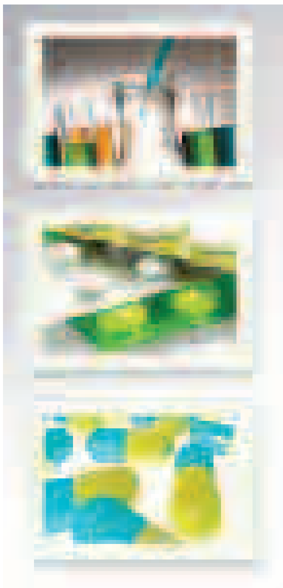
ANNUAL REPORT 2008

Cipla Medpro SOUTH AFRICA LTD.

On closer examination not all pharmaceutical companies are the same.



A well-established, trusted brand within the healthcare industry, Cipla Medpro SA is one of SA's top five, and fastest growing, pharmaceutical groups.

With a strong pipeline of products and a partnership with Asian pharmaceutical giant Cipla India, we have an extensive range of some of the world's most scientifically advanced medicines targeting challenging disease categories including antimalarials, cardiovascular, diabetes, HIV/AIDS, oncology, psychiatry and respiratory.

With numerous first to market launches to our credit, Cipla has also recently brought chronic medications such as SA's first three-in-one ARV, the first once daily, single dosage lamivudine ARV, and the first generic escitalopram antidepressant to market, continuously championing our ethos that 'Affordable healthcare is a right, not a luxury.'

Having invested R250 million in one of the first MCC-approved, internationally PIC/S compliant manufacturing facilities in SA, we now offer world class contract manufacturing solutions to local and multinational pharmaceutical companies.

Take a closer look at Cipla Medpro South Africa Ltd. Visit www.ciplamedsa.co.za

Welcome to our world.
A world where all South
Africans have access to
world class medicines
at affordable prices

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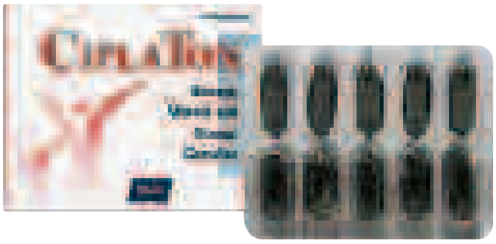


Cipla Medpro is
South Africa's fourth largest
pharmaceutical company

02 Cipla Medpro South Africa Limited (CMSA) at a glance

Listed on the JSE Limited, CMSA is South Africa's fourth largest pharmaceutical company by Rand value (Source: IMS, March 2009).

CMSA has a strong relationship with, and an unlimited exciting product pipeline from, pharmaceutical giant Cipla India. This relationship allows the Group to provide world class, affordable medicines across a broad range of therapeutic categories to both the private and public sectors.

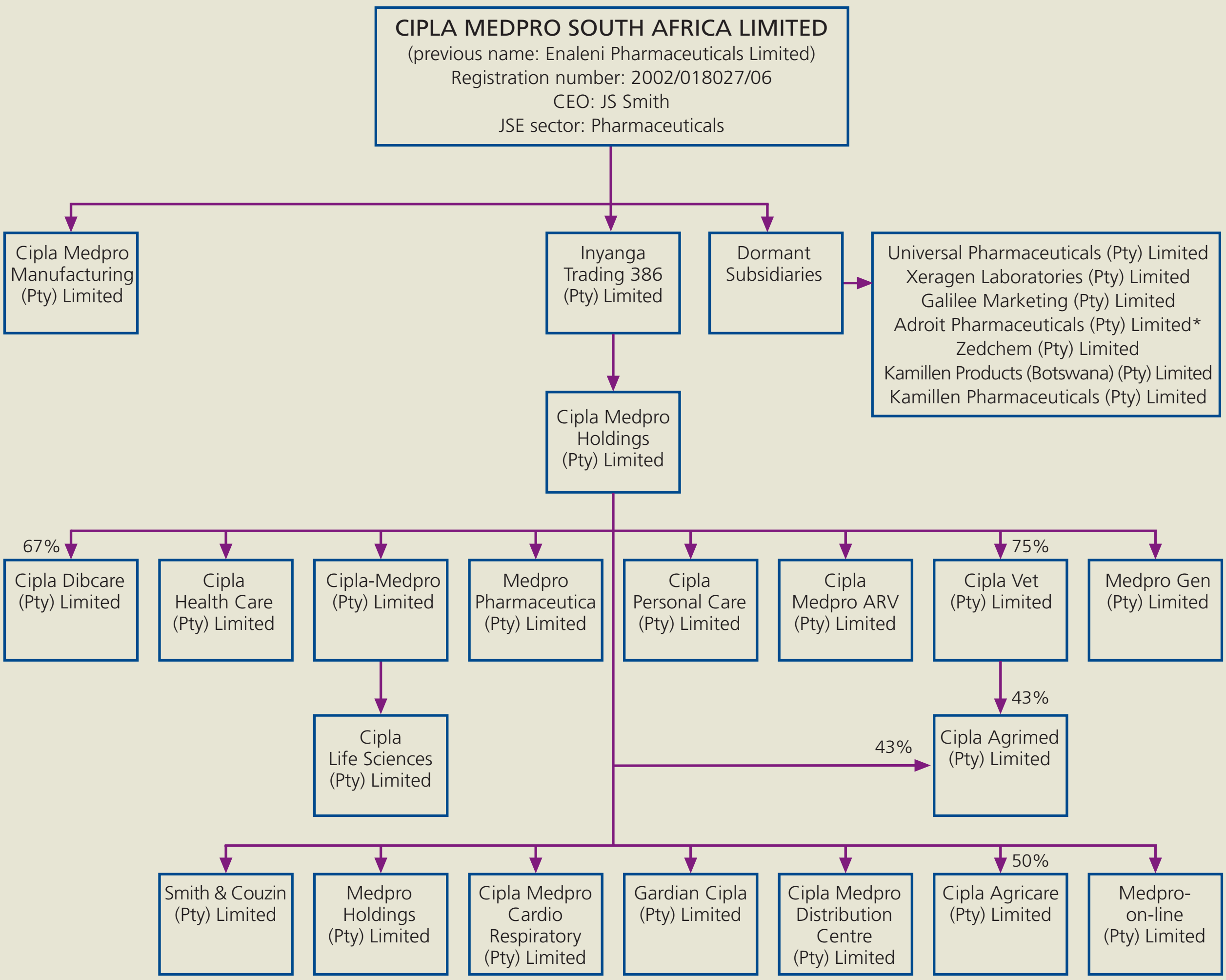
The Group comprises two main divisions:

- Cipla Medpro Holdings (Pty) Limited (Cipla Medpro)
  A supplier of an extensive range of pharmaceutical, healthcare, veterinary and agri-chemical products. Within the pharmaceutical environment, sales in the private sector are measured by IMS to position Cipla Medpro as the fourth largest pharmaceutical company in SA (IMS does not measure any veterinary or agrichemical sales, sales to the state, export or the over the counter (OTC) sales to mass market); and
- Cipla Medpro Manufacturing
  A sophisticated and newly upgraded internationally PIC/S (Pharmaceutical Inspection Co-operation Scheme) compliant state-of-the-art 4 000 m^2 manufacturing facility. Following a R225 million investment, Cipla Medpro Manufacturing boasts one of the first local facilities to achieve PIC/S accreditation through the SA Medicines Control Council (MCC) who are signatories to the Scheme.

Empowerment consortium Sweet Sensation 67 (Pty) Limited has an 18,5% shareholding in the Group which is ranked as a Level 5 contributor (BBB) by independent empowerment auditors Empowerdex.

Currently the Group's staff complement exceeds 600, of which 55% are employed by Cipla Medpro and the remainder by the manufacturing facility.

Group structure



* *Adroit Pharmaceuticals (Pty) Limited is a 100% held subsidiary of Xeragen Laboratories (Pty) Limited*

Revenue from continuing operations increased by 23,4% to R994,9 million

04 Vision and mission

Vision

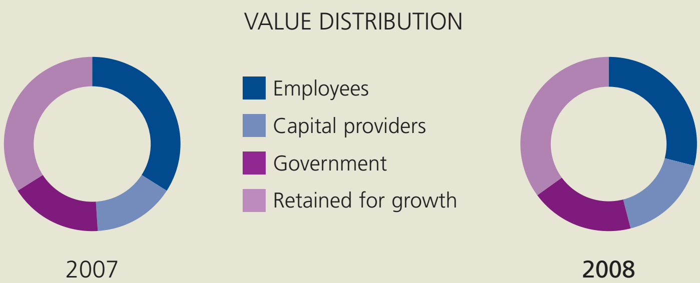
To heal South Africa and to become the biggest and the most admired pharmaceutical company in South Africa.

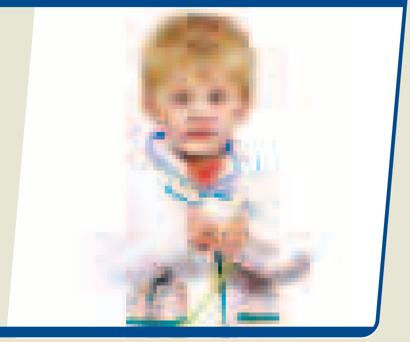
Mission

CMSA commits itself to endeavour to satisfy our customers' needs in every manner possible: through excellent service, by developing and marketing an effective, reliable and safe product and by offering our product at a price affordable to all patients. We further commit ourselves to contributing to continued medical education and research into new drug delivery systems in the belief that this contribution will improve technical know-how and ultimately benefit all patients in South Africa.

We intend to be the employer of choice in the pharmaceutical sector developing our most valuable asset, human capital, irrespective of race, colour or creed, so that they may realise their full potential and ambitions. We pledge personal respect, fair compensation and a clean and safe working environment. It is our wish that we be recognised as innovators in the field of pharmaceutical marketing rather than just followers, be the investors' pick and achieve sustainable above average returns to the investor. It is our dream that through our policy of dedication and commitment we will create an environment whereby CMSA will come to be recognised as the preferred partner in medicine.

Value added statement

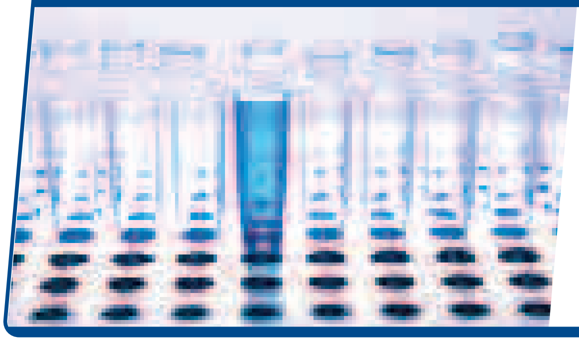




05

	Note	GROUP 2008 R'000	2007 R'000
Revenue			
Continuing operations		994 892	806 234
Discontinued operations		–	134 507
Other operating income			
Continuing operations		7 256	14 864
Discontinued operations		–	29 535
Less: purchased materials and services		(652 601)	(608 503)
Value added from operations		349 547	376 637
Finance income		30 024	20 599
Total value created		379 571	397 236
Value distribution			
Employees (including directors)		111 209	134 230
Providers of capital		66 272	56 910
Finance costs		64 897	55 935
Minority interests		1 375	975
Monetary exchanges with government	1	72 793	66 813
Reinvested in the Group		129 297	139 283
Depreciation and recurring amortisation		6 405	5 679
Deferred taxation		(5 787)	1 763
Retained in the Group		128 679	131 841
Total value distribution		379 571	397 236
Value added statistics			
Number of full-time employees at year end*		585	715
Revenue per employee		1 701	1 316
Value added per employee		598	527
Value created per employee		649	556
Note:			
1. **Monetary exchanges with government**			
Current taxes (including secondary tax on companies)		68 380	63 867
Customs and excise duties		4 413	2 946
Gross contribution to central and local governments		72 793	66 813
Additional collections on behalf of government			
Employees' taxes		25 870	32 804
Net value added tax paid		6 080	28 529
		31 950	61 333

** The 2007 year includes employees from discontinued operations. The staff complement from continuing operations is 585 (2007: 521).*



Once again the Cipla Medpro business growth continued to outperform that of the total private market

S'bu Luthuli

Chairman's report

The past year has been a positive one for the CMSA Group and in spite of limited manufacturing activity, the Group delivered satisfactory results for the year.

Revenue from continuing operations increased by 23,4% to R994,9 million (2007: R806,2 million). Total Group profit after taxation for the year is R130,1 million (2007: R106,5 million). Basic EPS from continuing operations increased 17,2% to 29,3 cents (2007: 25,0 cents) and fully diluted EPS from continuing operations increased 17,3% to 29,2 cents (2007: 24,9 cents).

No dividends were declared as all profits generated by the Group continue to be utilised to repay debt, fund the remainder of the factory upgrade and potential growth opportunities. Nevertheless, the board will consider the payment of dividends in 2010 for the financial year ended 31 December 2009 and will advise shareholders of its decision in this regard in due course.

Once again the Cipla Medpro business growth continued to outperform that of the total private market and it remained the fastest growing pharmaceutical company in SA and the Group's revenue driver, consistently gaining market share in numerous existing and new therapeutic categories. The latter months of 2008 saw the upgrade work at the factory mostly completed and the board expresses its appreciation to the management and staff who have worked tirelessly to create a facility of international standards that the Group, shareholders and in fact, the African continent can be proud of.

At the annual general meeting held on 24 July 2008, the requisite majority of shareholders approved the special resolution relating to the change of the company's name from Enaleni Pharmaceuticals Limited to Cipla Medpro South Africa Limited. The new name, which came into effect on 17 November 2008, better reflects the Group's positioning in the local

pharmaceutical market through its wholly-owned subsidiary, Cipla Medpro Holdings (Pty) Limited, which commands substantial, and ever increasing shares within, inter alia, the cardiovascular, antiretroviral, respiratory and neuro-psychiatric categories.

The board remained stable with five non-executive and two executive directors and there were no changes at board level. This stability has impacted well on the day-to-day management and operations of the Group and ensured that corporate governance continues to be a key consideration of the board and management. The board, Audit and Risk, and Remuneration Committees continue to function well. Mpho Mosweu chairs the Audit and Risk Committee while Dr Gil Mahlati chairs the Remuneration Committee.

Empowerment consortium Sweet Sensation 67 (Pty) Limited retains an 18,5% shareholding in the Group and continues to be represented at board level by Nthabiseng Mokone and Bongani Caga. We received an updated Empowerment rating from independent empowerment rating auditors, Empowerdex, late in 2008. This was the first time the Group was audited since divesting of its non-core consumer divisions in late 2007 and we were pleased to attain a BBB (Level 5 contributor) rating. In addition, we were ranked 29th overall of the top 200 companies in the recent Financial Mail Top Empowerment Companies 2009 survey. Empowerment continues to be a focus area for the Group, and we intend to improve this rating year on year.

The Group continued its involvement in various CSI projects last year. Our first pharmaceutical bursary student has completed his tertiary studies and commenced his internship at the manufacturing facility in 2009 and a further two students will follow onto the internship programme next year.

During 2008, Cipla Medpro again sponsored the two extraordinary Capetonians David Grier and Braam Malherbe on their second mammoth charity run – the Cipla SPAR Miles for Smiles Coastal Challenge – that saw them running nearly 3 300 km around the Southern African coastline. Setting out from Oranjemund in Namibia and running a marathon a day, six days a week, they completed the equivalent of 80 full marathons, arriving in Ponta do Ouro after 100 days on the road. In doing so, these two extreme runners, neither of whom is a professional athlete, triumphed over fatigue, pain, injury, huge storms, massive flooding and dangerous river crossings to achieve their second world first. In 2006, Cipla Medpro sponsored them on their first record setting non-stop run along the length of the Great Wall of China, a massive effort that saw them covering 4 200 km in total.

Looking forward, we expect 2009 to be an exciting year for the Group

Chairman's report continued

As with the China run, their aim last year was to raise funds for Operation Smile South Africa, a non-profit surgical organisation that facilitates surgical procedures in children born with cleft lips and/or palates. While funds continue to flow into the non-profit Cipla Miles for Smiles Foundation account, to date their run has raised R2 million. Their efforts will change the lives, and put smiles on the faces, of nearly 365 children. Last year Cipla Medpro also became a Diamond Smile sponsor (R1 million) to Operation Smile South Africa for three years in order to enable this organisation to continue providing free craniofacial surgery within disadvantaged communities.

Looking forward we expect 2009 to be an exciting year for the Group. Our strong relationship with Cipla India and exceptional pipeline promise more exciting product launches this year. The young divisions such as Cipla Vet, Cipla Agrimed and the recently launched Cipla Agricare are expected to grow according to plan. In addition to manufacturing some of the Group's own products, we are currently in negotiations with local and international companies with regard to securing manufacturing contracts in our MCC approved PIC/S compliant manufacturing facility.

I take this opportunity to extend my appreciation to my fellow directors for their commitment, dedication and hard work over the past year. It is a pleasure to serve with them on the board and I appreciate their support and valued insight.

PCS Luthuli
Chairman

Jerome Smith

Chief executive officer's report

I am pleased to report that good progress was made in both divisions during 2008 and the Group achieved a number of its objectives, specifically the continuation of Cipla Medpro's excellent growth and the near completion of the extensive upgrade to the manufacturing plant.

With an Evolution Index of 118 (Source: IMS), the Cipla Medpro business continued from strength to strength, again reporting growth ahead of the Total Private Market growth of 12,4% for the year. At December 2008, it was the fifth largest local pharmaceutical company by value (Source: IMS) and heading for number four position, with revenues for the year of R937,6 million (before inter-company adjustments), 38,8% up on the previous year's R675,3 million and accounting for 100% of the Group's profits for the year.

Cipla Medpro increased its unit market share from 5,2% in December 2007 to 5,5% in December 2008 and Rand market share from 3,3% in December 2007 to 3,9% in December 2008. January 2009 saw those market shares increase to 6,0% (units) and 4,1% (Rand). We are confident this growth will continue based on a number of factors, inter alia, a strong, consistent flow of dossiers from Cipla India, aggressive trade and consumer marketing campaigns and effective pricing strategies where our products are priced to be affordable without sacrificing margins for market share. The first quarter of 2009 saw revenues (excluding the animal health and manufacturing divisions) of R239,7 million, approximately 29% higher than that of the comparative period. By February 2009, Cipla Medpro was ranked the fourth largest local pharmaceutical company by value.

Following world trends, the generic medicines industry in South Africa is enjoying strong growth and acceptance by both providers and the public.

By February 2009, Cipla Medpro was ranked the fourth largest local pharmaceutical company by value

Chief executive officer's report continued

Volumes are increasing and generic medicines are currently estimated to have approximately 56% market share.This growth can be attributed to various factors: economic pressures, a larger ageing population requiring chronic care, regulatory shifts such as the National Drug Policy and mandatory generic substitution, as well as the acceptance that quality, safety and efficacy are identical between the generic and innovator products. In South Africa, the first generic to enter the market can easily ensure a saving to the patient/provider of 25% – 30%.

So while competition within the marketplace is essential to making medicines affordable, for a pharmaceutical company bringing out the same product once the innovator's patent has expired, it is crucial to enter the market first. Of the new product registrations Cipla Medpro obtained during 2008, eight of those were first-to-market products with a revenue potential of R680 million per annum. The closest competitor's 22 new product registrations saw only three achieving first-to-market status and potential revenues of R106 million. The Group launched two highly significant first-to-market generic medicines last year within its neuropsychiatry and cardiovascular categories. By year end, the neuropsychiatry medicine had already gained nearly 40% market share.

While there are a number of factors driving Cipla Medpro's growth, a key component is our exclusive access to Cipla India's strong pipeline of products and dossiers. In the pharmaceutical industry, growth can be sustained in a few ways, amongst others – either by the research and development of new molecules in the case of innovator companies or in the case of generic companies through a consistent flow of dossiers and registrations. Over the years our relationship with Cipla India has resulted in us releasing some extremely significant medicines locally, such as the first three-in-one anti-retroviral (ARV), Triomune, to last year's first generic escitalopram antidepressant, Lexamil. More recently we have launched the first generic oseltamivir antiviral flu medication, Cipla-Oseltamivir. Oseltamivir is one of only two medicines recommended by the World Health Organisation for the treatment of the A (H1N1) influenza (swine flu) outbreak.

Cipla India is the largest standalone generic company in the world and its growth has always been organic. Their business model lies in fostering strategic alliances for healthy partnerships throughout the world and they supply to over 180 countries globally. In 2008, *SCRIP Magazine* ranked Cipla India among the leading 75 pharmaceutical corporations in the world and within the top 12 based on volume of production.

A Dutch advisory group went on to rank Cipla India as 14th in the world regarding access to medicines.

Our relationship with Cipla India is strong. We have no research and development costs, there is no cost to us for the dossiers they supply unless, in limited instances, we may need to share the costs of bioequivalence studies. We benefit from extremely favourable pricing which is negotiated regularly and similarly favourable credit terms of 180 days. Their broad scope of over 70 years' expertise in pharmaceuticals, OTC, agrichemicals, veterinary products, vaccines and biotech products allows us to penetrate these various markets locally with proven, effective medicines and products.

Cipla India also provided extremely valuable assistance and advice during the R225 million manufacturing facility upgrade in Durban. Due to the upgrade work, the manufacturing division was never expected to be a significant contributor to revenues in 2008, posting a loss of R15,6 million before interest and taxation. Now that the new MCC approved facility is complete, we are manufacturing some of our own products and currently negotiating third party manufacturing contracts.

