INTEGRATED ANNUAL REPORT
for the year ending December 2011

Cipla Medpro
SOUTH AFRICA LTD.

Welcome

Welcome to our world. A world where all South Africans have access to world-class medicines at affordable prices. A world where affordable healthcare is a right, not a privilege. A world where the final measure of our success is a simple curve – the smile of health regained.

Integrated reporting

We continuously strive to increase the trust and confidence stakeholders have in our company and therefore, in line with the recommendations of King III, we are working towards producing a more integrated report, incorporating both our financial and non-financial performances.

Vision, mission and values

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

Mission
Cipla Medpro South Africa Limited (CMSA) commits itself to endeavour to satisfy our customers' needs in every manner possible: through excellent service, by developing and marketing an effective, safe, quality 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.

Values
- Camaraderie and team spirit
- Inspired and passionate
- Strong desire to grow the business
- Respect and integrity
- Dazzle our customers with great service and care

Contents

OVERVIEW

Profile	2
About our integrated annual report	3
Timeline	4
Key facts and awards	5
Group structure	6
Our business	7
Locations in Southern Africa	8
Our strategy	10
Operational overview	12

CORPORATE GOVERNANCE

Directorate	14
Board, committees and governance	16
Remuneration Committee report	22
Chairman's report	26
Chief Executive Officer's report	28
Chief Financial Officer's report	30

SUSTAINABILITY REPORT

Preferred partner in medicine	34
Investors' pick	39
Promotion of an integrated sustainable and responsible business	42
Employer of choice	50

ANNUAL FINANCIAL STATEMENTS

Directors' responsibility statement	54
Company Secretary's report	55
Audit and Risk Commitee report	56
Independent Auditor's report	58
Directors' report	59
Statements of financial position	62
Statements of comprehensive income	63
Statements of changes in equity	64
Statements of cash flow	65
Notes to the annual financial statements	66
Annexure A – Interests in subsidiary companies	118
Analysis of shareholders	119

SHAREHOLDERS' INFORMATION

Share trading statistics	120
Annexure B – Salient features of the Memorandum of Incorporation	121
Notice of annual general meeting	125
Terms and abbreviations	130
Form of proxy	attached
Administration	inside back cover
Shareholders' diary	inside back cover

Profile

At CMSA we subscribe to the ethos that all South Africans should have access to world-class, yet affordable, medicines. To that end we endeavour to produce medicines of superior quality and to introduce these medicines to our society as inexpensively as possible, thereby lessening the burden of high drug costs and improving the health and lives of all South Africans.

CMSA is one of South Africa's fastest growing pharmaceutical companies and a leading provider of chronic medicines to the public and private sectors. It commands an ever-increasing share within, inter alia, the cardiovascular, antiretroviral (ARV), respiratory, neuropsychiatric and, more recently, oncology categories. Headquartered in Cape Town, with regional offices throughout the country, CMSA is listed on the Johannesburg Stock Exchange (JSE).

In 1993, Chief Executive Officer (CEO) Jerome Smith founded the business Medpro Pharmaceutica, one of South Africa's first generic medicine companies. After strategically aligning the fast-growing business with Cipla Limited (Cipla India), India's largest pharmaceutical company, Jerome proceeded to lead CMSA to its current standing as a top three South African pharmaceutical company by value.* He achieved this through trusted, passionate staff and the invaluable mentorship of Mr Amar Lulla, Dr Yusuf Hamied and Mr Muku Hamied, senior officers at Cipla India.

The company's strong relationship with Cipla India has been key to allowing the company to continuously increase its market share through the launch of a number of new molecules and establishing a solid reputation for swift launches and championing affordable healthcare.

In December 2005, in one of the largest transactions to date in the local pharmaceutical industry, the shareholders of Cipla Medpro Holdings (Pty) Limited (Cipla Medpro) sold the business to JSE-listed pharmaceutical group Enaleni Pharmaceuticals Limited (Enaleni).

In August 2007, following a revision of the group's focus and strategy, the Enaleni board of directors appointed Jerome as CEO of the group. In October that year Cipla Medpro Financial Director Chris Aucamp was appointed group Chief Financial Officer (CFO).

In July 2008 shareholders approved the change of the group's name, Enaleni Pharmaceuticals Limited to Cipla Medpro South Africa Limited. The new name, which came into effect in November 2008, better reflects the group's positioning in the local pharmaceutical market through its wholly owned subsidiary, Cipla Medpro. Jerome and Chris continue to serve on the board of directors as CEO and CFO respectively.

**Source: IMS January 2012*

About our integrated annual report

As stated in our 2010 annual report, we were in the process of implementing the principles of King III and disclosed some of the requirements and recommendations that we already complied with in 2010. In 2011 we now have to comply with King III and, if not, explain why.

This report aims to reflect the integration of our strategy, performance and risks, both from a financial and non-financial perspective.

Scope and boundaries of the report

Our integrated annual report covers the financial year 1 January 2011 to 31 December 2011. Included in this report is our overall strategy, our prior and current year's performances and objectives for the following financial year.

The group's consolidated annual financial statements are also included in this report – please refer to pages 59 to 119.

Reporting principles

CMSA, listed on the main board of the JSE since December 2005, is registered in accordance with the provisions of the Companies Act of South Africa, No. 71 of 2008 (Companies Act). It complies with the principles of the revised King Code on Governance Principles for South Africa (King III), unless otherwise stated, the Companies Act, the JSE Limited Listings Requirements and other legislative requirements. As in the past, we strive to continuously monitor, assess and improve all our operational and corporate practices in order to best comply with the principles and practices of King III.

In addition to the above, the group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the AC 500 Standards as issued by the Accounting Practices Board and its successor. Currently there is no compulsory standard for sustainability reporting and therefore we have not followed any set guideline with regard to this in the preparation of our integrated annual report.

Assurance

Assurance of integrated reports is still a relatively new concept to all companies incorporated in South Africa and not all information included in an integrated report is legally required to be assured. However, assurance is recommended. At this stage external assurance has not been obtained on the non-financial aspects of the report, however, the board of directors acknowledges their responsibility to ensure the integrity of the 2011 integrated annual report and they are satisfied that this presents fairly the integrated performance of the group.

2011 Consolidated annual financial statements

The consolidated and separate annual financial statements (financial statements) for the year ended 31 December 2011 were approved by the board of directors on 20 June 2012. Our external auditors, Mazars, have audited the financial statements and their unqualified opinion can be found in the independent auditor's report on page 58.

Sustainability information

The sustainability and other non-financial information have not been assured in 2011.

BBBEE status

Our broad-based black economic empowerment (BBBEE) status has been assured by SANAS-approved Empowerdex, an independent economic empowerment rating agency. The company has been assessed as a Level 5 contributor in terms of the BBBEE Act. Refer to pages 44 to 46 for an overview of our transformation process.

Corporate governance

The company subscribes to the principles of good corporate governance as set out in King III and the board is of the view that the company has complied with the principles of King III during the current financial year, unless explained otherwise. Refer to pages 14 to 33 for further details on corporate governance.

Timeline

September **2011**	CMSA launches its oncology division.
December **2010**	CMSA was awarded 15% of the ARV tender.
November **2008**	The group name was changed to Cipla Medpro South Africa Limited.
August **2007**	Jerome Smith was appointed as group CEO.
April **2006**	The company was the first in South Africa to launch a three-in-one ARV combination drug of a first-line regimen (Triomune).
December **2005**	The company moved to the main board of the JSE. Cipla Medpro was acquired by Enaleni for R1,5 billion (one of the largest pharmaceutical transactions ever undertaken in South Africa).
June **2005**	Enaleni listed on the AltX.

Key facts

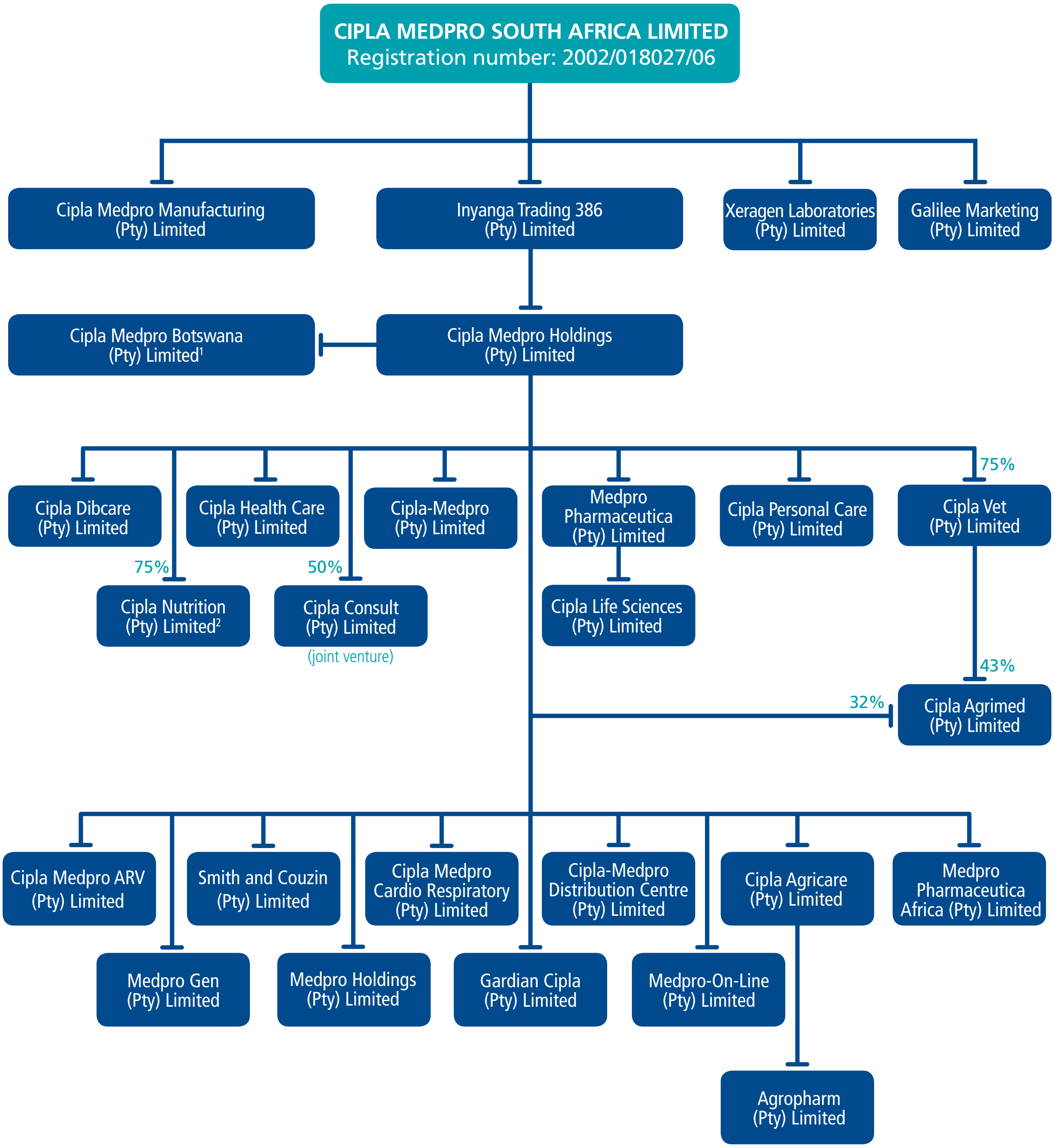
- Listed on the JSE
- One of South Africa's fastest growing pharmaceutical companies
- Strongly aligned with Cipla India, one of India's largest pharmaceutical companies and one of the largest in the world, by volumes
- Manufacturing, sales, marketing and distribution of mainly pharmaceutical products
- World-class manufacturing plant based in Durban has Pharmaceutical Inspection Co-operation Scheme (PIC/S) and Medicines Control Council of South Africa (MCC) accreditation
- Public and private sectors, wholesalers and retailers
- Single Exit Price (SEP), over-the-counter (OTC), tender and other divisions, including animal health, agrichemicals, nutriceutical and consulting divisions
- Sales offices throughout South Africa, and expanding into Namibia, Botswana and eventually into the rest of Africa

Awards

CMSA has been recognised for the following awards:

- Most Innovative Project (Cipla Medpro Miles for Smiles), for serving the plight of children with facial deformities – 2007 ABSA Healthcare Initiative Awards
- Frost & Sullivan 2009 Company of the Year Award in the Generic Pharmaceutical Market

Group structure



During the year, Cipla Medpro Holdings (Pty) Limited made the following acquisitions:

1 *Acquired 100% of Cipla Medpro Botswana (Pty) Limited in June 2011.*

2 *Acquired an additional 25% interest in Cipla Nutrition (Pty) Limited in December 2011. Cipla Nutrition (Pty) Limited was classified as a joint venture in 2010, but as a subsidiary in 2011.*

Our business

CMSA operates mainly through two divisions, Cipla Medpro Manufacturing and Cipla Medpro, with Cipla Medpro Manufacturing producing mainly for the group. The consolidated results of both divisions are disclosed in the following operating segments: SEP, OTC and Other operating segments, as this is how we view our business.

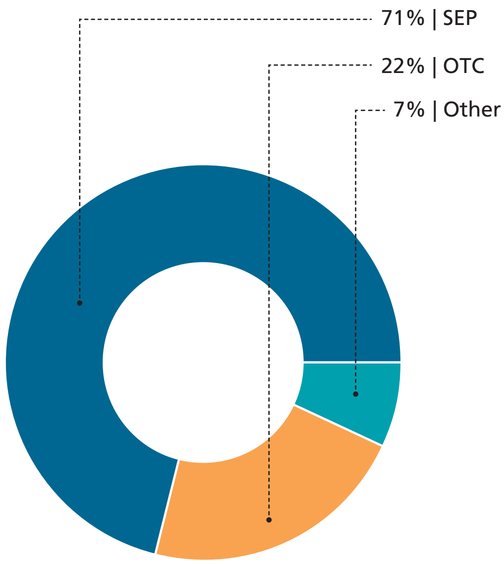
All three segments are important to our business and we remain focused on growing our brands in both SEP and OTC medicines. We believe that, given the pipeline of medicines we have, opportunities still exist to grow in SEP and OTC significantly. Cipla Medpro Manufacturing (CMM or the factory) and the tender business are both split between SEP and OTC accordingly.

We were pleased with the growth of our animal health businesses during 2011, posting a combined growth in revenue of 35%, when compared to 2010.

SEP
Our SEP business includes scheduled products, which incorporates all business related to products above schedule 2, for both private and tender business.

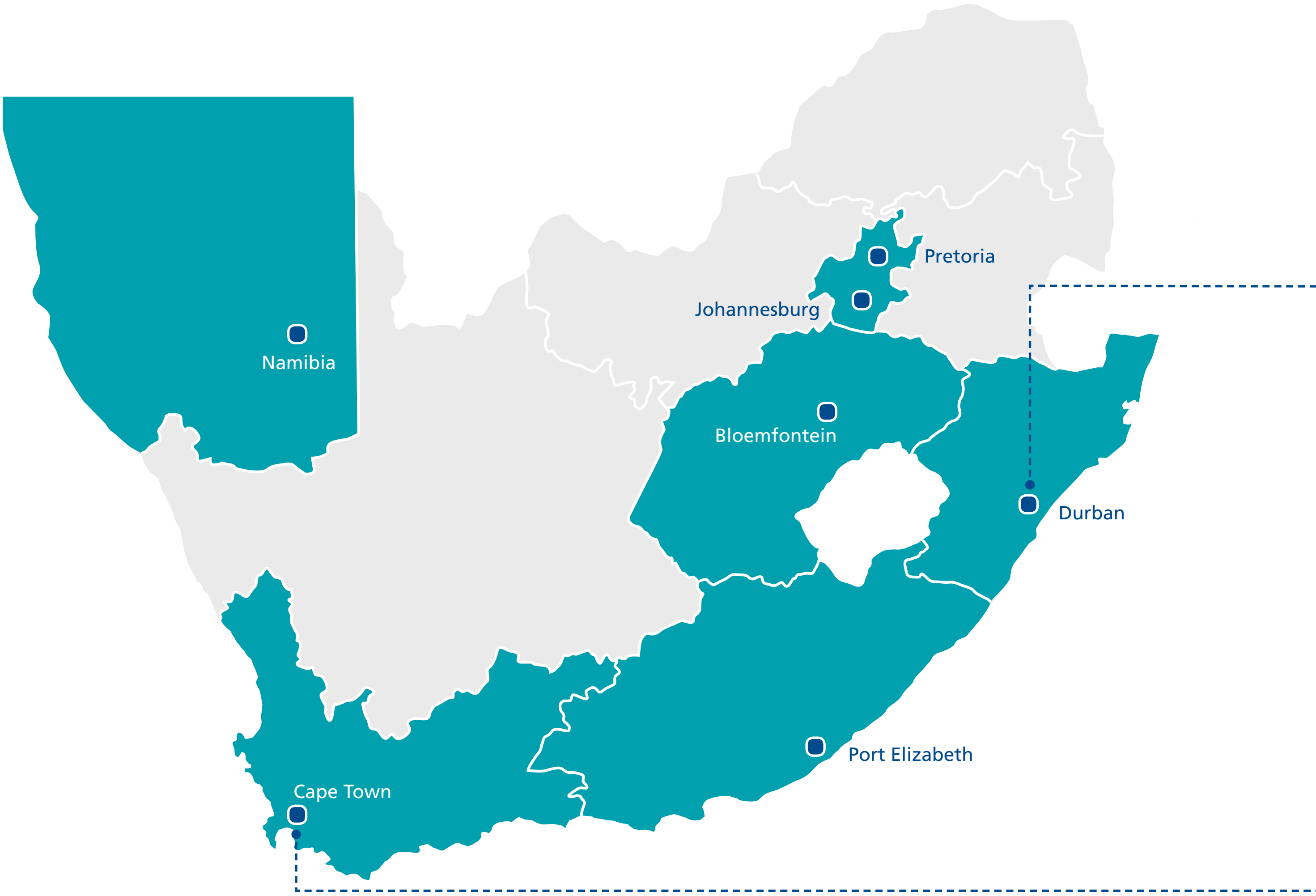
OTC
Our OTC business includes all non-scheduled products, as well as schedule 0, 1 and 2, which are available over the counter, for both private and tender business.

Other operating segments
Included in our other operating segments are our small animal, large animal, agricultural and other divisions (which are immaterial for this reporting period). This includes tender business relating to these other operating segments.



Revenue

Locations in Southern Africa



Location		Major city
Head Office and various support departments	Bellville	Cape Town
Distribution Centre – Receiving	Durbanville	Cape Town
Distribution Centre – Dispatch	Table View	Cape Town
Cipla Medpro Manufacturing	Mobeni	Durban
Cipla Agrimed Head Office	Monument Park	Pretoria
Cipla Agrimed Distribution Centre	Centurion	Pretoria
Cipla Agricare	Centurion	Pretoria
Cipla Vet	Bellville	Cape Town
Cipla Nutrition	Midrand	Johannesburg
Cipla Consult	Bellville	Cape Town
Main Gauteng Office	Midrand	Johannesburg
Satellite office	Westville	Durban
Satellite office	Walmer	Port Elizabeth
Satellite office	Langenhovenpark	Bloemfontein
Satellite office	George	Western Cape
Satellite office	Windhoek	Namibia

Cipla Medpro
MANUFACTURING
WE'LL MAKE IT BETTER

Cipla
WE'LL MAKE IT BETTER

Our strategy

To use South Africa as the commercial and manufacturing platform for Africa, to grow our diverse portfolio in the private and public sector, to become a bigger player in SEP, OTC and animal health, to launch first-to-market pharmaceutical products consistently, to become a significant player in biologicals and, in so doing, create wealth for our investors, customers and employees

15% of ARV tender

P

Preferred partner in medicine

- Cient satisfaction: excellent service; effective, safe, quality product; world-class medicines at affordable prices
  Yes
- Improve number of registrations submitted to and registered by MCC
  No
- Comply with all relevant laws and regulations
  Yes

Revenue up 22%

I

Investors' pick

- Quality, transparent reporting
  Yes, ongoing
- Increase our market share and grow faster than the market
  Yes
- Grow revenue
  Yes
- Improve return on investment
  Yes, on actual results
- Improve share price
  In progress
- Expand into Africa
  In progress

Considering our sought-after and significant ***PIPE****line* and the value we place on it, we have allocated our strategic focus points into the word ***PIPE***, as shown below, and integrated them throughout this report.

