)	–	Income statement charge	**(478)**	(343)
–	–	Balance at end of year	**–**	–
(343)	–		**(478)**	(343)
		29.3 Reconciliation of taxation paid		
(882)	**(1 897)**	Balance at beginning of year	**(1 897)**	(882)
(1 897)	**–**	Income statement charge	**(4 591)**	(1 897)
–	**–**	Acquisition of subsidiaries	**(36 563)**	–
1 897	**(12)**	Balance at end of year	**21 002**	1 897
(882)	**(1 909)**		**(22 049)**	(882)
		29.4 Reconciliation of secondary tax on companies		
–	**(43)**	Balance at beginning of year	**(43)**	–
(43)	**–**	Income statement charge	**–**	(43)
–	**–**	Acquisition of subsidiaries	**(970)**	–
43	**–**	Balance at end of year	**750**	43
–	**(43)**		**(263)**	–
		29.5 Cash and cash equivalents		
6 412	**634**	Cash and cash equivalents comprises cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.	**107 420**	7 800

** Restated under IFRS*

The banking overdraft facility of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited, amounting to R5 million, is secured by an unrestricted cession of book debts and an unlimited suretyship by Enaleni Pharmaceuticals Limited. Bank guarantees amounting to R99 647 are held with Standard Bank Limited on behalf of Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited.

Enaleni Pharmaceuticals Limited has an overdraft facility of R16 million held with Nedbank Limited, as well as guarantees with the bank amounting to R285 000, all secured through an unlimited suretyship by Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited.

The banking facilities granted to Aldabri 53 (Proprietary) Limited are guaranteed through an unlimited suretyship by Enaleni Pharmaceuticals Limited, Mr MB Bruce and Mr M van Biljon.

Notes to the financial statements

for the year ended 31 December 2005

29. Notes to the cash flow statements *continued*

29.6 Acquisition of subsidiaries

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

The acquisitions had the following effect on the group's assets and liabilities:

Acquiree's net assets at acquisition date	CIPLA MEDPRO HOLDINGS (PROPRIETARY) LIMITED	XERAGEN LABORATORIES (PROPRIETARY) LIMITED	ENALENI PHARMACEUTICALS CONSUMER DIVISION (PROPRIETARY) LIMITED
Tangible assets	5 114	1 471	6 292
Intangible assets	14 377	468	–
Investments	8	–	13 700
Loans receivable	35 910	–	–
Inventories	34 137	2 726	3 844
Trade and other receivables	61 988	4 855	7 520
Forward exchange contracts	1 334	–	–
Cash and cash equivalents	74 147	294	24
Deferred taxation	(706)	(174)	10 054
Long-term loans and borrowings	–	(775)	(43 088)
Short-term loans and borrowings	(669)	(69)	(11 329)
Taxation	(35 727)	(1 196)	–
Trade and other payables	(98 271)	(2 936)	(5 967)
Shareholders for dividend	–	(478)	–
Provisions	(1 408)	–	–
NET IDENTIFIABLE ASSETS AND LIABILITIES	90 234	4 186	(18 950)
Percentage acquired	100%	100%	100%
	90 234	4 186	(18 950)
Add: Fair value of intangible assets acquired	1 095 575	27 079	(3 756)
Total purchase consideration	1 185 809	31 265	(22 706)
CASH ACQUIRED	(74 147)	(294)	(24)
NET CASH OUTFLOW (INFLOW)	1 111 662	30 971	(22 730)

Notes to the financial statements

for the year ended 31 December 2005

ZEDCHEM (PROPRIETARY) LIMITED	BIOHARMONY (PROPRIETARY) LIMITED	ALDABRI 53 (PROPRIETARY) LIMITED	KAMILLEN PHARMACEUTICALS (PROPRIETARY) LIMITED	TOTAL
210	208	1 181	–	**14 476**
–	20	4 600	–	**19 465**
–	–	–	–	**13 708**
–	–	3 599	100	**39 609**
484	2 195	–	–	**43 386**
1 308	2 232	127	–	**78 030**
–	–	–	–	**1 334**
1 494	(411)	606	–	**76 154**
(47)	5	238	–	**9 370**
(1 879)	(1 776)	(11 058)	–	**(58 576)**
–	(19)	(200)	–	**(12 286)**
(646)	33	–	3	**(37 533)**
(277)	(3 690)	(210)	(3)	**(111 354)**
–	–	–	–	**(478)**
–	(75)	–	–	**(1 483)**
647	(1 278)	(1 117)	100	**73 822**
100%	51%	1%	100%	
647	(652)	(11)	100	**75 554**
2 302	1 833	86	(100)	**1 123 019**
2 949	1 181	75	–	**1 198 573**
(1 494)	210	–	–	**(75 749)**
1 455	1 391	75	–	**1 122 824**

30. Explanation of transition to IFRS

IFRS 1 – First time adoption

As stated in note 1, these are the group's and company's first consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC).