Looking ahead, we expect to continue increasing market shares across numerous categories, through existing and planned new products. The current economic climate is exerting pressure on many private health schemes and our good pricing strategies and extensive product portfolio across a wide range of therapeutic classes positions the business well to meet the demand for high quality, affordable medicines. In difficult economic times, there is a greater tendency for people to self-medicate so the OTC range remains a strong focus area for the business and opportunities are also being explored in various African countries. The SEP increase of 13,2% effective from February 2009 will also impact positively on our business. Our strategy for the manufacturing division, albeit slow, is expected to contribute positively to the Group from 2010/2011.

JS Smith
Chief executive officer

Profit after tax for the year from continuing operations is R130,1 million

Chris Aucamp

Chief financial officer's report

In spite of limited production in the factory during the year as a result of the upgrade work, the Group, driven by the pharmaceutical business of Cipla Medpro Holdings (Pty) Limited, succeeded in producing a solid set of results.

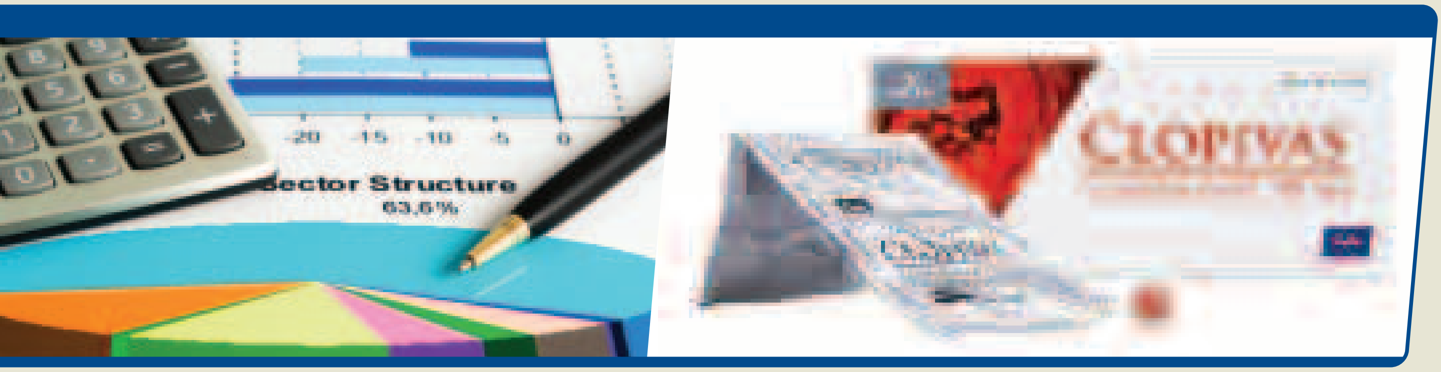
Revenue from continuing operations increased by 23,4% to R994,9 million (2007: R806,2 million). The Cipla Medpro core division grew by 38,8%.

The gross margin achieved for the period is 49,6% (2007: 51,3%). This slight decrease in the margin is attributed to the devaluation of the Rand against the US Dollar in the last quarter of 2008.

Profit before financing costs and income tax (PBIT) for the period is R227,5 million (2007: R198,7 million), an increase of 14,5%. The operating profit includes a loss on exchange rate differences of R21,4 million (2007: R1,5 million).

During the year under review, the total net interest expense was R34,9 million (2007: R33,7 million). The net finance costs have increased due to the movement on the interest rate swaps of R20,7 million when compared to 2007. The finance costs are shown net of finance income of R30,0 million (2007: R20,5 million). Finance income includes swap settlements of R10,6 million (2007: R4,7 million).

The effective taxation rate of the continuing operations for the year is 32,5% (2007: 35,6%) and the reason for the improvement is mainly due to a reduction of notional interest in 2008 and the reduction in the corporate tax rate from 29% to 28%. The primary adjustments to the statutory tax rate are attributable to non-deductible interest of R34,7 million (2007: R38,1 million), IFRS 2 expenses of R4,6 million (2007: R1,8 million) and STC of R3,5 million (2007: R3,9 million). Non-taxable income included a Government grant of R1,0 million (2007: nil) and dividends received of R2,1 million (2007: R2,9 million).



Profit after tax for the year for continuing operations is R130,1 million (2007: R106,5 million), resulting in basic EPS from continuing operations of 29,3 cents (2007: 25,0 cents), and fully diluted EPS from continuing operations of 29,2 cents (2007: 24,9 cents), an increase of 17,2% and 17,3% respectively. Basic and fully diluted HEPS from continuing operations increased 18,8% to 29,1 cents (2007: 24,5 cents).

After adjusting for foreign exchange losses, impairment of property, plant and equipment, movement in the stock provision, restructuring costs, the interest rate swap settlements (and the fair value adjustments required, which were significant as a result of the changes in the market conditions when compared to 2007), a normalised EPS for 2008 on the continuing operations would be 34,5 cents (2007: 27,2 cents), an increase of 27%. Normalised HEPS for continuing operations in 2008 would amount to 34,3 cents (2007: 26,7 cents), an increase of 28%. The normalised EPS on the total operations for 2008 would be 34,5 cents (2007: 33,2 cents) which represents an increase of 4%. The normalised HEPS for the total operations would increase by 28% from 26,9 cents to 34,3 cents.

The reconciliation to headline earnings comprises the following amounts, all net of the applicable taxes:

- Gain on disposal of intangibles of R0,9 million (2007: R8,2 million);
- Loss on disposal of discontinued operations of R0,1 million (2007: gain of R24,6 million);
- Loss on disposal of property, plant and equipment of R0,1 million (2007: gain of R0,2 million); and
- 2007 also included impairments of R6,6 million, share of profit of associate of R0,3 million and negative goodwill of R0,1 million.

Interest-bearing borrowings, net of cash on hand, are R315,2 million (2007: R288,1 million). When the effects of cash on hand are excluded, the interest-bearing borrowings have decreased from R448,5 million in 2007 to R355,5 million in 2008. The cash on hand has decreased by R120,2 million due to the requirements of the factory upgrade.

Cash flows generated from operating activities are R142,5 million (2007: R102,4 million), while R170,4 million (2007: R36,2 million) was invested in the Group, mainly in the new facility. R100,1 million (R85,6 million) was utilised to reduce debt in the Group.

C Aucamp
Chief financial officer

The board comprises seven members of whom two are executive directors

Directorate

Sibusiso Luthuli
Non-executive chairman
CA (SA)
Chairman of the board since 2003, S'bu is managing director of Ithala Limited. Prior to joining Ithala Bank, he was with the Specialised Property and Asset Finance division of Nedbank. S'bu is Chairman of the Audit and Risk Committee of the UKZN Council, a non-executive director of Telkom Limited, a non-executive director of Telkom Media (Pty) Limited, a member of the Ethekwini Municipality Audit Committee, a member of the KwaZulu-Natal Provincial Government Audit Committee and a director of the Richards Bay IDZ company.

Jerome Smith
Chief executive officer
Jerome Smith has spent his career in the pharmaceutical industry. He founded the business Medpro Pharmaceutica/Cipla Medpro, one of the first generic medicines businesses in South Africa, in 1992. With a strong belief that healthcare is a right not a privilege and determined to ensure the provision of world class, affordable medicines in South Africa, he strategically aligned the business with Indian pharmaceutical giant Cipla India. He has led Cipla Medpro to its current standing as South Africa's fourth largest and fastest growing pharmaceutical company (Source: IMS March 2009). He was appointed as Group CEO in September 2007.

Chris Aucamp
Chief financial officer
CA (SA)
Chris Aucamp has been financial director of the Cipla Medpro business for 13 years and was appointed as CFO of Cipla Medpro South Africa Limited (formerly Enaleni Pharmaceuticals Limited) in October 2007. He has extensive knowledge of the pharmaceutical industry and was an integral member of the team that oversaw the capital raising and acquisition of Cipla Medpro by Enaleni Pharmaceuticals Limited in 2005.

Dr Gilimamba Mahlati
Non-executive director
MBChb (Natal); FCS (SA)
A graduate from the University of Natal Medical School (1981), a fellow of the College of Surgeons of SA (1994) from the University of Cape Town and a Clinical Fellow in Liver Surgery at Kings College Hospital, London, Dr Mahlati is a well respected business and healthcare consultant who has considerable experience and knowledge in the pharmaceutical industry. He is also extensively involved in the insurance and financial services industries and currently holds directorships on the boards of Vuwa Investments, Vuwa Healthcare, Chestnuthill, Sephaku and Liseko Investments.

Bongani Caga

Non-executive director

LLB; LLM International Business Law

Bongani Caga is an executive director of Umnombo Investment Holdings and a non-executive director of a Cape Town based Geo Satellite manufacturing company, known as Sunspace. He was previously an executive director of Decorum Capital Partners (Pty) Limited, and before that an investment banker in the corporate finance division of Standard Corporate and Merchant Bank. At SCMB, he was involved in various corporate finance transactions and a number of BEE transactions, including the Telkom IPO and listing on the JSE and New York Stock Exchange.

Mpho Mosweu

Non-executive director

CA (SA)

Mpho Mosweu is the head of the Techno Industries Business Unit at the IDC. She is involved in various audit committees and has significant commercial experience, which together with her technical and governance acumen, adds significant value to the board of Cipla Medpro South Africa.

Nthabiseng Mokone

Non-executive director

CA (SA)

A chartered accountant, Nthabiseng is currently head of the Amabubesi Private Equity Fund and has been involved in corporate finance since June 2006. She has spent time in deal origination, structuring, capital raising and execution and continues to provide executive support to the directors of Amabubesi. She has participated in some of the major deals done by Amabubesi and continues to add value to the investee companies by representing Amabubesi at their respective boards. Prior to joining Amabubesi she was group head accountant at ABC South Africa, a subsidiary of African Banking Corporation Holdings Limited responsible for group finance and administration for the SA office. Some of her representations include Medipost, Kawari, Silverbridge Holdings, Alliance Group (Pty) Limited and Digicore Fleet Management.

Scientifically advanced medicines targeting some of today's most challenging disease categories

16 Operational review: Cipla Medpro

Nature of business

Established by CEO Jerome Smith 16 years ago from a founding belief that access to world class yet affordable medicines is a right not a luxury, Cipla Medpro is today one of South Africa's leading providers of chronic medicines to the public and private sectors. The business is also the fastest growing of the top 20 local pharmaceutical companies with an Evolution Index of 118 (Source: IMS).

Enjoying a strong relationship and exceptional product pipeline from Cipla India, one of India's foremost pharmaceutical companies, Cipla Medpro offers a comprehensive range of some of the world's most scientifically advanced medicines and products targeting a number of the most challenging disease categories. These include cardiovascular, respiratory, diabetes, neuropsychiatry, malaria and HIV/AIDS.

Leadership team

Jerome Smith
CEO and founder
Years' service: 16

Dr Skhumbuzo Ngozwana
MBChB (UCT); MMed Pharm; MBA
Deputy CEO
Years' service: 5 (broken)

Dr Pieter Potgieter
MBChB
Deputy CEO and MD of Dibcare division
Years' service: 6

Chris Aucamp
CA (SA)
Financial director
Years' service: 13

Dr Nic de Jongh
MBChB; BScMed Sc (Hons)
Medical director
Years' service: 15

Duncan Watermeyer
BPharm
Regulatory/Managing director
Years' service: 16

Jacques van Staden
Sales director
Years' service: 9

Charlene Richings
Nat Dip Personnel Management
Human resources director
Years' service: 8

Year in review

Continuing its track record as the fastest growing local pharmaceutical company, Cipla Medpro Holdings accounted for 100% of the Group's profit for the year with revenues of R937,6 million and PBIT of R227,0 million. With an Evolution Index of 118 and ending the year as the fifth largest local pharmaceutical company by value, the company's growth in comparison to that of the Total Private Market over the past three years has been exceptional as the accompanying table on this page indicates. The growth continues and at March 2009 the company was ranked the fourth largest local pharmaceutical company by Rand value.

Management within the business remained stable and strong while an ever-growing sales force sees the business boasting one of the country's largest and most qualified teams out in the field.

In 2008, the top ten products sales generated R303 million. It is particularly pleasing to note that many of our products, some of which were launched up to five years ago, still maintain an Evolution Index ahead of the industry average and continue to garner market share in their categories.

Of the 11 new products registered in 2008, eight achieved first-to-market status. Two highly significant product launches took place during the first half of the year within the neuropsychiatry and cardiovascular divisions.

- Lexamil is a first-to-market generic escitalopram antidepressant and was launched into an existing R100 million market at 30% lower than the originator price. Launched in May 2008, Lexamil had garnered 39,7% market share by December 2008. The sales target for 2009 is R75 million from this product alone.

Cipla Medpro Pharma growth versus total private market growth

YEAR	RANDS (%)	RAND MARKET GROWTH (%)	UNITS (%)	UNIT MARKET GROWTH (%)
January to December 2006	38,5	11	15,8	9,8
January to December 2007	27,8	14,6	11,1	8,9
January to December 2008	38,8	12,4	10,7	4,6
January 2009	23,2	3	11,4	(4,9)

Operational review: Cipla Medpro continued

- May also saw the release of Cipla-Perindopril, a cardiovascular product. The initial 4 mg dosage was followed soon after by the launch of the first 8 mg strength and between the two dosages, a sales target of R40 million has been set for 2009.

Strong focus was applied during the year to consumer healthcare and the over the counter (OTC) products' division, which is not subject to single exit pricing (SEP). The top ten products in this division accounted for R57 million in sales during 2008. Twenty five new products were launched during the year in categories such as skincare, colds and flu, nutritional supplements, etc. Listings in mass market retailers such as Checkers, Pick n Pay, SPAR, Clicks and various Cash 'n Carry's are expected to generate strong sales during 2009 and sales of R200 million are targeted for the next financial year.

The animal health division also reported pleasing growth in 2008. Cipla Vet (the companion animal veterinary products business) saw revenues up 92% from 2007 (albeit off a small base of R26 million) while Cipla Agrimed (the livestock and large animal veterinary products business) increased its revenues by 46% to R25,7 million.

Cipla Vet retained its market leading position in the equine deworming market, grew its share in others and continued to focus on new product registrations. It currently sells 17 products and has another nine dossiers awaiting registration. Early in 2009, this business launched the first generic of the world's highest selling tick and flea product at a significantly lower price than the originator, into a market that is worth some R60 million per annum. We expect this product, Fiprotec, to achieve strong results once the next spring and summer seasons start.

Like Cipla Vet, the Cipla Agrimed business also continues to focus on registrations. It currently sells 22 products nationally with a further 20 dossiers awaiting registration.

Late in 2008, after in-depth industry research and analysis, Cipla Medpro expanded into the local R2 billion plus agricultural chemicals market, taking its first R10 million in orders just before year end. The full launch range of 18 products were released to the trade in March 2009 and the division has earmarked a sales target of R80 million for 2009. There are presently another three products awaiting registration and a further twelve dossiers expected soon from Cipla India for commencement of trial and registration, a process that usually takes two seasons. Another 21 active ingredients have been identified for development/registrations over the next four seasons. At that point we expect to have over 60 products in the agrichemicals portfolio and to have attained our long-term market share and revenue targets.

Of eleven new products registered in 2008, eight achieved first-to-market status

While we did not attain what we had anticipated in the ARV tender last year, we are committed to supplying the products we were awarded timeously and consistently, as well as provide products whenever other companies are unable to supply. We are shortly launching insulin within our diabetes division, in time for the upcoming R90 million government tender. Whilst growth has been slow in this area, diabetes remains a very attractive market for the business.

Early 2009 saw the launch of another first-to-market cardiovascular generic product – Clopivas. Priced to ensure the optimum twelve month treatment for patients, this product has a sales target of R23,5 million for the year. Subsequent to the Clopivas launch, one large medical aid has adjusted its policy to provide treatment cover for patients from six to twelve months.

Looking ahead we expect to continue growing our market shares across numerous categories through existing and planned new products. A key growth area remains the OTC division where African market opportunities are also being investigated. New therapeutic classes are being explored, such as oncology and ophthalmology, with Cipla India preparing numerous dossiers for local registration.

One of the continent's most sophisticated manufacturing facilities

Operational review: Cipla Medpro Manufacturing

As anticipated, due to the upgrade to international Pharmaceutical Inspection Co-operation Scheme standards, this division posted a loss of R15,6 million before interest and taxation at its 4 000 m^2 Durban-based manufacturing facility.

The Group is currently in the process of restructuring and as a result the manufacturing operations are currently being sold from CMSA into a new wholly-owned subsidiary, namely Cipla Medpro Manufacturing (Pty) Limited (CMM). Once the restructuring is complete, the listed company will materially no longer house the operations of the factory.

Much of the year under review was focused on addressing flexibility, capacity and varying volumes capability requirements that were previously not included in the initial upgrade plans. Additional capital expenditure was budgeted last year for investment in sophisticated equipment and the introduction of additional resources. The revisions included:

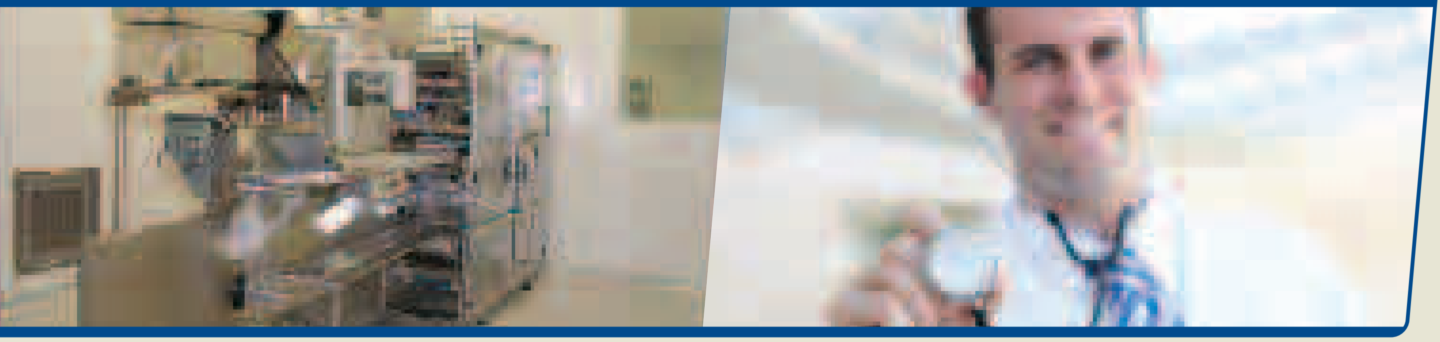
- Increasing the dispensary by 152 m^2;
- A complete review of the packaging department and installation of additional sophisticated equipment;
- Revised granulation equipment to ensure larger capability at larger capacities;
- Additional coating equipment installed allowing for solvent-based coating; and
- Previously unanticipated effervescent manufacturing and effervescent powder packing capabilities installed.

Work proceeded smoothly during the year. The upgrade work is nearing completion, the MCC approved the facility in October 2008 and CMM is now one of the continent's most sophisticated manufacturing facilities.

In addition to the ongoing process of moving some of its own manufacturing requirements into the Durban-based plant, the Group is presently negotiating manufacturing contracts with multinationals.

Currently operating at 20% capacity, this highly sophisticated plant has an annual output capability of 3,5 billion tablets (with reserve) and is one of the first to offer internationally PIC/S compliant high volume manufacturing in South Africa. Capabilities offered include manufacturing and packing of tablets, capsules and powders, and it is one of only two in South Africa to offer manufacturing and packaging of effervescent powders and granules.

While it may still take some time to see significant revenues being generated by this division, we remain confident that the significant investment in the plant, sophisticated equipment, skills, technical transfer and quality systems will prove to be extremely advantageous in light of the MCC's adherence to PIC/S compliance.



Corporate governance

Cipla Medpro South Africa subscribes to a culture of openness, integrity and accountability in terms of its corporate governance philosophy and remains committed to the principles and practices recommended by the King Code.

Board of directors

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

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

The board shall consist of not less than four non-executive directors, one of whom shall be the chairperson. The executive directors will be in a minority to the non-executive directors at all times, and the criteria for the appointments will be the combination of knowledge, skills, objectivity, experience and leadership that is required from time to time.

The board currently comprises seven members, of whom two are executive directors. The roles of Chairman and Chief executive are separate in accordance with best practice.

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

Directors must at all times observe the legal requirements in respect of the declaration of interests and do everything reasonably possible to avoid a conflict of interest in the execution of their duties. Any possible conflict of interest must at all times be declared upfront and the director concerned may not

CMSA subscribes to a culture of openness, integrity and accountability

Corporate governance continued

participate in a discussion, or vote, on the subject matter. Directors must observe the provisions of the buying or selling of their shares in respect of any relevant rules, legislative or regulatory procedures. Directors are prohibited from any share dealings in closed periods and are required to obtain clearance from the CEO, CFO or Company secretary prior to trading the company's shares; directors are obliged to provide the CFO with all information required by the company to comply with its disclosure duties in terms of the Listings Requirements of the JSE by no later than 24 hours after dealing.

Five board meetings were held during the 2008 financial year.

Attendance at Board meetings 2008

Name	12 Mar	14 May	3 Jun	4 Sep	26 Nov
S'bu Luthuli (chairperson)	Y	Y	Y	Y	Y
Bongani Caga	Y	Y	Y	Y	Y
Chris Aucamp	Y	Y	Y	Y	Y
Dr Gil Mahlati	Y	Y	Y	Y	Y
Jerome Smith	Y	Y	Y	X	Y
Mpho Mosweu	X	X	X	Y	Y
Nthabiseng Mokone	Y	Y	Y	Y	Y
Mark Daly (invitee)	Y	Y	Y	Y	Y

Audit and Risk Committee

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

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

Having considered the expertise and experience of the CFO, the committee is satisfied with the appropriateness of the CFO.

Mazars Moores Rowland were appointed as the Group's external auditors

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

The CEO, CFO and Company secretary attend meetings of the committee by invitation only and the CFO was in attendance at all meetings of the committee held during the year under review.