Level 5 BBBEE contributor

P

Promote an integrated, sustainable and responsible business

- Improve our carbon footprint **Yes, ongoing**
- Commit towards transformation in South Africa **Yes**
- Improve transformation statistics at executive and senior management level **In progress**
- Develop and maintain a safe and risk-free working environment **Yes**
- Maintain active involvement in local communities **Yes**

Number of employees: 697

E

Employer of choice

- Become the employer of choice in the pharmaceutical sector **Yes, ongoing**
- Recruit and retain skilled staff **Yes**
- Promote continued professional development **Yes**
- Sustain internal training of employees **Yes**

Operational overview

- Situated in Western Cape; 354 staff
- Founded 19 years ago by CEO Jerome Smith
- Manufacturing, sales, marketing and distribution of pharmaceutical products
- Public and private sector
- Commands a substantial and ever-increasing share of the local medicines market
- OTC products: anti-ageing, antiseptics, coughs and colds, gastrointestinal, monitoring devices, nutriceuticals, NSAIDs/analgesics, respiratory/allergy, sexual health, skincare, sweeteners, topical
- SEP products: antibiotics, antidiabetics, antifungals, antimalarials, ARVs, cardiovascular, dermatologicals, gastrointestinal, gynaecological, hormone inhibitors, neuropsychiatry, NSAIDs/analgesics, oncology, ophthalmic, osteoporosis, respiratory/allergy, rheumatology, topical, urological, weight management

- Situated in KwaZulu-Natal; 246 staff
- One of South Africa's largest pharmaceutical manufacturing plants – underwent a R374 million upgrade to international PIC/S standards, including continuous improvements
- Fully equipped to offer local and multinational pharmaceutical companies world-class, high-volume contract manufacturing solutions – tablets, capsules, powders (including effervescent powders) and granules
- One of only two facilities in South Africa offering manufacturing capability for effervescent formulations
- Mainly manufactures for the group, including select lines and many of the ARVs
- Approved by the MCC and PIC/S-compliant
- Uniquely designed through physical segregation between stores, primary and secondary processing areas, thereby minimising risk of contamination and ensuring material flow is unidirectional
- Dedicated temperature and humidity-controlled warehouses
- Four dispensaries; three granulation suites; blending, compression, encapsulation and coating departments equipped with state-of-the-art machinery
- Primary and secondary packaging facilities – blisters, sachets, bottles, tablet containers, effervescent packaging, patient-ready zip packs and bulk packaging solutions
- Coating capabilities include solvent, aqueous and sugar coating
- Validated, computerised maintenance management system
- Recently commissioned quality control and microbiology laboratories (with new stability chambers)

- Situated in Western Cape; 56 staff
- Durbanville – 4 000 m²
- Atlas Gardens, Table View – 5 500 m²
- An average of 5 million units picked, sold and supplied monthly
- 400 000 to 550 000 kilograms distributed across South Africa monthly

Cipla Agrimed

- Situated in Gauteng; 29 staff
- Launched seven years ago
- Experienced and knowledgeable management team and staff
- Caters for extensive and intensive livestock production in animal health (i.e. cattle, sheep, goats, poultry, pigs and wildlife)
- Develops, manufactures and supplies a broad range of veterinary medicines, stock remedies and feed additives (both OTC and prescription veterinary products)
- Types of products – ectoparasiticides, endoparasiticides, endectoparasiticides, nutritional supplements, antibiotics, production enhancers, feed additives, environmental control
- Committed to providing world-class products at affordable prices
- Leading brands in the South African market

Cipla Agricare

- Situated in Gauteng; three staff
- Launched three years ago
- Crop protection products at affordable prices, specifically selected to meet the needs of the local agricultural market
- Types of products – herbicides, insecticides, fungicides

Cipla Vet
ANIMAL HEALTH

- Situated in Western Cape; eight staff
- Management team includes experienced animal health professionals with many years of veterinary expertise and knowledge
- Launched eight years ago to cater for companion animal health (i.e. horses, dogs, cats)
- To make quality affordable veterinary medicines available to veterinarians and pet owners
- Types of products – dewormers, flea and tick control, skincare/topical, respiratory, joint care, NSAIDs, gastrointestinal, joint care, performance, dewormers, topical, respiratory
- Products are manufactured in world-class manufacturing facilities including those which carry United States Food and Drug Administration (FDA) and MCC approval

Cipla Nutrition
We'll Make Nutrition Better

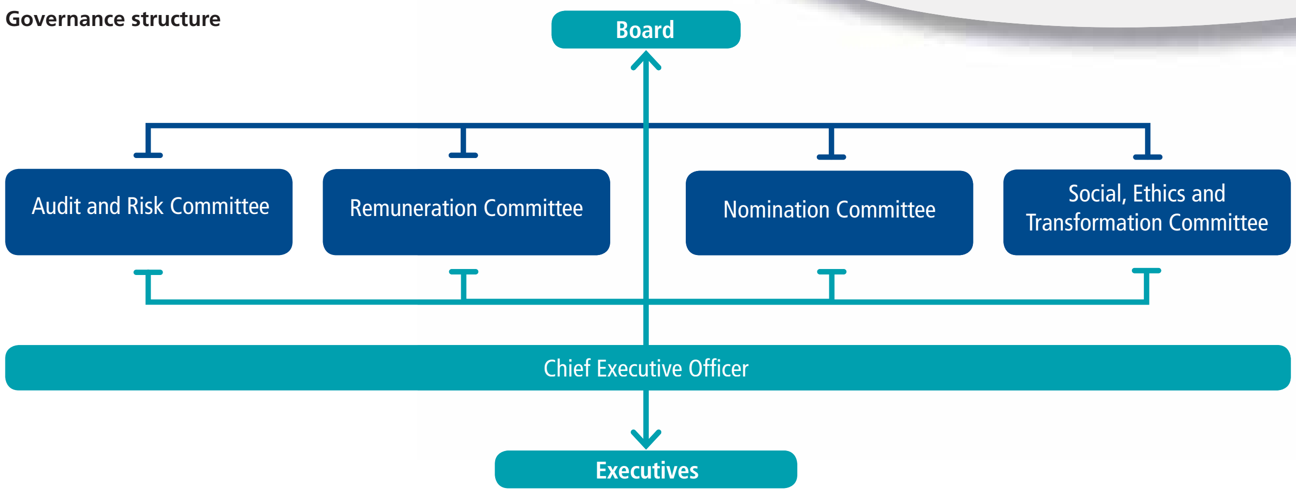
- Situated in Gauteng; one staff member
- Health and wellness supplements and related products
- Will consist of a lifestyle range for the general fitness market and a range of supplements for the serious body builder
- Still in its development phase – products will be launched in 2012

Cipla Consult
Consultants and Actuaries
WE'LL MAKE IT BETTER

- Situated in Western Cape; 11 staff
- Engaged in healthcare consulting and all allied activities

Directorate

Governance structure



Sibusiso Luthuli (39)
Independent non-executive director
CA (SA)
Chairman of the Board; Chairman of the Nomination Committee; member of the Remuneration Committee

Sbu Luthuli is an independent, non-executive chairman. He is the CEO of the Eskom Pension and Provident Fund. Prior to that Sbu was the CEO of Ithala Limited. He is also a non-executive director of Telkom SA Limited, and has served on various other board and audit committees. He is a qualified CA (SA).

Jerome Smith (57)
Chief Executive Officer

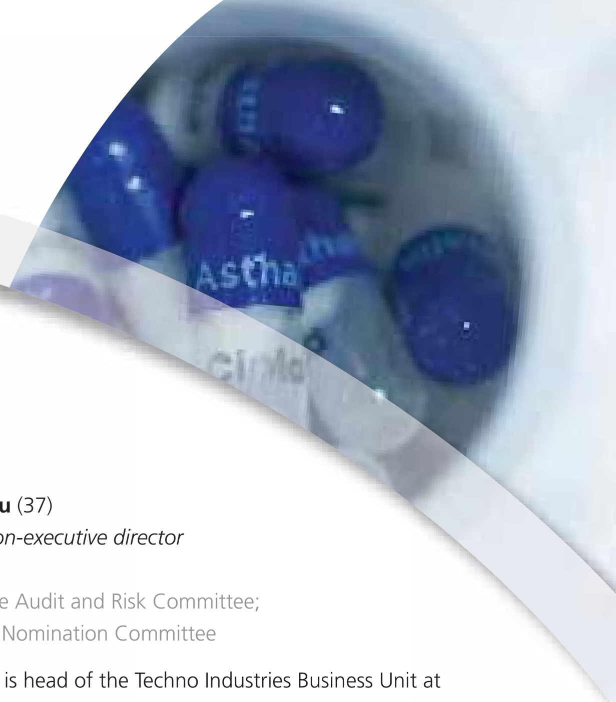
Group CEO since August 2007, Jerome Smith has spent his career in the pharmaceutical industry. In 1993, he founded the business Medpro Pharmaceutica/Cipla Medpro, one of the first generic medicines businesses in South Africa. With a strong belief that healthcare is a right, not a privilege, and determined 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 CMSA to its current standing as South Africa's third largest and one of the fastest growing pharmaceutical companies in South Africa.

Chris Aucamp (49)
Chief Financial Officer
CA (SA)

Chris Aucamp has been Financial Director of Cipla Medpro for 16 years, prior to which he worked for SARS for two years and then in commerce as a financial director of an FMCG company. Appointed as group CFO in October 2007, he has extensive knowledge of the pharmaceutical industry and oversees all the day-to-day financial affairs of the group. Chris was an integral member of the team that oversaw the capital raising and acquisition of Cipla Medpro by Enaleni in 2005.

Bongani Caga (40)
Non-executive director
LLB (Bachelor of Law), LLM (Masters) International Business Law
Member of the Remuneration Committee; member of the Social, Ethics and Transformation Committee

Bongani Caga is a director of Umnombo Consulting as well as Sweet Sensation 67 (Pty) Limited (Sweet Sensation), which is our black economic empowerment (BEE) consortium. He is also a deputy chairman of Sunspace, the company that manufactured the Sumbandila Satellite on behalf of the Department of Science and Technology. He is a former legal executive with New Africa Mining Fund, which was a private equity mining fund, capitalised at R560 million. Before joining the Fund, Bongani was an investment banker in the Corporate Finance Division of Standard Corporate and Merchant Bank (SCMB). At SCMB, his career highlight was being part of the team to govern on the listing of Telkom on the JSE and New York Stock Exchanges. Previously, he worked as legal analyst with the Special Investigations Unit and the Truth and Reconciliation Commission in East London. Bongani was awarded a Nelson Mandela Scholarship to study for a Masters in International Business Law, with Leiden University in the Netherlands.



Johan du Preez (46)
Independent non-executive director
M Pharm; MBA
Chairman of the Remuneration Committee;
member of the Audit and Risk Committee

Johan du Preez is the founder and managing director of SAAD Investment Holdings, an investment company primarily focusing on establishing new financial services entities. He has been involved in various industries locally and in the USA, including pharmaceutical retail, medical insurance and risk management, investment management, life insurance and financing. Johan brings extensive corporate experience to the CMSA board, having previously held the positions of CEO of ADATO Capital, Glacier by Sanlam (previously called Innofin) and Sanlam Health. He has an MPharm from the University of Pretoria, as well as an MBA from the National University in San Diego, California.

Nthabiseng Mokone (40)
Independent non-executive director
CA (SA)
Chairman of the Social, Ethics and Transformation Committee;
member of the Audit and Risk Committee

Nthabiseng Mokone is the founding partner of Moche Mokone Capital Partners and Landomed. She was previously head of the Amabubesi Health Services and its private equity fund. She has spent time in deal origination, structuring, capital raising, and execution at Amabubesi. In her role, she participated in some of the major deals concluded by Amabubesi and continued to add value to the investee companies by representing Amabubesi at their respective boards. Before Amabubesi, Nthabiseng was with ABC South Africa, a subsidiary of African Banking Corporation Holdings Limited, where she held the position of group head accountant. Before that she was with Pioneer Foods' Sacko Milling in Krugersdorp. Her career started in 1996 when she joined Transtel, a division of Transnet, and in 2002 moved to Transnet Group Finance to start Training Outside Public Practice until 2003.

Mpho Mosweu (37)
Independent non-executive director
CA (SA); MBL
Chairman of the Audit and Risk Committee;
member of the Nomination Committee

Mpho Mosweu is head of the Techno Industries Business Unit at the Industrial Development Corporation. She is involved in various audit committees and has significant commercial experience that, together with her technical and governance acumen, adds significant value to the board of CMSA.

Sandile Zungu (45)
Independent non-executive director
BSc (Mechanical Engineering); MBA
Member of the Nomination Committee

Sandile Zungu is the executive chairman and founder of Zungu Investments Company (Zico), which has diversified holdings in various sectors including Financial Services, Media, Resources and Gaming. He has a wealth of corporate experience and was previously the chairman of Barnard Jacobs Mellet Holdings. He is currently chairman of the Africa Vanguard group of companies (part of Zico) as well as non-executive director of Grindrod Limited, Supercare Cleaning Services, G4S Cash Management Services and Outdoor Network. He also serves as the Presidential Advisory on the BBBEE Advisory Council, on the board of Trustees of the International Marketing Council, on the Advisory Board of the University of Cape Town (UCT) Graduate School of Business and on the management committee of Business Unity SA (BUSA). In addition to a BSc degree and an MBA from the UCT Graduate School of Business, Sandile has certification in Global Leadership from the Harvard Business School in Boston, USA.

CMSA subscribes to a culture of openness, integrity and accountability in terms of its corporate governance philosophy. To that end it strives to continuously monitor, assess and improve all operational and corporate practices in order to best comply with the principles and practices as recommended in King III, which became effective from 1 March 2010. In 2009 we began a staggered process of reviewing and updating, where appropriate, all documents and policies to ensure we comply, where practicable, with the guidelines of King III. This is a continual process where we constantly review our practices and policies to ensure compliance.

Corporate governance includes the structures, processes and practices that the board of directors use to direct and manage the operations of the group. The board is accountable to shareholders and other stakeholders and is ultimately responsible for the implementation of sound corporate governance practices throughout the group. In an environment of increasing regulatory pressure, the board is aware of the importance of maintaining an appropriate balance between the governance expectations of investors, regulators, government and other stakeholders, as well as the expectations from the market and shareholders to continually produce competitive financial returns.

KING III AND THE NEW COMPANIES ACT

The implementation of King III, together with the implementation of the new South African Companies Act from 1 May 2011, required the group to undertake a review of prevailing corporate governance practices, which enabled the identification of areas of non-compliance. The main areas that required attention, as well as the action plans in place, are detailed in the table below.

KEY ASPECTS CONSIDERED DURING 2011 AND ACTION PLANS IMPLEMENTED	
Key aspects considered	**Action plans implemented or in progress**
Disclosure of executive remuneration (directors and prescribed officers) and approval of non-executive remuneration in advance	The remuneration of the executive directors has been disclosed in the Remuneration Committee Report. Refer to the Remuneration Committee Report on pages 22 to 25 for more details on the prescribed officers. Non-executive director remuneration will be put to the shareholders for approval at the forthcoming annual general meeting (AGM).
Enhanced reporting relating to sustainability issues	This is part of an ongoing process, and this 2011 integrated annual report is evidence of our enhanced sustainability and integrated reporting process.
Formation of the Social and Ethics Committee	The board resolved to form a Social, Ethics and Transformation Committee in order to formally deal with the responsibilities as outlined in the Companies Act. Although these items were previously addressed by various committees and forums, this will now form part of the dedicated responsibilities of this newly formed committee, which held its first meeting in January 2012.
Amending and updating our current articles and memorandum of association (now referred to as the Memorandum of Incorporation (MOI)), before the transitional period deadline of 30 April 2013	The MOI has been amended and the changes approved by the board and the JSE, and shareholders will be asked to vote and approve the amended MOI at the forthcoming AGM, as detailed in the notice to shareholders.
Review of shareholder agreements at subsidiary level to ensure there are no conflicts with the respective subsidiaries' amended MOIs	This is in progress to ensure any conflicts that may be present are resolved when the amended MOIs are adopted by the subsidiaries.
The implementation of information technology governance procedures	This is currently being considered and implemented in a phased approach. Comprehensive upgrades regarding the Disaster Recovery Plans at various locations around the country have already been implemented. An information security policy is in place and information is managed according to business requirements.

As indicated earlier, the group's corporate governance practices are reviewed on an ongoing basis to ensure adherence to legislation, regulations and global governance trends. The following enhancements were made to the group's governance framework during the reporting period:

- Reviewing the board charter and terms of reference of the board committees and relevant group policies and procedures in light of the King III requirements and implementing amendments where necessary. The most significant change in this regard was updating the group's Ethics policy, which now incorporates a whistle-blowing hotline;
- Adoption of revised work plans for the board and all of the board committees based on the updated charter and terms of reference; and
- Evaluations of the board and its Chairman, as well as the committees and their respective chairmen. These evaluations were conducted by our internal auditors and the board has indicated that it intends to obtain an external consultant to conduct these assessments every three years.

The formation of the Social, Ethics and Transformation Committee will not only address the requirements of the Companies Act, but also the recommendations of King III in terms of ethical leadership and corporate citizenship, which may not already have been addressed elsewhere by the company.

Statement of compliance

The directors are of the opinion that, save as specifically disclosed in this report, the group has complied in all material respects with the requirements of King III and the corporate governance provisions prescribed by the JSE Listings Requirements.

BOARD OF DIRECTORS

CMSA is led by a board of directors, currently constituted as required in terms of the Companies Act and the company's MOI. Following the implementation of the Companies Act with effect from 1 May 2011, the structure and composition of the board were reviewed to ensure compliance and the directors of CMSA are satisfied that we currently comply with the Companies Act as well as the recommendations of King III.

Board composition and appointment

The board of directors comprises six non-executive directors (five of whom are independent) and two executive directors. The composition of the board ensures that there is a balance of power and authority in the decision-making processes. The non-executive directors are appointed by the board in terms of a formally documented and transparent process, which takes place under the guidance of the Nomination Committee. Non-executive directors are appointed based on their skills, business experience and acumen, qualifications and reputation. The non-executive directors collectively bring a wealth of skills, knowledge and experience from their own fields of business to the board.

In terms of CMSA's MOI, one-third of the directors retire by rotation at each AGM. Directors who retire may, if eligible, offer themselves for re-election. The names of the directors who retire by rotation at the next AGM appear in the notice of AGM on page 125 of this report. Directors who are appointed during a reporting period must have their appointments ratified by shareholders at the next AGM.

Newly appointed directors are provided with an overview of the group's operations. In addition, directors are given guidance with regard to their fiduciary duties and provided with information relating to the relevant statutory and regulatory frameworks. They also receive a copy of the board charter, committee terms of reference as well as previous board and committee packs.

Succession

The board has delegated succession planning for the Chairman, CEO and CFO to the Nomination Committee, while the Remuneration Committee is tasked with succession planning for the organisation in general.

Fees for services as directors

Executive directors do not receive additional fees for their roles as directors of the group. Fees paid to the non-executive directors, for services as directors, are independent of the group's financial performance and as per the recommendations of King III, the fees payable to the non-executive directors were approved by a resolution of CMSA's shareholders at the company's AGM on 25 May 2011. As a result of the implementation of the Companies Act, shareholders will be asked at the next AGM to approve, via special resolution, the non-executive directors' fees for the period 1 August 2012 to the 2013 AGM. The non-executive directors' fees approved in May 2011 are applicable from 1 January 2011 until 31 July 2012.

Independence of directors and leadership

The independence of the non-executive directors is discussed on a regular basis to ensure that there are no business or other relationships that could materially interfere with a director's capacity to act independently. A register containing the directors' declarations of interest is kept by the Company Secretary and is available for inspection by any of the directors on request. Directors must at all times observe the legal requirements in respect of the declarations of interest and do everything reasonably possible to avoid a conflict of interest in the execution of their duties. Any possible conflict of interest must at all times be declared upfront and the director concerned may not participate in a discussion, or vote, on the subject matter. In addition, the agenda at each scheduled board meeting makes provision for the signing of the latest declarations of interests and allows the board to consider any conflicts arising from changes to the directors' declarations of interests.

Previously, Nthabiseng Mokone was one of the board members that represented our empowerment partner, Sweet Sensation. Nthabiseng no longer represents Sweet Sensation at board level.

However, due to her significant contributions, experience and knowledge of the group, the board requested that she remain as a board member. Bongani Caga is at present the only Sweet Sensation representative currently serving on our board. After careful consideration, independent advice and confirmation from Nthabiseng, the board agreed with the assessment that Nthabiseng is now independent as she no longer represents a major shareholder and, as such, her status has been amended to correctly reflect her as an independent non-executive director.

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 CEO, CFO and /or Company Secretary with all information required by the company to comply with its disclosure duties in terms of the JSE Listing Requirements by no later than 24 hours after the share dealing.

The roles of Chairman and CEO are separate in accordance with best practice principles. Independent non-executive director Sbu Luthuli chairs the board. Although Sbu owns 2 787 000 CMSA shares in total (789 024 direct and 1 998 000 indirect shares), this is not material in terms of the company (being only 0,62% of the issued share capital) nor in his own personal capacity.

The board has satisfied itself that no relationships exist that could adversely affect the classification of its independent non-executive directors, and accordingly that the classification of each of the directors is appropriate.

A brief *curriculum vitae*, and the classification of each director, appears on pages 14 and 15 of this report.

Board mandate

Directors have unrestricted access to all group information, records and documents through the Company Secretary. Directors receive detailed information packs on operations and group affairs to facilitate effective preparation and decision making. Board packs are provided to directors in a timely manner before the respective meetings, and any director may propose additional matters to be included on the agenda of board meetings. In addition, non-executive directors have unrestricted access to members of management and, where appropriate, are entitled to access the external auditors, internal auditors and legal counsel without members of management being present. Directors, after discussion with the Chairman, may also seek independent professional advice at the group's expense should they deem it necessary for the proper execution of their duties.

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

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

Executive directors are non-voting invitees at all Audit and Risk Committee, Remuneration Committee and Nomination Committee meetings, and attendance is by invitation only. Executive directors receive no additional fees or remuneration for their roles as directors of the group. Refer to the Remuneration Committee report on pages 22 to 25 for more information. Attendance by the directors at board and committee meetings during the year is set out in the table on page 19.

Board committees

In order to better equip the board to discharge its collective responsibilities, board committees are in operation. These committees report back to the main board, which acknowledges its ultimate collective accountability and responsibility for the performance and affairs of the company. These committees are the Audit and Risk Committee, Remuneration Committee, Nomination Committee and the newly formed Social, Ethics and Transformation Committee. In addition to these committees, the board may constitute additional committees as and when required.

Company Secretary

The Company Secretary attends all board and committee meetings at the invitation of the board, and is responsible for preparing the agenda and packs in advance of the board and committee meetings, and for accurately recording the minutes of these meetings. In addition, the Company Secretary acts as a central advisor to the board, providing guidance to directors and committees on matters concerning corporate governance, updates and training on legal and statutory amendments and on the effective execution of their responsibilities and fiduciary duties. When required, the Company Secretary will involve the Sponsor and other experts to ensure the directors have the required information to discharge their responsibilities.