The accounting policies set out in note 1 have been applied in preparing the consolidated and company financial statements for the year ended 31 December 2005 and the comparative information presented in these financial statements for the year ended 31 December 2004.

An explanation of how the transition from previous SA GAAP to IFRS has affected the group's and company's financial position, financial performance and cash flows is presented in the following tables.

There were no differences between the cash flow statement presented under IFRS and the cash flow statement presented under the previous SA GAAP.

RECONCILIATION OF PREVIOUS SA GAAP TO IFRS – GROUP

	EQUITY IFRS TRANSITION DATE 1 JAN 2004 R'000	**EQUITY** AUDITED 31 DEC 2004 R'000	**EARNINGS** AUDITED 31 DEC 2004 R'000
As previously reported under SA GAAP	**2 057**	**5 044**	**3 330**
IAS 16 Property, plant and equipment			
Reduction in depreciation	–	157	157
Taxation effect	–	(47)	(47)
Restated under IFRS	**2 057**	**5 154**	**3 440**
IAS 17 Leases			
Straight lining of lease rentals	(192)	–	192
Restated after IFRS and operating leases	**1 865**	**5 154**	**3 632**

30. *Explanation of transition to IFRS* continued

RECONCILIATION OF PREVIOUS SA GAAP TO IFRS – COMPANY

	EQUITY IFRS TRANSITION DATE 1 JAN 2004 R'000	**EQUITY** AUDITED 31 DEC 2004 R'000	**EARNINGS** AUDITED 31 DEC 2004 R'000
As previously reported under SA GAAP	**2 057**	**5 322**	**3 608**
IAS 16 Property, plant and equipment			
Reduction in depreciation	–	157	157
Taxation effect	–	(47)	(47)
Restated under IFRS	**2 057**	**5 432**	**3 718**
IAS 17 Leases			
Straight lining of lease rentals	(192)	–	192
Restated after IFRS and operating leases	**1 865**	**5 432**	**3 910**

Restated under IFRS

IAS 16

The group reassessed the useful lives of property, plant and equipment. Where an item of property, plant and equipment comprised major components having different useful lives, they were accounted for as separate items of property, plant and equipment. The group elected to measure certain items of property, plant and equipment at the date of transition to IFRS at their fair value and used that fair value as the deemed cost at that date. The effect was to reduce depreciation by R320 at a group and company level at 1 January 2004, the date of transition, with a R96 effect on deferred taxation.

Similarly, at 31 December 2004, the effect was to reduce depreciation by R157 549 at a group level and R158 327 at a company level.

Correction of straight lining of operating leases

IAS 17

Previously, the group recognised operating lease rentals according to the lease payment terms set out in the lease agreement. However, the group now correctly recognises operating lease rentals on a straight line basis over the term of the lease. The effect was to increase the operating lease rentals by R191 628 at a group and company level at 1 January 2004.

Annexure A

Interest in subsidiary companies

	DATE ACQUIRED
Direct interest	
Cipla Medpro Holdings (Proprietary) Limited	1 November 2005 [1]
Xeragen Laboratories (Proprietary) Limited	1 September 2005
Zedchem (Proprietary) Limited	1 July 2005
Aldabri 53 (Proprietary) Limited	1 April 2004 (1% 1 June 2005)
Bioharmony (Proprietary) Limited	1 May 2005
Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited [3]	31 December 2004 (92% 1 January 2005)
Kamillen Pharmaceuticals (Proprietary) Limited	2 July 2004
Kamillen Products (Botswana) (Proprietary) Limited	2 July 2004
Total direct interest	
Indirect interest	
CPF International (Proprietary) Limited	31 December 2004 (92% 1 January 2005)
Total indirect interest	
Total interest	

1 Although the effective date of the transaction was 1 November 2005, control only passed to Enaleni on 1 December 2005.

2 The group was able to govern the financial and operating policies of the company, by virtue of an agreement with other investors of Aldabri 53 (Proprietary) Limited. Consequently, the group consolidated its investment in the company in 2004.