Attendance at Audit Committee meetings 2008

Name	12 Mar	13 May	3 Jun	4 Sep	25 Nov
Mpho Mosweu (chairperson)	X	X	X	Y	Y
S'bu Luthuli** (invitee)	Y	Y	Y	Y	X
Bongani Caga	Y	Y	Y	Y	Y
Chris Aucamp (invitee)	Y	Y	Y	Y	Y
Jerome Smith (invitee)	Y	Y	Y	X	Y
Mark Daly (invitee)	Y	Y	Y	Y	Y
Rochelle Manilall (invitee)					Y

**S'bu Luthuli was acting chairperson as Mrs Mosweu was on maternity leave.

Risk management and internal control

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

Internal audit

In the 2008 financial year, the previous internal auditors of the Group, Mazars Moores Rowland, were appointed as the Group's external auditors. A Group internal audit manager was appointed during the 2008 year and the company also retained the BEE company RAFT Consulting as its co-sourced internal auditors. With the Group internal audit manager reporting into the Audit and Risk Committee, this internal audit team works to assist the Group in further formalising and managing its risk management procedures. The Audit and Risk Committee has approved the strategic internal audit plan of the internal auditors for the year.

In 2008 the Group received a BBB empowerment rating from Empowerdex

Corporate governance continued

Remuneration Committee

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

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

The CEO and CFO attend meetings of the committee by invitation only and the CFO attended all meetings of the committee held during the year under review.

Attendance at Remuneration Committee meetings 2008

Name	13 May	25 Nov
Dr Gil Mahlati (chairperson)	Y	Y
S'bu Luthuli	Y	Y
Chris Aucamp (invitee)	Y	Y
Jerome Smith (invitee)	Y	X

Employment equity

CMSA has been at the forefront of driving BBBEE and equity within the local pharmaceutical industry and employment equity remains prominent on the board's agenda. In 2008 the Group received a BBB (Level 5 contributor) rating from empowerment auditors Empowerdex. Confirmed BEE ownership is 31,58% (Empowerdex: June 2008).

We intend to be the employer of choice in the pharmaceutical sector developing our most valuable asset, human capital, irrespective of race, colour or creed so that they may realise their full potential and ambitions.

The company strives to:

- be an equal opportunity employer, giving preference to and increasing the number of employees from previous disadvantaged backgrounds;

- foster a culture of equity for all employees and awareness of diversity; and
- empower employees through incentive schemes and upliftment projects.

Currently, 262 of the 278 staff employed at the manufacturing facility are HDI individuals.

Social responsibility

The board acknowledges its responsibility towards the communities within which it operates and various CSI projects were undertaken during the year.

Most notably, in 2008, Cipla Medpro sponsored two local athletes on their world first run around the Southern African coastline in a bid to raise funds for Operation Smile South Africa. Through this initiative, R2 million was raised for Operation Smile South Africa. In addition, Cipla Medpro also became a Diamond Smile sponsor (R1 million) to Operation Smile for three years.

There are currently three pharmaceutical students at the University of KwaZulu-Natal who are receiving full bursaries from the company. The first has commenced his internship at the manufacturing facility.

Investor relations and shareholder communication

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

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

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the Group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited, comprising the balance sheets at 31 December 2008, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

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

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

The auditor is responsible for reporting on whether the Group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited are fairly presented in accordance with the applicable financial reporting framework.

Approval of the Group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited

The Group annual financial statements and annual financial statements of Cipla Medpro South Africa Limited, as identified in the first paragraph, for the year ended 31 December 2008, set out on pages 29 to 107, were approved by the board of directors on 17 June 2009 and signed on their behalf by:

PCS Luthuli
Chairman

JS Smith
Chief executive officer

Durban
17 June 2009

Company secretary's report

I, Mark Daly*, Company secretary of Cipla Medpro South Africa Limited, certify that, to the best of my knowledge and belief, all returns as are required of a public company have, in respect of the year ended 31 December 2008, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

MW Daly
Company secretary

Durban
17 June 2009

** Mark Daly was appointed as Company secretary on 12 March 2008, replacing Chris Aucamp.*

Independent auditor's report to the members of Cipla Medpro South Africa Limited

Report on the annual financial statements

We have audited the Group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited, which comprise the consolidated and separate balance sheets as at 31 December 2008, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 29 to 107.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Cipla Medpro South Africa Limited as at 31 December 2008, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Mazars Moores Rowland

Mazars Moores Rowland
Registered Auditor
Partner: Conrad Burger
Registered Auditor

27th Floor
1 Thibault Square
Cape Town
8001

17 June 2009

Directors' report

The directors have pleasure in presenting their report which forms part of the audited annual financial statements of Cipla Medpro South Africa Limited (the "company") and the consolidated financial statements of the company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2008.

The directors are pleased to announce a satisfactory set of annual results for 2008. The year in review saw good progress in both divisions, with the Cipla Medpro business growth continuing to outperform that of the total private market.

Nature of business

CMSA is one of the leading pharmaceutical companies in South Africa. The Group engages in the manufacture, marketing and supply of pharmaceutical products.

Financial results and review of operations

The financial results of the Group for the year ended 31 December 2008 are set out in the attached financial statements.

The review of operations for the year is fully covered in the Chairman's, Chief executive's and Chief financial officer's reports.

Acquisitions of businesses

During January 2008, the Group increased its effective shareholding in Cipla Agrimed (Pty) Limited to 75,25% through the acquisition of an additional 43% of the company's shares.

The Group also acquired a controlling 50% shareholding in Cipla Agricare (Pty) Limited during January 2008.

Details of these acquisitions are set out in note 27 of the annual financial statements.

The acquisitions above have been accounted for under IFRS 3 Business Combinations and IAS 38 Intangible Assets.

Subsidiary companies

Details of the subsidiary companies are set out in note 21 and Annexure A of the annual report.

Capital expenditure

The upgrade of Cipla's 4 000 square metre Mobeni site and pharmaceutical manufacturing facility is substantially complete having commenced during January 2007. The R225 million upgrade, has seen Cipla Medpro Manufacturing become one of the first PIC/S compliant facilities in South Africa, matching the highest standards for pharmaceutical manufacturers in the world.

Dividends

No dividend has been declared during the year and none have been recommended (2007: nil). Currently all earnings generated by the group are being used to repay debt, fund the remainder of the factory upgrade and fund growth opportunities.

Share capital

The authorised share capital of the company comprises 500 000 000 ordinary shares of 0,1 cent each and the issued share capital of the company is R443 266 (consisting of 443 265 635 ordinary shares of 0,1 cent each) (2007: R443 266 consisting of 443 265 635 ordinary shares of 0,1 cent each).

The following shareholders own more than 5% of the issued share capital of the company:

- Sweet Sensation 67 (Pty) Limited is the owner of 82 000 000 ordinary shares in the company, equivalent to 18,5% of the issued share capital;
- Liberty Group owns 36 838 345 ordinary shares in the company, equivalent to 8,31% of the issued share capital.

The unissued share capital is under the control of the directors of the company until the next annual general meeting of shareholders. Further details of the authorised and issued share capital of the company are given in note 12 of the annual financial statements.

DIRECTORS

Directors' interests in the issued shares of the company

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

	BENEFICIAL DIRECT '000	BENEFICIAL INDIRECT '000	NON-BENEFICIAL INDIRECT '000	TOTAL '000	PERCENTAGE HELD
31 December 2008					
C Aucamp	–	750	–	750	0,17
BM Caga	–	3 598	–	3 598	0,81
PCS Luthuli	1 689	1 998	–	3 687	0,83
JS Smith	–	17 679	–	17 679	3,99
	1 689	24 025	–	25 714	5,80
31 December 2007					
C Aucamp	–	750	–	750	0,17
BM Caga	–	3 598	–	3 598	0,81
PCS Luthuli	1 689	1 998	–	3 687	0,83
JS Smith	–	17 679	–	17 679	3,99
	1 689	24 025	–	25 714	5,80

At the date of approval of the annual financial statements, the directors of the company were as follows:

Executive directors

Mr JS Smith (CEO)

Mr C Aucamp (CFO)

Non-executive directors

Mr PCS Luthuli (Chairman)

Mr BM Caga

Dr GS Mahlati

Ms ND Mokone

Mrs MT Mosweu

Each of the executive directors has a fixed term contract expiring 31 December 2010 from CMSA, containing terms considered to be standard for such contracts. These contracts include restraint of trade provisions for which no payment was made.

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.

Refer to note 22 for detailed disclosure of directors' emoluments for the year.

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, except as disclosed in note 21 of the annual financial statements.

Special resolutions

At the annual general meeting in July 2008, shareholders approved via special resolution:

- for the company and/or its subsidiaries by way of general authority 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, and the provisos as listed in the notice of meeting dated 13 June 2008 included in the 2007 Group annual report; and
- that the company name, Enaleni Pharmaceuticals Limited, be changed to Cipla Medpro South Africa Limited. The name change was effected on 17 November 2008.

Going concern

The directors consider that the company and the Group have adequate resources to continue operating for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the company and Group annual financial statements. The directors are satisfied that the Group is in a sound financial position and has access to adequate borrowing facilities to meet its foreseeable cash requirements.

Auditors

The auditors of the company are Mazars Moores Rowland.

Company secretary

The business and postal addresses of the Company secretary, which are also the registered addresses of the company, are as reflected below:

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

Subsequent events

Events subsequent to the balance sheet date are set out in note 24 on page 88 of the consolidated annual financial statements.

PCS Luthuli
Chairman

JS Smith
Chief executive officer

Durban
17 June 2009

Balance sheets

as at 31 December

	Notes	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	**287 174**	130 909	**239 841**	108 888
Intangible assets	4	**1 402 745**	1 355 431	**1 427**	1 427
Investment in subsidiaries	5	**–**	–	**834 154**	798 071
Investment in equity-accounted investees	6	**–**	317	**–**	–
Other investments	7	**4**	11	**–**	–
Loans receivable	8	**–**	–	**7 959**	15 465
Deferred tax	9	**7 100**	5 197	**6 614**	4 058
Total non-current assets		**1 697 023**	1 491 865	**1 089 995**	927 909
Current assets					
Inventories	10	**190 542**	85 356	**4 500**	17 609
Income tax receivable		**1 135**	1 186	**1 117**	1 117
Trade and other receivables, including derivatives	11	**222 839**	156 078	**68 460**	35 343
Loans receivable	8	**3 505**	42 234	**345**	36 701
Cash and cash equivalents	26.4	**40 251**	160 420	**170**	83 874
Total current assets		**458 272**	445 274	**74 592**	174 644
Total assets		**2 155 295**	1 937 139	**1 164 587**	1 102 553
EQUITY					
Issued share capital	12	**443**	443	**443**	443
Share premium	12	**1 019 296**	1 019 296	**1 019 296**	1 019 296
Treasury shares	12	**(7 970)**	(8 707)	**–**	–
Retained earnings		**392 515**	259 190	**8 627**	14 903
Total equity attributable to equity holders of the parent		**1 404 284**	1 270 222	**1 028 366**	1 034 642
Minority interest	12	**1 640**	152	**–**	–
Total equity		**1 405 924**	1 270 374	**1 028 366**	1 034 642
LIABILITIES					
Non-current liabilities					
Loans and borrowings	13	**344 470**	442 406	**–**	12 736
Accrued operating leases		**554**	272	**–**	–
Amounts due to subsidiaries	5	**–**	–	**90 038**	23 337
Deferred tax	9	**1 794**	5 678	**–**	–
Total non-current liabilities		**346 818**	448 356	**90 038**	36 073
Current liabilities					
Bank overdraft	26.4	**8 542**	771	**8 542**	–
Loans and borrowings	13	**1 926**	5 072	**1 926**	5 072
Income tax payable		**15 298**	25 126	**–**	–
Trade and other payables, including derivatives	14	**376 787**	187 440	**35 715**	26 766
Total current liabilities		**402 553**	218 409	**46 183**	31 838
Total liabilities		**749 371**	666 765	**136 221**	67 911
Total equity and liabilities		**2 155 295**	1 937 139	**1 164 587**	1 102 553

Income statements

for the years ended 31 December

		GROUP		COMPANY	
		2008	2007	**2008**	2007
	Notes	**R'000**	R'000	**R'000**	R'000
Continuing operations					
Revenue		**994 892**	806 234	**58 191**	96 780
Cost of sales		**(501 553)**	(392 611)	**(53 011)**	(91 032)
Gross profit		**493 339**	413 623	**5 180**	5 748
Other income		**7 256**	14 864	**13 619**	60 332
Selling and distribution expenses		**(164 712)**	(154 179)	**(7 839)**	(11 701)
Administrative expenses		**(81 267)**	(54 512)	**(20 760)**	(26 507)
Other expenses		**(27 096)**	(21 099)	**(5 813)**	(14 304)
Profit (loss) before finance costs and income tax	15	**227 520**	198 697	**(15 613)**	13 568
Net finance costs and finance income	16	**(34 873)**	(33 666)	**2 135**	1 770
Finance costs		**(64 897)**	(54 182)	**(813)**	(2 845)
Finance income		**30 024**	20 516	**2 948**	4 615
Share of profit of equity-accounted investee (net of tax)		**–**	317	**–**	–
Profit (loss) before income tax		**192 647**	165 348	**(13 478)**	15 338
Income tax expense	17	**(62 593)**	(58 880)	**2 556**	2 581
Profit (loss) from continuing operations		**130 054**	106 468	**(10 922)**	17 919
Discontinued operations					
Profit from discontinued operations (net of tax)	18	**–**	26 348	**–**	–
Profit (loss) for the year		**130 054**	132 816	**(10 922)**	17 919
Attributable to:					
Equity holders of the parent		**128 679**	131 841	**(10 922)**	17 919
Minority interest		**1 375**	975	**–**	–
Profit (loss) for the year		**130 054**	132 816	**(10 922)**	17 919
Earnings per share					
Total operations					
Basic earnings per share (cents)	19	**29,3**	31,0		
Diluted earnings per share (cents)	19	**29,2**	30,9		
Continuing operations					
Basic earnings per share (cents)	19	**29,3**	25,0		
Diluted earnings per share (cents)	19	**29,2**	24,9		

Statements of changes in equity

for the years ended 31 December

	Notes	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT SHARE CAPITAL R'000	SHARE PREMIUM R'000	TREASURY SHARES R'000	RETAINED EARNINGS R'000	TOTAL R'000	MINORITY INTEREST R'000	TOTAL EQUITY R'000
GROUP								
Balance at 1 January 2007		409	890 728	(18 873)	125 557	997 821	(213)	997 608
Total recognised income and expenditure (profit for the year)		–	–	–	131 841	131 841	975	132 816
Issue of share capital	12	34	130 183	–	–	130 217	–	130 217
Share issue expenses		–	(1 615)	–	–	(1 615)	–	(1 615)
Shares issued from the Share Incentive Trust		–	–	10 166	–	10 166	–	10 166
IFRS 2 Share-based Payments	25	–	–	–	1 792	1 792	–	1 792
Acquisition of minority interest		–	–	–	–	–	(6)	(6)
Disposal of minority interest		–	–	–	–	–	(604)	(604)
Balance at 31 December 2007		443	1 019 296	(8 707)	259 190	1 270 222	152	1 270 374
Total recognised income and expenditure (profit for the year)		–	–	–	128 679	128 679	1 375	130 054
Shares issued from the Share Incentive Trust		–	–	737	–	737	–	737
IFRS 2 Share-based Payments	25	–	–	–	4 646	4 646	–	4 646
Acquisition of minority interest		–	–	–	–	–	113	113
Balance at 31 December 2008		443	1 019 296	(7 970)	392 515	1 404 284	1 640	1 405 924
COMPANY								
Balance at 1 January 2007		409	890 728	–	(4 808)	886 329	–	886 329
Total recognised income and expenditure (profit for the year)		–	–	–	17 919	17 919	–	17 919
Issue of share capital	12	34	130 183	–	–	130 217	–	130 217
Share issue expenses		–	(1 615)	–	–	(1 615)	–	(1 615)
IFRS 2 Share-based Payments	25	–	–	–	1 792	1 792	–	1 792
Balance at 31 December 2007		443	1 019 296	–	14 903	1 034 642	–	1 034 642
Total recognised income and expenditure (loss for the year)		–	–	–	(10 922)	(10 922)	–	(10 922)
IFRS 2 Share-based Payments	25	–	–	–	4 646	4 646	–	4 646
Balance at 31 December 2008		443	1 019 296	–	8 627	1 028 366	–	1 028 366

Cash flow statements

for the years ended 31 December

	Notes	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
Cash flows from operating activities					
Cash generated (utilised) by operations	26.1	234 603	184 911	(20 123)	21 255
Finance costs paid		(43 608)	(26 847)	(813)	(1 954)
Finance income received		30 024	20 308	2 948	4 324
Income tax paid	26.2	(76 504)	(71 516)	–	(1 105)
Secondary tax on companies paid	26.3	(2 012)	(4 433)	–	–
Net cash flows from operating activities		142 503	102 423	(17 988)	22 520
Cash flows from investing activities					
Acquisition of property, plant and equipment		(162 712)	(122 587)	(133 023)	(99 963)
Acquisition of intangible assets		(37 198)	(9 783)	–	–
Proceeds on disposals of plant and equipment		175	3 184	167	1 694
Proceeds on disposals of intangible assets		1 250	21 302	–	15 252
Disposal of discontinued operations (net of tax)	18	–	73 295	–	–
Proceeds on disposals of subsidiaries		–	–	–	5 183
Acquisition of subsidiaries	27	(5 442)	–	–	–
Acquisition of minority interest	27	(5 182)	–	–	–
Decrease (increase) in loans receivable		38 729	(1 658)	7 779	(36 410)
Net cash flows from investing activities		(170 380)	(36 247)	(125 077)	(114 244)
Cash flows from financing activities					
Proceeds from the issue of share capital		–	125 000	–	128 602
Share issue expenses		–	(1 615)	–	–
Proceeds from the exercise of share options		737	10 166	–	–
Net proceeds on redeemable preference shares		(85 200)	107 670	–	–
(Decrease) increase in loans payable		(15 600)	(326 858)	50 819	44 923
Net cash flows from financing activities		(100 063)	(85 637)	50 819	173 525
Net (decrease) increase in cash and cash equivalents		(127 940)	(19 461)	(92 246)	81 801
Cash and cash equivalents at beginning of the year		159 649	179 110	83 874	2 073
Cash and cash equivalents at end of the year	26.4	31 709	159 649	(8 372)	83 874

General information

Cipla Medpro South Africa Limited (the "company") is listed on the Main Board of the JSE Limited and is domiciled in the Republic of South Africa.

These annual financial statements were authorised for issue by the directors on 17 June 2009.

1. Significant accounting policies

a) Statement of compliance

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

b) Basis of preparation

The financial statements are presented in South African Rand, rounded to the nearest thousand. They are prepared on the historical cost basis except for financial assets and financial liabilities measured at fair value. The methods used to measure fair values are discussed in accounting policy (v).

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 4 (Intangible assets) and note 25 (Share options and share-based payments) for further details.

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

c) Basis of consolidation

(i) Investment in subsidiaries

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

(ii) Special purpose entities

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

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

1. **Significant accounting policies** continued

c) **Basis of consolidation** continued

(iii) **Acquisitions from entities under common control**

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

(iv) **Associates**

Associates are those entities in which the Group has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

(v) **Transactions eliminated on consolidation**

Intragroup balances and transactions, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

d) **Foreign currency**

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 reporting date. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured on the historical cost basis are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined.

e) **Financial instruments**

(i) **Non-derivative financial instruments**

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

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

1. **Significant accounting policies** continued

e) **Financial instruments** continued

(i) **Non-derivative financial instruments** continued

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

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

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

Financial assets at fair value through profit or loss

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

Financial guarantees

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

Other

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

(ii) **Derivative financial instruments**

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

(iii) **Share capital**

Ordinary shares

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

1. **Significant accounting policies** continued

   e) **Financial instruments** continued

      (iii) **Share capital** continued

      Treasury shares

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

      Preference shares

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

   f) **Property, plant and equipment**

      (i) **Recognition and measurement**

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

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

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

      Borrowing costs related to the acquisition or construction of qualifying assets are capitalised in accordance with the Group's accounting policy on borrowing costs (refer to accounting policy (j)).

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

      Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within profit or loss.

      (ii) **Subsequent costs**

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

      (iii) **Depreciation**

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

1. **Significant accounting policies** continued

f) **Property plant and equipment** continued

(iii) **Depreciation** continued

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

- buildings and leasehold improvements – up to fifty years;
- plant and machinery – five to fifteen years;
- office and computer equipment – two to ten years; and
- motor vehicles – five to eight years.

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

g) **Intangible assets**

(i) **Goodwill**

Acquisitions prior to 1 January 2004

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

Acquisitions on or after 1 January 2004

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

Acquisitions of minority interests

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) **Research and development**

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in accordance with the Group's policy on borrowing costs (refer to accounting policy (j)). Other development expenditure is recognised in profit or loss as incurred.

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

1. **Significant accounting policies** continued

g) **Intangible assets** continued

(iii) **Other intangible assets**

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

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

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

The following intangible assets currently have an indefinite useful life:

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

Computer software, having been transferred from property, plant and equipment, has an estimated useful life of two to three years.

(iv) **Subsequent expenditure**

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

h) **Investment in subsidiaries**

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

i) **Leased assets**

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

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

1. **Significant accounting policies** continued

j) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially complete. All other borrowing costs are expensed in the period in which they are incurred.

k) **Inventories**

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

l) **Impairment**

(i) **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

(ii) **Non-financial assets**

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

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

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

1. Significant accounting policies continued

l) Impairment continued

(ii) Non-financial assets continued

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

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

m) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due.