BOARD AND COMMITTEE ATTENDANCE AND REMUNERATION FOR 2011

Directors	Board meeting	Special board meeting	Audit and Risk Committee	Re-muneration Committee	Nomination Committee	Social, Ethics and Trans-formation Committee[1]	2011 R'000	2010 R'000
Executive								
Jerome Smith	3/4#	1/2#					–	–
Chris Aucamp	4/4#	1/2#				0/0#	–	–
Non-executive								
Sbu Luthuli	4/4*	2/2*		4/4#	1/1*		722	719
Bongani Caga	4/4#	2/2#		4/4#		0/0#	245	238
Johan du Preez	4/4#	2/2#	4/4#	4/4*			432	237
Nthabiseng Mokone[2]	4/4#	1/2#			1/1#	0/0*	200	104
Mpho Mosweu	4/4#	2/2#	4/4*		1/1#		368	218
Sandile Zungu[3]	1/4#	1/2#	1/4#				100	49
							2 067	1 565

* *Chairman of the board/committee*

\# *Member of board/committee*

1 *This committee held its first meeting in January 2012.*

2 *Nthabiseng Mokone was appointed to the Nomination Committee on 9 March 2011.*

3 *Unfortunately, due to Sandile Zungu's very demanding travel schedule he was unable to attend all the meetings in the year. However, he was still able to add significant value to the board and committees through constant interaction with the Chairman, non-executive directors and the executives. As a result, and mindful of the requirements of the Companies Act, the board resolved in November 2011 to move Sandile from the Audit and Risk Committee to the Nomination Committee and requested that Nthabiseng fulfil his role on the Audit and Risk Committee (subject to approval by shareholders at the forthcoming AGM). Nthabiseng would then resign from the Nomination Committee, all with effect from the commencement of the 2012 financial year.*

Due to Sandile's contribution, wealth of experience and business acumen, he will be invited to attend all the Audit and Risk Committee meetings as a non-voting invitee.

INTERNAL AUDIT

Internal Audit functions in accordance with an approved charter, which defines the role, organisational status, authority, responsibilities and scope of activities of the Internal Audit function.

Internal Audit is an independent appraisal function, established from both within the company and co-sourced with an external third party, RAFT Consulting, to examine and evaluate the company's processes as a service to the company in the effective discharge of its responsibilities. The internal audit objective includes promoting effective risk management and operational efficiency. Working together with the group's external auditors, Mazars, the group Internal Audit Manager reports into the Audit and Risk Committee to assist the company in further formalising and managing its risk management process, and has channels of communication to the CFO and Company Secretary to ensure she is appraised of any relevant matters.

Internal Audit provides written assessments of the effectiveness of the system of internal controls and risk management to the board. An assessment, based on a written documented review of the internal financial controls, is reported directly to the Audit and Risk Committee. The responsibility of Internal Audit includes conducting activities in accordance with the IIA's (Institute of Internal Auditors) standards. The Internal Audit plan is submitted to the Audit and Risk Committee for its approval and Internal Audit reports at all Audit and Risk Committee meetings.The Audit and Risk Committee ensures that the Internal Audit function is subjected to an independent quality review as and when the Audit and Risk Committee determines it appropriate as a measure to ensure that the function remains effective.

COMPOSITION AND RESPONSIBILITIES OF BOARD COMMITTEES	
	Audit and Risk Committee[1]
Composition	Three independent non-executive directors
Appointment	Recommended by the Nomination Committee and appointed by the board; to be ratified by shareholders at the AGM
Members	Mpho Mosweu (Chairman) Johan du Preez Sandile Zungu[1]
Optional attendance by invitation	CEO, CFO, internal and external auditors, general legal counsel
Key responsibilities	Reviewing publicly released financial information Overseeing integrated financial and sustainability reporting 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 Monitoring and supervising the effective functioning of Internal Audit Compliance with statutory and regulatory services Review of the group's insurance portfolio and foreign exchange risk management policies

1 *With effect from 1 January 2012, Nthabiseng and Sandile have changed roles on the Audit and Risk and Nomination Committees, i.e. Nthabiseng has been appointed as a member of the Audit and Risk Committee (subject to approval by shareholders at the forthcoming AGM) and resigns from the Nomination Committee and Sandile steps down from the Audit and Risk Committee and has accepted the appointment to the Nomination Committee.*

2 *This committee held its first meeting in January 2012. This is the only committee that is constituted with members of management, as opposed to solely from members of the board. The composition does satisfy the requirements of the Companies Act and the board believes that the members have the relevant experience, knowledge and independence to fulfil the committees' responsibilities.*

3 *Human Resources (HR) Executive*

4 *General Legal Counsel*

Remuneration Committee	Nomination Committee[1]	Social, Ethics and Transformation Committee[2]
Three non-executive directors, two of whom are independent	Three independent non-executive directors	Two non-executive directors, of whom one is independent, one executive director and two members of senior management
Recommended by the Nomination Committee and appointed by the board	Appointed by the board	Recommended by the Nomination Committee and appointed by the board
Johan du Preez (Chairman) Bongani Caga Sbu Luthuli	Sbu Luthuli (Chairman) Nthabiseng Mokone[1] Mpho Mosweu	Nthabiseng Mokone (Chairman) Chris Aucamp Bongani Caga Janine Baillie-Stewart[3] Joe Brink[4]
CEO, CFO, HR Executive	CEO, CFO	CEO, members of management
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 option scheme Monitoring succession planning for the organisation	To identify and recommend suitable candidates to fill new or potential executive/non-executive positions on the board and its committees To ensure succession plans and strategies for the Chairman of the board, the CEO and CFO To regularly review the required mix of skills, experience and other qualities of the board of directors To involve itself in the annual performance evaluations of the directors, board and the committees	Monitoring the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to: – Social and economic development (including the Employment Equity Act and the BBBEE Act) – Good corporate citizenship – Environment, health and public safety – Consumer relationships – Labour and employment Implementation of an ethics management programme Monitoring compliance with health and safety regulations, the Labour Relations Act and the BBBEE Act

ETHICS, VALUES AND COMPLIANCE

CMSA conducts its business in a highly regulated environment. The group remains committed to ensuring that all directors and employees continue to conduct themselves, and all business, according to the highest of standards. The group has a detailed Ethics policy that requires the company and its employees to act in accordance with legislation at all times, with integrity and professionalism, and to safeguard its reputation and resources. The objectives of this policy include, inter alia, the following:

- Adherence to all the applicable laws;
- Zero tolerance of discrimination or harassment of any kind;
- No bribes to be given or received;
- Conflicts of interest to be avoided;
- Striving to be a responsible partner within our local communities; and
- Employees are encouraged and supported to report, in confidence, any suspected wrongdoing via the whistle-blowing hotline.

Whistle-blowing hotline

In order to ensure there is a culture of openness and transparency, and to encourage employees and other stakeholders to report unethical business practices and other transgressions of which they become aware, the group has recently implemented an independently operated, toll-free whistle-blowing hotline. Employees, suppliers and other stakeholders are requested to report any unethical matters. For more information, refer to the Audit and Risk Committee report on page 57.

LEGISLATIVE COMPLIANCE

The board is ultimately responsible for overseeing the group's compliance with laws, rules, codes and standards in terms of King III. The board has delegated to management the responsibility for the implementation of an effective legislative compliance framework and processes as envisaged by King III. The Audit and Risk and Social, Ethics and Transformation Committees assist in this process, by ensuring that all relevant legislation is adequately addressed by the company.

Currently there is not a dedicated Compliance Officer, but this function is fulfilled by various members of senior management as well as with the assistance of a suitably qualified consultant. The board is considering the appointment of a dedicated resource in this regard.

Remuneration Committee report

Remuneration philosophy and policy for the group
CMSA has an ongoing process of reviewing its policies and practices to ensure good governance at all times, and ultimately achieve compliance with the recommendations and best practices described in King III. The underlying objectives are to attract, retain and motivate employees, and promote superior performance while striving to comply with the guidelines set out in the appropriate legislative frameworks with regard to Empowerment and Employment Equity.

The Remuneration Committee has been restructured as explained on page 21 and has implemented a new remuneration and rewards policy.

The group aims to remunerate staff based on experience, grading and performance while simultaneously remaining competitive in order to retain our human capital and set us apart from the competition.

The group makes use of the Paterson Grading System and benchmarks salaries against two market-related surveys. Bonuses are not guaranteed (except for certain contractual obligations), but are based on individual performance and the financial performance of the group.

The CEO will establish the basis for annual increases each year and will pre-approve the proposed increases before it is reported to the Remuneration Committee. The Remuneration Committee must approve the average percentage increase for all staff and the individual increases for Level F employees (other than the executive directors) before they are implemented. The board will approve the increases for the CEO and CFO as recommended by this committee.

Share option schemes

- The two legacy employee share schemes, i.e. the broad-based employee share plan and the share incentive scheme, will no longer be utilised to issue share options to staff, and once all of the unexercised options have been exercised, these schemes will be collapsed.
- As part of our ongoing process, and to ensure compliance with the new JSE Listings Requirements, the group proposed a new share option scheme that was approved by shareholders at a general meeting held on 24 November 2010.
- This employee share scheme will be utilised for the issue of all share options in the future, with the vesting conditions having been amended as follows:
  - 10%, two years after grant date;
  - 30%, three years after grant date;
  - 30%, four years after grant date; and
  - 30%, five years after grant date.

In addition, all vested options must be exercised within 18 months from the vesting date.

- This scheme will be utilised for the issue of share options to certain employees and executives within the group, and will be based on a benchmarked multiple of their guaranteed remuneration packages, their grading, position and performance. The issue of options will be recommended by the Remuneration Committee and approved by the board.

THE VARIOUS COMPONENTS THAT MAKE UP TOTAL REMUNERATION AND BENEFITS INCLUDE:

Component	Description
Directors' fees	Executive directors do not receive directors' fees. Directors' fees relate to fees paid to only the non-executive directors, for attendance at board and committee meetings.
Guaranteed Remuneration (total cost of employment)	Guaranteed Remuneration refers to the fixed components of earnings, i.e. basic salary, employer contributions to retirement, healthcare and any other guaranteed allowances. Increases in Guaranteed Remuneration are reviewed annually (applicable from January each year) unless promotions or other changes require review before the annual period has expired.
Annual bonus (short-term incentive)	This is the variable portion of the remuneration that is payable in cash, and is linked to the group's performance and individual performances that are reviewed at least biannually. Executive directors' bonuses are recommended by the Remuneration Committee and approved by the board. Level F* executives' bonuses are recommended by the CEO and approved by the Remuneration Committee. At other levels, additional discretionary bonuses may be paid to employees who have provided exceptional service to the group – this would be approved by the CEO and noted by the Remuneration Committee.
Other benefits	Included in Guaranteed Remuneration
Retirement and medical benefits	Included in Guaranteed Remuneration
Share-based payments (share options) (long-term incentive)	Long-term incentives comprise options granted to staff under the CMSA Employee Share Option Scheme approved on 24 November 2010. These options vest over a period of time (two to five years) to create employee wealth and provide retention of top-performing employees or employees with particular critical skills. The group is continuously evaluating critical skills and proactive methods to retain these employees.

* *Level F employees comprise directors at subsidiary level*

2011 EXECUTIVE DIRECTORS' REMUNERATION AND BENEFITS

Executive directors	Directors' fees R'000	Basic salary R'000	Annual bonus R'000	Other benefits R'000	Life cover and medical benefits R'000	Total re-muneration and benefits R'000	IFRS 2 Share-based Payment expense R'000	Total package R'000
Jerome Smith	–	10 061	2 838	1 725	163	14 787	–	14 787
Chris Aucamp	–	3 256	1 815	575	91	5 737	90	5 827
	–	13 317	4 653	2 300	254	20 524	90	20 614

Refer to note 21 for comparative information on the executive directors' remuneration and benefits.

- In May 2011 this scheme was utilised to offer certain employees (other than executive directors) a total of 4,7 million share options.
- Under this new scheme, the CFO was issued 289 256 options in March 2011 and a further 617 284 options in March 2012 as part of his long-term incentive.

Remuneration policy for the executive and non-executive directors

CMSA uses an independent market-related remuneration survey to benchmark the appropriate remuneration for its executive and non-executive directors. Executive directors' remuneration is also linked to the performance of CMSA and the prevailing rate of inflation. Shareholders approve the company's remuneration policy and the fees for non-executive directors on an annual basis.

The CEO and CFO are still bound by restraint of trade clauses per their employment contracts.

As fixed-term contracts with executive directors expire over time, the remuneration structure contained in these will be restructured to reflect the updated remuneration policy.

Non-executive directors do not receive any bonuses, share options, incentives or other payments in addition to their directors' fees. Following research into benchmarking, market trends in non-executive director remuneration among companies of a similar size and complexity and the duties performed, non-executive directors' fees are proposed by management to the Remuneration Committee. After review and discussion, the Remuneration Committee makes appropriate recommendations to the board for approval. The proposal approved by the board is tabled for final approval by shareholders at the AGM. As required by the Companies Act, at the forthcoming AGM, the group will request approval, by special resolution, of its non-executive directors' remuneration for the period from 1 August 2012 to 31 July 2013.

Non-executive directors' fees were approved by shareholders for the 2011 year. However, they will only be increased from 1 August 2012 subject to shareholder approval being obtained. In future, increases will apply from the AGM when approval is obtained each year, and fees will remain unchanged until the following AGM is held, and the necessary statutory approvals obtained. The actual structure of directors' remuneration paid in 2011, and the proposed structure from 1 August 2012, is disclosed in the table below:

2011 AND 2012 NON-EXECUTIVE DIRECTOR REMUNERATION STRUCTURE

Non-executive director	Actual 2011 structure	Proposed 2012 structure
Chairman of the board	Monthly retainer as Chairman of the board Fees per committee meeting attended	Monthly retainer as Chairman of the board No fees per committee meeting attended (a higher percentage increase will be proposed for the Chairman as a result of him no longer receiving fees for attending committee meetings)
All other directors	Fees were paid per meeting. Chairmen of committees receive higher fees per meeting than the other members of the committee. Retainers were not paid (except for the Chairman of the board). However, non-executive directors would receive 50% of the prescribed fees for the first meeting that they were unable to attend in a financial year.	Fees to be paid per meeting. Chairmen of committees receive higher fees per meeting than the other members of the committee. Retainers will not be paid (except for the Chairman of the board). However, non-executive directors would receive 100% of the prescribed fees for the first meeting that they were unable to attend in a financial year.

The trend in non-executive remuneration appears to be moving away from retainers and more towards payment for attendance and participation at meetings, hence our proposal above. However, management and the board are cognisant of the fact that many of the non-executive directors add significant value, and contribute their time and skills throughout the year, even if they are unable to attend all of the meetings.

2011 non-executive directors' fees	**Directors fees 2011 R'000**	Directors fees 2010 R'000
Non-executive directors		
Sbu Luthuli	**722**	719
Bongani Caga	**245**	238
Johan du Preez	**432**	237
Nthabiseng Mokone	**200**	104
Mpho Mosweu	**368**	218
Sandile Zungu	**100**	49
	2 067	1 565

For 2012, management proposed the following increases for non-executive directors applicable from 1 August 2012:

Non-executive director	2011 actual fees	2012 proposed fees	Percentage increase (%)
Board: Chairman	Monthly retainer of R51 000	Monthly retainer of R65 000	27,5
	Plus fees per committee meeting	No fees per committee meeting	(100,0)
	Total: R722 000	Total: R799 000[1]	10,7

[1] *In 2012, the Chairman's fees will be a combination of the lower retainer (approved for the 2011 year) and fees for attending committee meetings, plus the higher retainer from 1 August 2012 (assuming shareholder approval is obtained) and no further fees for committee attendance.*

The other members of the board receive fees per meeting, and no retainers are paid. However, as discussed above, board and committee members will still receive 100% of their fees for the first board and/or committee meeting they are unable to attend during the year due to recognition of the value they add outside of board and committee meetings.

Proposed increases	**2011 actual fees (R)**	2012 proposed fees (R)	Percentage increase (%)
Board: Member	**34 950**	37 500	7,3
Audit and Risk Committee: Chairman	**42 000**	46 000	9,5
Audit and Risk Committee: Member	**31 800**	33 700	6,0
Remuneration Committee: Chairman	**40 000**	42 400	6,0
Remuneration Committee: Member	**20 000**	21 200	6,0
Nomination Committee: Chairman	**40 000**	42 400	6,0
Nomination Committee: Member	**20 000**	21 200	6,0
Social, Ethics and Transformation Committee: Chairman	**n/a**	42 400	n/a
Social, Ethics and Transformation Committee: Member	**n/a**	21 200	n/a

Prescribed officers

After consideration by the board, the executive directors are currently regarded as the only prescribed officers in the group. Refer to page 23 for details of their remuneration and benefits.

Senior management remuneration and benefits

We have expanded the established process of reviewing the fixed and variable portions of executive directors' remuneration and benefits to include Level F employees' remuneration and benefits in order to achieve a suitable balance between Guaranteed Remuneration, and short- and long-term incentives based on performance. At the same time, a second benchmark survey was added for the 2012 review.

Currently, bonuses are performance-based, and are linked to the achievement of financial targets.

On behalf of the committee

Bongani Caga

20 June 2012

Chairman's report

HEPS up 43%

Revenue up 22%

2011 dividend up 27%

Continue to perform well in tenders

Whistle-blowing hotline in place from 2012

Sbu Luthuli

INTRODUCTION

On behalf of the board of CMSA I am pleased to present our first integrated annual report. As we explain in this report, this is a journey, and each year we will endeavour to improve our reporting and disclosure based on feedback from stakeholders, legislative requirements and current best practices.

GOVERNANCE

I confirm that the board and I are committed to serving the needs of all our stakeholders in an honest and transparent manner. We uphold the principles outlined by King III and are committed to sustainable and integrated reporting.

> Our long-term financial success underscores everything we do. However, we are ever-mindful of the communities and society in which we operate, and are driven to improve the lives of all we touch by giving back.

A key objective for the upcoming year is to create real shareholder value and this will ultimately be measured by an improvement in the share price. This can only be achieved if the board and management work together to ensure sustainability. We have an extraordinary business with amazing staff, and we are focused on improving the lives of our customers, the patients that rely on our medicines, employees and shareholders.

As part of our ongoing commitment to governance, we are pleased to announce that we have recently implemented a whistle-blowing hotline, managed by an independent third party. The Audit and Risk Committee has oversight of this hotline and any issues that are reported.

STATE OF THE ECONOMY

South Africa's economy weathered the global financial crisis in 2008 and the resultant economic recession in 2009 better than most. However, the ongoing economic volatility and this year's debt crisis in Europe and the USA has had an impact on our economy, notably through the depreciation of the South African Rand. We continue to manage the exchange-rate volatility through our robust policy of taking out forward cover for at least 80% of our imports.

There are opportunities in the local industry, including the designated list of Solid Dose Medicines recently announced by the DTI (Department of Trade and Industry), which supports local manufacturers. The Preferential Procurement Policy Framework Act means that listed companies can now benefit from their BEE status and this should continue to support our positive trend in tender awards.

CORPORATE SOCIAL INVESTMENT

We were proud to be involved with the 2011 Jacob G Zuma RDP Education Trust Children's Christmas Party held at Inkandla, KwaZulu-Natal on 29 December 2011 as well as a function held at Quarry Heights Primary School in Durban on 16 March 2012. At the Christmas party, President Zuma emphasised the importance of education in society today. Past students who had benefited from the Trust all gave a speech on how education had changed their lives. The classrooms, facilities and lack of utilities at Quarry Heights Primary School are depressingly inadequate and we were

2010		2011
Interim – 5,0 cents per share	+ 30%	Interim – 6,5 cents per share
Final – 6,0 cents per share	+ 25%	Final – 7,5 cents per share
Total – 11,0 cents per share	+ 27%	Total – 14,0 cents per share

Dividends

in awe of the educators at this school who persevered in their aim to educate the children despite this. We sought to recognise the educators of this school, for their commitment and dedication.

CMSA is excited about its involvement in this fund. Our commitment as an organisation to unite and spread our expertise and to develop future generations of leaders is highlighted by our involvement in these events.

TENDERS

Current tenders
Smaller portion of expected off-take in government ARV tender
R100 million over two years (large animals) – only a small portion realised in 2011
New tenders won
A small tender in Botswana – R280 000
A portion of the HP02-2012 AI re-tender (Tavaloxx) TB
Prospective tenders
HP04-2012 ONC – aiming for the majority of the R82 million over two years
HP05-2012 DI – aiming for R145 million over two years
HP06-2012 SVP – aiming for the majority of the R39 million over two years
Tender outlook
Likely that we will gain ground in Botswana, Lesotho, Namibia and Swaziland
Confident on winning the oncology tenders, as well as the HP05-2012 DI
Re-tendering
Confident that we will perform well in the respiratory and tablet tenders

FOCUS FOR THE FUTURE

We continue to strive for sustainable growth in all aspects of our business, while delivering meaningful returns for our investors and shareholders. This will be achieved through an integrated approach as we strengthen our portfolio by continued organic growth, as evidenced year after year as we continue to grow faster than the market and our major competitors. Our pipeline of dossiers from Cipla India continues to provide huge potential for our business, is attributable to the success of our business, and will support our goals going forward. We continue to work closely with the MCC to improve the number of products that are registered – an industry-wide problem.

We are constantly evaluating opportunities and expansion into Africa. The launch of our oncology division adds another dimension to our business. In addition to this, expenses are managed continuously to preserve margins and achieve the necessary returns.

CONCLUSION

In closing, I would like to thank my board of directors, the executives and the management team for their contributions, constant dedication and support. A major vote of thanks goes to the CMSA team, as well as our shareholders, customers, suppliers and partners.

Sbu Luthuli
Chairman

20 June 2012

Continue to grow faster than the market

MCC approvals – slow registration process

No SEP increase in 2011 and only 2,4% in 2012

Animal businesses perform well

Pfizer and RBSA matters settled

Jerome Smith

OVERVIEW

We present our results for the year ending 31 December 2011 in a year that saw difficult economic conditions for consumers and businesses alike. The exchange rate, no SEP increase and an extremely slow rate of new product registrations at the MCC continued to influence the results negatively. The positive impact of our hedging policy is evident in the annual results with unrealised gains made on the mark to market (fair valuation) of forward exchange contracts (FECs) of R109,2 million (2010: loss of R44,7 million). We continued to achieve healthy gross profit margins as a result of the weaker US Dollar in the first half of 2011 and our favourable forward cover in the second half of 2011. Anticipated volumes from government tender ARV business did not materialise to the levels expected. Our view is that 2012 tender volumes are likely to be better.