3 On 31 December 2004 the company changed its name from Tutto (Proprietary) Limited (trading as Modex Cosmetics) to Enaleni Pharmaceuticals Consumer Division (Proprietary) Limited.

Annexure A continued

			Company's interest			
					Amounts owing by (to) subsidiaries	
Issued capital	Effective group holding		Shares at cost			
	2005	2004	**2005**	2004	**2005**	2004
R	**%**	%	**R**	R	**R**	R
10	**100**	0	**1 194 693 168**	–	**–**	–
100	**100**	0	**31 265 203**	–	**(643 518)**	–
100	**100**	0	**2 949 309**	–	**(694 259)**	–
100	**51**	50 [2]	**75 051**	50	**869 890**	4 511 577
100	**51**	0	**1 180 625**	–	**1 633 836**	–
4 577	**100**	8	**4 576**	384	**21 545 526**	1 983 616
100	**100**	100	**–**	–	**–**	–
Pula 100	**100**	100	**–**	–	**–**	–
			1 230 167 932	434	**22 711 475**	6 495 193
100	**100**	8	**13 700 000**	8 200 000	**–**	–
			13 700 000	8 200 000	**–**	–
			1 243 867 932	**8 200 434**	**22 711 475**	**6 495 193**

Annexure B *Unaudited*

Analysis of shareholders at 31 December 2005

ORDINARY SHARES	NUMBER OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS % OF TOTAL	NUMBER OF SHARES 31 DEC 2005	% OF TOTAL SHAREHOLDING
Size of holding				
0 to 5 000 shares	1 169	44,0	2 854 466	0,7
5 000 to 10 000 shares	386	14,5	3 175 633	0,8
10 000 to 50 000 shares	776	29,2	21 369 948	5,3
50 000 shares and over	326	12,3	375 610 745	93,2
	2 657	**100**	**403 010 792**	**100**

Shareholders' spread

Non-public shareholders				
– Empowerment group – Sweet Sensations 67 (Pty) Limited	1	–	82 000 000	20,3
– Directors and management	102	3,8	104 640 113	26,0
Treasury shares – Enaleni Pharmaceuticals Limited	1	–	2 651 000	0,7
Public shareholders	2 553	96,2	213 719 679	53,0
	2 657	**100**	**403 010 792**	**100**

Shareholder profile

Directors and management	102	3,8	104 640 113	26,0
Empowerment group – Sweet Sensations 67 (Pty) Limited	1	–	82 000 000	20,3
Foreign investors	3	0,1	5 055 633	1,3
Nedbank Limited	1	–	9 566 161	2,4
Old Mutual Life Assurance Company (South Africa) Limited	1	–	10 367 753	2,6
Other shareholders	2 467	93,1	53 367 847	13,2
Pension Fund and Unit Trusts	80	3,0	115 719 428	28,6
S.T.D. Pharma Limited	1	–	19 642 857	4,9
Treasury shares – Enaleni Pharmaceuticals Limited	1	–	2 651 000	0,7
	2 657	**100**	**403 010 792**	**100**

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 first annual general meeting of the company will be held at the office of Enaleni, 1474 South Coast Road, Mobeni, KwaZulu-Natal at 10:00 on 28 June 2006 for the following purposes:

1. To receive, consider and adopt the annual financial statements of the company for the financial year ended 31 December 2005.

2. To re-appoint KPMG Inc. as auditors of the company for the ensuing year.

3. To approve the election of the retiring directors referred to in 4 below by means of a single resolution.

4. To elect directors of the company in the place of:

4.1 Mr GS Mahlati;
4.2 Ms T Dingaan;
4.3 Ms EN Rapoo;
4.4 Mr U Parusnath; and
4.5 Mrs PA Pillay;

who, in the case of the retirees in paragraphs 4.1, 4.2 and 4.3 retire 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 retirees in paragraphs 4.4 and 4.5 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 4 above appears on pages 14 and 15 of this annual report.

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

5. 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 Listings 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."