(ii) Termination benefits

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

(iii) Short-term benefits

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

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

(iv) Share-based payment transactions

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

n) Provisions

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

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

1. **Significant accounting policies** continued

o) **Revenue**

Goods sold

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

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

p) **Lease payments**

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

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

q) **Finance income and expenses**

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

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

r) **Income tax expense**

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

1. **Significant accounting policies** continued

r) **Income tax expense** continued

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

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

s) **Discontinued operations**

A discounted operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

t) **Earnings per share**

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

u) **Segment reporting**

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

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. Unallocated items comprise mainly income tax assets and liabilities.

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

v) **Determination of fair values**

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

(i) **Property, plant and equipment**

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

1. **Significant accounting policies** continued

v) **Determination of fair values** continued

(ii) **Intangible assets**

The fair value of intangible assets acquired in a business combination is based on the discounted estimated future cash flows expected to be derived from the use and eventual sale of the assets.

(iii) **Inventory**

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

(iv) **Investments in equity securities**

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

(v) **Trade and other receivables**

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

(vi) **Derivatives**

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

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

(vii) **Non-derivative financial liabilities**

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

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

(viii) **Share-based payment transactions**

The fair value of employee share options is measured using the binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, expected life of the instrument, expected dividends, and the risk-free interest rate.

w) **Government grants**

Government grants relates to assets and are recognised as deferred income in the balance sheet in the year that it becomes receivable. The deferred income is recognised as income in the income statement over the life of the underlying asset as the asset is depreciated.

2. Segment reporting

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

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

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

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

The Consumer and Vitality segment was discontinued during the 2007 year.

Business segments

The basis of segmentation since the year ended December 2007 has changed, as the chief operating decision maker reviews the segments on a factory versus non-factory basis. In the previous financial year, the business was reviewed by the chief operating decision maker on a Pharmaceutical versus Consumer and Vitality basis. Towards the end of the previous financial year, the businesses belonging to the Consumer and Vitality segment were sold.

The Group comprises the following main business segments:

Factory:	Manufacture and supply of pharmaceutical products
Non-factory:	Supply and distribution of pharmaceutical products
Head office:	Administrative function of the Group

2. **Segment reporting** continued

	PHARMACEUTICAL				
	FACTORY R'000	NON-FACTORY R'000	HEAD OFFICE R'000	ELIMINATIONS R'000	CONTINUING OPERATIONS (GROUP) R'000
2008					
Revenue					
External customers	57 507	937 385	–	–	994 892
Inter-segment revenue	(684)	(167)	–	851	–
Total segment revenue	56 823	937 218	–	851	994 892
Segment result	(15 690)	226 603	77	16 530	227 520
Net finance costs					(34 873)
Income tax expense					(62 593)
Profit for the year					130 054
Segment assets	1 156 854	2 242 618	(1 252 412)	–	2 147 060
Unallocated tax assets					8 235
Total assets					2 155 295
Segment liabilities	136 220	1 751 185	–	(1 155 126)	732 279
Unallocated tax liabilities					17 092
Total liabilities					749 371
Capital expenditure	133 023	66 887	–	–	199 910
Significant non-cash expenses					
Depreciation	(1 723)	(3 729)	–	(648)	(6 100)
Amortisation	–	(305)	–	–	(305)
(Loss) gain on disposals of property, plant and equipment and intangible assets	(180)	1 095	–	–	915

2. Segment reporting continued

	PHARMACEUTICAL FACTORY R'000	PHARMACEUTICAL NON-FACTORY R'000	HEAD OFFICE R'000	CONSUMER & VITALITY (discontinued) R'000	ELIMI-NATIONS R'000	GROUP R'000	CONSUMER & VITALITY (discontinued) R'000	CONTINUING OPERATIONS R'000
2007								
Revenue								
External customers	85 260	720 974	–	134 507		940 741	(134 507)	806 234
Inter-segment revenue	(11 520)	(207)	–	–	11 727	–	–	–
Total segment revenue	73 740	720 767	–	134 507	11 727	940 741	(134 507)	806 234
Segment result	18 069	230 579	(5 463)	9 859	(44 488)	208 556	(9 859)	198 697
Net finance costs						(35 336)	1 670	(33 666)
Share of profit of equity-accounted investees (net of income tax)	–	317	–	–	–	317	–	317
Income tax expense						(65 631)	6 751	(58 880)
Gain on disposals of discontinued operations (net of income tax)						24 910	(24 910)	–
Profit for the year						132 816	(26 348)	106 468
Segment assets	1 097 851	1 917 766	–	–	(1 085 178)	1 930 439		
Investment in equity-accounted investee	–	317	–	–	–	317		
Unallocated tax assets						6 383		
Total assets						1 937 139		
Segment liabilities	69 348	1 534 872	–	–	(968 259)	635 961		
Unallocated tax liabilities						30 804		
Total liabilities						666 765		
Capital expenditure	99 963	20 253	9 516	2 638	–	132 370		
Significant non-cash expenses								
Depreciation	–	–	–	(776)	–	(776)		
Amortisation	–	(4 627)	–	–	–	(4 627)		
Impairment losses on property, plant and equipment and intangible assets	(7 834)	(2 239)	–	(76)	865	(9 284)		
Impairment losses on investments in subsidiaries	(4 767)	(1 423)	–	–	6 190	–		
Gain (loss) on disposals of property, plant and equipment and intangible assets	20	4 524	11 952	(13)	(5 658)	10 825		
Excess of assets acquired over purchase price recognised in profit or loss for the year	–	–	–	–	74	74		

	COST R'000	ACCUMULATED DEPRECIATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
3. Property, plant and equipment				
Group 2008				
Buildings and leasehold improvements	11 711	(2 181)	–	9 530
Plant and machinery	278 885	(4 947)	(7 834)	266 104
Motor vehicles	1 706	(541)	–	1 165
Office furniture and computer equipment	17 725	(7 350)	–	10 375
	310 027	(15 019)	(7 834)	287 174

Group 2008 Movement summary	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	ACQUISITIONS THROUGH BUSINESS COMBINATIONS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Buildings and leasehold improvements	3 036	7 769	–	–	(1 275)	9 530
Plant and machinery	121 155	146 671	–	11	(1 733)	266 104
Motor vehicles	609	906	(148)	–	(202)	1 165
Office furniture and computer equipment	6 109	7 263	(199)	92	(2 890)	10 375
	130 909	162 609	(347)	103	(6 100)	287 174

	COST R'000	ACCUMULATED DEPRECIATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Group 2007				
Buildings and leasehold improvements	3 942	(906)	–	3 036
Plant and machinery	132 203	(3 214)	(7 834)	121 155
Motor vehicles	992	(383)	–	609
Office furniture and computer equipment	10 733	(4 624)	–	6 109
	147 870	(9 127)	(7 834)	130 909

Group 2007 Movement summary	OPENING CARRYING VALUE R'000	OTHER ACQUISIONS R'000	TRANSFERS R'000	DISPOSALS R'000	DISPOSALS THROUGH SALE OF BUSINESSES R'000	DEPRE-CIATION R'000	IMPAIRMENT R'000	CLOSING CARRYING VALUE R'000
Buildings and leasehold improvements	2 792	3 086	–	–	(1 844)	(922)	(76)	3 036
Plant and machinery	20 258	113 938	–	(1 528)	(1 926)	(1 753)	(7 834)	121 155
Motor vehicles	1 715	635	–	(969)	(346)	(426)	–	609
Office furniture and computer equipment	5 496	4 855	(244)	(164)	(1 532)	(2 302)	–	6 109
	30 261	122 514	(244)	(2 661)	(5 648)	(5 403)	(7 910)	130 909

3. **Property, plant and equipment** continued

Upgrade of site and manufacturing facilities

During the year ended 31 December 2007, the company commenced the upgrade to its site and manufacturing facilities. The initial scope of the upgrade was completed during the latter half of 2008. Since then, the company has identified and embarked on additional areas for upgrade which are envisaged for completion during late 2009. The investment in the upgrade is expected to cost a total of R310 million by the end of the project.

Included in plant and machinery are borrowing costs capitalised as part of the cost of qualifying assets (refer to note 16), as well as directly attributable expenditure, including employee costs, that were incurred for employees working directly on the upgrade.

Employee benefits

Employee benefits that are incurred for employees working directly on the construction or acquisition of an asset are directly attributable costs and may be capitalised. The employees that have been included in the costs capitalised to the upgrade comprise those directly involved in the construction or acquisition of the assets and those in finance and administration positions who were indirectly involved in the construction or acquisition of the assets.

For the finance and administrations staff, estimations and judgements were made in calculating the amount which qualifies for capitalisation. The estimations were predominately in respect of the amount of time each employee spent on a monthly basis on the acquisition and construction over and above the employee's normal finance or administrative duties.

On a departmental basis, management estimated the percentage of time dedicated by each department on the various phases of the upgrade during the year. The time spent by each department was then further stratified to individual employee level to isolate the percentage of time spent by each employee on the project, e.g. project manager – 100% of time.

These percentages were then applied to the total cost per employee to arrive at the amount capitalisable in terms of IAS 16 Property, Plant and Equipment.

Impairment losses

Plant and machinery

As a result of the upgrade during the year ended 31 December 2007, newly acquired plant and machinery was integrated into the manufacturing facility, which rendered plant and machinery of R7,8 million as impaired.

Leasehold improvements

During the year ended 31 December 2007, the remaining carrying value of R76 000 worth of improvements expended on leased premises which were no longer occupied by Aldabri 53 (Pty) Limited, were impaired. This subsidiary formed part of the discontinued segment in 2007.

Reclassification of computer software from property, plant and equipment to intangible assets

During the year ended 31 December 2007, the Group reclassified certain computer software from property, plant and equipment to intangible assets on its balance sheet. Computer software is required to be classified as an intangible asset in terms of IAS 38, unless the software is an integral part of the related hardware. This adjustment had no impact on the Group's income statement or its net equity. The carrying value of computer software transferred to intangible assets during 2007 was R244 273.

Security leased assets

In the prior year, the Group leased production equipment under a number of finance lease arrangements as disclosed in note 13(c). The carrying value of leased assets can be summarised as follows:

	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
3. Property, plant and equipment continued				
Carrying values of leased property, plant and equipment				
Plant and machinery	6 069	6 736	6 069	6 736
	6 069	6 736	6 069	6 736

	COST R'000	ACCUMULATED DEPRECIATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Company 2008				
Plant and machinery	245 235	(3 673)	(7 834)	233 728
Motor vehicles	182	(24)	–	158
Office furniture and computer equipment	3 823	(1 453)	–	2 370
Leasehold improvements	3 739	(154)	–	3 585
	252 979	(5 304)	(7 834)	239 841

Company Movement summary 2008	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Plant and machinery	108 057	126 664	–	(993)	233 728
Motor vehicles	154	190	(148)	(38)	158
Office furniture and computer equipment	677	2 430	(199)	(538)	2 370
Leasehold improvements	–	3 739	–	(154)	3 585
	108 888	133 023	(347)	(1 723)	239 841

	COST R'000	ACCUMULATED DEPRECIATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Company 2007				
Plant and machinery	118 570	(2 679)	(7 834)	108 057
Motor vehicles	185	(31)	–	154
Office furniture and computer equipment	1 756	(1 079)	–	677
	120 511	(3 789)	(7 834)	108 888

Company Movement summary 2007	OPENING CARRYING VALUE R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	IMPAIRMENT R'000	CLOSING CARRYING VALUE R'000
Plant and machinery	19 261	99 322	(1 259)	(1 433)	(7 834)	108 057
Motor vehicles	246	336	(350)	(78)	–	154
Office furniture and computer equipment	853	305	(65)	(416)	–	677
	20 360	99 963	(1 674)	(1 927)	(7 834)	108 888

4. Intangible assets

Group 2008	COST R'000	ACCUMULATED AMORTISATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Pharmaceutical dossiers	1 312 996	–	–	1 312 996
Trademarks and registrations	75 627	–	(1 378)	74 249
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	1 154	(581)	–	573
	1 404 704	(581)	(1 378)	1 402 745

Group Movement summary 2008	OPENING CARRYING VALUE R'000	ACQUISITIONS THROUGH BUSINESS COMBINATIONS R'000	OTHER ACQUISITIONS R'000	DISPOSALS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	1 312 996	–	–	–	–	1 312 996
Trademarks and registrations	38 932	2 749	32 731	(163)	–	74 249
Brands	3 261	–	–	–	–	3 261
Goodwill	–	11 666	–	–	–	11 666
Computer software	242	–	636	–	(305)	573
	1 355 431	14 415	33 367	(163)	(305)	1 402 745

Group 2007	COST R'000	ACCUMULATED AMORTISATION R'000	ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
Pharmaceutical dossiers	1 312 996	–	–	1 312 996
Trademarks and registrations	40 310	–	(1 378)	38 932
Brands	3 261	–	–	3 261
Computer software	518	(276)	–	242
	1 357 085	(276)	(1 378)	1 355 431

Group Movement summary 2007	OPENING CARRYING VALUE R'000	ACQUISITIONS R'000	TRANSFERS* R'000	DISPOSALS R'000	DISPOSALS THROUGH SALE OF SUBSIDIARIES R'000	AMORTISATION R'000	IMPAIRMENT** R'000	CLOSING CARRYING VALUE R'000
Pharmaceutical dossiers	1 317 145	–	–	(2 316)	(1 833)	–	–	1 312 996
Trademarks and registrations	39 423	4 497	–	(3 600)	(14)	–	(1 374)	38 932
Brands	48 397	–	–	(5 059)	(40 077)	–	–	3 261
Goodwill	942	–	–	–	(942)	–	–	–
Computer software	–	274	244	–	–	(276)	–	242
	1 405 907	4 771	244	(10 975)	(42 866)	(276)	(1 374)	1 355 431

* *Reclassification of computer software from property, plant and equipment to intangible assets*
Refer to note 3 for further details.

** *Impairment*
This impairment loss relates to the trademarks and registrations, the carrying value of which is less than its recoverable amount, by virtue that the products manufactured under these trademarks are no longer sold within the Group; resulting in no future cash flows to support the carrying value.

Refer overleaf for the detailed impairment assessment process.

4. **Intangible assets** continued

Company 2008	COST R'000	ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000
Brands	1 427	–	1 427
	1 427	–	1 427

Company Movement summary 2008	OPENING CARRYING VALUE R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Brands	1 427	–	1 427
	1 427	–	1 427

Company 2007	COST R'000	ACCUMULATED AMORTISATION R'000	CARRYING VALUE R'000
Brands	1 427	–	1 427
	1 427	–	1 427

Company Movement summary 2007	OPENING CARRYING VALUE R'000	DISPOSALS R'000	AMORTISATION R'000	CLOSING CARRYING VALUE R'000
Trademarks and registrations	3 300	(3 300)	–	–
Brands	1 427	–	–	1 427
	4 727	(3 300)	–	1 427

Security

As indicated in note 13 (d), the five-year loan facility of R100 million is secured in part through intellectual property. The carrying value of intellectual property held as security for this facility amounts to R75 million (2007: R39 million).

Assessment of the Group's intangible assets

Predicting the useful life of an intangible asset requires significant judgement. The diverse categories of intangible assets will have different useful lives, whilst a number of intangible assets may even be considered to have indefinite useful lives. For example, the useful life of the right associated with an exclusive patent will be finite and will result in an amortisation charge being recognised in profit and loss over a fixed period of time. However, the useful life associated with an asset that has no patent protection but that retains, and is expected to retain, a distinct market identity could be considered to be indefinite and the asset would not be amortised.

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

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

4. Intangible assets continued

Impairment tests for intangible assets

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

Our impairment review process is as follows:

For indefinite-life intangible assets, such as brands, each year and whenever impairment indicators are present, we calculate the fair value of the asset and record an impairment loss if the resulting net present value is less than the carrying value of the intangible asset. If the resulting net present value exceeds the carrying value of the intangible asset, the intangible asset is not impaired. Fair value is generally measured as the net present value of projected cash flows. In addition, a re-evaluation of the remaining useful life of the asset is performed to determine whether continuing to classify the asset as having an indefinite life is appropriate.

For finite-life intangible assets, such as computer software, whenever impairment indicators are present, we perform detailed impairment testing as for indefinite-life intangible assets (refer above).

The value in use of intangible assets is determined primarily using the "free cash flow" methodology. We begin with the forecast of all the expected future net cash flows available to the Group after taking into account in certain instances, capital expenditure and working capital requirements. These cash flows are then present valued by applying an appropriate discount rate which incorporates the risk factors (systematic and unsystematic) associated with the cash flow streams. Certain judgements and assumptions are also taken into account in arriving at the net present value of the intangible asset. Accordingly, the potential for impairment of these intangible assets may exist if actual revenues are significantly lower than those initially forecasted or actual expenditure are significantly greater than those initially forecasted. The calculation of fair value relies heavily on assumptions and estimates, and for that reason the Group enlists the assistance of external valuation specialists. The valuations are based on information available as at the impairment review date and are based on the expectations and assumptions that have been deemed reasonable by management. Refer to the table below for significant estimates and assumptions intrinsic in the calculation of the fair value of the intangible assets.

Key assumptions applied in value in use calculations

Growth in revenue	Determined from financial budgets approved by management covering a five-year period. The growth rates used range between 5% and 36%. Growth rates ranging between 10% and 21% were used to value Cipla Medpro Holdings (Pty) Limited.
Pre-tax operating margin	Based on previous year's margins as well as past valuation assumptions and approved management budgets. This rate ranges between 7% and 44%. For the valuation of Cipla Medpro Holdings (Pty) Limited, a rate of 31,2% was used.
Survival periods	15 years (reasonable in relation to the average life of a dossier).
Book value realised on termination	Gordon's dividend growth model used to determine terminal value – assumed a 6% growth in perpetuity.
Fair rate of return	Approximates 16,7%.
Pre-tax risk-free rate	10-year bond rate as at respective valuation dates.
Systematic risk premium	6% – generally accepted in South Africa.
Beta	1,2
Unsystematic risk premium	4,5%

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
5. Investment in subsidiaries				
Shares at cost less impairment losses	–	–	**34 224**	34 224
Amounts due by subsidiaries – non-current	–	–	**799 930**	763 847
Investment in subsidiaries	–	–	**834 154**	798 071
Amounts due to subsidiaries – non-current	–	–	**(90 038)**	(23 337)
Net investment in subsidiaries	–	–	**744 116**	774 734
Loans and receivables	–	–	**799 930**	763 847
Financial liabilities measured at amortised cost	–	–	**(90 038)**	(23 337)

Refer to note 27 and Annexure A which detail the Group's acquisitions during the year as well as a description of the terms and conditions attached to inter-group borrowings.

6. Investment in equity-accounted investee

The Group's share of 2007 profit in its previously held 43% equity-accounted investee (2008: 75,25% held subsidiary), Cipla Agrimed (Pty) Limited, for the year ended 31 December 2007 was R317 000. In previous years, the Group's share of losses made by the investee were recognised to the extent of the Group's interest in the investee. After the Group's interest was reduced to nil, the Group discontinued recognising a share of any further losses made by the investee since the Group had no obligation in respect of losses made. During 2007, the Group resumed recognising its share of profits after setting off the share of losses not previously recognised.

During the 2008 year, the Group acquired an additional 43% in Cipla Agrimed (Pty) Limited, via its 75% held subsidiary Cipla Vet (Pty) Limited, giving the Group an effective shareholding of 75,25% in Cipla Agrimed (Pty) Limited; thus converting Cipla Agrimed (Pty) Limited into a subsidiary. Refer to note 27 which details the Group's acquisitions during the year.

Summary financial information for Cipla Agrimed (Pty) Limited, not adjusted for the percentage ownership held by the Group:

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
Ownership (% held)	**75,25**	43,00	–	–
Non-current assets	–	2 852	–	–
Current assets	–	9 831	–	–
Total assets	–	12 683	–	–
Non-current liabilities	–	3 210	–	–
Current liabilities	–	8 736	–	–
Total liabilities	–	11 946	–	–
Net equity	–	737	–	–
Revenue	–	17 592	–	–
Expenses	–	(16 458)	–	–
Profit	–	1 134	–	–

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
7. Other investments				
Non-current investments				
Financial assets designated at fair value through profit or loss on initial recognition	**4**	11	**–**	–
	4	11	**–**	–

The financial assets designated at fair value through profit or loss are listed equity securities that otherwise would have been classified as available for sale. The investment is managed and its performance evaluated on a fair value basis in accordance with a documented investment strategy. The fair value is based on the market price as quoted on the London Stock Exchange at year end.