The case against Pfizer Limited and Pfizer Laboratories (Pty) Limited (Pfizer), arising from damages caused by Pfizer's incorrectly obtained interdict against the group's amlodipine besylate products in 2003, initially reported on SENS during October 2010, was settled in our favour as reported in the 2011 interim results, however, the terms thereof remain confidential.

The arbitration proceedings between Reckitt Benckiser (SA) (Pty) Limited (RBSA) and CMSA have been settled by agreement between the company and RBSA. Refer to note 22 for the full details.

The net effect of these settlements negatively affected the earnings per share (EPS) and headline earnings per share (HEPS) calculations, but should be viewed as isolated occurrences.

REVIEW OF OPERATIONS

Cipla Medpro continues its growth, albeit slower than anticipated, and by January 2012 was again ranked third largest pharmaceutical company by value for the 12 months and third largest for the month of January 2012. Cipla Medpro has an Evolution Index (EV) of 102,7 (Rands) *(IMS, January 2012)*. The EV of 102,7 is the third highest of the top 20 pharmaceutical companies in South Africa.

The total private market grew by 9,8% in Rands. Cipla Medpro's performance outstripped the market, growing by 12,8% in Rands *(IMS, January 2012)*.

We remain focused on growing our brands in OTC medicines, particularly at retail level, and SEP. There is still a huge opportunity to continue SEP and OTC growth, given the pipeline of medicines we have.

Unfortunately the slow registration process, resulting in a lack of new first-to-market products, continues to weigh heavily on our business.

Our top three SEP brands contributed to sales of R190,8 million (12 months) *(IMS, January 2012)* into the private sector and still have growth potential. Lexamil is performing at an EV of 109,8. Of our top 10 OTC products, eight have EVs of over 100, with Airmune expected to achieve significant turnover in the next 12 to 18 months.

Our OTC business grew by 10,9% during the 12-month period *(IMS, January 2012)* and this excludes sales into retail.

CMSA registrations at the MCC	**31 December 2011**	31 December 2010
Dossiers registered during the past 12 months	**20**	18
Dossiers pending registration at the MCC	**273**	274
Dossiers received and submitted during the past 12 months	**65**	93
Dossiers expected to be registered over the following 12 months	**40 – 60**	25

Cipla Medpro: Top 10 SEP products

Based on Rands	**MAT January 2012 (R'm)**	MAT January 2011 (R'm)	Growth (%)	MAT Market share 2012 (%)	Market position
Lexamil	**69,4**	58,4	19	49	1
Venlor	**69,0**	66,0	5	68	1
Coxflam	**52,4**	54,3	(4)	65	1
Didivir	**50,8**	6,9	633	35	2
Carloc	**42,1**	39,6	6	72	1
Lansoloc	**36,4**	42,6	(15)	56	1
Budeflam	**33,0**	31,7	4	34	2
Cipla-Efavirenz	**32,6**	42,2	(23)	26	2
Epitec	**32,3**	26,9	20	38	2
Duolin	**31,9**	28,5	12	62	1

Source: IMS, January 2012

Cipla Medpro: Top 10 OTC products

Based on Rands	**MAT January 2012 (R'm)**	MAT January 2011 (R'm)	Growth (%)	MAT Market share 2012 (%)	Market position
Asthavent	**42,0**	39,4	7	53	1
Flomist	**21,9**	21,4	2	38	2
Allecet	**20,0**	18,8	6	24	2
Belate Aquanase	**18,2**	20,4	(11)	84	1
Fexo	**14,1**	10,1	39	51	1
K-Fenak	**13,9**	7,0	98	10	5
Airmune	**12,9**	7,1	82	17	3
Ciplaton	**11,6**	10,6	10	10	4
Lansoloc	**11,3**	9,7	17	82	1
Medaspor	**9,8**	9,2	6	24	2

Source: IMS, January 2012

> We launched our oncology division during late September 2011 and have started making inroads already. We look forward to a good trading year with this division.

The Cipla Vet (small animal) revenue increased by 10,9% to R23,4 million and Cipla Agrimed (large animal) increased by 44,7% to R77,0 million for the year ended 31 December 2011.

> We are pleased with the growth of our animal businesses.

Turnover of the factory increased significantly in 2011 (more than 100%), but the division still posted a loss, even when the effect of the RBSA settlement is excluded, mainly as a result of low uptake of ARVs from the government. However, this trading loss has reduced when compared to the previous years when the RBSA matter is stripped out. This business continues to improve while providing the group with a strategic and operational advantage, especially when we start moving into Africa.

As previously stated, the ARV tender business did not materialise to the numbers we had expected, probably due to the fact that more PEPFAR (US President's Emergency Plan for AIDS Relief) and Global Fund orders were placed. Cipla India benefited from this, which is borne out by their sales to SCS (Supply Chain Services).

Although we experienced slower growth than expected (we only launched five products, mostly late in the second half of the year), we believe 2012 will be better; provided, of course, that the registrations we expect materialise.

Jerome Smith
Chief Executive Officer

20 June 2012

Chief Financial Officer's report

Chris Aucamp

Revenue up 22%
Gross profit margin of 60%
PBIT up 30%
Final dividend of 7,5 cents per share
Share buy-back of 1,7% of ordinary shares

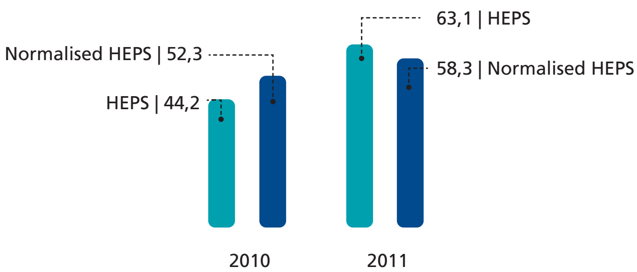
REVIEW OF THE 2011 RESULTS

Ratio	2011	2010
GP margin	60%	62%
Operating margin	26%	24%
Inventory days	181 days	157 days
Debtors days	64 days	63 days
Creditors days	170 days	186 days
Interest cover	7,7 times	5,7 times
Gearing ratio	20%	20%

Statement of comprehensive income

CMSA is pleased to report headline earnings of R282,2 million (2010: R195,4 million), an increase of 44,4% for the 12 months ended 31 December 2011. This translates into an increase of 42,8% to 63,1 cents (2010: 44,2 cents) in HEPS, based on 446,9 million (2010: 442,5 million) weighted average number of shares in issue for the 2011 year (before the effects of dilution are taken into account). This is after accounting for the effect of buying back 7,6 million CMSA shares in November 2011 (which have been cancelled) at a total cost, including all expenses, of R50,0 million under the general approval granted by shareholders at the last AGM held on 25 May 2011. The reconciliation to headline earnings includes the gain/loss on disposals of property, plant and equipment and the loss on the deemed disposal of a joint venture, all net of tax. EPS improved by 42,8% to 63,1 cents (2010: 44,2 cents).

After adjusting for the effect of the mark to market valuation of FECs, the settlements relating to Pfizer and RBSA, the fair value adjustments on the interest rate swaps, the interest rate swap settlements and other matters, normalised HEPS increased by 11,5% to 58,3 cents (2010: 52,3 cents) and normalised EPS by 11,3% to 58,2 cents (2010: 52,3 cents).



HEPS (cents)

> Revenue increased by 22,2% to R1,768 billion (2010: R1,447 billion) and although the gross profit margin was still at pleasing levels, it decreased to 59,7% from 62,1% at 31 December 2010 – slightly higher than the 58,2% achieved at 30 June 2011.

The exchange rate continues to have an impact on the margin and the group was proud to achieve this result without any SEP increase having been given during the 2011 year.

Foreign exchange movements	**GROUP Year ended 31 December 2011 (R'000)**	**Average 2011 $ rate**	GROUP Year ended 31 December 2010 (R'000)	Average 2010 $ rate
Gain on foreign exchange	**–**	**8,14**	4 871	7,11
Loss on foreign exchange	**(59 952)**	**8,14**	(27 396)	7,11
Gain (loss) on FECs	**109 225**	**8,27**	(44 739)	6,89
Foreign exchange gains (losses) included in operating profit	**49 273**		(67 264)	

Profit before finance costs and income tax (PBIT) for the year increased by 29,8% to R451,1 million (2010: R347,5 million), with operating expenses increasing from R557,2 million at 31 December 2010 to R725,7 million for the current year. 62,9% of the operating expenses were incurred during the second half of the year, mainly attributable to the RBSA settlement and increased advertising and marketing costs during the second half of the year, including amounts related to once-off events.

Net finance costs reduced from R57,8 million to R42,6 million mainly as a result of the settlement of the preference share liability, the effects of which are included in the analysis below:

- Interest on preferences shares of R1,0 million (2010: R9,5 million), a decrease of R8,5 million;
- Fair value gain on interest rate swaps of R4,1 million (2010: loss of R2,2 million);
- Increased outflows of swap settlements of R4,3 million (2010: R2,8 million);
- Interest on the Nedbank Limited long-term loan facilities of R22,5 million (2010: R18,1 million), an increase of R4,4 million due to the rearrangement of our debt structure; and
- Finance portion of the provision for the RBSA settlement amount of R7,4 million (2010: Rnil).

Currently the interest cover is at a comfortable level of 7,7 times (2010: 5,7 times). If the settlement amounts and unrealised gains on the mark to market of FECs are excluded from the calculation, the cover is 6,7 times.

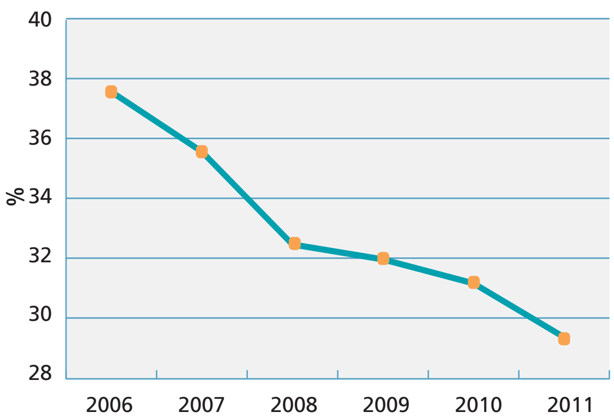
Profit after tax for the year was R287,0 million (2010: R199,3 million). This was achieved after an improvement in the effective tax rate to 29,7% (2010: 31,2%). The effective tax rate continued to improve, but still remains higher than the statutory tax rate due to the following factors:

- STC of R6,0 million (2010: R2,7 million);
- Non-deductible preference share interest of R1,0 million (2010: R9,5 million), and
- Non-deductible IFRS 2 Share-based Payment expenses of R1,5 million (2010: R10,5 million).

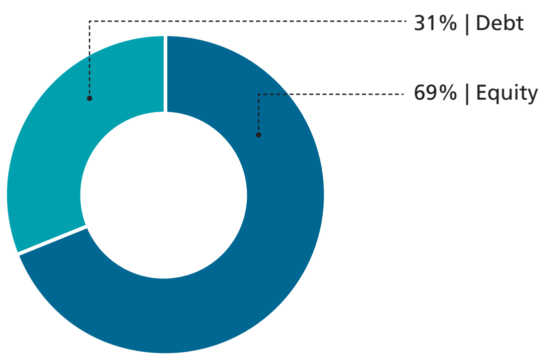
The IFRS 2 Share-based Payment expense has reduced significantly as many of the previously issued options have vested, while the options issued to staff during 2011, which are in terms of the new CMSA Employee Share Option Scheme, vest over a five-year period. This expense will increase in the future as more options are granted, but is not likely to reach the levels seen in the 2010 financial year.

Statement of financial position

Net interest-bearing borrowings have increased by R32,3 million to R385,9 million (2010: R353,6 million). However, the gearing ratio has reduced slightly to 19,6% (2010: 19,8%), although higher than the 13,7% reported at 30 June 2011 – mainly due to the settlement income from Pfizer.



Effective tax rate movement since 2006



Debt : Equity

CORPORATE GOVERNANCE

The group's net cash position was overdrawn at 31 December 2011 by R90,5 million (2010: R24,8 million) as a result of the following:

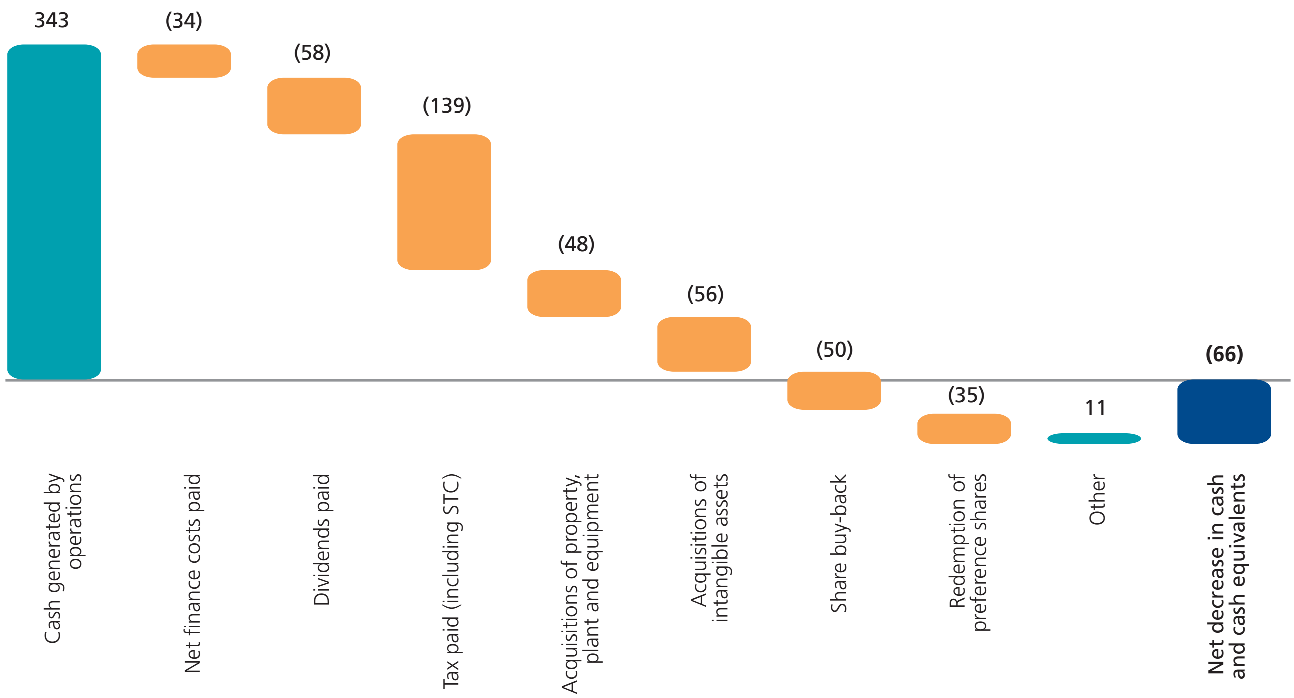
- Payment of the interim dividend of R29,5 million in October 2011;
- Payment of the second provisional tax payment of R72,6 million on 30 December 2011;
- Payment of R50,0 million for the share buy-back, including costs, in November 2011, and
- Amounts totalling R49,2 million owing by certain provincial health departments, in excess of normal debtor terms.

Debtors days have increased slightly to 64 days (31 December 2010: 63 days and 30 June 2011: 67 days), mainly due to slow and non-payment from certain debtors as referred to above. Creditors days are currently at 170 days (31 December 2010: 186 days and 30 June 2011: 185 days) with the reduction as a result of some invoices being settled early to take advantage of the exchange rate, where possible. The inventory days have increased to 181 days (31 December 2010: 157 days and 30 June 2011: 156 days) due to high levels of ARV stock held at year end. This was due to facilitating the shutdown from mid-December 2011 to the beginning of January 2012 for preventative repairs and maintenance. If the ARV products are excluded from the calculation, the inventory days would reduce to approximately 151 days.

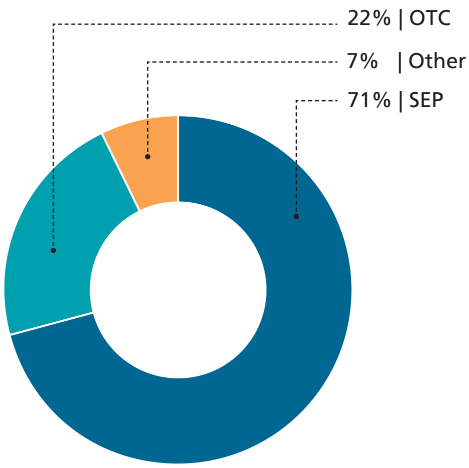
Statement of cash flows

Cash flows generated from operating activities are R112,0 million (2010: R150,9 million), after adjusting for the non-cash flow effects of depreciation of R24,1 million (2010: R18,1 million), IFRS 2 Share-based Payment expenses of R1,5 million (2010: R10,5 million) and FEC gains of R109,2 million (2010: loss of R44,7 million). The final dividend relating to 2010 of R27,2 million was paid to shareholders during May 2011, and the 2011 interim dividend of R29,5 million was paid in October 2011 (2010: inaugural interim dividend of R22,5 million).

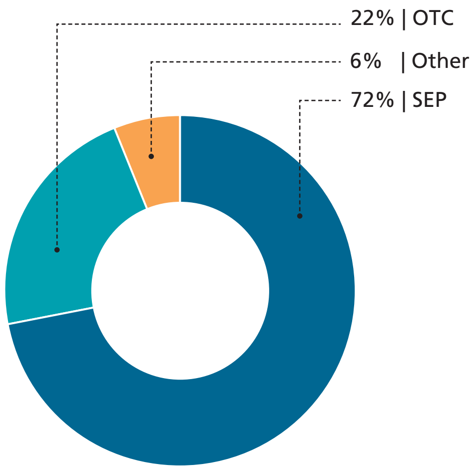
Investing activities resulted in outflows of R107,0 million (2010: R98,2 million) due to acquisitions of property, plant and equipment and intangible assets. A net R70,6 million was utilised for financing activities (2010: R17,4 million), mainly for the share buy-back of R50,0 million, the settlement of R34,5 million of the preference shares to Nedbank Limited and R10,0 million on the working capital and instalment sale facilities at the factory. This was offset by drawdowns of R26,0 million on the Nedbank Limited loan facility.



Net cash flows for 2011



Revenue 2011



Revenue 2010

Segmental reporting

> Based on the requirements of the group's chief operating decision maker (CODM) in 2011, the reporting segments were amended in accordance with IFRS 8 Operating Segments.

As the factory, a previously reported operating segment, is now producing mainly for the group and with third party manufacturing reducing to immaterial levels in 2011, the segments reported on to the CODM on a monthly basis were amended. The segments as per the segment report are the segments reviewed by the CODM on which to base business decisions. Segmental information is reported to the CODM up to a profit before finance costs and income tax level.

CHANGES IN OWNERSHIP INTEREST

Cipla Medpro made the following acquisitions/disposals during the year, none of which had a material impact on the affairs of the group:

- Acquired a 100% interest in a shelf company in Botswana, at a nominal value;
- Acquired an additional 25% interest in Cipla Nutrition (Pty) Limited (2010: 50% joint venture), and
- Accounted for the disposal of a portion of its interest in Cipla Agrimed (Pty) Limited in terms of the shareholders' agreement, without losing control over this company.

Chris Aucamp
Chief Financial Officer

20 June 2012

STAKEHOLDER ENGAGEMENT AND COMMUNICATION

CMSA is committed to regular, relevant and consistent communication with all its stakeholders, including the communities in which it operates, its customers, suppliers, unions, shareholders, regulatory bodies and employees.

CMSA is dedicated to the quality of life of all patients and health-conscious customers using our products. Patients and healthcare providers have open lines of communication with dedicated employees, including healthcare practitioners, equipped to address their questions, concerns or medicinal-related queries.

Stakeholder	Engagement and communication method
Employees	• Regular, routine meetings across all divisions and regions. • Notice boards visibly placed in all offices and departments, company-wide SMSs are distributed regularly and a staff newsletter is circulated to disperse relevant work, policy, procedure or corporate information, as well as the social aspects within the work environment. • Executive and middle management strategy meetings are held regularly. • Staff attend regular training workshops. • An annual sales meeting is held in Cape Town at the beginning of each year to deliver new strategies, goals, targets and objectives for each division to the sales force, executives and support staff. • The HR Forum serves as an interactive meeting between representatives from all departments and management, addressing aspects including, but not limited to: employment equity, skills development planning and overall improvement initiatives. • Whistle-blowing hotline implemented in 2012.
Investors and healthcare analysts	• Biannual presentations are held for investors and healthcare analysts at the release of the annual and interim results as required by the JSE – the presentations are also available via simultaneous webcast. • Continuous discussions with investors and healthcare analysts. • The company operates two websites containing investor-related information. • SENS announcements pertaining to corporate activity are released in terms of the JSE requirements. • Site visits to our factory and distribution centres are arranged periodically for investors. • During 2011 the company created an email address designated for investor-related queries.
Shareholders	• Advertisements are placed in English and Afrikaans media on the day after the results are released on SENS. • Annual and interim results are uploaded to the CMSA website after release on SENS. • Shareholders may contact the CEO and CFO for disclosable information when the company is not in a closed period. • Annual and interim results booklets and the annual report are distributed to all investors. • SENS announcements are released whenever the company needs to convey information relating to directors' share dealings or statutory corporate activity. • The AGM is held in Cape Town. • Our website is constantly updated with the latest information available.
Corporate bankers and funders	• The CFO and Company Secretary work closely with the corporate bankers regarding the group's performance, its finance requirements in the short and long term, and foreign exchange dealings.