6. Ordinary Resolution Number 2
Approval to issue shares for cash
"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 Listings 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;
- any such issue will be made only to "public shareholders" as defined in the JSE Listings Requirements and not related parties, unless the JSE otherwise agrees;
- 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;
- 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;
- 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
- 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.

Ordinary Resolution Number 2 is required, under the JSE Listings 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."

7. **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 resolutions contained in this notice of annual general meeting."

8. **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 Listings 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;
- 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;
- 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;

- 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;
- the company and the group are in a position to repay their debt in the ordinary course of business for a period of 12 months from the company first acquiring securities under this general approval;
- the consolidated assets of the company, being fairly valued in accordance with Generally Accepted Accounting Practice, are in excess of the consolidated liabilities of the company at the time of the company first acquiring securities under this general approval;
- the ordinary capital and reserves of the company and the group are adequate for a period of 12 months from the company first acquiring securities under this general approval;
- the available working capital is adequate to continue the operations of the company and the group for a period of 12 months from the company first acquiring securities under this general approval;
- 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 Listings Requirements;
- after such repurchase the company will still comply with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread requirements;
- the company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- when the company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made; and
- the company only appoints one agent to effect any repurchase(s) on its behalf."

Reason for and effect of Special Resolution Number 1
The reason for and effect of 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.

9. **Special Resolution Number 2**
"Resolved that the name of the company be and is hereby changed to "Enaleni Cipla Pharmaceuticals Limited"."

Reason and effect
The company wishes to reflect the new dynamics which have resulted from the acquisition of Cipla Medpro Holdings (Proprietary) Limited. The effect of the resolution will be that the name of the company will change to that as reflected in the resolution.

10. **Material change**
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.

11. Directors' responsibility statement

The directors, whose names are given on pages 14 and 15 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.

12. Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on pages 14 and 15 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 months, a material effect on the group's financial position.

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 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 10:00 on 26 June 2006.

By order of the board

TD EDWARDS
Chief executive officer

Durban
5 June 2006

Corporate information

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

Company secretary and registered office
Stanley Whitfield FCA
1474 South Coast Road
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KwaZulu-Natal, 4060
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Attorneys
Deneys Reitz Inc.

Intellectual property attorneys
Bouwers Inc.

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
Registration number 2004/003647/07
Ground Floor, 70 Marshall Street
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 and reporting accountants
KPMG Inc.

Commercial banker
Nedbank Limited

Contact details of Enaleni group of companies

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Cape Town

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Enaleni Pharmaceuticals Consumer division
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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 office of Enaleni, 1474 South Coast Road, Mobeni, KwaZulu-Natal at 10:00 on 28 June 2006.

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 2005.			
2. To re-appoint KPMG Inc. as auditors of the company for the ensuing year			
3. To approve the election of retiring directors by means of a single resolution			
4. To elect as a director, Mr GS Mahlati who is retiring by rotation			
To elect as a director, Ms T Dingaan who is retiring by rotation			
To elect as a director, Ms EN Rapoo who is retiring by rotation			
To elect as a director, Mr U Parusnath who is retiring by rotation			
To elect as a director, Mrs P Pillay who is retiring by rotation			
5. Ordinary Resolution Number 1 – control of authorised but unissued shares			
6. Ordinary Resolution Number 2 – approval to issue shares for cash			
7. Ordinary Resolution Number 3 – directors' authorisation			
8. Special Resolution Number 1 – approval to repurchase shares			
9. Special Resolution Number 2 – change of company name			

Signed at on 2006

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 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 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 no later than 10:00 on 26 June 2006 (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.

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Terms and expressions

"Acquisition Agreement"	the agreement dated 5 September 2005 between the company and the Cipla Medpro vendors relating to the Cipla Medpro transaction;
"Act"	the Companies Act, 1973 (Act 61 of 1973), as amended;
"AltX"	the Alternative Exchange of the JSE;
"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;
"Cipla Medpro Transaction"	the acquisition of 100% of the ordinary shares in Cipla Medpro from the Cipla Medpro vendors;
"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
"FDA"	United States Food and Drug Administration, authorised by the US Congress to enforce the Federal Food, Drug and Cosmetics Act and several other public laws in the United States;
"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;
"OTC"	over-the-counter pharmaceutical products;
"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;

ENALENI

PHARMACEUTICALS

Contact us

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