		GROUP		COMPANY	
		2008	2007	**2008**	2007
		R'000	R'000	**R'000**	R'000
8. Loans receivable					
Non-current					
Cipla Medpro South Africa Limited Share Incentive Trust	(a)	–	–	**7 959**	15 465
		–	–	**7 959**	15 465
Current					
Arcay Merchant (Pty) Limited	(b)	–	21 735	–	21 735
Arcay Merchant (Pty) Limited	(c)	–	11 780	–	11 306
Marico South Africa Consumer Care (Pty) Limited	(d)	–	3 690	–	3 660
Cipla Agrimed (Pty) Limited	(e)	–	4 089	–	–
Cipla Agricare (Pty) Limited	(e)	–	940	–	–
L'amar (France) Pharmatec (Pty) Limited	(f)	**160**	–	–	–
H Brand 6 CC t/a Essential Health Kuilsrivier	(g)	**3 000**	–	–	–
Sweet Sensation 67 (Pty) Limited	(h)	**345**	–	**345**	–
		3 505	42 234	**345**	36 701

a) The loan is in respect of shares issued by the company to the Cipla Medpro South Africa Limited Share Incentive Trust which will be utilised to settle options granted. The loan is interest-free and has no fixed terms of repayment. Refer to note 25 for further details thereof.

b) This interest-free loan due from Arcay Merchant (Pty) Limited resulted from the sale of subsidiary, Bioharmony (Pty) Limited, on 30 November 2007. The loan was being repaid in staggered payments and has been settled during April 2008. This loan was secured by the underlying shares and loan accounts in Bioharmony (Pty) Limited that were sold to Arcay Merchant (Pty) Limited.

c) This interest-free loan due from Arcay Merchant (Pty) Limited resulted from the sale of subsidiary, Aldabri 53 (Pty) Limited, on 30 November 2007. The loan was being repaid in staggered payments and has been settled during April 2008. This loan was secured by the underlying shares and loan accounts of Aldabri 53 (Pty) Limited that were sold to Arcay Merchant (Pty) Limited.

d) This loan previously owing by Marico South Africa Consumer Care (Pty) Limited was repaid during the year. It related to amounts owing from the sale of Enaleni Pharmaceuticals Consumer Division (Pty) Limited and other intellectual property. This loan was secured by the underlying shares and loan accounts in Enaleni Pharmaceuticals Consumer Division (Pty) Limited that were sold to Marico South Africa Consumer Care (Pty) Limited.

e) The loans to Cipla Agrimed (Pty) Limited and Cipla Agricare (Pty) Limited were unsecured and interest-free. The loans had no fixed terms of repayment. During the 2008 year, both these companies became subsidiaries of the Group and hence the amounts receivable were eliminated at Group level.

f) The loan to L'amar (France) Pharmatec (Pty) Limited is unsecured, interest-free and bears no fixed terms of repayment.

g) The loan to H Brand 6 CC t/a Essential Health Kuilsrivier bears interest at the prime overdraft rate. The entire principal debt and interest thereon is due to be repaid by 30 October 2010.

h) The loan to Sweet Sensation 67 (Pty) Limited is unsecured and interest-free. There are no fixed terms of repayment. In the prior year, this loan was disclosed within other receivables.

9. Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	ASSETS 2008 R'000	ASSETS 2007 R'000	LIABILITIES 2008 R'000	LIABILITIES 2007 R'000	NET 2008 R'000	NET 2007 R'000
Property, plant and equipment	(5 193)	–	–	237	(5 193)	237
Trademarks	–	–	–	1 630	–	1 630
Inventory	(21)	(38)	–	–	(21)	(38)
Operating leases	–	(265)	259	–	259	(265)
Employee benefit accruals	–	(899)	262	–	262	(899)
Impairment of trade receivables	–	(32)	35	–	35	(32)
Other	–	(576)	4 034	4 730	4 034	4 154
Tax losses carried forward	(4 682)	(4 306)	–	–	(4 682)	(4 306)
Tax (assets) liabilities	(9 896)	(6 116)	4 590	6 597	(5 306)	481
Set off of tax	2 796	919	(2 796)	(919)	–	–
Net tax (assets) liabilities	(7 100)	(5 197)	1 794	5 678	(5 306)	481

Movement in temporary differences during the year	BALANCE 1 JANUARY 2007 R'000	RECOGNISED IN PROFIT OR LOSS R'000	INCLUDED IN DISCONTINUED OPERATIONS* R'000	BALANCE 1 JANUARY 2008 R'000	RECOGNISED IN PROFIT OR LOSS R'000	BALANCE 31 DECEMBER 2008 R'000
Property, plant and equipment	1 623	(1 287)	(99)	237	(5 430)	(5 193)
Trademarks	567	867	196	1 630	(1 630)	–
Inventory	(252)	180	34	(38)	17	(21)
Operating leases	(327)	(125)	187	(265)	524	259
Employee benefit accruals	(1 386)	(48)	535	(899)	1 161	262
Impairment of trade receivables	(624)	270	322	(32)	67	35
Other	1 348	2 371	435	4 154	(120)	4 034
Tax losses carried forward	(8 974)	(465)	5 133	(4 306)	(376)	(4 682)
Tax (assets) liabilities	(8 025)	1 763	6 743	481	(5 787)	(5 306)

* Refer to note 18.

9. Deferred tax continued

Recognised deferred tax assets and liabilities continued

Company	ASSETS 2008 R'000	ASSETS 2007 R'000	LIABILITIES 2008 R'000	LIABILITIES 2007 R'000	NET 2008 R'000	NET 2007 R'000
Property, plant and equipment	(5 146)	–		237	(5 146)	237
Operating leases	–	(185)	259	–	259	(185)
Employee benefit accruals	–	(247)	262	–	262	(247)
Impairment of trade receivables	–	(22)	35	–	35	(22)
Other	–	(575)	2 658	–	2 658	(575)
Tax losses carried forward	(4 682)	(3 266)	–	–	(4 682)	(3 266)
Tax (assets) liabilities	(9 828)	(4 295)	3 214	237	(6 614)	(4 058)
Set off of tax	3 214	237	(3 214)	(237)	–	–
Net tax (assets)	(6 614)	(4 058)	–	–	(6 614)	(4 058)

Movement in temporary differences during the year	BALANCE 1 JANUARY 2007 R'000	RECOGNISED IN PROFIT OR LOSS R'000	BALANCE 1 JANUARY 2008 R'000	RECOGNISED IN PROFIT OR LOSS R'000	BALANCE 31 DECEMBER 2008 R'000
Property, plant and equipment	1 479	(1 242)	237	(5 383)	(5 146)
Operating leases	(146)	(39)	(185)	444	259
Employee benefit accruals	(762)	515	(247)	509	262
Impairment of trade receivables	(110)	88	(22)	57	35
Other	23	(598)	(575)	3 233	2 658
Tax losses carried forward	(1 961)	(1 305)	(3 266)	(1 416)	(4 682)
Tax (assets)	(1 477)	(2 581)	(4 058)	(2 556)	(6 614)

During the 2007 financial year, R980 000 (2008: nil) of previously unrecognised tax losses were recognised as management considered it probable that future taxable profits will be available against which these tax losses can be utilised.

Unrecognised deferred tax assets and liabilities

In the prior year, deferred tax assets of R111 104 (2008: nil) originating from unutilised tax losses were not recognised, in part because it was not probable that future taxable profits would be available against which the group could utilise the benefits therefrom.

There were no adjustments to deferred tax that were recognised directly in equity in either the group or the company.

Deferred tax assets and liabilities are recognised on the assumption that the assets and liabilities will either be recovered through use in the future or will be realised through sale. A capital gains tax rate of 14% (2007: 14,5%) was used to compute deferred tax for assets and liabilities which will be realised through sale, and a rate of 28% (2007: 29%) was used for deferred tax balances to be recovered through use.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
10. Inventories				
Raw materials	**3 952**	12 237	**3 952**	12 237
Finished goods	**186 284**	68 771	**242**	1 024
Work-in-progress	**306**	4 348	**306**	4 348
	190 542	85 356	**4 500**	17 609
Inventory is shown net of impairment losses	**(3 809)**	(4 240)	**(2 859)**	(2 968)
Carrying value of inventories subject to retention of title clauses (held on consignment by outside parties):				
Cipla Medpro South Africa Limited	**215**	389	**215**	389
Cipla Medpro Holdings (Pty) Limited	**555**	426	**–**	–

Inventories that are considered as obsolete are written off when the inventory cannot be sold or has reached expiry date.

Write downs on inventory relate mainly to inventory which expired as a result of the board's decision to temporarily suspend manufacturing at the Cipla Medpro Manufacturing facility and delay in the MCC approval – R2,7 million (2007: R11,7 million). Refer to note 15 for impairment losses recognised during the year.

Inventories held as security for loans granted amount to R191 million (2007: R85 million). Refer to note 13 (a) and note 13 (d) for further details.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
11. Trade and other receivables, including derivatives				
Trade receivables due from related parties	**–**	–	**502**	1 067
Trade receivables due from external parties	**196 504**	130 766	**51 792**	29 236
Other receivables	**15 704**	6 606	**9 959**	4 988
Prepayments	**10 588**	3 095	**6 207**	52
Loans and receivables	**222 796**	140 467	**68 460**	35 343
Derivatives used for economic hedging				
Forward exchange contracts	**43**	4	**–**	–
Fair value of interest rate swaps	**–**	15 607	**–**	–
	222 839	156 078	**68 460**	35 343
Trade receivables are shown net of impairment losses	**(514)**	(873)	**(167)**	(478)

As indicated in notes 26.4, 13 (a) and 13 (d), trade receivables of R197 million (2007: R131 million) have been ceded to the bank as security for banking facilities granted.

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

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

	GROUP 2008	GROUP 2007
United States Dollar ($'000)	**11 000**	21 500
Average forward exchange rate (R/$)	**9,49**	6,94
Forward Rand value	**104 333**	149 323
Mark to market valuation	**104 376**	149 327
Recognised fair value gain	**43**	4

Dates of maturity:
2008: 30 January 2009 – 27 February 2009
2007: 30 January 2008 – 28 August 2008

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
11. Trade and other receivables, including derivatives continued				
Fair value of interest rate swaps				
Interest rate swaps were entered into with Nedbank Limited to economically hedge the interest rate exposure of the preference shares that were entered into by Inyanga Trading 386 (Pty) Limited with Nedbank Limited.				
The interest rate swaps are stated at fair value. On subsequent measurement, the gains on the interest rate swaps are recognised in profit and loss and disclosed within net finance costs. At year end the fair values were as follows:				
(i) R125 000 000 fixed at 7,4%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011	–	2 843	–	–
(ii) R62 669 654 fixed at 7,35%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011	–	9 769	–	–
(iii) R100 000 000 fixed at 9,18%, linked to the three-month JIBAR, effective 30 April 2007 and expiring on 30 April 2012	–	2 995	–	–
	–	15 607	–	–

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
12. Share capital and reserves				
Authorised share capital				
500 000 000 ordinary shares of 0,1 cent each	**500**	500	**500**	500
Issued share capital				
2008: 443 265 635 ordinary shares of 0,1 cent each	**443**	–	**443**	–
2007: 443 265 635 ordinary shares of 0,1 cent each	**–**	443	**–**	443
Number of shares in issue				
Opening balance	**443 265 635**	408 490 792	**443 265 635**	408 490 792
General issue of shares for cash	**–**	31 250 000	**–**	31 250 000
Issue of shares to other shareholders	**–**	3 524 843	**–**	3 524 843
Closing balance	**443 265 635**	443 265 635	**443 265 635**	443 265 635
Share premium				
Opening balance	**1 019 296**	890 728	**1 019 296**	890 728
Issue of shares	**–**	130 183	**–**	130 183
Share issue expenses	**–**	(1 615)	**–**	(1 615)
Closing balance	**1 019 296**	1 019 296	**1 019 296**	1 019 296

Treasury shares

The treasury share reserve comprises the cost of the company's shares held by the Group. At 31 December 2008, 3 251 091 (2007: 3 725 591) treasury shares were held in the Cipla Medpro South Africa Limited Share Incentive Trust which are available to be utilised for the exercise of share options.

Dividends

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings.

Minority interest

During the current and the prior year, the Group allocated a 25% share of profits earned by Cipla Vet (Pty) Limited to minority shareholders.

The minority shareholders of Cipla Dibcare (Pty) Limited do not share in the losses made by the subsidiary and hence, an allocation of losses were not made to the minority shareholders of Cipla Dibcare (Pty) Limited during the 2007 or 2008 year. The Group's losses are limited to the carrying value of the net investment in the subsidiary.

For the year ended 31 December 2008, the Group allocated a 50% share of profits earned by newly-acquired subsidiary, Cipla Agricare (Pty) Limited to minority shareholders.

For the year ended 31 December 2008, the Group allocated a 24,25% share of profits earned by Cipla Agrimed (Pty) Limited to minority shareholders.

During the year ended 31 December 2007, the disposal of the Group's 67% ownership in Aldabri 53 (Pty) Limited, led to the reduction of the minority interest in the balance sheet. The minorities of Aldabri 53 (Pty) Limited also shared in a proportionate share of the profits made by the subsidiary prior to the subsidiary being disposed of.

		GROUP		COMPANY	
		2008	2007	**2008**	2007
		R'000	R'000	**R'000**	R'000
13. Loans and borrowings					
This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost using the effective interest rate method. For more information about the Group's exposure to interest rate risk, refer to notes 20 and 29.					
Nedbank Limited	(a)	**1 926**	5 072	**1 926**	5 072
Nedbank Limited	(b)	**–**	6 270	**–**	6 270
Nedbank Limited	(c)	**–**	6 466	**–**	6 466
Nedbank Limited	(d)	**100 000**	100 000	**–**	–
Nedbank Limited – preference shares	(e)	**244 470**	329 670	**–**	–
Total loans and borrowings		**346 396**	447 478	**1 926**	17 808
Comprising					
Current portion					
Nedbank Limited		**1 926**	5 072	**1 926**	5 072
Total current portion		**1 926**	5 072	**1 926**	5 072
Total non-current portion		**344 470**	442 406	**–**	12 736
Finance lease liabilities					
The future minimum lease payments under finance leases are as follows:					
Less than one year		**–**	2 574	**–**	2 574
Between two and five years		**–**	5 675	**–**	5 675
More than five years		**–**	–	**–**	–
Total future minimum lease payments		**–**	8 249	**–**	8 249
Interest		**–**	(1 783)	**–**	(1 783)
Present value of future minimum lease payments		**–**	6 466	**–**	6 466

a) This loan facility of R16 million reduces to nil by 30 April 2009. It bears interest at prime (15,0%) less 1,5% and has no fixed repayment terms. This loan is secured by a general notarial bond over inventory, the cession of book debts and plant and equipment of Cipla Medpro South Africa Limited.

b) The loan was settled during the year. The loan was repayable in 60 equal monthly instalments of R214 507 (2007: R214 507) and was due to be settled in September 2010. Interest was being charged at rates linked to the prime overdraft rate, and the loan was secured by an unlimited pledge of shares held in Xeragen Laboratories (Pty) Limited by Cipla Medpro South Africa Limited.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
13. Loans and borrowings continued				
Nedbank Limited facility of R10 million				
Opening balance	**6 270**	7 971	**6 270**	7 971
Interest capitalised	**161**	873	**161**	873
Repayment of capital and interest	**(6 431)**	(2 574)	**(6 431)**	(2 574)
Closing balance	**–**	6 270	**–**	6 270

(c) This liability was settled during the year. The liability related to the lease of plant and machinery with a carrying value of R6 068 723 (2007: R6 736 402) secured under instalment sale agreements originally ending in 2009 and 2011. These were being repaid in fixed equal monthly instalments of R204 127 (2007: R214 538). Interest was charged at the prime overdraft rate.

(d) This loan bears interest at rates linked to the JIBAR rate. The loan is repayable in full on 30 September 2011, with interest payable bi-annually. The loan is secured through guarantees and subordination of their claims against Cipla Medpro Holdings (Pty) Limited by each of its subsidiaries and its holding company, Inyanga Trading 386 (Pty) Limited, the pledge and cession of its shares in Cipla Medpro Holdings (Pty) Limited, a general notarial bond over the movable assets of Cipla Medpro Holdings (Pty) Limited and its subsidiaries, the cession of trade receivables, cash balances, insurances and claims of the Cipla Medpro Group and Inyanga Trading 386 (Pty) Limited, and the pledge and hypothecation of rights in intellectual property held by Cipla Medpro Holdings (Pty) Limited and its subsidiaries.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
Five-year facility of R100 million				
Opening balance	**100 000**	100 024	**–**	–
Interest capitalised	**16 592**	14 274	**–**	–
Repayment of interest	**(16 592)**	(14 298)	**–**	–
Closing balance	**100 000**	100 000	**–**	–

13. Loans and borrowings continued

(e) This financial liability relates to a variable rate cumulative compulsory redeemable preference share investment entered into on 29 September 2006 between Inyanga Trading 386 (Pty) Limited and Depfin Investments (Pty) Limited, a subsidiary of Nedbank Limited. These preference shares have been accounted for as a financial liability as the Group has an obligation to settle in cash both the redemption and servicing of the interest thereon. The preference shares in issue are a combination of classes "A", "B" and "C" preference shares, each with a par value of 1 cent and a subscription price of R10 000 each.

The Group has the right to redeem the issued shares at any time, with compulsory redemption required on 1 October 2011 and 1 May 2012, depending on the date of issue of the preference share. The redemption price is an amount equal to the subscription price. All classes of preference shares bear interest at rates linked to the prime overdraft rate, payable semi-annually in arrears.

This facility is secured via a put option to Cipla Medpro South Africa Limited of Inyanga Trading 386 (Pty) Limited's obligations under the agreement with Depfin Investments (Pty) Limited and by the cession of the company's shareholding in Inyanga Trading 386 (Pty) Limited and the subsidiaries of Cipla Medpro Holdings (Pty) Limited.

There are 37 600 preference shares which have been authorised for issue in total, all with similar terms attached. Refer to the table below which sets out the issues and redemptions of the preference shares during the year.

Subsequent to year end, a further R25 100 000 worth of A and B preference shares have since been redeemed.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
13. Loans and borrowings continued				
Compulsory redeemable preference shares:				
Par value – 1 cent each				
Subscription price – R10 000 each				
Opening balance including accrued interest	**339 145**	227 147	**–**	–
Issue of shares				
A shares	**–**	–	**–**	–
B shares	**–**	29 000	**–**	–
C shares	**–**	125 000	**–**	–
Interest capitalised				
A shares	**12 304**	16 118	**–**	–
B shares	**7 107**	6 578	**–**	–
C shares	**15 293**	9 626	**–**	–
Redemption of shares				
A shares	**(70 000)**	(35 000)	**–**	–
B shares	**(15 200)**	(11 330)	**–**	–
Repayment of interest				
A shares	**(14 232)**	(16 000)	**–**	–
B shares	**(7 484)**	(5 846)	**–**	–
C shares	**(15 050)**	(6 148)	**–**	–
Subtotal	**251 883**	339 145	**–**	–
Interest disclosed in trade and other payables (note 14)	**(7 413)**	(9 475)	**–**	–
Closing balance	**244 470**	329 670	**–**	–

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
14. Trade and other payables, including derivatives				
Trade payables due to related parties	**–**	–	**–**	14
Trade payables due to external parties	**322 255**	143 056	**4 699**	9 113
Other payables and accruals	**46 567**	33 934	**31 016**	16 664
Interest payable on preference shares	**7 413**	9 475	**–**	–
Trade and other payables held at amortised cost	**376 235**	186 465	**35 715**	25 791
Forward exchange contracts	**–**	975	**–**	975
Fair value of interest rate swaps	**552**	–	**–**	–
	376 787	187 440	**35 715**	26 766

Interest payable on preference shares

This relates to interest payable on variable rate cumulative redeemable preference shares in issue. Refer to note 13 (e) for the terms thereof.