Stakeholder	Engagement and communication method
Customers (consumers/ patients, healthcare providers, doctors, pharmacists, national and provincial departments of health, medical aid societies)	• A large national sales force details many of the customer groups. • Numerous advertising and marketing initiatives are undertaken within specified pharmaceutical industry parameters. • Representatives and marketing staff regularly attend industry conferences and congresses. • Customer care call lines and a customer care email address are available and advertised on product packaging; Cipla Medpro medical department staff with significant expertise deal with product and ailment queries from consumers and medical professionals. • Relevant corporate or product-related news is communicated via press releases and group websites. • Continuing Medical Education (CME) functions are arranged and facilitated for medical practitioners/ pharmacists in order to promote industry learning and continuing education among practitioners.
Pharmaceutical industry	• Representation on industry bodies, such as NAPM (National Association of Pharmaceutical Manufacturers).
Government and regulatory bodies	• Regular discussions with government with regard to mutual concerns. • Ongoing correspondence with the MCC. • Site inspections and correspondence by regulatory bodies.
Trade unions	• Employees within the bargaining unit have the opportunity to join a union of their choice. Currently, we do not have a recognised union on site, despite employees contributing to two different unions at CMM.
Bargaining councils	• The company has elected not to affiliate to a Bargaining Council at this time.
Suppliers	Skilled procurement departments are in place to negotiate and work closely with suppliers regarding raw materials and packaging materials on hand. Supplier audits are conducted periodically. BEE status of suppliers is ascertained in line with CMSA's BEE policy.
Partners	• Senior staff work closely with Cipla India. • Site visits in South Africa and India are arranged regularly. • Best practice, advice and knowledge are shared freely. • Dedicated technology transfer teams work closely with all partners to facilitate smooth introduction of new products into the manufacturing facility.

SPONSORSHIPS AND BRAND AMBASSADORS

In addition to the thousands of patients, doctors and pharmacists who rely on our medicines, CMSA is trusted by a number of South African sportsmen and -women to help them perform at their best and remain at the top of their game.

Olympic swimming gold medallist Ryk Neethling breathes easier in and out of the water using our respiratory products. CMSA provided medical products to the South African Olympic and Paralympic teams at the Beijing 2008 Olympic Games.

Our products have travelled the world in the medical bags of the Proteas cricket team for many seasons and have helped some of South Africa's top rugby teams train and prepare to take to the field. Our products are on call in the medical room during the games.

Some of our sponsorships and brand ambassadors include:

Ryk Neethling

Ryk began representing South Africa in international competition in 1993 and continued to do so throughout his career at the University of Arizona. He has held over 20 junior national records and 22 South African national titles. Ryk went on to represent South Africa and won medals in three Commonwealth Games, the most in the country's history. He is also a five-time Olympic and World Championship finalist, participating in the 1996, 2000 and 2004 Olympic Games. At the 2004 Olympic Games in Athens, Ryk anchored the South African team to a gold medal and world record (3:13:17) performance in the 4x100 m freestyle relay. He was also placed fourth in the 100 m freestyle final.

Andries Bekker

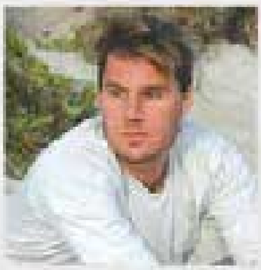
Andries is a South African Rugby Union player for the Springbok team. He made his national debut in 2008 against Wales in a 43–17 victory in Bloemfontein. Andries plays for Western Province in the Currie Cup and the Stormers franchise in the Super 15 rugby tournaments. He was South Africa's Super 14 Rugby Player of the Year in 2010.

Breyton Paulse

Breyton hails from the Koue Bokkeveld near Ceres. He was schooled on the De Keur farm, where he was raised, and began playing sport from a very young age. However, rugby was always his passion. Breyton studied at the University of Stellenbosch, with the gracious support of the De Keur farm owner Charl du Toit, and went on to make his breakthrough into Maties Rugby (the second oldest rugby club in the country). Despite his later selection for Western Province Rugby, critics doubted he would make the Springbok side. They were wrong, Breyton played 64 tests and became the seventh player to play over 50 tests for South Africa. He recently completed the Absa Cape Epic mountain-bike race and enjoys playing golf and getting involved in charity work.

Dr Craig Roberts

[Dr Roberts relies on many of our products to help heal, train and prepare players for gruelling matches.]



Hein Wagner

[It has been said that people born blind grow and mature with an intellect absolutely void of the preconceptions or judgements of those with sight. Their minds become formidable think-tanks… platforms from which they develop razor-sharp insights into life's daily problems and challenges. Hein is such a man.

He completed the Cape-to-Rio yacht race, skydived from 10 000 feet and bungee-jumped from one of the highest bridges in the world. Hein also completed the Hong Kong and New York City Marathons, the Ironman Korea and was the first blind person to complete the Absa Cape Epic, a strenuous eight-day mountain-bike race over 707 km. In 2005, Hein broke the world blind land-speed record for the second time, setting a new record at 322,5 km/h, and he plans to pilot a Boeing 747 from London to South Africa. These are only some of Hein's achievements.

He's also an actor, an academic and a benefactor… an achiever on all levels.]

Roxy Louw

[The South African surfing icon and model, Roxy, recently signed with CMSA as brand ambassador for our new Exfoliac Matifying Suncare Fluid SPF 50+ and Exfoliac Micellar Cleansing Water. We are excited to have her on board.]

Oor die Kole

[For six years, we have proudly sponsored *Oor Die Kole*, one of South Africa's most enduring talk shows. Hosted by former Springbok rugby players Kobus Wiese and Toks van der Linde, *Oor Die Kole* has introduced viewers to a glittering line-up of celebrities, sports legends and well-known personalities in a fresh, fun and informal manner.

South African greats such as Gary Player, André Watson, Leon Schuster, Johnny Clegg, Ryk Neethling, Steve Hofmeyr, Antoinette Kellerman and many others have been interviewed on *Oor die Kole*. With each new season, Kobus and Toks continue to raise the bar and deliver even more exciting content.]

PRODUCT RESPONSIBILITY

Manufacturing facilities utilised by the group are all cGMP (current Good Manufacturing Practice) compliant and meet the regulatory and legislative requirements that control the marketing, manufacture and distribution of pharmaceutical products.

The development of our products is performed in state-of-the-art laboratories with absolute focus on quality, efficacy and safety. Once our products have met our stringent control criteria, then only are the submissions for registration made to the relevant authorities for registration. These stringent requirements need to be met continuously to maintain cGMP approval of international regulatory authorities. Therefore these manufacturing facilities always consider and address continuous improvement in line with global quality innovations.

These manufacturing facilities are registered with relevant regulatory authorities. All raw materials and packaging components used in our products are from vendors that have been pre-approved and meet our stringent quality criteria. These materials are received and stored in warehouses that comply with the requirements of the regulatory agencies.

Our own manufacturing facility has been designed to ensure that the products are manufactured with minimal exposure to our employees in order to safeguard their health and safety. We have a very comprehensive quality management system that controls every aspect of the manufacturing facility. We have stringent standard operating procedures, validated batch manufacturing and packing processes and a quality control (QC) system that ensures compliance to our approved specifications and regulations. In-process checks are performed throughout the life cycle of every batch of product that is manufactured in the facility. Each batch is tested and approved by QC before it is released for sale into the marketplace.

Operating in a highly regulated environment, ensuring quality standards and product integrity are maintained in all environments and circumstances, necessitates dedicated personnel and investment in their development. CMSA has teams of highly qualified and experienced professionals in every area of the business. The company attends to the specific development needs of every team and professional perpetually.

Staying abreast of global regulatory development trends is a firm-standing goal. These are taken into account in determining and revising the regulatory strategy in accordance with the growth objectives of the company. Since provision of access to affordable medicines is a proven achievement and ongoing strategy of CMSA, diverse and developing markets are top priorities. Any regulatory linked trade barriers evident in these markets are addressed in concerted efforts with knowledgeable partners and/ or advisors.

CMSA has demonstrated a positive success rate and highly valuable knowledge in terms of patents related to various areas of medicine design.

RISK MANAGEMENT

Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues and opportunity.

The group has adopted an enterprise-wide risk management approach based on King III. The group enterprise risk management policy, which is reviewed and approved by the board annually, is to identify, analyse and respond appropriately to all risks.

The risk responses selected are determined by the appetites and tolerance for risks. These will vary over time according to the specific business objectives.

Each business unit has a local Risk Management Committee that regularly reports to the Audit and Risk Committee, via the CFO, on risk management in the group, while the board maintains oversight over risk governance in the organisation. The Risk Management Committees have undergone risk training to assist them in carrying out their duties and meet regularly to discharge their responsibilities.

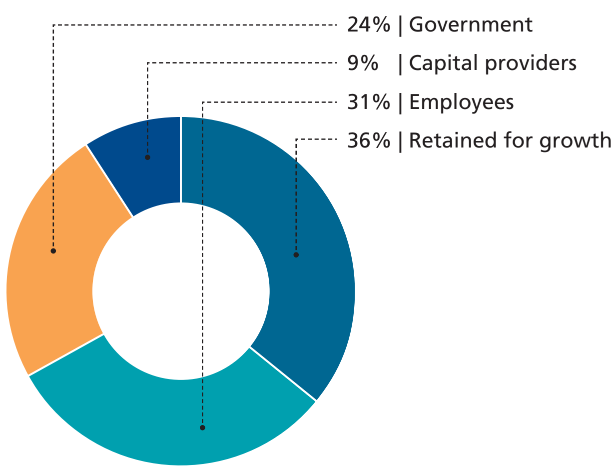
CMSA's risk management process

The group makes use of risk registers to manage and monitor risk on an ongoing basis. Assessments are conducted on both strategic and operational levels (focusing, among others, on the risks relating to the regulatory aspects, engineering, production, finance and quality operations). The following risk areas are monitored in detail: legal and compliance risks, financial risks, business continuity risks, fraud risks and IT risks.

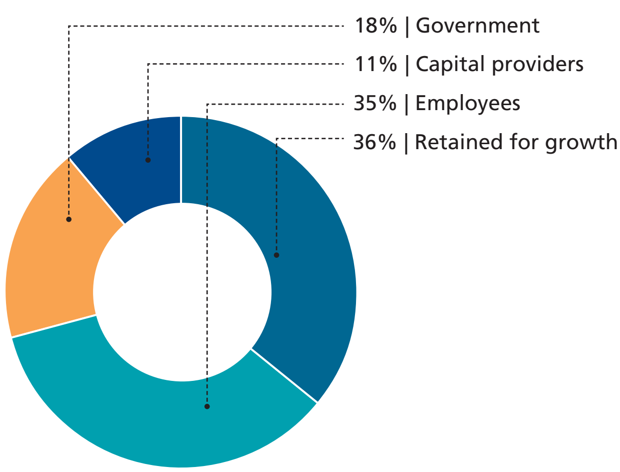
The detailed responsibilities of the board and the Audit and Risk Committee can be found on pages 18 and 20 respectively.

Investors' pick

VALUE ADDED STATEMENT for the years ended 31 December	GROUP 2011 R'000	GROUP 2010 R'000
Revenue	1 767 561	1 446 979
Other operating income	121 264	6 614
Less: purchased materials and services	(1 159 842)	(882 525)
Value added from operations	728 983	571 068
Finance income	15 586	2 830
Total value created	744 569	573 898
Value distribution		
Employees (including directors)	229 831	200 821
Providers of capital	63 238	64 485
Finance costs	58 212	60 585
Non-controlling interests	5 026	3 900
Monetary exchanges with government[1]	180 270	101 286
Reinvested in the group	271 230	207 306
Depreciation and recurring amortisation	25 497	18 628
Deferred taxation	(36 228)	(6 725)
Retained in the group	281 961	195 403
Total value distribution	744 569	573 898
Value added statistics		
Number of full-time employees at year end	697	611
Revenue per employee	2 536	2 368
Value added per employee	1 046	935
Value created per employee	1 068	939
[1]Monetary exchanges with government		
Current taxes (including STC)	157 690	97 170
Customs and excise duties	22 580	4 116
Gross contribution to central and local governments	180 270	101 286
Additional collections on behalf of government		
Employees' taxes	70 735	53 378
Net value added tax paid	53 682	50 532
	124 417	103 910



Value distribution 2011



Value distribution 2010

SUSTAINABILITY REPORT

Non-financial highlights

[Launched oncology division]

[Fastest growing of the four listed players]

[Increased utilisation at the factory]

[Efficiencies gained at the distribution centres]

[Africa expansion in progress]

Five-year review

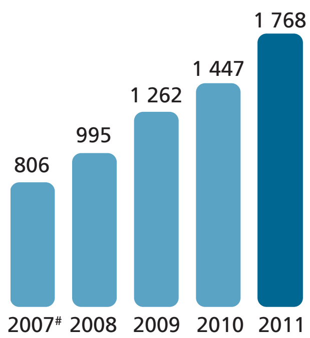
for the years ended 31 December

GROUP	Five-year compound annual growth* %	2011 R'000	2010 R'000	2009 R'000	2008 R'000	2007# R'000
Revenue	22	**1 767 561**	1 446 979	1 262 058	994 892	806 234
Cost of sales	16	**(712 045)**	(548 892)	(641 700)	(501 553)	(392 611)
Gross profit	26	**1 055 516**	898 087	620 358	493 339	413 623
Other income		**121 264**	6 614	6 426	7 256	14 864
Selling and distribution expenses		**(365 803)**	(284 972)	(224 200)	(164 712)	(154 179)
Administrative expenses		**(137 826)**	(155 751)	(93 687)	(81 267)	(54 512)
Other expenses		**(222 076)**	(116 475)	(47 520)	(27 096)	(21 099)
Profit before finance costs and income tax	26	**451 075**	347 503	261 377	227 520	198 697
Net finance costs and finance income		**(42 626)**	(57 755)	(22 873)	(34 873)	(33 666)
Finance costs		**(58 212)**	(60 585)	(28 227)	(64 897)	(54 182)
Finance income		**15 586**	2 830	5 354	30 024	20 516
Share of profit of equity-accounted investee (net of tax)		**–**	–	–	–	317
Profit before income tax	28	**408 449**	289 748	238 504	192 647	165 348
Income tax expense		**(121 462)**	(90 445)	(76 418)	(62 593)	(58 880)
Profit for the year	31	**286 987**	199 303	162 086	130 054	106 468
Earnings per share						
Basic earnings per share (cents)	29	**63,1**	44,2	36,3	29,3	25,0
Diluted earnings per share (cents)	29	**62,8**	43,7	36,3	29,2	24,9

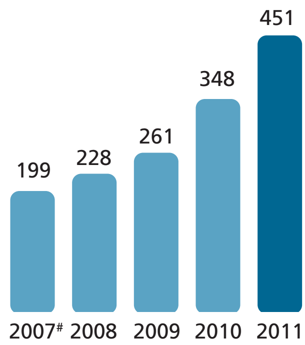
* *Excludes the effect of the settlement amounts in 2011*

\# *Continuing operations*

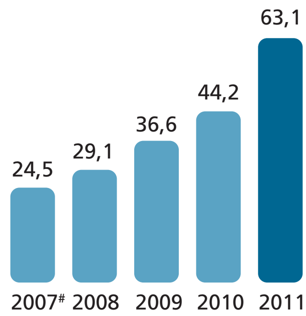
Financial highlights



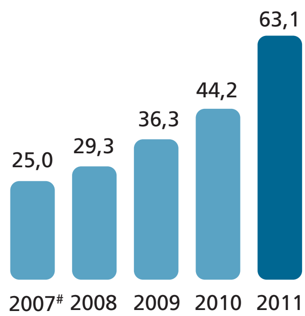
Revenue
(R millions)



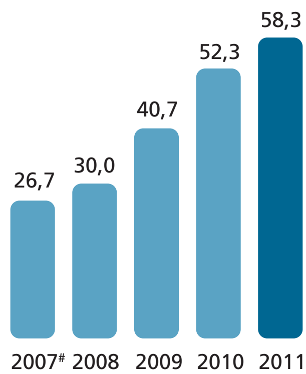
PBIT
(R millions)



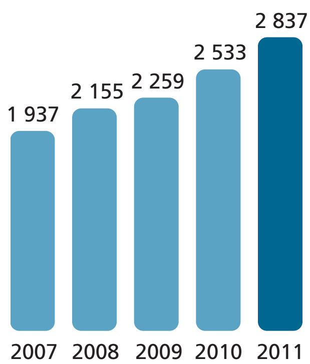
HEPS
(cents)



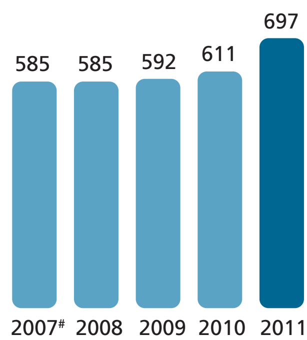
EPS
(cents)



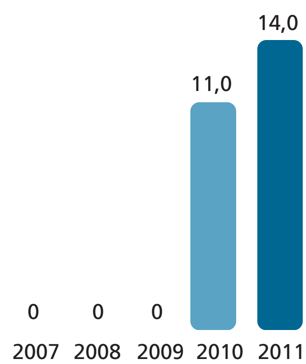
Normalised HEPS
(cents)



Total assets
(R millions)



Employee head count



Dividend per share
(cents)

\# *Continuing operations*

SAFETY, HEALTH AND ENVIRONMENT (SHE)

The group is committed to developing and maintaining a work environment that is safe and risk-free, especially at our factory.

- External audits both from potential and current customers have been conducted, with no significant findings. Our SHE department has implemented a monthly SHE internal audit plan since 2008, which certifies legal compliance. All findings are noted, corrected and audited to ensure the recommendations of the findings have been implemented.
- All employees are encouraged to report all incidents (accidents) on site. Incidents are tracked on a monthly basis and are investigated and reported to the SHE committee. All supervisors are trained and competent in the incident investigation and management procedure.
- All employees and contractors have completed the on-site induction training, which includes safety, health and environmental aspects.
- There are SHE representatives in every department and all representatives receive ongoing and up-to-date training. In addition, the site induction procedure requires that all employees attend SHE induction, thereby ensuring awareness and compliance with the SHE policy at the outset.
- Monthly SHE committee meetings are held and potential risks raised by management and SHE representatives; the issues are noted and followed up until the corrective actions are complete and effective.
- Unplanned evacuation drills at the plant are conducted annually to evaluate adherence to the evacuation policy as well as to identify opportunities for improvement. For the Emergency Preparedness Plan, seven fire-fighters and 15 first-aiders have been trained and emergency preparedness committee meetings are held every three months.
- All employees are currently monitored in a medical compliance programme, which is conducted annually.

The year 2011 has seen some key changes being effected within the SHE department and its reporting structure. The SHE department resides under the management control of the Engineering department and, in line with CMSA's commitment to developing, maintaining and providing a safe and risk-free work environment, an opportunity to mobilise this department was presented in the latter quarter of 2011. This saw the appointment of the Utilities Manager, who has direct management responsibility for SHE, and a safety officer. With this revitalisation of the department, came a name change as well. The SHE department will now, and in the future, be the Environmental, Health and Safety (EHS) department.

This "new" department will be heavily geared towards critically evaluating all EHS factors affecting the company and the global environment, with the primary objective being the derivation of actions towards mitigation of these risks. The data evaluated for 2011 will form the reference point for these initiatives and is presented in this report without comparison.

SHE STATISTICS AT OUR FACTORY

Indicator	2011	Kg CO_2 equivalence
Water usage	**60 606 m^3**	–
Electricity	**1 061 643 kWh**	1 093 493
Travel by flights	**86**	19 522
Waste disposal	**207 tons**	–
General waste	137 tons	–
Hazardous waste	69 tons	–
Biohazardous waste	1 ton	–

Comparatives for 2010 were not available

Water usage

Water usage in 2011 was recorded as 60 606 m^3, with an average consumption of approximately 5 051 m^3 per month (see Figure 1). Water is used primarily on site in the water generation plant, where incoming water is treated via the reverse osmosis process to produce purified water, as required by pharmaceutical manufacturing standards for cleaning of equipment. CMM has commenced with evaluating options for recycling/reusing the waste water discharged from this process.

Water usage peaked during the first and last quarter of 2011 due to an increase in utilisation of the manufacturing facility, necessitating increased frequencies of plant washing and sanitation.

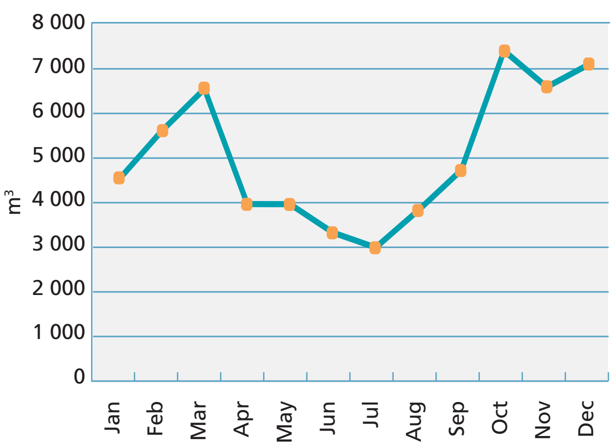


Figure 1: Water usage at CMM during 2011

Electricity
The 2011 total electrical consumption was 1 061 643 kWh (see Figure 2). The monthly average consumption has been approximately 88 500 kWh. There was an increase in the consumption during the second half of the year that is attributed to increased utilisation of the manufacturing facility. Projects to reduce electricity usage have been identified and these include:

- Shutting down surplus non-essential equipment;
- Installation of more energy efficient systems for controlling the plant temperature and humidity; and
- Optimising equipment operation through installation of variable speed drives (VSDs) for critical motors.

The combined potential saving is 5% on the current annual electricity consumption. This will be monitored monthly to confirm the actual savings achieved.

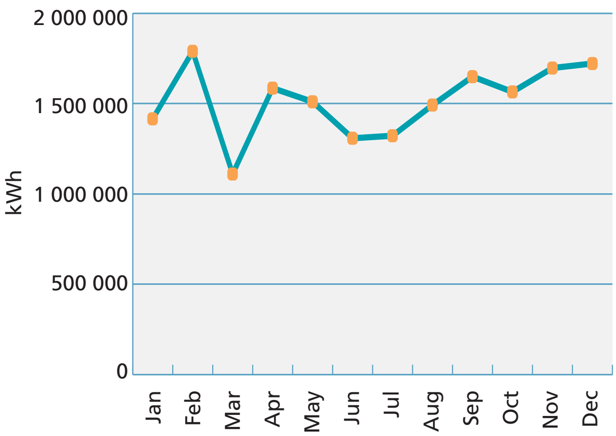


Figure 2: Electricity usage at CMM during 2011

Waste disposal
Our manufacturing processes generate both solid and liquid waste. Solid waste is separated into hazardous, non-hazardous and biohazardous waste. A total of 207 tons of waste was disposed of in 2011, of which 137 tons was non-hazardous waste, 69 tons was hazardous waste and one ton was biohazardous waste (generated in the microbiology laboratory).

Current waste management practices ensure appropriate waste disposal via reputable, licensed waste management companies. CMSA has reviewed its approach to waste management, in line with the National Environmental Management Waste Act 59 of 2008 and has started the process of implementing an integrated waste management system. The key pillars of this system are

Figure 3 below graphically represents the volumes of waste generated.

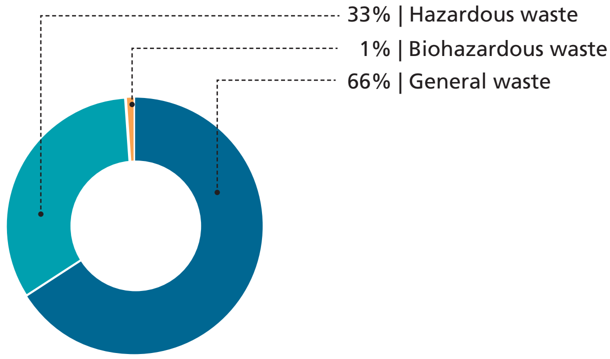


Figure 3: Waste disposal at CMM during 2011

waste stream mapping, effective waste segregation, investigation into waste recycling opportunities and, where inevitable, ensuring responsible waste disposal.

Effluent generated is disposed of via eThekwini's Southern Sewage Works in accordance with an effluent discharge permit issued by the Water and Sanitation Department of eThekwini.

All waste is sent to designated sites and is tracked on a monthly basis. Currently waste is comprised of general waste (non-hazardous), microbiological waste (hazardous), chemical waste from the laboratory and product waste (high-hazardous), which is sent for safe disposal.

Carbon footprint
With climate change and global warming increasingly becoming a serious concern the world over, corporate businesses are required to evaluate the impact of their business activities on the environment and to define their carbon footprint.

At CMM our carbon footprint has been assessed in terms of electricity usage, as indirect emissions (electricity), and from employees' air travel. There is no direct emission of green-house gases from the manufacturing facility.

For 2011, CMM's carbon footprint was calculated to be approximately 1,1 million kg CO_2 equivalence. This is consistent with the carbon footprint reported in 2010. In addition, a power correction factor has been implemented and electric boilers are also used on site, with the plan to only use one to save on electrical consumption. Monthly inspections are done on all utility lines to ensure optimal efficiency of the energy services.

All efforts are made to ensure that no uncontrolled products or chemicals pollute the environment. Emergency procedures and spills' kits are available on site. All persons handling chemicals have been trained in chemical or product spill procedures and chemical hazards (MSDS training).

CMSA is also committed to preserve our planet with CFC-free inhalers
It is widely recognised that ozone depletion is due to substances such as CFCs, the chemicals used in air-conditioners, refrigerators and propellants. The Montreal Protocol called on all nations to halve the emissions of CFCs by 1997.

CMSA is ahead of the pharmaceutical industry in that by the year 2000, all our inhalers used HFA (most recent and environmentally safe inhaler used by asthmatics). We are proud of our commitment to preserving our planet.

Health
CMM currently contracts in occupational health services and employees have access to an occupational health nurse and an occupational health doctor once a week. A medical surveillance programme commenced last year, where files detailing medical history (including chronic conditions, allergies, past injuries etc.) were compiled for every employee. This empowers CMM to respond better to emergency situations concerning our employees. This allows for a more effective response to on-site medical emergencies.

Occupational hygiene surveys are carried out to ensure that CMM continues to maintain a work environment that is not harmful or detrimental to the health of our employees.

Safety
Safety management continues to be a key focus, with an active EHS committee. The EHS committee comprises EHS representatives, management representatives, as well as co-opted members, such as subject matter experts. The committee meets monthly and minutes are well documented.

Legal appointments as required by the Occupational Health and Safety Act No. 85 of 1993 have been reviewed and the corresponding training required for these roles to be effectively managed, has been identified.

EHS STATISTICS AT OUR DISTRIBUTION CENTRES
Waste disposal
During 2011, our distribution centres started a recycling project, where all paper, carton and plastic are recycled.

The income that is generated from the recycling project is used for employee welfare, as well as the involvement/support of at least one community project per year. Employees are given the opportunity to nominate and choose the community project that will be supported.

Total waste disposed of during 2011 decreased from 260 m^3 per month to 45 m^3 per month. The significant reduction is due to the fact that waste is now primarily generated at one distribution centre whereas in the past both distribution centres were used for the same purpose, hence generating more than double the waste. In 2011, efficiencies at the distribution centres were achieved as one distribution centre is now used solely for receiving with the other being used for dispatch. Waste at the distribution centres is non-hazardous and only disposed of by accredited contractors.

All expired and damaged products are limited to a minimum. These are destroyed according to strict rules and regulations, one of which is the deblistering of all tablets and capsules in specially manufactured bins – these bins are sealed when they are filled and are then removed by the contractor. The impact on the environment is again minimal, due to the fact that we recycle all packaging.

The destruction of medication is regulated by the Medicines and Related Substance Act 101 of 1965, as well as the National Environmental Management Waste Act 59 of 2008, as referred to above. We comply with both acts and no fines or sanctions have been made against us. A destruction certificate is obtained for each load that is removed and destroyed.

TRANSFORMATION
CMSA maintains its commitment and role towards transformation in South Africa, through embracing BBBEE. The company strives to:

- Be an equal opportunity employer, giving preference to and aiming to increase, the number of employees from previously disadvantaged communities;
- Foster an awareness of cultural diversity; and
- Empower employees through incentive schemes and upliftment projects, such as numeracy and literacy training.

The group has achieved a BBB-rating from SANAS-approved economic empowerment rating agency Empowerdex, verified in terms of the Department of Trade and Industry's Codes of Good Practice (Codes), thus solidifying the group as a 'Level 5' contributor to BBBEE in the country. The current accreditation represents a slight reduction in the rating with the group having achieved an A-rating or 'Level 4' contribution status in the previous scorecard. We are optimistic that we will improve this rating in the coming year.

CMSA VERIFIED BBBEE SCORECARD STATISTICS

Scorecard element	Target score	Verified score 2012	Verified score 2011
Ownership	20,00	**17,97**	17,01
Management control	10,00	**4,89**	4,96
Employment equity	15,00	**7,12**	6,98
Skills development	15,00	**4,17**	9,24
Preferential procurement	20,00	**17,71**	16,09
Enterprise development	15,00	**1,44**	8,57
Socio-economic development	5,00	**3,22**	5,00
Overall score	100,00	**56,52**	67,85

THE BOARD'S COMPOSITION CAN BE SUMMARISED AS FOLLOWS					
Name	Gender	Race	Date appointed	Type of directorship	Independent
Chris Aucamp	Male	White	17 August 2007	Executive (CFO)	No
Bongani Caga	Male	African	13 November 2007	Non-executive	No
Johan du Preez	Male	White	16 March 2010	Non-executive	Yes
Sbu Luthuli	Male	African	1 January 2005	Non-executive	Yes
Nthabiseng Mokone	Female	African	13 November 2007	Non-executive	Yes
Mpho Mosweu	Female	African	22 February 2007	Non-executive	Yes
Jerome Smith	Male	White	1 September 2006	Executive (CEO)	No
Sandile Zungu	Male	African	16 March 2010	Non-executive	Yes

Ownership

After the exclusion of organs of state and mandated investments as provided for in the Codes, black ownership and black-female ownership on the basis of economic interest has been verified at 37,61% and 8,77% respectively (previous scorecard: 37,57% and 5,43% respectively), on the basis of the modified flow-through principle. The above has allowed the group to score maximum points within certain areas of the ownership element, and to increase its ownership score to 17,97 points.

The R270-million BEE transaction concluded in 2005, whereby CMSA partnered with the Sweet Sensation consortium, has firmly secured CMSA's position as a leading empowerment pharmaceutical company in South Africa. As part of that transaction, directors and employees were also afforded the opportunity to acquire eight million shares in the company through a management holding company, which is currently 51,04% black owned and 8,38% black-female owned.

CMSA employees also benefited through the company's AltX listing in 2005 and many still hold shares in CMSA in their own names. This resulted from share offerings made in terms of the broad-based employee share scheme and share incentive scheme established in 2005.

Management control

The score in this category has remained stable at 4,89 points (previous scorecard: 4,96 points). This element is supported by our steadfast board structure, which has remained unchanged since March 2010, and the demographics of the positions occupied at top management levels in the group.

The board's composition is summarised in the table above.

The board's membership constitutes five black directors, ensuring 62,5% black representation before the adjusted recognition for gender as provided for in the Codes. Two of the board's directors are black-female, equivalent to 25,0% of the total board membership. The group also scores bonus points for 62,5% of the board being independent non-executive directors.

All board members are South African citizens and hold equal voting rights. For the brief *curriculum vitae* of each of the directors, and the board committees of which they are members, please refer to pages 14 and 15 and pages 19 to 21 respectively.

Employment equity

The group has scored 7,12 points (previous scorecard: 6,98 points) on the employment equity element.

The table below shows the demographic distribution of our labour force as at 31 December 2011.

WORKFORCE PROFILE											
	MALE					FEMALE					
Occupational Levels	A	C	I	W	FN	A	C	I	W	FN	Total
Top management	1	0	3	11	0	0	1	0	1	0	17
Senior management	0	0	1	8	0	0	0	5	3	0	17
Middle management	0	4	3	37	0	1	2	2	23	0	72
Junior management	8	14	23	76	0	13	12	12	103	0	261
Total management	**9**	**18**	**30**	**132**	**0**	**14**	**15**	**19**	**130**	**0**	**367**
Semi-skilled	49	21	50	6	0	14	21	23	40	0	224
Unskilled	35	15	16	1	0	17	18	4	0	0	106
Total permanent	**93**	**54**	**96**	**139**	**0**	**45**	**54**	**46**	**170**	**0**	**697**
Temporary employees	5	0	1	1	2	4	1	2	2	0	18
Grand total	**98**	**54**	**97**	**140**	**2**	**49**	**55**	**48**	**172**	**0**	**715**

A – African C – Coloured I – Indian W – White FN – Foreign National

With the exclusion of top management which features in the management control element of the scorecard, black employee representation has decreased slightly since our previous scorecard, excluding temporary employees.

We continue to score well at senior management level, with a respectable score at the junior management level, however, we have earmarked the middle management occupational level and the published Economically Active Population (EAP) targets as areas for improvement. This will be achieved through the implementation of programmes and training to help develop and upskill our employees. Some challenges we face in meeting these targets include:

- Attrition rates at middle and junior management levels;
- Scarce skills requirements in the industry in which we operate; and
- Retention of black employees.

However, some of the initiatives in place to address and improve these targets, include:

- Succession planning;
- Talent management;
- Development;
- On-line recruitment; and
- Employer branding.

Our permanent staff complement also includes nine (2010: seven) disabled staff members, of which five (2010: six) are black people.

RECRUITMENT STATISTICS FOR THE 2011 YEAR			
Age group	**Male**	**Female**	**Total**
Less than 30	28	23	51
30 to 50	46	28	74
Greater than 50	2	5	7
	76	**56**	**132**
TERMINATION STATISTICS FOR THE 2011 YEAR			
Age group	**Male**	**Female**	**Total**
Less than 30	7	9	16
30 to 50	18	19	37
Greater than 50	9	2	11
	34	**30**	**64**

Skills development

A score of 4,17 points (previous scorecard: 9,24 points) has been obtained in the skills development category. The decrease can be attributed mostly to the reduction in learnerships and ABET training during the 2011 year. This was exacerbated by the delay in our training service provider obtaining updated accreditation from the Pharmacy Council – this has since been obtained and we have signed agreements with learners for the 2012 year.

The group strives to contribute significantly to the ongoing development of its major resource, its employees, and we expect that our scoring in this category will improve next year through the continuous in-house cGMP training typical in the pharmaceutical industry, financial study assistance granted to staff, leanership programmes earmarked for the 2012 year and the continuous professional development of our employees.

Refer to the 'Employer of choice' section on pages 50 to 53 for more details on the various skills development initiatives in place at CMSA.

Preferential procurement

We are pleased with our score of 17,71 points achieved through the procurement of qualifying goods and services from black-owned entities, after the exclusion of non-discretionary imports.

With the majority of our qualifying suppliers being value-adding suppliers, and based on their favourable procurement recognition levels, we continue to score the maximum 12 points in the sub-category 'total BEE procurement as a percentage of total measured procurement spend'. We also scored maximum points on our BEE procurement from Qualifying Small Entities (QSEs) and Exempted Micro Enterprises (EMEs). Many of our suppliers are more than 50% black owned or more than 30% black-female owned, which also sustains our scoring in this element.

> We had 839 suppliers at 31 December 2011 – 795 of them being local. Total value spent on local suppliers was R500 million for the year.

Our customers will in turn be able to recognise 80% of spend on the value of goods procured from the CMSA group. In addition, the CMSA group has been classified as a value-adding supplier, which benefits our customers when calculating their procurement scores.

The above illustrates the group's support of BEE-compliant suppliers and, in particular, BEE procurement from QSEs and EMEs, which helps to improve their chances of business success.

Enterprise development

The group had scored 1,44 points (previous scorecard: 8,57 points) on the enterprise development element based on qualifying contributions and the benefit factor matrix. Our target is at least 3% of net profit after tax as provided for in the Codes, hence we have highlighted this element as a focus area.

Socio-economic development

The board and management of CMSA acknowledge their responsibility towards the community in which it operates and a number of corporate social investment (CSI) initiatives were undertaken during the year. In line with this, the group has scored 3,22 out of a possible 5,0 points available in this category.

Refer to pages 47 to 49 for details of the various CSI initiatives undertaken by the group.

CORPORATE SOCIAL INVESTMENT

Some of the corporate social responsibility initiatives undertaken during the year include:

Jacob G Zuma RDP Educational Trust

At the official commissioning of our Durban-based facility in September 2010 and in recognition of the important role played by education in the development of the country, a R1,5-million donation was dedicated to the Jacob G Zuma RDP Educational Trust, payable over three years. In accordance with the wishes of CMSA, the educational grant will be used primarily in the field of post-matric studies in engineering, medicine and pharmaceutical studies.

On 29 December 2011, CMSA was involved in the 2011 Jacob G Zuma RDP Education Trust Children's Christmas Party held at Inkandla, KwaZulu-Natal, President Zuma's home town. At this event, President Zuma talked about the business and importance of education in society today. Past students, who had benefited from the Trust Fund, gave a speech on how education had changed their lives. CMSA handed out various items to 600 children.

More recently CMSA, in conjunction with the Jacob G Zuma RDP Education Trust, hosted a function at Quarry Heights Primary School in Durban on 16 March 2012. Quarry Heights Primary School is a no-fees school with 650 students, providing education for Grade 0 to 7 learners. The school comprises eight dilapidated prefab classrooms, two garden sheds that serve as the Principal's office and staff room, a derelict container that serves as a kitchen and a rundown shelter for the security guard. There are about 90 children per class with 20 teachers, of whom 18 are qualified. There is no electricity at the school and the sanitation is very poor.

Quarry Heights Primary School, under the guidance of its principal, Mrs Madlala, has demonstrated fortitude and relentless determination in ensuring that the children of this school are educated and fed, despite all of the difficulties and obstacles that the school faces on a daily basis. The dilapidated state of the classrooms, its facilities and lack of utilities is depressingly inadequate and we were in awe that the educators of this school persevered in their aim to educate the children despite this. We sought to recognise the educators of this school for their commitment and dedication.

Among other items provided, we were humbled by the plight to provide 20 bicycles as transportation for the teachers of the school.

CMSA is excited about its involvement in this fund and our commitment as an organisation to unite and spread our expertise to develop future generations of leaders was highlighted at these events.

Further initiatives and interventions are currently being planned between CMSA and the Jacob G Zuma RDP Educational Trust, a fact that we all take immense pride in.

Jacob G Zuma RDP Educational Trust Children's Christmas Party

Quarry Heights Primary School

Miles for Smiles
a Cipla initiative

Cipla Miles for Smiles
As one of our flagship initiatives, we continue our ongoing Diamond Smile sponsorship of Operation Smile SA by underwriting the costs of Cipla Miles for Smiles challenges. In 2006, the non-profit Cipla Miles for Smiles Foundation was launched to raise funds to enable Operation Smile SA to create awareness and provide free reconstructive surgery for children born with cleft lips and/or palates.

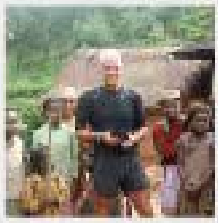
With a simple 45-minute procedure at a cost of R5 500 per operation, a child's life can be changed forever. This is why the Cipla Miles for Smiles Foundation was initiated when CMSA's CEO met David Grier, an extreme athlete, and heard about his dream to run the length of the Great Wall of China. With both of them feeling passionately that their collective skills should be utilised to benefit a worthy cause, they took this opportunity to launch the Cipla Miles for Smiles Foundation. To date we have helped heal 1 000 children. The impact is felt not just through the children we heal, but also their families.

The following extreme events have been completed:


2011/2012

INDIA
4 008 km run in 93 days

David completed a gruelling 4 008 km run through India, from the north to south.


2009/2010

MADAGASCAR CHALLENGE
500 km paddle in 11 days and 2 700 km run in 66 days

David undertook the Madagascar Challenge, becoming the first to kayak solo from Mozambique to Madagascar, and thereafter running up the length of the island. At the Operation Smile Madagascar surgical mission, almost 200 children received corrective facial surgery.


2008

COASTAL CHALLENGE
3 300 km run in 80 days

David and Braam returned for another never-been-done-before extreme event, the Cipla SPAR Miles for Smiles Coastal Challenge, where they ran a 3 300 km 'smile' around the coastline of Southern Africa.


2006/2007

THE GREAT WALL
4 200 km run in 98 days

Cipla Miles for Smiles extreme athletes Braam Malherbe and David Grier made history by running the Great Wall of China, in the process raising sufficient funds to provide corrective facial surgery for 55 children.

Operation Smile South Africa

Adopt-a-school

CMSA has been actively involved in fundraising for the Peninsula School Feeding Association since 2008. This fundraising initiative has grown into an annual event where, with the help of celebrities and friends, much needed funds are raised by auctioning off various sponsored items. In 2010 a total of R500 000 was raised. This resulted in nearly 1 400 learners from seven schools receiving one meal a day for an entire year. The next event will be held on 7 June 2012 as we will continue supporting this worthy cause.

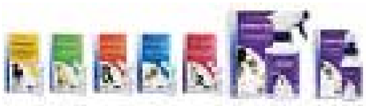
Pink Drive

In 2011 CMSA launched its oncology division with 11 products and a pipeline of 19 more products awaiting approval.

The division's tag line is *None Shall Be Denied* as we firmly believe in providing cancer patients access to world-class, affordable medicines and, in so doing, giving them a ray of hope when facing the hopelessness of mounting bills.

We are also committed to furthering education in terms of cancer prevention and management. In October 2011 we teamed up with the Pick n Pay Women's Walk to co-sponsor a series of nationwide 5 km walks, aimed at raising funds to support free cancer screening and health advice in local communities. All funds raised were for the benefit of the *Pink Drive*.

Cipla Vet
Making it better for our four-legged friends



CMSA is proud of our small animal health division's involvement in the community.

In December 2011, Cipla Vet teamed up with the Lucky Lucy Foundation (a non-profit, pro-quality of life organisation that tries to relieve the plight of severely neglected and abused township and street animals) to make it better for the animals in the Kalkfontein community in the Western Cape.

On the day, 130 animals were vaccinated, treated for fleas and ticks with Fiprotec Spray, dewormed with Triworm and the animal owners were educated about animal health and the benefits of sterilisation.

Cipla Vet also embarked on the Fiprotec Save the Rhino Campaign where a portion of the Fiprotec sales revenue was donated to the Endangered Wildlife Trust's Rhino Fund. A total of R84 500 was raised in the campaign and this money will be used effectively to assist in the prevention of the heinous and senseless killing of South Africa's beautiful rhinos.

Employer of choice

The group seeks to be an employer of choice within the pharmaceutical sector, and the Human Resources (HR) and management teams are dedicated to attracting and retaining the best talent while providing employees with a working environment conducive to career growth and advancement.

CMSA employs approximately 700 staff.

RECRUITMENT AND TALENT MANAGEMENT

At CMSA, our recruitment and talent management processes are aligned with our business values: camaraderie and team spirit; inspired and passionate; desire to win the business; respect and integrity; and dazzle our customers with great service and care.

Candidates are evaluated against these values in addition to functional and personal competency based criteria. The introduction of an automated recruitment system and careers page has seen measurable results in ensuring that the best talent is employed. This has facilitated a targeted approach to addressing critical skills requirements within the business.

Recruitment is aligned to specific job requirements and competencies. Where appropriate, preference is given to historically disadvantaged employees, ensuring a focus on approved Employment Equity and transformational targets.

Employees at CMSA participate in a formalised performance management biannual process with agreed key performance indicators that drive the annual remuneration review process and annual short-term incentives. The performance management process is continuously reviewed and improved to ensure that the business continues to build a high performance culture.

Movement of employees during the year:	Number of employees
Number of employees as at 31 December 2011 (excluding temporary staff)	697
Appointments during the year	132
Addition of employees through acquisition	1
Employees promoted	14
Termination of employment contracts	64
Retirements (included in terminations)	2
Deaths (included in terminations)	2

COMPETITIVE REMUNERATION AND REWARDS

CMSA has designed and implemented a comprehensive remuneration and rewards strategy, which includes annual benchmarking against the industry and an audit of all jobs and their associated grades. This has resulted in an HR governance framework, which has aligned the principles of pay, performance and job grading.