Arrear interest payable:

7 000 "A" preference shares (2007: 14 000 shares)	**2 191**	4 119	**–**	–
4 947 "B" preference shares (2007: 6 467 shares)	**1 501**	1 878	**–**	–
12 500 "C" preference shares (2007: 12 500 shares)	**3 721**	3 478	**–**	–
	7 413	9 475	**–**	–

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

Forward exchange contracts

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

United States Dollar ($'000)	**–**	2 657	**–**	2 657
Average forward exchange rate (R/$)	**–**	7,30	**–**	7,30
Forward Rand value	**–**	19 355	**–**	19 355
Mark to market valuation	**–**	18 380	**–**	18 380
Recognised fair value loss	**–**	975	**–**	975
Dates of maturity:				
2007: 31 January 2008 – 16 May 2008				

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
14. Trade and other payables, including derivatives continued				
Fair value of interest rate swaps				
Interest rate swaps were entered into with Nedbank Limited to economically hedge the interest rate exposure of the preference shares that were entered into by Inyanga Trading 386 (Pty) Limited with Nedbank Limited.				
The interest rate swaps are stated at fair value. On subsequent measurement, the losses on the interest rate swaps are recognised in profit and loss and disclosed within net finance costs. At year end the fair values were as follows (asset) liability:				
(i) R125 000 000 fixed at 7,4%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011	**(605)**	–	**–**	–
(ii) R62 669 654 fixed at 7,35%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011	**(1 964)**	–	**–**	–
(iii) R100 000 000 fixed at 9,18%, linked to the three-month JIBAR, effective 30 April 2007 and expiring on 30 April 2012	**3 121**	–	**–**	–
	552	–	**–**	–

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
15. Profit (loss) before finance costs and income tax				
Profit (loss) before finance costs and income tax is stated after:				
Income				
Gain on disposals of property, plant and equipment	**(8)**	(232)	**–**	(20)
Gain on disposals of intangible assets	**(1 087)**	(10 871)	**–**	(11 952)
Gain on disposals of subsidiaries	**–**	(29 524)	**–**	(37 801)
Government grant	**(978)**	–	**(978)**	–
Excess of assets acquired over purchase price (negative goodwill)	**–**	(74)	**–**	–
Unrealised gain on forward exchange contracts	**(43)**	–	**–**	–
Expenditure				
Loss on disposal of property, plant and equipment	**180**	–	**180**	–
Loss on disposals of intangible assets	**–**	265	**–**	–
Loss on disposals of subsidiaries	**151**	–	**151**	–
Depreciation (gross amount)	**6 100**	4 627	**1 723**	1 927
Amortisation	**305**	276	**–**	–
Unrealised loss on forward exchange contracts	**–**	2 535	**–**	975
Unrealised loss on foreign exchange	**20 472**	163	**116**	4 912
Staff costs	**124 266**	116 137	**14 987**	30 974
– equity-settled share-based payment transactions (refer to note 25 for detailed disclosure of share options)	**1 553**	131	**1 938**	131
– defined contribution costs	**3 442**	1 137	**3 442**	1 137
– directors' remuneration (refer to note 22 for detailed disclosure of emoluments paid to the company's directors)	**32 210**	30 845	**3 612**	16 473
– other staff costs	**87 061**	84 024	**5 995**	13 233
Auditors' remuneration	**2 326**	1 072	**391**	566
– audit fees	**2 163**	935	**391**	542
– other	**163**	137	**–**	24
Lease rentals	**16 529**	11 706	**3 736**	3 644
– premises	**12 522**	8 664	**3 736**	3 644
– equipment	**4 007**	3 042	**–**	–
Impairment losses	**5 185**	22 502	**2 624**	24 268
– property, plant and equipment	**–**	7 834	**–**	7 834
– intangible assets	**–**	1 374	**–**	–
– trade receivables	**–**	3	**–**	3
– inventories	**5 185**	13 291	**2 624**	11 664
– investments in subsidiaries	**–**	–	**–**	4 767
Realised losses on foreign exchange	**928**	1 363	**–**	–
Research costs	**7**	1 051	**–**	–

		GROUP		COMPANY	
		2008	2007	**2008**	2007
		R'000	R'000	**R'000**	R'000
16. Finance costs and finance income					
Interest expense on financial liabilities measured at amortised cost	(a)	**26 551**	39 174	**371**	787
Fair value (loss) gain on interest rate swaps	(b)	**16 159**	(10 471)	**–**	–
Interest rate swap settlements		**7 848**	4 370	**–**	–
Interest expense on bank overdrafts		**13**	65	**–**	–
Notional interest on deferred settlements		**–**	6 342	**–**	530
Notional interest on extended credit terms	(c)	**13 876**	13 272	**–**	360
Interest expense on suspensive sale agreements and finance leases		**263**	1 143	**263**	1 103
Other interest paid		**187**	287	**179**	65
Finance costs		**64 897**	54 182	**813**	2 845
Dividend income		**(2 081)**	(2 892)	**(2 081)**	(2 892)
Interest rate swap settlements		**(18 453)**	(9 063)	**–**	–
Interest on bank balances		**(9 490)**	(8 561)	**(867)**	(1 723)
Finance Income		**(30 024)**	(20 516)	**(2 948)**	(4 615)
Net finance costs and income		**34 873**	33 666	**(2 135)**	(1 770)

a) During the year ended 31 December 2008, borrowing costs of R25 116 939 (2007: R8 216 322) qualifying for capitalisation in terms of IAS 23 Borrowing Costs, were capitalised at the Group's weighted average cost of capital to the cost of the upgrade of the site and manufacturing facilities based at Mobeni, Durban.

b) Finance costs include the fair value loss of R16 158 945 made on the interest rate swaps (2007: finance costs are shown net of the fair value gain of R10 470 987 earned on the interest rate swaps), as the interest rate swaps economically hedged the Group's interest rate risk exposure to the variable rate redeemable cumulative preferences shares.

c) In terms of SAICA circular 9/2006, where an entity purchases on deferred settlement terms i.e. the arrangement effectively contains a financing element, that portion constituting the financing element is recognised as an interest expense over the period of financing. The application of the circular has the effect of decreasing cost of sales and increasing interest expense by R13 875 759 (2007: R13 272 000).

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
17. Income tax expense				
Current tax expense				
Current period	**64 746**	60 193	**–**	–
Adjustment for prior periods	**163**	(212)	**–**	–
	64 909	59 981	**–**	–
Deferred tax expense (income)				
Origination and reversal of temporary differences	**(5 533)**	2 627	**(2 416)**	(1 601)
Reduction in tax rate	**(183)**	–	**(140)**	–
Adjustment for prior periods	**(71)**	(864)	**–**	(980)
	(5 787)	1 763	**(2 556)**	(2 581)
Secondary taxation on companies				
Current period	**3 471**	3 887	**–**	–
Income tax expense (income) excluding tax on disposals of discontinued operations	**62 593**	65 631	**(2 556)**	(2 581)
Income tax expense from continuing operations	**62 593**	58 880	**(2 556)**	(2 581)
Income tax expense from discontinued operations (excluding gain on disposals of discontinued operations)	**–**	6 751	**–**	–
	62 593	65 631	**(2 556)**	(2 581)
Income tax on gain on disposals of discontinued operations	**–**	4 614	**–**	–
Total income tax expense (income)	**62 593**	70 245	**(2 556)**	(2 581)

	2008 %	2008 R'000	2007 %	2007 R'000
17. Income tax expense continued				
Reconciliation of effective tax rate				
Group				
Profit for the period		130 054		132 816
Total income tax expense		62 593		70 245
Profit excluding income tax		192 647		203 061
Income tax using the company's domestic tax rate	28,00	53 941	29,00	58 888
Non-deductible expenses net of tax exempt income	2,74	5 272	4,15	8 435
Change in tax rate	(0,09)	(183)	–	–
Recognition of previously unrecognised tax losses	–	–	(0,48)	(980)
Current year losses for which no deferred tax asset was recognised	–	–	0,05	111
Secondary taxation on companies	1,80	3 471	1,91	3 887
Current tax – prior period adjustments	0,08	163	(0,10)	(212)
Deferred tax – prior period adjustments	(0,04)	(71)	0,06	116
	32,49	62 593	34,59	70 245
Company				
Profit for the period		(10 922)		17 919
Total income tax expense		(2 556)		(2 581)
Profit excluding income tax		(13 478)		15 338
Income tax using the company's domestic tax rate	28,00	(3 774)	29,00	4,448
Non-deductible expenses net of tax exempt income	(8,00)	1 078	(39,65)	(6 081)
Recognition of previously unrecognised tax losses	–	–	(6,39)	(980)
Current year losses for which no deferred tax asset was recognised	–	–	0,21	32
Change in tax rate	(1,04)	140	–	–
	18,96	(2 556)	(16,83)	(2 581)

18. Discontinued operations

During the year ended 31 December 2007, the Group disposed of all its subsidiaries within the Consumer and Vitality segment. Management committed to a plan to sell these subsidiaries during mid-2007 due to the strategic decision to place greater focus on the Group's key competencies, being the pharmaceutical business. The effective disposal dates were as follows:

Enaleni Pharmaceuticals Consumer Division (Pty) Limited – 100% ownership (including wholly-owned subsidiary CPF International (Pty) Limited)	31 October 2007
Bioharmony (Pty) Limited – 100% ownership	30 November 2007
Aldabri 53 (Pty) Limited – 67% ownership	30 November 2007

		GROUP 2008 R'000	GROUP 2007 R'000
Results of discontinued operations			
Revenue		–	134 507
Net operating expenses		–	(124 648)
Results from operating activities before finance costs and income tax		–	9 859
Net finance costs		–	(1 670)
Results before income tax		–	8 189
Income tax expense		–	(6 751)
Results from operating activities, net of income tax		–	1 438
Gain on disposals of discontinued operations		–	29 524
Income tax on gain on disposals of discontinued operations		–	(4 614)
Profit for the year		–	26 348
Attributable to:			
Equity holders of the parent		–	25 525
Minority interest		–	823
Profit for the year		–	26 348
Earnings per share			
Basic earnings per share	(cents)	–	6,0
Diluted earnings per share	(cents)	–	6,0
Headline earnings per share			
Headline earnings per share	(cents)	–	0,2
Diluted headline earnings per share	(cents)	–	0,2
Cash flows (used in) generated from discontinued operations			
Net cash flows used in operating activities		–	(6 033)
Net cash flows generated from investing activities		–	13 292
Net cash flows used in financing activities		–	(8 475)
Net cash flows used in discontinued operations		–	(1 216)

	GROUP 2008 R'000	2007 R'000
18. Discontinued operations continued		
Effect of disposal on the financial position of the Group		
Property, plant and equipment	–	(5 648)
Intangible assets	–	(42 866)
Deferred tax liabilities	–	(6 743)
Inventories	–	(19 652)
Income tax receivable (net)	–	5 313
Trade and other receivables	–	(26 335)
Cash and cash equivalents	–	(4 570)
Non-current loans and borrowings	–	3 778
Bank overdrafts	–	2 224
Current loans and borrowings	–	68
Trade and other payables	–	21 348
Net assets and liabilities disposed of	–	(73 083)
Consideration received, satisfied in cash	–	75 641
Cash disposed of	–	(2 346)
Net cash inflow	–	73 295

19. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 is based on the profit attributable to ordinary shareholders of R128 679 000 (2007: R131 841 000) and a weighted average number of ordinary shares outstanding of 439 783 776 (2007: 425 602 619), calculated as follows:

		GROUP	
		2008 R'000	2007 R'000
Profit attributable to ordinary shareholders:			
Continuing operations		**128 679**	106 316
Discontinued operations (note 18)		**–**	25 525
Total operations		**128 679**	131 841
Weighted average number of ordinary shares:			
Issued ordinary shares at 1 January		**443 265 635**	408 490 792
Effect of own shares held included above (treasury shares)		**(7 131 000)**	(7 131 000)
Effect of share options exercised		**3 649 141**	725 705
Effect of shares issued in January 2007		**–**	997 260
Effect of shares issued in February 2007		**–**	463 012
Effect of shares issued in April 2007		**–**	750 685
Effect of shares issued in May 2007		**–**	20 804 795
Effect of shares issued in July 2007		**–**	501 370
Weighted average number of ordinary shares		**439 783 776**	425 602 619
Total basic earnings per share	(cents)	**29,3**	31,0

Diluted earnings per share

The calculation of diluted basic earnings per share at 31 December 2008 is based on the profit attributable to ordinary shareholders of R128 679 000 (2007: R131 841 000) and a weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 439 973 847 (2007: 426 550 418), calculated as follows:

		2008 R'000	2007 R'000
Profit attributable to ordinary shareholders:			
Continuing operations		**128 679**	106 316
Discontinued operations (note 18)		**–**	25 525
Total operations		**128 679**	131 841
Weighted average number of ordinary shares (diluted):			
Weighted average number of ordinary shares		**439 783 776**	425 602 619
Effect of share options in issue		**190 071**	947 799
Weighted average number of ordinary shares (diluted)		**439 973 847**	426 550 418
Total diluted earnings per share	(cents)	**29,2**	30,9

The average market value of the company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

		GROUP	
		2008	2007
		R'000	R'000
19. Earnings per share continued			
Headline earnings per share			
The calculation of headline earnings per share at 31 December 2008 is based on the headline earnings attributable to ordinary shareholders of R128 022 000 (2007: R104 976 000) and a weighted average number of ordinary shares outstanding of 439 783 776 (2007: 425 602 619), calculated as follows:			
Reconciliation of headline earnings:			
Profit attributable to ordinary shareholders		**128 679**	131 841
Adjusted for:		**(657)**	(26 865)
Loss (gain) on disposals of property, plant and equipment		**172**	(220)
Gain on disposals of intangible assets		**(1 087)**	(9 969)
Loss (gain) on disposals of discontinued operations		**151**	(19 982)
Excess of assets acquired over purchase price (negative goodwill)		**–**	(74)
Impairment of property, plant and equipment		**–**	7 910
Impairment of intangible assets		**–**	1 374
Share of profit of equity-accounted investee		**–**	(317)
Total tax effects of adjustments		**107**	(5 587)
Headline earnings		**128 022**	104 976
Continuing operations		**128 022**	104 296
Discontinued operations		**–**	680
Total operations		**128 022**	104 976
Total headline earnings per share	(cents)	**29,1**	24,7
Diluted headline earnings per share			
The calculation of diluted headline earnings per share at 31 December 2008 is based on the headline earnings attributable to ordinary shareholders of R128 022 000 (2007: R104 976 000) and a weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 439 973 847 (2007: 426 550 418):			
Total diluted headline earnings per share	(cents)	**29,1**	24,6

20. Financial risk management

The Group is exposed to the following risks:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has an Audit and Risk Committee, whose responsibility it is to develop and monitor the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risk faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit and Risk Committee is assisted in its oversight role by an independent firm of internal auditors. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. There is no geographical concentration of sales or a concentration of sales to a single customer.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the directors; these limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

More than 80 percent of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customers, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables. Where appropriate, credit guarantee insurance cover is purchased.

20. Financial risk management continued

Trade and other receivables continued

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures. The loss allowance is determined based on historical data of payment statistics for similar assets.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a good credit rating. In light of this strategy, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. Refer to note 26.4 for further details.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses a standard costing system to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Refer to note 13 and note 26.4 for details of the lines of credit maintained by the Group.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Committee. Generally the Group uses derivatives to economically hedge exposure to fluctuations in foreign exchange rates and interest rates and to manage volatility in profit or loss.

Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the functional currency of Group entities, i.e. South African Rand (ZAR). The currencies giving rise to this risk are primarily United States Dollar (USD), Euro (€) and Pound Sterling (GBP).

The Group normally hedges about 75 to 85 percent of its estimated foreign currency exposure in respect of forecast purchases over the following six months, and trade and other payables denominated in a foreign currency. The Group also usually hedges at least 90 percent of all trade payables denominated in a foreign currency. The Group uses forward exchange contracts to economically hedge its foreign currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

However, due to the adverse exchange rates experienced during 2008, the Group elected to pay at spot rates towards the latter part of the year, after the utilisation of all open forward exchange contracts.

20. **Financial risk management** continued

Interest rate risk

From time to time, the Group adopts a policy of ensuring that a portion of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps to economically hedge against fluctuations in interest rates.

Equity price risk

The Group is exposed to equity price risk from equity investments. Equity investments are for strategic rather than trading purposes. The Group does not actively trade in these investments.

Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The board of directors has made the decision to use all earnings generated by the Group to fund growth opportunities and to repay debt.

Fair values

All loans and receivables and financial liabilities not at fair value through profit or loss are carried at amortised cost. The carrying value of trade and other receivables, trade and other payables, instalment sale and deferred purchase consideration obligations approximate fair value as the effective interest rate method is used to determine the carrying values. The time value of money has been considered in determining the carrying values of trade receivables and payables. It is not viable to determine the fair value of inter-company receivables and payables with no fixed repayment or interest terms.

21. Related parties

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

Cipla Medpro South Africa Limited is the ultimate holding company. The group has a related party relationship with its holding company, fellow subsidiaries, and with its directors and key management personnel.

Transactions with directors and key management personnel

a) Loans (direct/indirect)

At 31 December 2007, Cipla Medpro Holdings (Pty) Limited, a subsidiary company in the Group, had a loan receivable of R4 088 646 from then associate company Cipla Agrimed (Pty) Limited (2008: subsidiary company), of which JS Smith was also a director. This loan was unsecured, interest-free and had no fixed terms of repayment.

The deferred purchase consideration due to STD Pharma Limited & Shelsley Chemicals (Pty) Limited for the 2005 acquisition of Cipla Medpro Holdings (Pty) Limited, was settled during April 2007. JS Smith, C Aucamp and AD Watermeyer are directors within the Group as well as directors of Shelsley Chemicals (Pty) Limited.

Cipla Medpro Holdings (Pty) Limited, a wholly-owned subsidiary of Cipla Medpro (Pty) Limited, has a loan due to L'amar (France) Pharmatec (Pty) Limited amounting to R159 838 (2007: R64 558). JS Smith and C Aucamp are directors within the Group and hold an immaterial indirect interest in this company.

b) Property leases

During the year, Cipla Medpro Holdings (Pty) Limited leased property from JSSTD Properties (Pty) Limited. JS Smith is a director of both Cipla Medpro Holdings (Pty) Limited and JSSTD Properties (Pty) Limited. Lease rentals paid during the year amounted to R641 725 (2007: R563 667), with an amount of R684 981 (2007: R244 626) still outstanding at 31 December 2008.

During the year ended 31 December 2007, Xeragen Laboratories (Pty) Limited leased property from the Glen Park Trust. T Edwards and D Black were directors of Xeragen Laboratories (Pty) Limited and trustees of the Glen Park Trust at the time. Lease rentals paid during the 2007 year amounted to R147 943. There were no amounts outstanding at the end of the current year (2007: nil).

During the year ended 31 December 2007, Xeragen Laboratories (Pty) Limited leased property from Phormpak SA (Pty) Limited. D Black was a director of both Xeragen Laboratories (Pty) Limited and Phormpak SA (Pty) Limited. Lease rentals paid during the 2007 year amounted to R295 886. There were no amounts outstanding at the end of the current year (2007: nil).

c) Purchases

During the year ended 31 December 2007, Cipla Medpro (Pty) Limited a wholly-owned subsidiary of Cipla Medpro Holdings (Pty) Limited, purchased OTC inventory from L'amar (France) Pharmatec (Pty) Limited. JS Smith and C Aucamp are both directors and hold an immaterial indirect interest in this company.

d) Royalties

During the year, Cipla Medpro (Pty) Limited, a wholly-owned subsidiary of Cipla Medpro Holdings (Pty) Limited, paid royalties amounting to R307 330 to L'amar (France) Pharmatec (Pty) Limited. JS Smith and C Aucamp are both directors and hold an immaterial indirect interest in this company.

e) Rentals

During the year, Cipla Medpro Holdings (Pty) Limited chartered on an ad hoc basis for entertainment purposes, a yacht owned by JS Smith, who is also a director of this company. Fees paid during the year for use of the yacht amount to R51 240 (2007: nil).

f) Compensation

In addition to their salaries, the Group also provide non-cash benefits in the form of share options to directors. Refer to note 25 for details of share options granted to directors.

Key management personnel participate in the Group's share option programme. As set out in note 25, a total of 566 000 (2007: 691 000) share options were outstanding at the end of 31 December 2008.

21. **Related parties** continued

Transactions with subsidiaries

The Group is controlled by Cipla Medpro South Africa Limited. The Group's subsidiaries are as follows:

Direct interest

Galilee Marketing (Pty) Limited
Inyanga Trading 386 (Pty) Limited
Kamillen Pharmaceuticals (Pty) Limited
Kamillen Products (Botswana) (Pty) Limited
Universal Pharmaceuticals (Pty) Limited
Xeragen Laboratories (Pty) Limited
Zedchem (Pty) Limited

Indirect interest

Adroit Pharmaceuticals (Pty) Limited
Cipla Medpro Holdings (Pty) Limited

Indirect interest through Cipla Medpro Holdings (Pty) Limited

Cipla Agricare (Pty) Limited – 50%
Cipla Agrimed (Pty) Limited (effective holding) – 75,25% (2007: 43% held associate)
Cipla Dibcare (Pty) Limited – 67%
Cipla Health Care (Pty) Limited
Cipla Life Sciences (Pty) Limited
Cipla Medpro ARV (Pty) Limited
Cipla Medpro Cardio Respiratory (Pty) Limited
Cipla Medpro Distribution Centre (Pty) Limited
Cipla Medpro Manufacturing (Pty) Limited
Cipla Personal Care (Pty) Limited
Cipla Vet (Pty) Limited – 75%
Cipla-Medpro (Pty) Limited
Gardian Cipla (Pty) Limited
Medpro Gen (Pty) Limited
Medpro Holdings (Pty) Limited
Medpro Pharmaceutica (Pty) Limited
Medpro-On-Line (Pty) Limited
Smith and Couzin (Pty) Limited

The Group also includes the Cipla Medpro South Africa Limited Share Incentive Trust.

Transactions conducted with the subsidiaries that were disposed of during the year ended 31 December 2007 (refer to note 18) have also been disclosed in the 2007 comparative figures as related party transactions. No amounts were due to or due from these disposed subsidiaries at 31 December 2007.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	**2008 R'000**	2007 R'000
a) **Transactions**				
The following transactions were carried out by Cipla Medpro South Africa Limited with related parties				
(i) **Revenue**				
Bioharmony (Pty) Limited	–	–	–	(432)
Xeragen Laboratories (Pty) Limited	–	–	–	(619)
Cipla Medpro Holdings (Pty) Limited	–	–	(684)	–
Enaleni Pharmaceuticals Consumer Division (Pty) Limited	–	–	–	(10 470)
	–	–	(684)	(11 521)

	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
21. Related parties continued				
a) **Transactions** continued				
(ii) **Management fees**				
Cipla Medpro Holdings (Pty) Limited	–	–	**(12 329)**	(10 260)
Xeragen Laboratories (Pty) Limited	–	–	**–**	(876)
Bioharmony (Pty) Limited	–	–	**–**	(114)
Enaleni Pharmaceuticals Consumer Division (Pty) Limited	–	–	**–**	(1 683)
	–	–	**(12 329)**	(12 933)
(iii) **Interest on inter-company loan**				
Cipla Medpro Holdings (Pty) Limited	–	–	**5 628**	–
The following transactions were carried out by Cipla Medpro Holdings (Pty) Limited with related parties:				
(iv) **Dividends paid**				
Inyanga Trading 386 (Pty) Limited – nil (2007: R177 064 804)				
(v) **Revenue**				
Cipla Medpro South Africa Limited – R167 439 (2007: nil)				
b) **Amounts due to (from) holding company:**				
Xeragen Laboratories (Pty) Limited	–	–	**(10 820)**	(8 008)
Zedchem (Pty) Limited	–	–	**(595)**	(613)
Universal Pharmaceuticals (Pty) Limited	–	–	**(4 046)**	(4 604)
Inyanga Trading 386 (Pty) Limited	–	–	**799 910**	763 785
Cipla Medpro Holdings (Pty) Limited – indirectly	–	–	**(74 558)**	(10 051)
	–	–	**709 891**	740 509
Refer to Annexure A for the terms and conditions of the above balances.				
c) **Amounts due from the Share Incentive Trust**				
Cipla Medpro South Africa Limited Share Incentive Trust	–	–	**7 959**	15 465
d) **Trade and other receivables/payables due to (from) holding company**				
Xeragen Laboratories (Pty) Limited	–	–	**–**	92
Cipla Medpro Holdings (Pty) Limited – indirectly	–	–	**502**	961
	–	–	**502**	1 053

e) **Amounts due between fellow subsidiaries**

Due from Inyanga Trading 386 (Pty) Limited to Cipla Medpro Holdings (Pty) Limited – R253 382 279 (2007: R163 938 180).