Benefits are reviewed annually to ensure that the overall strategy assists in attracting and retaining the most talented employees. Group life, disability and ADMED gap cover were introduced at Cipla Medpro creating a very competitive benefits offering within the industry. Given the competitiveness of the pharmaceutical industry, retention of key skills and succession planning are key HR processes at CMSA. The Remuneration Committee, through a formalised Remuneration and Rewards policy, ensures that succession planning is identified for critical positions. Refer to the Remuneration Committee report on pages 22 to 25. Specific retention plans for key skills are in place to ensure continuity and growth.

A long-term CMSA Employee Share Option Scheme was introduced and this has resulted in reduced labour turnover and increased the retention of top talent and critical business and technical skill. Refer to note 23 for further details on the share options.

SKILLS DEVELOPMENT

Training at CMSA forms one of the major tenets of the company's business strategy for 2012 and beyond. The enrichment of key competencies and capabilities has allowed us to continue to grow our brand value and mark our place as a key player in the pharmaceutical industry. Training requirements and programmes within the rapidly growing group are extensive, diverse and continual. The training department, based at the group's head office in Cape Town, consistently evaluates training and skills development requirements across all employee levels and divisions within the group and implements suitable programmes that are then monitored, with post-training support provided when required.

Focused in-house training addresses identified soft skills, product-specific training and employee development. While the view is always to multi-skill employees, thereby speeding up their growth and creating sustainable livelihoods, training is also focused on building economic and social infrastructures by strengthening the skills base, thus solidifying a cohesive, caring and sustainable workforce.

Regularly scheduled workshops, seminars, training sessions and motivational talks are some of the tangibles that symbolise our ongoing commitment to enhance the capabilities of employees, creating an environment whereby a myriad of opportunities impact positively on the lives of employees, providing easy pathways across our business.

The training department works closely with the HR department when addressing skills development needs – from ensuring the almost 360 CMM employees (including temporary staff), receive ongoing cGMP training in accordance with regulatory requirements to inducting new recruits at all levels and to constantly keeping the medical and product knowledge of the 197-strong national sales team current.

Our key training focus areas remain:

- *Optimum utilisation of human capability* – optimising the utilisation of human capability that further helps the employee to achieve the organisational goals as well as their individual goals.
- *Development of human capability* – providing an opportunity and broad structure for the development of technical and behavioural skills in an organisation and attaining personal growth.
- *Development of skills of employees* – increasing the job knowledge and skills of employees at each level by expanding the horizons of human intellect and the overall personality of the employees.

CMSA 2011 TRAINING STATISTICS

Training conducted	Number of sessions	Total number of attendees
Orientation programmes	48	433
Motivational talks	4	250
Workshops (internal and external)	36	765
External product-specific	6	257
Skills enhancement training	2	154
Web seminars	7	166
cGMP training and refresher	1 584	11 307
In-house technical training	2	85

Training at our distribution centres – Cape Town

The top five employees of those who attended the Good Wholesaling Practice courses in both 2009 and 2011 were enrolled in the 18-month Pharmacist's Assistant Basic course in 2010 and 2011 respectively. All 10 employees completed this course successfully. The company has enrolled these employees in the post-basic level course in 2011/2012. The courses cover the required unit standards and uses outcomes-based assessments to evaluate competency, skills and knowledge.

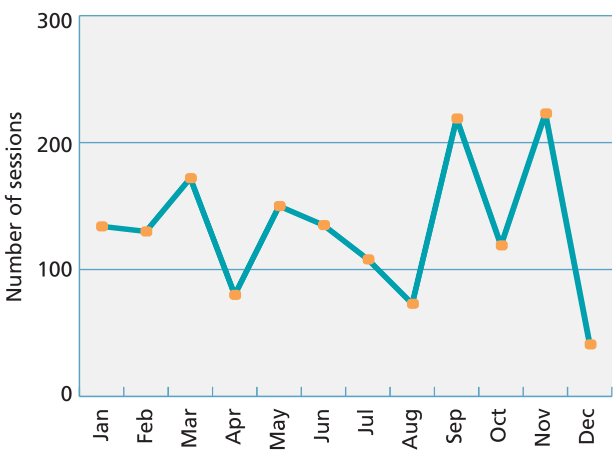
All 56 employees at our two distribution centres attend training sessions. In total, 2 016 hours of training were provided to staff in 2011.

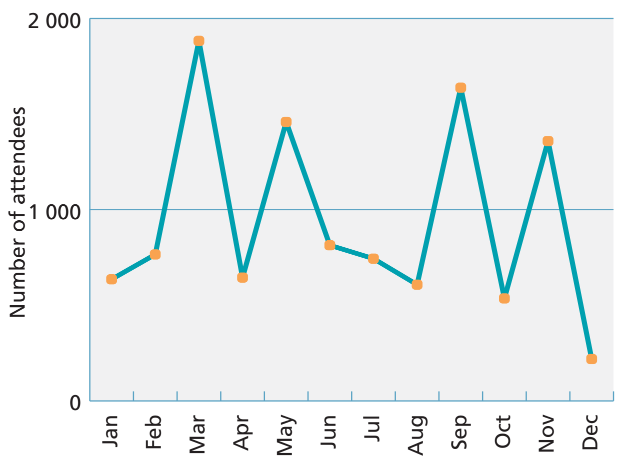
The company identified 10 employees to receive advanced training, which commenced in 2011. In 2012, these employees should qualify as pharmacist's assistants. Over and above the normal training mentioned above, this advanced training is scheduled to be 1 000 hours for the duration.

Cipla Medpro Manufacturing training – Durban

The group's Durban-based pharmaceutical manufacturing facility operates under stringent MCC cGMP guidelines as well as being one of the first in South Africa to meet international PIC/S standards and guidelines.

For the employees, on-site training is paramount. The HR department ensures that there is continual cGMP training, development and assessments across all departments and staff levels in accordance with an approved training plan for the company and for each individual. This ensures a strong focus on the adherence to quality standards.





cGMP training and refresher training sessions 2011

A minimum of 13 cGMP sessions are scheduled per month, with a minimum of 60 attendees per session. This ensures continuous awareness and adherence to cGMP principles and standards.

A total of R1,4 million was spent on training at the manufacturing facility for the 2011 financial year. The average training spend per employee was R3 812. This is a significant increase from 2010 and is a true reflection of our continuous training and development of our employees. As indicated in the table of 2011 training statistics, 1 584 training sessions were held in 2011, with regard to in-house cGMP training and refresher sessions.

Continuous education/learnerships/in-service training

CMSA supports the continuous and ongoing development of its employees and initiates and encourages employee attendance at workshops, training courses and seminars nationally.

At Cipla Medpro the focus has been on continuous medical education, with almost 30 employees attending internal and external functional-related training. In addition, a total of 14 employees were granted the opportunity to gain first-hand exposure from our "partner", Cipla India, in Goa, India, in March/April 2011. As an example, the respiratory team spent a week with Indian specialists in the respiratory field, gaining immense knowledge and updates on the latest respiratory technology and devices. Our training manager spent a further five days in Mumbai, India, working in-field with respiratory sales representatives from Cipla India in order to improve the sales delivery of CMSA respiratory sales representatives.

The group is also a constituent member within the Chemical Industries Sector. Our skills development facilitator, in conjunction with our HR department, submits a workplace skills plan and training report annually to the Chemical Industries Education and Training Authority (CHIETA) to assist us in fast-tracking the ongoing development and empowerment of our employees. During the year, the group applied for and received two discretionary grants for Adult-Based Education and Training (ABET) and for the Pharmacist Assistant Scarce Skills Programme.

The total value of discretionary grants recieved for 2012 is R2 066 040. This will renew the focus on identified scarce and critical skills, employment promotion and sector skills priorities across all areas of the business. This is underpinned by our training strategy of transformation through skills development, which drives empowerment through further development of professional competence, providing access to opportunities, careers and economic wealth for our employees.

In 2010, 20 previously disadvantaged employees from CMM were enrolled under registered learnerships, to attended ABET programmes during the 2010 year. These ranged from ABET level one to level three. Selections were made from the previously disadvantaged groups, providing significant development opportunities to employees. A training venue, complete with computers and other relevant training aids, has been made available for our ABET learnership students to achieve their goals. In terms of the BBBEE Codes of Good Practice issued by the Department of Trade and Industry, skills spend on ABET programmes is currently recognisable at a multiple of 1,25 of the amount actually spent, on the BEE scorecard.

Fifteen employees were registered for the South African Pharmacy Council-accredited Basic and Post-Basic Pharmacist's Assistant courses and seven of the permanent employees at the manufacturing facility passed the Pharmacist Assistant Learner Basic in 2011. This is aligned with the identified skills needed at the facility.

The four Durban University of Technology students, who were taken on as in-service trainees at the facility in 2010, were permanently employed in 2011.

In 2011, one University of KwaZulu-Natal and three Durban University of Technology students were taken on as in-service trainees, all of whom were appointed permanently in 2012. A further five in-service trainees have been taken on for practical training in 2012.

This same year a technical training initiative has been rolled out across the manufacturing facility and the regulatory department. The initiative will assist in increasing core competency and knowledge by either web seminars or presentations. To date, four web seminars have been held addressing a wide variety of subjects ranging from cross-contamination of products to validation protocols.

Financial study assistance for staff

The group provided financial aid in the form of study assistance loans to 11 employees at CMM and to seven employees at Cipla Medpro during 2010/2011, to allow employees to further their studies as related to their job functions.

All of the above has contributed positively to the skills enhancement and knowledge base of our employees.

Cipla Adelaide Tambo Healthcare Bursary

By the end of 2009, two previously disadvantaged pharmacy students were able to complete their Bachelor of Science degrees in Pharmacy at the University of KwaZulu-Natal as a result of CMSA funding provided in the form of this bursary, while a third pharmacy student finished mid-2010.

The first student has completed his one-year internship at the Durban manufacturing facility and has also successfully completed his community service. The internship programme at CMM allows the students to gain exposure in all facets of a pharmaceutical business and the company is committed to providing ongoing development opportunities.

In 2011, we introduced two artisan apprentices on site, one of whom completed the trade test and qualified as the first previously disadvantaged female millwright on the artisan apprentice programme. She has since been permanently employed at the factory as a millwright. The second apprentice will write his trade test in June 2012. In continuation of this initiative, CMSA has taken on an additional nine apprentices in 2012.

Whats more, the company paid and supported the successful completion of an employee's artisan trade test.

Employee health and wellbeing services

Cipla Medpro's employees are members of the company's medical aid scheme, which is subsidised by the company, and members have a number of option choices in terms of level of coverage. Cipla Medpro employees are members of a pension fund, while CMM employees contribute to a provident fund.

As part of an overall Emloyee Wellbeing Programme the company offers ICAS South Africa (one of the world's leading providers of employee assistance wellness and wellbeing programmes; behavioural risk management services and critical incident support) as a counselling service to employees who undergo traumatic events and employees are given the opportunity to attend counselling sessions, should they deem the need. Over the past year, 18 employees have made use of this service, in a total of 46 counselling sessions.

At the manufacturing facility, all employees in direct contact with product undergo annual medical assessments. Employees now have access to an on-site clinic, staffed by a doctor and nursing sister, once a week. New initiatives are continuously being considered to increase on-site value of the clinic to employees. Awareness programmes have been introduced to ensure the general wellness of all employees, and include:

- An Occupational Health Management Programme
  - Hazardous exposure identification and management i.e. noise and audiograms
  - Certifying employees fit to work i.e. driver medicals
- Compensation for Occupational Injuries and Diseases Act, 1993 (COIDA)
  - Workman's Compensation covers Injured on Duty (IOD) and Occupational Diseases
  - COIDA Claims Management i.e. IODs
- Incapacity Management (i.e. labour relations legislation)
  - Absenteeism and productivity assessments
  - Rehabilitation back-to-work programmes
  - Ill-health retirement assessment
  - Substance abuse management
- Occupational Health Education
  - i.e. noise-induced hearing loss
- HIV/AIDS
  - The on-site doctor is available at our on-site clinic to provide confidential medical counselling to affected employees.
  - The Employee Wellbeing Programme includes a range of HIV/AIDS services, all of which have been specifically developed to reduce the impact of the pandemic.

HUMAN RIGHTS

The company is committed to ensure that all employees operate in a work environment that is compliant with all relevant charters and labour regulations. To support this culture, the relevant policies have been introduced and are visibly placed to ensure compliance.

CODE OF ETHICS

A code of ethics policy has been introduced to create an awareness of the company's values and standards. The company provides an environment in which personal growth is supported and encouraged. Performance excellence is promoted to balance current competencies with the present and future needs of the company and in support of the individual's aspirations, and is in line with the company's Employment Equity policy and strategy.

Training and development initiatives are funded by the company. Employee needs are identified through the Performance Management system and one-on-one personal development discussions with their managers.

Categories of training and development required include:

- Adult Basic Education initiatives to support Affirmative Action and Employment Equity;
- Accelerated training and fast-tracking of identified top performers;
- Mentorship programmes and processes;
- Training and development for succession;
- Diversity;
- Specialised skills;
- Supervisory/managerial skills;
- Company specific skills/knowledge/values; and
- Interpersonal skills and other performance improvement skills.

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 statements of financial position at 31 December 2011, and the statements of comprehensive income, the statements of changes in equity and statements of cash flow for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with IFRS and in the manner required by the Companies Act.

The directors' 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.

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's and company's ability to continue as a going concern and there is no reason to believe these entities will not be going concerns in the year ahead.

The group's external auditors, Mazars, audited the group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited and their report is set out on page 58.

C Aucamp (CFO) is responsible for these consolidated annual financial statements and has been involved with the preparation thereof in conjunction with MW Daly and E van der Merwe, all three of whom are qualified CA (SA)s.

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 2011, set out on pages 59 to 119, were approved by the board of directors on 20 June 2012 and signed on their behalf by:

PCS Luthuli
Chairman

JS Smith
Chief Executive Officer

Durban
20 June 2012

Company Secretary's report

for the year ended 31 December 2011

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 2011, been lodged with the Companies and Intellectual Property Commission and that all such returns are true, correct and up to date.

MW Daly
Company Secretary

Durban
20 June 2012

Audit and Risk Committee report

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.

The composition, purpose and duties of the Audit and Risk Committee are included in the amended MOI that will be put before shareholders for approval at the forthcoming AGM, and operates in accordance with its terms of reference that is approved by the board. Refer to page 20 for more details on the composition and responsibilities of the Audit and Risk Committee.

The accountability to the board regarding the execution of the risk management process lies with the CFO, and not the CEO, as recommended by King III. Both the board and Audit and Risk Committee feel that this is appropriate given the experience and responsibility of the CFO.

EXECUTION OF AUDIT AND RISK COMMITTEE FUNCTION

The Audit and Risk Committee has executed its duties and responsibilities during the year in accordance with its terms of reference and the Companies Act.

Financial statements

In respect of the financial statements, this committee:

- Reviewed the appropriateness of the financial statements, other reports to shareholders and any other financial announcements made public;
- Considered whether the annual financial statements fairly present the financial position of the company and of the group as at 31 December 2011 and the results of operations and cash flows for the financial year then ended; and
- Considered accounting treatments, the appropriateness of accounting policies and the effectiveness of the group's disclosure procedures.

Going concern

The Audit and Risk Committee considered and agreed with the adoption of the going concern premise in the preparation of the financial statements.

External audit and external auditor

In the execution of its statutory duties during the past financial year, the Audit and Risk Committee:

- Nominated for appointment as its external auditor, Mazars and Conrad Burger as the designated partner who, in our opinion after consideration, are independent of the company and were independent throughout the 2011 year;
- Believes that the appointment of Mazars complies with the relevant provisions of the Companies Act and King III;
- Determined Mazars' terms of engagement and approved the fees paid to Mazars as disclosed in the notes to the annual financial statements;
- Determined the nature and extent of all non-audit services provided by Mazars as per the Audit and Risk Committee's scope and responsibilities as set out in detail in the terms of reference;
- Approved all material non-audit services provided by Mazars;
- Assessed the effectiveness of the external auditors, by reviewing:
  - Mazars' progress against, and fulfilment of, the agreed audit plan; and
  - The process followed by Mazars in their handling of the key accounting issues and audit judgements.
- Provided oversight of the external audit process, by reviewing:
  - The areas of responsibility, associated duties and scope of the audit;
  - Mazars' overall audit planning memorandum for the year;
  - Significant accounting and auditing issues that arose during the audit and the manner in which they were resolved;
  - Key accounting and audit judgements, where applicable;
  - The quantum and nature of errors identified during the audit; and
  - Recommendations made by Mazars, management's responses to issues raised and the adequacy thereof.

Based on the results of the activities outlined above, the Audit and Risk Committee has recommended to the board that Mazars should be reappointed for 2012. Shareholders will accordingly be requested to consider and vote on the proposed reappointment at the forthcoming AGM.

Internal financial controls and internal audit

The Audit and Risk Committee has:

- Evaluated the independence, effectiveness and performance of the internal audit function, established from both within the company and co-sourced with an external third party, RAFT Consulting, and compliance with its mandate;
- Reviewed the effectiveness of the group's system of internal financial control, including receiving assurance from management and external audit; and
- Reviewed significant issues raised by the internal audit process and the adequacy of the corrective action in response to significant internal audit findings, where applicable.

Based on the processes outlined above and the assessments obtained from management and the joint internal audit function, the Audit and Risk Committee believes that the internal financial controls are effective and that there were no material breakdowns in internal controls.

Financial function

This committee considered, and was satisfied with, the experience, expertise and suitability of the CFO, Chris Aucamp. The Audit and Risk Committee is also satisfied that all financial announcements and annual financial statements have been prepared in accordance with the JSE Listings Requirements, IFRS and the accounting policies of the group.

Compliance

The Audit and Risk Committee has considered the effectiveness of the system for monitoring compliance with laws and regulations and for finding and investigating instances of non-compliance and is satisfied with the effectiveness thereof.

The Audit and Risk Committee met with internal auditors and external auditors without management being present and no material matters that required attention were raised in those meetings.

Following our review of the annual financial statements for the year ended 31 December 2011, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and IFRS, and fairly present the results of operations, cash flows and the financial position of the company and the group. This committee therefore recommended the consolidated and separate annual financial statements of Cipla Medpro South Africa Limited for approval to the board of directors. Shareholders will accordingly be requested to consider and adopt the annual financial statements at the forthcoming AGM.

Whistle-blowing

The group has recently implemented an independently operated, toll-free whistle-blowing hotline. Employees, suppliers and other stakeholders are requested to report any unethical matters. The whistle-blowing arrangements are approved and monitored by this committee. All complaints raised via the hotline are sent from KPMG, the independent service provider, to our general legal counsel for review and investigation where necessary. Copies are sent to the external auditors, and every three months a report is sent to the Chairman of the Audit and Risk Committee, as this committee is ultimately responsible for any investigations that may be required.

The Audit and Risk Committee is satisfied that all issues raised via the hotline or otherwise have been, or are in the process of being, adequately addressed.

Recommendation of the integrated annual report for approval

The Audit and Risk Committee has reviewed and recommended the 2011 integrated annual report for approval by the board of directors.

On behalf of the Audit and Risk Committee

Mpho Mosweu
Chairman

20 June 2012

Independent Auditor's report

to the shareholders of Cipla Medpro South Africa Limited

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 statements of financial position as at 31 December 2011, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows 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 59 to 118.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate annual financial statements in accordance with IFRS and the requirements of the Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Cipla Medpro South Africa Limited at 31 December 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act.

Mazars

Mazars
Registered Auditor
Partner: Conrad Burger
Registered Auditor

20 June 2012

Mazars House
Rialto Road
Grand Moorings Precinct
Century City
7441

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 and the consolidated financial statements of the group for the year ended 31 December 2011.

This year saw difficult economic conditions for consumers and businesses alike; nevertheless, the group continued to grow faster than the total private market.

Nature of business
Cipla Medpro South Africa Limited 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 2011 are set out in the attached financial statements.

The review of operations for the year is fully covered in the Chairman's, CEO's and CFO's reports, as set out on pages 26 to 33.

Changes in ownership interests
The following acquisitions and changes in ownerships occurred during the year:

Name of entity	Date of acquisition/ change	Percentage acquired/ change	Percentage shareholding	Accounting treatment
Cipla Agrimed (Pty) Limited	**January 2011**	**Reduction of 11% interest**	**64,25**	**Consolidate**
Cipla Medpro Botswana (Pty) Limited	**June 2011**	**100% interest**	**100,00**	**Consolidate**
Cipla Nutrition (Pty) Limited	**December 2011**	**25% interest**	**75,00**	**Consolidate (2010: equity account)**

Subsidiary companies
Details of the subsidiary companies are set out in note 20 and Annexure A of the financial statements.

Joint ventures
Details of the joint ventures are set out in note 20.

Capital expenditure
To date R374 million (2010: R341 million) has been spent on the upgrade and continuous improvements to CMM's 4 000 square-metre Mobeni site and pharmaceutical manufacturing facility. CMM became one of the first PIC/S-compliant facilities in South Africa, matching the highest standards for pharmaceutical manufacturers in the world.

Dividends
On 19 March 2010, the company announced that a dividend policy for the 2010 year (with a dividend yield of between 1,8% and 2,0%, split between an interim and final dividend) had been approved by the board. This policy was subsequently amended to a dividend cover of between four and five times. In 2011 this policy has been complied with when the results are analysed on a normalised basis.

Interim
The company declared an interim dividend of 6,5 cents (2010: 5,0 cents) per share, based on the results of the first six-month period of 2011.

Final
A final dividend in respect of the year ended 31 December 2011 of 7,5 cents (2010: 6,0) per share was declared on 5 April 2012.

The total dividend for the year amounted to 14,0 cents (2010: 11,0 cents) per ordinary share equating to a dividend cover of 4,2 times (2010: 4,0 times). The estimated total cash flow of the final dividend of 7,5 cents per share, payable on 14 May 2012 is R33,5 million. This includes the 15% dividends withholding tax, which became effective from 1 April 2012.