Due from Adroit Pharmaceuticals (Pty) Limited to Xeragen Laboratories (Pty) Limited – R268 596 (2007: R268 596).

Due from Cipla Medpro Holdings (Pty) Limited to Xeragen Laboratories (Pty) Limited – nil (2007: R1 337 309).

f) **Related party guarantees and securities**

Refer to note 13 and note 26.4 for details of any guarantees given or received by Group companies.

22. Directors' emoluments

31 December 2008	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 R'000
Executive directors						
JS Smith (CEO)	–	9 102	598	2 062	51	11 813
C Aucamp (CFO)	–	3 055	213	648	36	3 952
Total A	–	12 157	811	2 710	87	15 765
Non-executive directors						
PCS Luthuli (Chairman)	531	–	–	–	–	531
MB Caga	211	–	–	–	–	211
Dr GS Mahlati	132	–	–	–	–	132
MD Mokone	12	–	–	–	–	12
MT Mosweu	18	–	–	–	–	18
Total B	904	–	–	–	–	904
Total directors' emoluments paid (A+B)	904	12 157	811	2 710	87	16 669
Emoluments paid by:						
Cipla Medpro South Africa Limited	904	–	–	2 708	–	3 612
Cipla Medpro Holdings (Pty) Limited (subsidiary)	–	12 157	811	2	87	13 057

* Fees for other services include payments for attendance at Board, Audit and Risk Committee and Remuneration Committee meetings, as well as retainer fees.

** Other benefits include an allocation of IFRS 2 Share-based Payment expenses.

*** These payments relate to the employer contributions to the defined contribution plan and medical aid.

Refer to note 25 which provides further details of share options in issue to directors.

22. Directors' emoluments continued

31 December 2007	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	COMPEN-SATION FOR LOSS OF OFFICE R'000	TOTAL R'000
Executive directors							
JS Smith (CEO)	–	5 743	482	206	56	–	6 487
C Aucamp (CFO)	–	1 724	180	133	31	–	2 068
TD Edwards (CEO)	–	1 685	1 084	1 415	1 567	5 000	10 751
AG Hall (CFO)	–	1 094	289	106	236	522	2 247
U Parusnath	–	818	–	196	78	–	1 092
PA Pillay	–	430	100	132	101	–	763
S Whitfield	–	–	37	1 102	–	–	1 139
Total A	–	11 494	2 172	3 290	2 069	5 522	24 547
Non-executive directors							
PCS Luthuli (Chairman)	218	–	–	–	–	–	218
MB Caga	10	–	–	–	–	–	10
T Dingaan	108	–	–	–	–	–	108
Dr GS Mahlati	89	–	–	–	–	–	89
MT Mosweu	56	–	–	–	–	–	56
Total B	481	–	–	–	–	–	481
Total directors' emoluments paid (A+B)	481	11 494	2 172	3 290	2 069	5 522	25 028
Emoluments paid by:							
Cipla Medpro South Africa Limited	481	4 027	1 510	2 951	1 982	5 522	16 473
Cipla Medpro Holdings (Pty) Limited (subsidiary)	–	7 467	662	339	87	–	8 555

* Fees for other services include payments for attendance at Board, Audit and Risk Committee and Remuneration Committee meetings, as well as retainer fees.

** Other benefits include an allocation of IFRS 2 Share-based Payment expenses.

*** These payments relate to the employer contributions to the defined contribution plan and medical aid.

Refer to note 25 which provides further details of share options in issue to directors.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
23. Commitments				
Operating lease commitments (as lessee)				
The future minimum lease payments under non-cancellable operating leases are as follows:				
– Less than one year	**9 407**	7 459	**3 095**	3 095
– Between two and five years	**40 144**	22 232	**12 380**	12 380
– More than five years	**6 964**	10 059	**6 964**	10 059
	56 515	39 750	**22 439**	25 534

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

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

During the year ended 31 December 2008, R16 528 734 was recognised (straight-line) as an expense in the income statement in respect of operating leases (2007: R13 218 000).

Capital commitments: contracted but not provided for

The total cost of the upgrade of the Cipla Medpro Manufacturing site and manufacturing facilities is estimated at R310 million by the end of the project. At 31 December 2008, R225 million had been expended on the project and subsequent to year end, R9,2 million had been spent on the upgrade.

Material contracts entered into with suppliers at inception of the upgrade amounted to US$11 440 000. At year end, nil (2007: US$1 012 000) of this amount was still to be performed under the contract.

In respect of the upgrade, CMSA has outstanding orders for plant and machinery due to be delivered from abroad. At the 2008 year end, CMSA has contracted R23 259 175 in capital commitments which has not been provided for at year end.

24. Subsequent events

An unsolicited offer was received from Adcock Ingram Holdings Limited on 7 April 2009, advising the company's board of directors of Adcock Ingram's intention to acquire the entire issued share capital of Cipla Medpro South Africa Limited. The board had established an independent sub-committee to assist them in considering the advice it had been obtaining relating to the proposed offer.

On 2 June 2009, Adcock Ingram announced a withdrawal of their firm intention to acquire the issued share capital of Cipla Medpro South Africa Limited.

Except as disclosed above, the directors are not aware of any other matter or circumstance which is material to the financial affairs of the company and the Group, 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 company and Group annual financial statements.

25. Share options and share-based payments

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

In May 2005, the company also established a share incentive scheme that entitles directors and key management personnel to purchase shares in the company. Such share options are exercisable at either the market price of the shares at the date of grant, or at a price determined by the shareholders in a general meeting. In accordance with IFRS 2 Share-based Payments, an amount of R4 645 000 (2007: R1 792 000) was expensed during the year ended 31 December 2008.

The fair value of services received from employees in return for share options granted are measured with reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial lattice model which takes into account share price on date of grant, exercise price, expected volatility, option life, expected dividends and risk-free interest rate. All options are granted at the 30-day volume weighted average market price of Cipla Medpro South Africa Limited shares preceding the option grant date, unless otherwise authorised by the shareholders in a general meeting. All vested share options must be exercised, paid for and taken up within seven years of grant date. Share options may be taken up in two tranches: 50% of share options vest two years after grant date and the balance of the options vest three years after grant date, with the exception of the share options granted during 2008 which vests one year after grant date.

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

Fair value

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

25. **Share options and share-based payments** continued

DATE OF GRANT	NUMBER OF OPTIONS GRANTED ('000)	**NUMBER OF OPTIONS OUT-STANDING 2008 ('000)**	NUMBER OF OPTIONS OUT-STANDING 2007 ('000)	EXPECTED LIFE OF OPTIONS (years)	SHARE PRICE AT GRANT DATE (cents)	EXERCISE PRICE (cents)	EXPECTED VOLATILITY (A) %	EXPECTED DIVIDEND YEILD (B) %	RISK-FREE RATE (C) %
June 2005	2 651	**891**	1 366	2 – 5	120	100	25 – 29	–	7,08 – 7,60
December 2005*	4 480	**2 360**	2 360	2 – 5	331	300	25 – 27	–	7,17 – 7,34
July 2006	400	**–**	–	2 – 5	400	395	27 – 29	–	8,55 – 8,60
October 2006	250	**–**	250	2 – 5	473	458	27 – 31	–	8,13 – 8,64
April 2008	1 000	**1 000**	–	2 – 7	302	306	33	–	9,16
May 2008	2 928	**2 928**	–	2 – 7	290	296	33	–	9,67

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

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

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

C The risk-free rate is the GOVI index as supplied by the Bond Exchange as a proxy for the risk-free rate, or the continuously compounded zero coupon bond rate for a five-year government bond.

Share-based payments recognised in retained earnings

The movement in IFRS 2 Share-based Payments expense is as follows:

	GROUP		COMPANY	
	2008 R'000	2007 R'000	**2008 R'000**	2007 R'000
Opening balance	**4 912**	3 120	**4 912**	3 120
Share options expensed during the year	**4 646**	1 792	**4 646**	1 792
Closing balance	**9 558**	4 912	**9 558**	4 912
Employee expenses				
Comprising:				
Share options granted during 2005	**1 553**	1 742	**1 553**	1 742
Share options granted during 2006	**–**	50	**–**	50
Share options granted during 2008	**3 093**	–	**3 093**	–
Total expense recognised as employee costs	**4 646**	1 792	**4 646**	1 792

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
25. Share options and share-based payments continued				
Share options outstanding				
The movement in share options can be reconciled as follows:				
Opening balance	**3 976**	7 781	**3 976**	7 781
Granted during the year*	**3 928**	–	**3 928**	–
Forfeited during the year	**(372)**	(1 232)	**(372)**	(1 232)
Settled in cash during the year	**–**	(40)	**–**	(40)
Exercised during the year**	**(475)**	(3 405)	**(475)**	(3 405)
Forfeitures that can be granted in the future	**122**	872	**122**	872
Closing balance	**7 179**	3 976	**7 179**	3 976
Exercisable at 31 December	**2 203**	35	**2 203**	35

* Not yet issued to the Share Incentive Trust.

** The weighted average share price at the date of exercise of these share options was:

Exercised during the year	**2008 NUMBER OF OPTIONS EXERCISED '000**	**WEIGHTED AVERAGE SHARE PRICE cents**	2007 NUMBER OF OPTIONS EXERCISED '000	WEIGHTED AVERAGE SHARE PRICE cents
June	**(127)**	**250**	(1 042)	408
December	**(348)**	**249**	(243)	391
December	**–**	**–**	(2 050)	405
December	**–**	**–**	(70)	410
	(475)		(3 405)	

25. Share options and share-based payments continued

Share options granted to directors and key personnel

Shares under option offered to and accepted by executive directors and key personnel in terms of the Cipla Medpro Share Incentive Scheme amounted to R3 928 000 (2007: nil). Of these, 7 179 000 (2007: 3 976 000) share options were outstanding at the end of the year, calculated as follows:

	OPTIONS OUTSTANDING ON 31 DECEMBER 2008 '000	OPTIONS OUSTANDING ON 31 DECEMBER 2007 '000	OPTIONS GRANTED DURING THE YEAR 2008 '000	OPTIONS GRANTED DURING THE YEAR 2007 '000	EXERCISE PRICE cents	EXPIRY DATE
TD Edwards*	–	116	–	–	100	June 2012
TD Edwards*	–	1 150	–	–	300	December 2012
S Whitfield*	–	105	–	–	100	June 2012
S Whitfield*	–	900	–	–	300	December 2012
JS Smith	692	–	692	–	306	April 2009
JS Smith	1 920	–	1 920	–	296	May 2009
C Aucamp	217	–	217	–	306	April 2009
C Aucamp	603	–	603	–	296	May 2009
	3 432	2 271	3 432	–		
Other key personnel	566	691	496	–		
Other ex-key personnel	2 133	81	–	–		
Unallocated options	1 048	933	–	–		
Total	7 179	3 976	3 928	–		

* Resigned during the 2007 year.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
26. Notes to the cash flow statements				
26.1 Cash generated (utilised) by operations				
Profit (loss) before taxation	**192 647**	203 061	**(13 478)**	15 338
Adjustments for:				
Depreciation	**6 100**	5 403	**1 723**	1 927
Amortisation	**305**	276	**–**	–
Finance costs	**64 897**	55 935	**813**	2 845
Finance income	**(30 024)**	(20 599)	**(2 948)**	(4 615)
Share of profit of equity-accounted investees (net of tax)	**–**	(317)	**–**	–
Excess of assets acquired over purchase price (negative goodwill)	**–**	(74)	**–**	–
Loss (gain) on foreign exchange	**6 737**	(4 319)	**116**	4 912
Loss (gain) on disposals of property, plant and equipment	**172**	(220)	**180**	(20)
Gain on disposals of intangible assets	**(1 087)**	(10 605)	**–**	(11 952)
Loss (gain) on disposals of discontinued operations	**151**	(29 524)	**151**	–
Fair value adjustment of listed investments	**7**	–	**–**	–
Fair value adjustment of forward exchange contracts	**(43)**	2 535	**–**	975
Fair value adjustment of interest rate swap agreements	**16 159**	(10 471)	**–**	–
Equity-settled share-based payment expenses	**4 646**	1 792	**4 646**	1 792
Impairment losses	**5 185**	9 284	**2 624**	12 601
Adjustment to contingent purchase price	**–**	292	**–**	292
Operating profit before working capital changes	**265 852**	202 449	**(6 173)**	24 095
(Increase) decrease in inventories	**(110 371)**	(16 304)	**10 485**	5 620
(Increase) decrease in trade and other receivables	**(66 718)**	(29 628)	**(33 117)**	700
Increase (decrease) in trade and other payables	**145 840**	28 394	**8 682**	(9 160)
	234 603	184 911	**(20 123)**	21 255
26.2 Reconciliation of taxation paid				
Balance at beginning of year	**(22 942)**	(35 176)	**1 117**	12
Income statement charge	**(64 909)**	(64 595)	**–**	–
(Acquisition) disposal of subsidiaries	**(359)**	5 313	**–**	–
Balance at end of year	**11 706**	22 942	**(1 117)**	(1 117)
	(76 504)	(71 516)	**–**	(1 105)

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
26. Notes to the cash flow statements continued				
26.3 Reconciliation of STC paid				
Balance at beginning of year	**(998)**	(1 544)	**–**	–
Income statement charge	**(3 471)**	(3 887)	**–**	–
Balance at end of year	**2 457**	998	**–**	–
	(2 012)	(4 433)	**–**	–
26.4 Cash and cash equivalents				
Bank balances	**6 732**	22 614	**27**	5 012
Call deposits	**33 519**	137 806	**143**	78 862
Cash and cash equivalents	**40 251**	160 420	**170**	83 874
Bank overdrafts used for cash management purposes	**(8 542)**	(771)	**(8 542)**	–
Cash and cash equivalents in the statement of cash flows	**31 709**	159 649	**(8 372)**	83 874

Cipla Medpro South Africa Limited has a multi-option facility comprising overdrafts, letters of guarantee and letters of credit for an amount of R80 million (2007: R5 million), a revolving credit facility of R10 million (2007: R15 million), letters of guarantee amounting to R490 000 (2007: R450 000), letters of credit amounting to R2 342 500 (2007: R67 383 444), and a derivative facility of R7 618 498 (2006: R722 772) held with Nedbank Limited. These are secured in part through:

- incoming bank guarantee by Standard Corporate and Merchant Bank Limited.

Xeragen Laboratories (Pty) Limited has an overdraft facility of R5 million held with First National Bank Limited. This is secured through a cession of trade debtors.

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

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

The R5 million general banking facility comprising overdrafts, guarantees, CFCs and letters of credit from ABSA Bank Limited granted to Medpro Pharmaceutica (Pty) Limited, a subsidiary company of Cipla Medpro Holdings (Pty) Limited, is secured as follows:

- the cession of trade debtors and Credit Guarantee Insurance Cover policy;
- an unlimited deed of suretyship given by Cipla Medpro Holdings (Pty) Limited; and
- the cession of the loan account by Cipla Medpro Holdings (Pty) Limited in Medpro Pharmaceutica (Pty) Limited.

27. Acquisition of subsidiaries and minority interests

Acquisition of subsidiaries

Business combinations

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

Acquisition of additional interest in associate

During January 2008, the Group acquired an additional 43% shareholding in Cipla Agrimed (Pty) Limited via its 75% held subsidiary, Cipla Vet (Pty) Limited. This increased the Group's interest in the subsidiary to 75,25%. The total purchase consideration was settled in cash. The excess of the consideration paid was recognised as goodwill as recognition of future economic benefits that the Group will earn through the acquisition. The goodwill has been allocated to one cash-generating unit for impairment testing purposes.

Associate's net assets at acquisition date	2008 R'000
Property, plant and equipment	103
Intangible assets	2 749
Inventories	5 277
Trade and other receivables	3 340
Deferred tax	6
Cash and cash equivalents	1 068
Loans from shareholders	(3 164)
Loans from group companies	(4 089)
Current tax liability	(359)
Trade and other payables	(4 475)
Net fair value at acquisition date	456
Less: minority interest	(113)
Less: carrying value of investment previously held as associate	(317)
Excess over purchase consideration	6 224
Total purchase consideration	6 250
Less: cash acquired	(1 068)
Net cash outflow	5 182

27. **Acquisition of subsidiaries and minority interests** continued

Acquisition of subsidiaries continued

During January 2008, the Group acquired a 50% shareholding in Cipla Agricare (Pty) Limited. The total purchase consideration was settled in cash. The excess was recognised as goodwill in recognition of future economic benefits that the group will earn through the acquisition.

	2008 R'000
Purchase consideration – cash component	**5 442**
Purchase consideration – liability component	**–**
Total purchase consideration	**5 442**
Shareholder loans acquired	**–**
Total cost of the additional 50% of the shares	**5 442**
Comprising:	
Assets acquired	**–**
Minority interest	**–**
Goodwill	**5 442**

Acquisition of minority interests

In April 2007, the Group acquired a further 16% interest in then subsidiary, Aldabri 53 (Pty) Limited, and a portion of the shareholder loan account from a minority shareholder for R1 737 600. The total purchase consideration was settled in cash. This increased the Group's ownership in the subsidiary from 51% to 67%. The carrying amount of Aldabri's net liabilities in the consolidated financial statements on the date of the acquisition was R37 206. The excess of the net shareholder loan account acquired over the purchase price paid for the loan (loan account acquired at a discount) of R73 764 was recognised by the Group, as well as a decrease in minority interests of R5 953. Negative goodwill was calculated as the residual after measuring the cost of the additional investment of R1 737 600 and 16% of the fair value of the identifiable net assets at the date of exchange of R5 953, and the additional shareholder loan account acquired of R1 805 281.

The Group's interest in the share capital and loan accounts held in Aldabri 53 (Proprietary) Limited were sold to Arcay Merchant (Pty) Limited on 30 November 2007 for R8 578 357.

The acquisition of the 16% interest in Aldabri 53 (Pty) Limited can be illustrated as follows:

	2007 R'000
Purchase consideration – cash component	1 737
Purchase consideration – liability component	–
Total purchase consideration	1 737
Shareholder loans acquired	(1 805)
Total cost of the additional 16% of the shares	(68)
Comprising:	
Minority interest	6
Excess of net shareholder loan account acquired over purchase price	(74)

28. New standards and interpretations not yet adopted

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. At the date of authorisation of these financial statements, the standards and interpretations listed below were in issue but not yet effective and have not been applied in preparing these consolidated Group financial statements:

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

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

- IAS 1 (revised) Presentation of Annual Financial Statements is applicable to annual periods beginning on or after 1 January 2009. The standard sets out the presentation of shareholder changes in equity and the presentation of a comprehensive income statement (either part of the income statement or separately). The revised version of the standard will be formally adopted in the Group's 2009 annual financial statements.

- IAS 23 (revised) Borrowing Costs is applicable to annual periods beginning on or after 1 January 2009. The revised standard removes the option to expense all borrowing costs and requires that an entity capitalise all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised standard will become mandatory for the Group's 2009 annual financial statements. If the Group had early-adopted this standard, it would have had no significant impact as all qualifying borrowing costs were capitalised during the current financial year.

- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (amendments) are effective for annual periods beginning on or after 1 January 2009, with early adoption permitted. The amendments are relevant to entities that have issued financial instruments that are (i) puttable financial instruments, or (ii) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Under the revised IAS 32, subject to specified criteria being met, these instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities.

- IFRS 2 Share-based Payments (amendment): Vesting Conditions and Cancellations. The IASB has amended IFRS 2 Share-based Payments to clarify the terms "vesting conditions" and "cancellations".

28. **New standards and interpretations not yet adopted** continued

- IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates (all revised). The amendments are mandatory for business combinations in annual periods beginning on or after 1 July 2009. Earlier application is permitted but only back to an annual reporting period that begins on or after 30 June 2007. The more important revisions to the standards include clarity on what constitutes "acquisition costs", treatment of adjustments to "contingent consideration", accounting for partial disposal of a subsidiary or acquisition of additional shares in a subsidiary and the option to use the "full goodwill method".

  The revisions will result in a high degree of convergence between IFRSs and US GAAP in the above areas.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called "award credits" in the Interpretation) as part of a sales transaction. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected the have any impact on the consolidated financial statements.

- IAS 10 Events After the Reporting Period (effective first annual period commencing on or after 1 January 2009). This standard requires that dividends declared after year end but before the date of the annual financial statements, must be disclosed in the notes to the annual financial statements.

- IAS 36 Impairment of Assets (effective first annual period commencing on or after 1 January 2009). This standard requires that disclosure be made of all estimates used to determine the recoverable amount of assets on the balance sheet of the annual financial statements.

- IAS 38 Impairment of Assets (effective first annual period commencing on or after 1 January 2009). This standard requires that the entity expense advertising costs incurred as and when the entity obtains the right of access to these goods.

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
29. Financial instruments				
Credit risk				
Exposure to credit risk				
The carrying amount of financial assets represents the maximum credit exposure.				
The maximum exposure to credit risk at the reporting date was:				
Financial assets designated at fair value through profit or loss	**4**	11	**–**	–
Loans and receivables – other	**3 505**	42 234	**8 304**	52 166
Loans and receivables – trade	**222 796**	140 467	**68 460**	35 343
Loans and receivables – inter-company	**–**	–	**799 930**	763 847
Loans and receivables – cash and cash equivalents	**40 251**	160 420	**170**	83 874
Interest rate swaps used for hedging	**–**	15 607	**–**	–
Forward exchange contracts used for hedging	**43**	4	**–**	–
	266 599	358 743	**876 864**	935 230
The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:				
Wholesale customers	**163 232**	94 115	**52 294**	29 297
Retail customers	**17 393**	9 126	**–**	–
Tender customers	**15 879**	27 525	**–**	1 006
	196 504	130 766	**52 294**	30 303
Impairment losses				
The aging of trade receivables at reporting date was:				
Not past due	**147 792**	98 102	**32 758**	26 122
Gross	**147 792**	98 102	**32 758**	26 122
Impairment	**–**	–	**–**	–
Past due 0 – 30 days	**25 318**	24 192	**1 089**	898
Gross	**25 318**	24 192	**1 089**	898
Impairment	**–**	–	**–**	–
Past due 31 – 120 days	**23 394**	8 252	**18 447**	3 283
Gross	**23 908**	9 125	**18 614**	3 761
Impairment	**(514)**	(873)	**(167)**	(478)
More than one year	**–**	220	**–**	–
Gross	**–**	220	**–**	–
Impairment	**–**	–	**–**	–
	196 504	130 766	**52 294**	30 303

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000
29. Financial instruments continued				
Credit risk continued				
The movement in the allowance for impairment in respect of trade receivables during the year was as follows:				
Balance at 1 January	**873**	3 359	**478**	907
Impairment loss recognised (derecognised)	**(359)**	(4 620)	**(311)**	(429)
Sale of subsidiaries	**–**	2 134	**–**	–
Balance at 31 December	**514**	873	**167**	478

Based on past experience the Group believes that the impairment provision is adequate based on the exposure and the Credit Guarantee Insurance Cover. The Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due up to 30 days as these relate mainly to customers that have a good track record with the Group.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Group	CARRYING AMOUNT R'000	CONTRACTUAL CASH FLOWS R'000	LESS THAN TWELVE MONTHS R'000	BETWEEN ONE AND FIVE YEARS R'000	MORE THAN FIVE YEARS R'000
31 December 2008					
Non-derivative financial liabilities					
Secured bank loans	101 926	148 124	18 770	129 354	–
Redeemable preference shares	244 470	344 298	79 552	264 746	–
Trade and other payables (excluding derivatives)	368 822	368 822	368 822	–	–
Bank overdraft	8 542	8 542	8 542	–	–
	723 760	869 786	475 686	394 100	–
Derivative financial liabilities (assets)					
Interest rate swaps used for hedging	552	552	–	552	–
Forward exchange contracts used for hedging – inflow	(43)	(43)	(43)	–	–
	509	509	(43)	552	–

29. **Financial instruments** continued

Liquidity risk continued

Group	CARRYING AMOUNT R'000	CONTRACTUAL CASH FLOWS R'000	LESS THAN TWELVE MONTHS R'000	BETWEEN ONE AND FIVE YEARS R'000	MORE THAN FIVE YEARS R'000
31 December 2007					
Non-derivative financial liabilities					
Secured bank loans	111 342	168 529	22 784	145 745	–
Redeemable preference shares	329 670	449 915	86 633	363 282	–
Finance lease liabilities	6 466	8 249	2 574	5 675	–
Trade and other payables (excluding derivatives)	176 990	176 990	176 990	–	–
Bank overdraft	771	771	771	–	–
	625 239	804 454	289 752	514 702	–
Derivative financial liabilities (assets)					
Interest rate swaps used for hedging	(15 607)	(15 607)	–	(15 607)	–
Forward exchange contracts used for hedging – inflow	(4)	(4)	(4)	–	–
Forward exchange contracts used for hedging – outflow	975	975	975	–	–
	(14 636)	(14 636)	971	(15 607)	–
Company					
31 December 2008					
Non-derivative financial liabilities					
Secured bank loans	1 926	1 926	1 926	–	–
Inter-company loans payable	90 038	90 038	–	–	90 038
Trade and other payables (excluding derivatives)	35 715	35 715	35 715	–	–
Bank overdraft	8 542	8 542	8 542	–	–
	136 221	136 221	46 183	–	90 038
31 December 2007					
Non-derivative financial liabilities					
Secured bank loans	11 342	12 631	7 821	4 810	–
Finance lease liabilities	6 466	8 249	2 574	5 675	–
Inter-company loans payable	23 337	23 337	–	–	23 337
Trade and other payables (excluding derivatives)	25 791	25 791	25 791	–	–
	66 936	70 008	36 186	10 485	23 337
Derivative financial liabilities					
Forward exchange contracts used for hedging – outflow	975	975	975	–	–
None	975	975	975	–	–

29. **Financial instruments** continued

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk, including a sensitivity of a 10% weakening of the South African Rand against these foreign currencies are as follows:

	USD	Euro	AUD	ZAR	PROFIT (LOSS) ZAR
Trade payables – USD	31 706	–	–	293 170	29 317
Trade payables – Euro	–	1 142	–	14 673	1 467
Trade payables – AUD	–	–	55	357	36

The above sensitivity analysis assumes that all other variables, in particular interest rates, remain constant. The Group hedges at least 90% of all trade payables denominated in a foreign currency. A 10% strengthening of the South African Rand against these foreign currencies would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Refer to notes 11 and 14 for the Group's exposure to foreign currency risk relating to USD denominated forward exchange contracts. At year end there are no open forward exchange contracts to cover the entities' exposure to Euro and GBP denominated trade payables as these amounts were considered to be immaterial at year-end.

The following significant spot rates applied at reporting date for the Group:

	2008	2007
USD	**9,34**	6,81
Euro	**13,18**	10,04
AUD	**6,49**	n/a
GBP	**13,46**	13,58

Interest rate risk

Profile

At the reporting date the interest rate profile of the group's interest-bearing financial instruments was:

	GROUP		COMPANY	
	2008 R'000	2007 R'000	**2008 R'000**	2007 R'000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**–**	–	**–**	–
	–	–	**–**	–
Variable rate instruments				
Financial assets	**43**	15 611	**–**	–
Financial liabilities	**346 948**	448 453	**1 926**	18 783
	346 991	464 064	**1 926**	18 783

29. **Financial instruments** continued

Exposure to equity price risk

As indicated in note 7, the Group has listed equity securities which exposes it to share price risks. The risk exposure from this investment is minimal due to the investment portfolio comprising a multi-national company and due to the immaterial nature of the amount of the investment.

Categories of financial instruments and fair values

The Group's financial instruments consist primarily of deposits with banks, short-term loans receivable, trade and other receivables, amounts due to and from subsidiaries and fellow subsidiaries, trade and other payables and loans and borrowings

Fair values versus carrying amounts

The fair values of the financial assets and liabilities approximate their carrying amounts. Refer to accounting policy (v) for a discussion of how fair values are determined. The fair values of financial assets and liabilities, together with their carrying amounts shown in the balance sheet, are as follows:

Group 2008	CARRYING VALUE R'000	FAIR VALUE R'000
Financial assets		
Financial assets designated at fair value through profit or loss	47	47
Listed equity securities	4	4
Forward exchange contracts	43	43
Loans and receivables	266 552	266 552
Trade and other receivables (excluding derivatives)	222 796	222 796
Short-term loans receivable	3 505	3 505
Cash and cash equivalents	40 251	40 251
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	(552)	(552)
Interest rate swaps	(552)	(552)
Financial liabilities held at amortised cost	(723 185)	(723 185)
Secured bank loans	(101 926)	(101 926)
Redeemable preference shares	(244 470)	(244 470)
Accrued operating leases	(554)	(554)
Trade and other payables (excluding derivatives)	(368 822)	(368 822)
Dividends on redeemable preference shares	(7 413)	(7 413)
Bank overdrafts	(8 542)	(8 542)

29. **Financial instruments** continued

Categories of financial instruments and fair values continued

Group 2007	CARRYING VALUE R'000	FAIR VALUE R'000
Financial assets		
Financial assets designated at fair value through profit or loss	15 622	15 622
Listed equity securities	11	11
Forward exchange contracts	4	4
Interest rate swaps	15 607	15 607
Loans and receivables	343 121	343 121
Trade and other receivables (excluding derivatives)	140 467	140 467
Short-term loans receivable	42 234	42 234
Cash and cash equivalents	160 420	160 420
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	(975)	(975)
Forward exchange contracts	(975)	(975)
Financial liabilities held at amortised cost	(634 215)	(634 215)
Secured bank loans	(111 342)	(111 342)
Redeemable preference shares	(329 670)	(329 670)
Finance lease liabilities	(6 466)	(6 466)
Accrued operating leases	(272)	(272)
Trade and other payables (excluding derivatives)	(176 990)	(176 990)
Dividends on redeemable preference shares	(9 475)	(9 475)
Bank overdraft	(771)	(771)
Company 2008		
Financial assets		
Loans and receivables	911 088	911 088
Trade and other receivables (excluding derivatives)	68 460	68 460
Long-term loans receivable	807 889	807 889
Long-term unlisted investments	34 224	34 224
Short-term loans receivable	345	345
Cash and cash equivalents	170	170
Financial liabilities		
Financial liabilities held at amortised cost	(37 641)	(37 641)
Secured bank loans	(1 926)	(1 926)
Trade and other payables (excluding derivatives)	(35 715)	(35 715)
Bank overdraft	(8 542)	(8 542)

29. **Financial instruments** continued

Categories of financial instruments and fair values continued

Company 2007	CARRYING VALUE R'000	FAIR VALUE R'000
Financial assets		
Loans and receivables	969 454	969 454
Trade and other receivables (excluding derivatives)	35 343	35 343
Long-term loans receivable	779 312	779 312
Long-term unlisted investments	34 224	34 224
Short-term loans receivable	36 701	36 701
Cash and cash equivalents	83 874	83 874
Financial liabilities		
Financial liabilities designated at fair value through profit or loss	(975)	(975)
Forward exchange contracts	(975)	(975)
Financial liabilities held at amortised cost	(43 599)	(43 599)
Secured bank loans	(11 342)	(11 342)
Finance lease liabilities	(6 466)	(6 466)
Trade and other payables (excluding derivatives)	(25 791)	(25 791)

Amounts due by (to) subsidiaries

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

	2008 R	2007 R
Non-current portion of inter-company loans		
Xeragen Laboratories (Pty) Limited	(10 820 072)	(8 008 448)
Zedchem (Pty) Limited	(594 798)	(655 603)
Kamillen Pharmaceuticals (Pty) Limited	–	(1)
Universal Pharmaceuticals (Pty) Limited	(4 065 166)	(4 622 654)
Cipla Medpro Holdings (Pty) Limited	(74 558 369)	(10 050 564)
Amounts due to subsidiaries	(90 038 405)	(23 337 270)
Zedchem (Pty) Limited	–	42 589
Universal Pharmaceuticals (Pty) Limited	19 062	19 062
Inyanga Trading 386 (Pty) Limited	799 910 683	763 785 154
Amounts due by subsidiaries	799 929 745	763 846 805
Total non-current portion of inter-company loans	709 891 340	740 509 535
Net amounts owing by subsidiaries	709 891 340	740 509 535

COMPANY	DATE ACQUIRED	SHARE CAPITAL R	EFFECTIVE GROUP HOLDING 2008 %
Direct interest			
Xeragen Laboratories (Pty) Limited	1 September 2005	120	100
Zedchem (Pty) Limited	1 July 2005	100	100
Kamillen Pharmaceuticals (Pty) Limited	2 July 2004	100	100
Kamillen Products (Botswana) (Pty) Limited	2 July 2004	Pula 100	100
Inyanga Trading 386 (Pty) Limited	15 December 2005	100	100
Galilee Marketing (Pty) Limited	2 October 2006	100	100
Universal Pharmaceuticals (Pty) Limited	31 August 2007	2 000	100
Total direct interest			
Indirect Interest			
Cipla Medpro Holdings (Pty) Limited	16 January 2006**	10	100
Adroit Pharmaceuticals (Pty) Limited	1 September 2006	100	100
Total indirect interest			
Total interest			

* All amounts owing by (to) subsidiaries are unsecured and non interest-bearing, with the exception of R74,6 million loaned by Cipla Medpro Holdings (Pty) Limited to CMSA. In 2008, this loan bore interest at rates linked to the prime overdraft rate (2007: nil). There are no specific repayment terms attached to the above loans.

** Cipla Medpro Holdings (Pty) Limited was effectively purchased by CMSA on 1 November 2005, with control passing to CMSA on 1 December 2005. On 16 January 2006, Cipla Medpro Holdings (Pty) Limited was purchased by Inyanga Trading 386 (Pty) Limited, both wholly-owned subsidiaries of CMSA. Refer to note 21 for a list of subsidiaries of which Cipla Medpro Holdings (Pty) Limited is the holding company.

*** Investment in the subsidiary was fully impaired at 31 December 2007.

EFFECTIVE GROUP HOLDING 2007 %	COMPANY'S INTEREST SHARES AT COST 2008 R	SHARES AT COST 2007 R	AMOUNTS OWING BY (TO) SUBSIDIARIES* 2008 R	AMOUNTS OWING BY (TO) SUBSIDIARIES* 2007 R
100	31 274 203	31 274 203	(10 820 072)	(8 008 448)
100	2 949 309	2 949 309	(594 798)	(613 014)
100	–	–	–	(1)
100	–	–	–	–
100	100	100	799 910 683	763 785 154
100	100	100	–	–
100	100	100	(4 046 104)	(4 603 592)
	34 223 812	34 223 812	784 449 709	750 560 099
100	1 391 053 876	1 391 053 876	(74 558 369)	(10 050 564)
100	–***	–	–	–
	1 391 053 876	1 391 053 876	(74 558 369)	(10 050 564)
	1 425 277 688	1 425 277 688	709 891 340	740 509 535

Analysis of shareholders

Issued number of shares: 443 265 635

	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
Shareholder spread				
1 – 1 000 shares	744	24,04	460 030	0,10
1 001 – 10 000 shares	1 615	52,20	6 715 466	1,52
10 001 – 100 000 shares	534	17,26	16 495 646	3,72
100 001 – 1 000 000 shares	141	4,56	52 794 962	11,91
1 000 001 shares and over	60	1,94	366 799 531	82,75
Total	**3 094**	**100**	**443 265 635**	**100**
Public/non-public shareholders				
Non-public shareholders	7	0,23	111 728 152	25,20
Directors of the company	4	0,14	25 714 389	5,80
Strategic holdings (more than 10%)	1	0,03	82 000 000	18,50
Empowerment	1	0,03	762 672	0,17
Share trusts	1	0,03	3 251 091	0,73
Public shareholders	3 087	99,77	331 537 483	74,80
Total	**3 094**	**100**	**443 265 635**	**100**
Beneficial shareholders holding 3% or more				
Sweet Sensation 67 (Pty) Limited			82 000 000	18,50
Liberty Life Association of Africa Limited			36 838 345	8,31
Standard Bank Group Retirement Fund			20 279 803	4,58
STD Pharma Limited			19 642 857	4,43
JS Pharm Trust			17 678 571	3,99

Notice of annual general meeting

Cipla Medpro South Africa Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/018027/06)
(JSE code: CMP and ISIN: ZAE000128179)
("CMSA" or "the company")

Notice is hereby given that the annual general meeting of the company will be held at the Cape of Good Hope Room, 5th Floor, BoE Building, Clock Tower Precinct, V&A Waterfront, Cape Town at 11:00 on 22 July 2009 for the following purposes:

1. To receive, consider and adopt the annual financial statements of the company for the financial year ended 31 December 2008.

2. To re-elect directors of the company, namely:

   2.1 Mrs MT Mosweu

   2.2 Dr GS Mahlati

   2.3 Ms ND Mokone

   who, in the case of the individuals in paragraphs 2.1, 2.2 and 2.3 above, retire by rotation in terms of the company's Articles of Association but, all being eligible, offer themselves for re-election.

   A brief curriculum vitae in respect of each director referred to in 2 above appears on pages 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.

3. **Ordinary resolution number 1**
   Control of authorised but unissued shares
   "Resolved that all of the ordinary shares in the authorised but unissued share capital of the company be and are hereby placed under the control and authority of the directors, and that the directors be and are hereby authorised and empowered, subject to the provisions of the Companies Act No. 61 of 1973, as amended ("the Companies Act"), the Articles of Association of the Company and the 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. This authority is restricted to 10% of the ordinary shares in issue as at 31 December 2008 and will remain in place until the next annual general meeting of the company's shareholders".

4. **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 percent) 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 3 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.

5. **Ordinary resolution number 3**

Reappointment of external auditors

"To reappoint Mazars Moores Rowland as the external auditors of the company for the ensuing year and to authorise the directors to determine the remuneration of the auditors."

6. **Ordinary resolution number 4**

Remuneration of non-executive directors

"Resolved that the remuneration of the non-executive directors for the year ending 31 December 2009 be approved on the following basis:"

TYPE OF FEE	PROPOSED FEE IN RANDS FOR THE YEAR ENDING 31 DECEMBER 2009
Group board	
Chairperson	465 600*
Member	14 550#
Audit and Risk Committee	
Chairperson	35 700#
Member	28 500#
Remuneration Committee	
Chairperson	35 700#
Member	28 500#

* Fee per year

\# Fee per meeting

7. **Ordinary resolution number 5**

Directors' authorisation

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

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 counterparty;
- 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 percent) 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 percent) 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 (twelve) months from the company first acquiring securities under this general approval;
- the assets of the company and the Group, being fairly valued in accordance with International Financial Reporting Standards, are in excess of the liabilities of the company and the Group at the time of the company first acquiring securities under this general approval;
- the ordinary capital and reserves of the company and the Group are adequate for a period of 12 (twelve) months from the company first acquiring securities under this general approval;
- the available working capital is adequate to continue the operations of the company and the Group for a period of 12 (twelve) months from the company first acquiring securities under this general approval;
- 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 unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
- when the company has cumulatively repurchased 3% (three per cent) of the initial number of the relevant class of securities, and for each 3% (three per cent) in aggregate of the initial number of that class acquired thereafter, an announcement will be made; and
- 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 and effect for special resolution number 1 is to authorise the company and/or its subsidiaries by way of a general authority to acquire its own issued shares on such terms, conditions and such amounts determined from time to time by the directors of the company, subject to the limitations set out above.

The directors of the company have no specific intention to effect the provisions of special resolution number 1 but will, however, continually review the company's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of special resolution number 1.

The JSE Listings Requirements require the following additional disclosure for purposes of this general authority, some of which is set out in the annual report of which this notice forms part:

8.1	Directors and management	page 14 – 16
8.2	Major shareholders of CMSA	page 108
8.3	Directors' interests in securities	page 30
8.4	Share capital of CMSA	page 64

9. Material change

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

10. Directors' responsibility statement

The directors, whose names are given on page 30 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.

11. Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on page 30 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Voting and proxies

A shareholder 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 shareholder 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 CMSA 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 Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown, 2107) by no later than 11:00 on 20 July 2009.

By order of the board.

MW Daly
Company secretary

Durban
17 June 2009

Designed by MOTIV
Printed by INCE

Form of proxy

Cipla Medpro South Africa Limited
(Incorporated in the Republic of South Africa)
(Registration number 2002/018027/06)
(JSE code: CMP and ISIN: ZAE000128179)
("CMSA" or "the company")

For use by shareholders that hold shares in certificated form ("certificated shareholders") or shareholders who have dematerialised their shares ("dematerialised shareholders") and registered with "own-name" registration only, at the annual general meeting of shareholders of the company to be held at the Cape of Good Hope Room, 5th Floor, BoE Building, Clock Tower Precinct, V&A Waterfront, Cape Town at 11:00 on 22 July 2009.

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 2008			
2. Election of directors 2.1 To re-elect as a director, Mrs MT Mosweu who is retiring by rotation			
2.2 To re-elect as a director, Dr GS Mahlati who is retiring by rotation			
2.3 To re-elect as a director, Ms ND Mokone who is retiring by rotation			
3. Ordinary resolution number 1 – Control of authorised but unissued shares			
4. Ordinary resolution number 2 – Approval to issue shares for cash			
5. Ordinary resolution number 3 – Reappointment of external auditors and approval of their fees			
6. Ordinary resolution number 4 – Approval of remuneration of non-executive directors			
7. Ordinary resolution number 5 – Directors' authorisation			
8. Special resolution number 1 – Approval to repurchase shares			

Signed at on 2009

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 to the form of proxy

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

    Hand deliveries to:
    Ground Floor, 70 Marshall Street
    Johannesburg, 2001

    Postal deliveries to:
    PO Box 61051
    Marshalltown, 2107

    to be received by no later than 11:00 on 20 July 2009 (or 48 hours before any adjournment of the annual general meeting which date, if necessary, will be notified in the press).
13. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.

Corporate information

Cipla Medpro South Africa Limited
Registration number: 2002/018027/06
JSE code: CMP
ISIN: ZAE000128179

Company secretary
MW Daly CA (SA)

Registered office
1474 South Coast Road
Mobeni
4052
PO Box 32001, Mobeni, 4060

Contact numbers
Tel: +27 31 451 3800
Fax: +27 31 451 3889
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Attorneys
Deneys Reitz Incorporated
Registration number: 1984/003385/21
4th Floor The Marine
22 Dorothy Nyembe Street
Durban, 4001
PO Box 2010, Durban, 4000

Transfer secretaries
Computershare Investor Services (Pty) Limited
Registration number: 2004/003647/07
Ground Floor, 70 Marshall Street
Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

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

Auditors
Mazars Moores Rowland
Registration number: 2005/025794/07
27th Floor, 1 Thibault Square
Cape Town, 8001
PO Box 2785, Cape Town, 8000

Commercial bankers
Nedbank Limited
ABSA Bank Limited

Shareholders' diary

Annual general meeting	22 July 2009
Interim reporting period	30 June 2009
Interim report	August 2009
Financial year end	31 December 2009

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