The board is satisfied that the remaining capital, after the payment of the final dividend, is sufficient to support the current operations and to facilitate future development of the group. The board is also satisfied that the solvency and liquidity test, as set out in section 4 of the Companies Act, will be passed immediately after completing the proposed distribution; in particular that it is satisfied that:

- The assets of the group, as fairly valued, will equal or exceed the liabilities, as fairly valued, immediately after the distribution; and
- The group will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date of the distribution.

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 R446 462 (consisting of 446 461 759 ordinary shares of 0,1 cent each) (2010: R454 027 consisting of 454 026 555 ordinary shares of 0,1 cent each).

At the AGM of the company held on 25 May 2011, the requisite majority of Cipla Medpro South Africa Limited shareholders approved an ordinary resolution placing the control of the authorised, but unissued, share capital of the company under the authority of the directors, limited to 5% of the issued share capital.

In terms of the general authority to repurchase shares approved by shareholders, via special resolution, at the last AGM held on 25 May 2011, the company bought back 7 564 796 (2010: nil) ordinary shares of its issued share capital over the period 16 November 2011 to 25 November 2011. The repurchase approximated 1,7% of the issued share capital and took place at prices between 649 cents and 660 cents per share, totalling R50,0 million for the completed share buy-back.

The following shareholder owns 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 18,4% of the issued share capital.

Further details of the authorised and issued share capital of the company are given in note 11 of the annual financial statements.

DIRECTORS

Directors' interests in the issued shares of the company

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

	Beneficial direct '000	Beneficial indirect '000	Non-beneficial indirect '000	Total '000	Percentage held
31 December 2011					
C Aucamp	**–**	**750**	**–**	**750**	**0,17**
MB Caga	**–**	**180**	**–**	**180**	**0,04**
PCS Luthuli	**789**	**1 998**	**–**	**2 787**	**0,62**
JS Smith	**–**	**16 822**	**–**	**16 822**	**3,77**
	789	**19 750**	**–**	**20 539**	**4,60**
31 December 2010					
C Aucamp	–	750	–	750	0,17
MB Caga	–	180	–	180	0,04
PCS Luthuli	789	1 998	–	2 787	0,61
JS Smith	–	16 822	–	16 822	3,70
	789	19 750	–	20 539	4,52

ND Mokone has a direct, beneficial holding of 10 shares (2010: 10 shares) in the company.

There has been no change in directors' shareholdings subsequent to the 2011 year end and to the date of signature of this report.

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

Executive directors

JS Smith (CEO)

C Aucamp (CFO)

Non-executive directors

PCS Luthuli (Chairman)

MB Caga

JvD du Preez

ND Mokone

MT Mosweu

SMD Zungu

Each of the executive directors has a fixed-term contract containing terms considered to be standard for such contracts. These contracts include restraint-of-trade provisions.

Refer to note 21 for detailed disclosure of directors' remuneration and benefits 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 20 of the annual financial statements.

Special resolutions

At the AGM held on 25 May 2011, shareholders approved via special resolution, for the company and/or its subsidiaries by way of a general approval to acquire the issued ordinary shares of Cipla Medpro South Africa Limited, upon such terms and conditions and in such amounts as the directors of Cipla Medpro South Africa Limited may from time to time determine, but subject to the MOI of Cipla Medpro South Africa Limited, the provisions of the Companies Act and the JSE Listings Requirements, and the provisos as listed in the notice of meeting dated 15 April 2011 included in the 2010 group annual report.

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 group are Mazars.

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

The arbitration proceedings between RBSA and CMSA have been settled by agreement between the company and RBSA. The company has sought specialist accounting advice on the appropriate accounting treatment of the above settlement. Such advice is that:

- Notwithstanding that evidence as to the actual potential extent of the liability only came to light after 31 December 2011 and the finalisation of the provisional financial statements for the period ending 31 December 2011, the underlying potential liability to RBSA was in existence at 31 December 2011;
- The board had not, as at the date of approval of the settlement agreement, approved this integrated annual report, including the group annual financial statements, for the period ending 31 December 2011;
- The appropriate and correct accounting treatment for the settlement is to account for the settlement in the accounting period ending 31 December 2011.

Refer to note 22 for the full details.

The directors are not aware of any other matters or circumstance that are material to the financial affairs of the company and the group, which has occurred between 31 December 2011 and the date of approval of the annual financial statements, that has not been otherwise dealt with in the company and group annual financial statements.

PCS Luthuli
Chairman

JS Smith
Chief Executive Officer

Durban
20 June 2012

Statements of financial position

as at 31 December

	Notes	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	**444 457**	420 125	**366 561**	339 965
Intangible assets	4	**1 535 443**	1 475 470	**1 427**	1 427
Investments in subsidiaries	5	**–**	–	**831 185**	831 185
Other investments	6	**8**	6	**–**	–
Loans receivable	7	**3 191**	–	**31 210**	29 328
Deferred tax assets	8	**67 179**	28 220	**61 569**	22 850
Total non-current assets		**2 050 278**	1 923 821	**1 291 952**	1 224 755
Current assets					
Inventory	9	**414 907**	289 661	**60 780**	23 014
Income tax receivable		**1 312**	742	**–**	–
Trade and other receivables, including derivatives	10	**350 264**	264 775	**41 684**	48 544
Loans receivable	7	**3 881**	7 709	**47**	47
Cash and cash equivalents	24.4	**16 493**	46 448	**174**	167
Total current assets		**786 857**	609 335	**102 685**	71 772
Total assets		**2 837 135**	2 533 156	**1 394 637**	1 296 527
EQUITY					
Issued share capital	11	**446**	454	**446**	454
Share premium	11	**1 013 123**	1 063 098	**1 013 123**	1 063 098
Treasury shares	11	**(28 019)**	(28 019)	**–**	–
Retained earnings (accumulated loss)		**968 537**	741 863	**(219 824)**	(58 413)
Total equity attributable to equity holders of the parent		**1 954 087**	1 777 396	**793 745**	1 005 139
Non-controlling interest		**12 544**	7 472	**–**	–
Total equity		**1 966 631**	1 784 868	**793 745**	1 005 139
LIABILITIES					
Non-current liabilities					
Loans and borrowings	12	**279 128**	311 428	**28 128**	43 470
Provisions, commitments and contingencies	22	**42 622**	–	**42 622**	–
Accrued operating leases		**3 594**	3 000	**2 054**	2 244
Amounts due to subsidiaries	5	**–**	–	**367 074**	133 589
Deferred tax liabilities	8	**14 790**	12 342	**–**	–
Total non-current liabilities		**340 134**	326 770	**439 878**	179 303
Current liabilities					
Trade and other payables, including derivatives	13	**342 136**	322 856	**41 349**	38 930
Loans and borrowings	12	**21 456**	17 354	**16 319**	14 934
Provisions, commitments and contingencies	22	**30 000**	–	**30 000**	–
Accrued operating leases		**520**	–	**188**	–
Income tax payable		**29 295**	10 012	**–**	–
Bank overdrafts	24.4	**106 963**	71 296	**73 158**	58 221
Total current liabilities		**530 370**	421 518	**161 014**	112 085
Total liabilities		**870 504**	748 288	**600 892**	291 388
Total equity and liabilities		**2 837 135**	2 533 156	**1 394 637**	1 296 527

Statements of comprehensive income

for the years ended 31 December

	Notes	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Revenue	14	**1 767 561**	1 446 979	**196 888**	94 527
Cost of sales		**(712 045)**	(548 892)	**(150 414)**	(77 730)
Gross profit		**1 055 516**	898 087	**46 474**	16 797
Other income		**121 264**	6 614	**21 893**	19 267
Selling and distribution expenses		**(365 803)**	(284 972)	**(11 424)**	(8 645)
Administrative expenses		**(137 826)**	(155 751)	**(58 230)**	(42 194)
Other expenses		**(222 076)**	(116 475)	**(136 617)**	(13 025)
Profit (loss) before finance costs and income tax	15	**451 075**	347 503	**(137 904)**	(27 800)
Net finance costs and finance income	16	**(42 626)**	(57 755)	**(1 600)**	(10 608)
Finance costs		**(58 212)**	(60 585)	**(9 044)**	(10 838)
Finance income		**15 586**	2 830	**7 444**	230
Profit (loss) before income tax		**408 449**	289 748	**(139 504)**	(38 408)
Income tax (expense) income	17	**(121 462)**	(90 445)	**33 391**	4 235
Profit (loss) for the year		**286 987**	199 303	**(106 113)**	(34 173)
Profit (loss) attributable to:					
Equity holders of the parent		**281 961**	195 403	**(106 113)**	(34 173)
Non-controlling interest		**5 026**	3 900	**–**	–
Profit (loss) for the year		**286 987**	199 303	**(106 113)**	(34 173)
Other comprehensive income for the year (net of income tax)		**–**	–	**–**	–
Total comprehensive income (loss) for the year		**286 987**	199 303	**(106 113)**	(34 173)
Total comprehensive income (loss) attributable to:					
Equity holders of the parent		**281 961**	195 403	**(106 113)**	(34 173)
Non-controlling interest		**5 026**	3 900	**–**	–
Total comprehensive income (loss) for the year		**286 987**	199 303	**(106 113)**	(34 173)
Earnings per share					
Basic earnings per share (cents)	18	**63,1**	44,2		
Diluted earnings per share (cents)	18	**62,8**	43,7		

Statements of changes in equity

for the years ended 31 December

		Attributable to equity holders of the parent							
	Notes	Share capital R'000	Share premium R'000	Treasury shares R'000	Share-based payment reserve* R'000	Retained income (accumulated loss)* R'000	Total R'000	Non-controlling interest R'000	Total equity R'000
GROUP									
Balance at 1 January 2010		450	1 040 924	(23 304)	15 613	542 862	1 576 545	3 822	1 580 367
Total comprehensive income for the year		–	–	–	–	195 403	195 403	3 900	199 303
Issue of share capital	11	4	22 201	–	–	–	22 205	–	22 205
Share issue expenses	11	–	(27)	–	–	–	(27)	–	(27)
Shares issued from the CMSA Share Option Trust		–	–	17 490	–	–	17 490	–	17 490
Shares acquired by the CMSA Share Option Trust		–	–	(22 205)	–	–	(22 205)	–	(22 205)
IFRS 2 Share-based Payments		–	–	–	10 478	–	10 478	–	10 478
Dividends paid	11	–	–	–	–	(22 493)	(22 493)	(250)	(22 743)
Balance at 1 January 2011		**454**	**1 063 098**	**(28 019)**	**26 091**	**715 772**	**1 777 396**	**7 472**	**1 784 868**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**281 961**	**281 961**	**5 026**	**286 987**
Share buy-back	11	**(8)**	**(49 975)**				**(49 983)**	**–**	**(49 983)**
IFRS 2 Share-based Payments		**–**	**–**	**–**	**1 455**	**–**	**1 455**	**–**	**1 455**
Changes in ownership interest:									
– Cipla Agrimed (Pty) Limited	25	**–**	**–**	**–**	**–**	**11**	**11**	**1 588**	**1 599**
– Cipla Nutrition (Pty) Limited	25	**–**	**–**	**–**	**–**	**–**	**–**	**(192)**	**(192)**
Dividends paid	11	**–**	**–**	**–**	**–**	**(56 753)**	**(56 753)**	**(1 350)**	**(58 103)**
Balance at 31 December 2011		**446**	**1 013 123**	**(28 019)**	**27 546**	**940 991**	**1 954 087**	**12 544**	**1 966 631**
COMPANY									
Balance at 1 January 2010		450	1 040 924	–	15 613	(27 838)	1 029 149	–	1 029 149
Total comprehensive loss for the year		–	–	–	–	(34 173)	(34 173)	–	(34 173)
Issue of share capital	11	4	22 201	–	–	–	22 205	–	22 205
Share issue expenses	11	–	(27)	–	–	–	(27)	–	(27)
IFRS 2 Share-based Payments		–	–	–	10 478	–	10 478	–	10 478
Dividends paid	11	–	–	–	–	(22 493)	(22 493)	–	(22 493)
Balance at 1 January 2011		**454**	**1 063 098**	**–**	**26 091**	**(84 504)**	**1 005 139**	**–**	**1 005 139**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**(106 113)**	**(106 113)**	**–**	**(106 113)**
Share buy-back	11	**(8)**	**(49 975)**	**–**	**–**	**–**	**(49 983)**	**–**	**(49 983)**
IFRS 2 Share-based Payments		**–**	**–**	**–**	**1 455**	**–**	**1 455**	**–**	**1 455**
Dividends paid	11	**–**	**–**	**–**	**–**	**(56 753)**	**(56 753)**	**–**	**(56 753)**
Balance at 31 December 2011		**446**	**1 013 123**	**–**	**27 546**	**(247 370)**	**793 745**	**–**	**793 745**

***Retained earnings (accumulated loss) comprise of:**

	GROUP 2011 R'000	GROUP 2010 R'000	**COMPANY 2011 R'000**	COMPANY 2010 R'000
Share-based payment reserve	**27 546**	26 091	**27 546**	26 091
Retained income (accumulated loss)	**940 991**	715 772	**(247 370)**	(84 504)
Retained earnings (accumulated loss) as per statement of financial position	**968 537**	741 863	**(219 824)**	(58 413)

Statements of cash flow

for the years ended 31 December

	Notes	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Cash flows from operating activities					
Cash generated (utilised) by operations	24.1	**342 686**	314 457	**(75 078)**	(6 568)
Finance costs paid		**(37 678)**	(44 607)	**(9 044)**	(10 802)
Finance income received		**4 080**	2 389	**66**	230
Dividends paid		**(58 103)**	(22 743)	**(56 753)**	(22 493)
Income tax (paid) refunded	24.2	**(132 967)**	(94 514)	**–**	1 117
STC paid	24.3	**(6 010)**	(4 042)	**(5 328)**	(1 736)
Net cash flows from operating activities		**112 008**	150 940	**(146 137)**	(40 252)
Cash flows from investing activities					
Acquisitions of property, plant and equipment	3	**(48 444)**	(49 286)	**(36 544)**	(29 982)
Acquisitions of intangible assets	4	**(55 526)**	(47 400)	**–**	–
Proceeds on disposals of property, plant and equipment		**95**	10	**90**	–
(Increase) decrease in loans receivable		**(3 146)**	(1 550)	**(1 882)**	18 296
Net cash flows from investing activities		**(107 021)**	(98 226)	**(38 336)**	(11 686)
Cash flows from financing activities					
Share issue expenses		**–**	(27)	**–**	(27)
Proceeds from the exercise of share options		**–**	16 493	**–**	–
Acquisitions of subsidiaries	25	**(2 000)**	–	**–**	–
Share buy-back	11	**(49 983)**	–	**(49 983)**	–
Redemption of preference shares	12	**(34 500)**	(159 770)	**–**	–
Increase in loans payable		**15 874**	125 885	**219 526**	43 779
Net cash flows from financing activities		**(70 609)**	(17 419)	**169 543**	43 752
Net (decrease) increase in cash and cash equivalents		**(65 622)**	35 295	**(14 930)**	(8 186)
Cash and cash equivalents at beginning of the year		**(24 848)**	(60 143)	**(58 054)**	(49 868)
Cash and cash equivalents at end of the year	24.4	**(90 470)**	(24 848)	**(72 984)**	(58 054)

Notes to the annual financial statements

for the years ended 31 December

Corporate information

Cipla Medpro South Africa Limited is listed on the main board of the JSE and is incorporated and domiciled in the Republic of South Africa.

The group is primarily involved in the manufacture, marketing and supply of pharmaceutical products.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements of the group and separate company financial statements have been prepared in accordance with IFRS, interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC), the AC 500 Standards as issued by the Accounting Practices Board and its successor and the Companies Act.

These annual financial statements were authorised for issue by the directors on 20 June 2012.

(b) Basis of preparation

The financial statements are presented in ZAR, rounded to the nearest thousand. They are prepared in accordance with the going concern and the historical cost bases except where otherwise indicated. The accrual basis of accounting has been applied in the preparation of these financial statements.

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.

Significant judgements and estimates

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in these financial statements and related disclosures. Significant judgements include:

Trade receivables and loans and receivables

The group assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment of trade receivables and loans and receivables is calculated on an individual basis, based on payment history, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the individual receivable. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or defaults of payments are considered indicators of impairment.

Allowance for slow-moving, damaged and obsolete inventory

An allowance for inventory is used to write down inventory to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. Refer to note 15 for the amount written down.

Options granted

The estimate of the fair value of services received from employees in return for share options granted is measured with reference to the fair value of the share options granted and is based on the binomial lattice model.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption made may then impact our estimations and may require a material adjustment to the carrying value of tangible and intangible assets.

The group reviews and tests the carrying values of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, intangible assets are tested on an annual basis for impairment. Assets are grouped at the lowest level of which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows of each group of assets. Expected future cash flows used to determine the value-in-use of tangible and intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of economic factors.

Property, plant and equipment

Property, plant and equipment are written off over their expected useful lives, after taking into consideration the assets' residual values at the end of their useful lives. The useful lives and residual values are estimated based on industry knowledge. The carrying value of property, plant and equipment is set out in note 3.

1. SIGNIFICANT ACCOUNTING POLICIES continued

(b) Basis of preparation continued

Intangible assets

Predicting the useful life of an intangible asset requires significant judgement. The diverse categories of intangible assets will have different useful lives, while a number of intangible assets may even be considered to have indefinite useful lives. The useful life associated with an asset that has no patent protection but that retains, and is expected to retain, a distinct identity could be considered to be indefinite and the asset would not be amortised.

The group has classified its trademarks, registrations, dossiers and brands 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 its trademarks, registrations, dossiers and brands for the foreseeable future;
- Typical product life cycles for the trademarks, registrations, dossiers and brands acquired against public information on estimates of useful lives indicate that the intangibles have an indefinite period of foreseeable usage; and
- The stability and the strong demand of the industries in markets within which these products are marketed and sold.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The group recognises the net future benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

The accounting policies set out below have been consistently applied by all group entities and to all periods presented in these consolidated financial statements, with the exception of new standards, amendments and interpretations adopted during the 2011 year (refer to note 26).

(c) Basis of consolidation

(i) Accounting for business combinations

From 1 January 2010 the group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively since 2010 and has had no material impact on EPS.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. Control is the power to govern the financial and operating policies of an entity as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and the liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the group incurs in connection with the business combination are expensed as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES continued

(c) Basis of consolidation continued

(i) Accounting for business combinations continued

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, 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.

(ii) Accounting for acquisitions of non-controlling interests

From 1 January 2010, the group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on EPS.

Under the new accounting policy, acquisitions of non-controlling interest are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition method of non-controlling interest in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iii) Investments 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.

The total comprehensive income of subsidiaries is attributed to the equity holders of the parent as well as to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the group's ownership interests in subsidiaries that do not result in the loss of control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

(iv) Special-purpose entities (SPEs)

The group has established an 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.

(v) Investments in 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.

1. **SIGNIFICANT ACCOUNTING POLICIES** continued

(c) **Basis of consolidation** continued

(vi) **Interests in joint ventures**

A joint venture is a contractual agreement whereby the group and other parties undertake an economic activity that is subject to joint control. The strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The interests in jointly controlled entities are accounted for using the equity method. Such interests are carried at cost and adjusted for post-acquisition changes in the group's share of net assets of the jointly controlled entities, less any impairment losses. Profit or losses on transactions between the group and the joint ventures are eliminated to the extent of the group's interest therein.

When the group's share of losses exceeds its interest in a joint venture, 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 joint venture.

(vii) **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) **Investments in subsidiaries**

In the company's separate annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

(e) **Foreign currency**

Transactions in foreign currencies are translated into ZAR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into ZAR 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.

(f) **Financial instruments**

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

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

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

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

1. **SIGNIFICANT ACCOUNTING POLICIES** continued

(f) **Financial instruments** continued

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

Cash and cash equivalents

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 statements of cash flow. Cash and cash equivalents are measured at amortised cost.

Accounting for finance income and expenses are 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. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale, as it is not the group's policy to actively trade in these investments.

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.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less any impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate 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 in profit or loss. The group does not apply hedge accounting as per the requirements of IAS 39 Financial Instruments: Recognition and Measurement. Where these derivatives are held for a period beyond 12 months from the reporting date, the derivatives are classified as non-current, or separated into current and non-current portions, consistent with the classification of the underlying terms.

(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, net of any tax effects.

Treasury shares

When shares held in the group through subsidiary companies reduce the group's share capital, the equity instruments, held at cost ("treasury shares"), are presented as a deduction against the group's equity. No profit or loss is recognised in the statement of comprehensive income.

Preference shares

Preference shares are classified as a financial 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 statement of comprehensive income as finance expenses, as accrued.

1. **SIGNIFICANT ACCOUNTING POLICIES** continued

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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 the 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 systematic basis over the estimated useful lives of each part of an item of property, plant and equipment to their estimated residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The depreciation rates applicable to each category of property, plant and equipment are as follows:

Asset category	*Useful life*
Leasehold improvements	5 to 16 years
Plant and machinery	2 to 25 years, Units of Production (UOP)
Motor vehicles	5 years
Furniture and equipment	
– Office furniture	5 to 6 years
– Laboratory equipment	3 years (UOP)
– Computer equipment	2 to 3 years
– Computer software	3 years
– Burglar alarms	3 to 10 years
– Library assets	3 years

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

(h) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see accounting policy (c).

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.

1. SIGNIFICANT ACCOUNTING POLICIES continued

(h) Intangible assets continued

(ii) Research and development continued

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 (h)). Other development expenditure is recognised in profit or loss as incurred.

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

(iii) Other intangible assets

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

Intangible assets with finite useful lives are measured at cost less accumulated amortisation and 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 at the end of each financial year or whenever any indication of impairment exists.

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

Asset category	*Useful life*
Trademarks, registrations and dossiers	Indefinite
Brands	Indefinite
Computer software	2 to 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(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.

(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 statement of financial position.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. All other borrowing costs are expensed in the period in which they are incurred.

(k) Inventory

Inventory is measured at the lower of cost and net realisable value. The cost of inventory is based on the weighted average cost method, and includes expenditure incurred in acquiring the inventory and bringing it to its existing location and condition. In the case of manufactured inventory 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 inventory is identified on a regular basis and written down to its estimated net realisable value.

1. **SIGNIFICANT ACCOUNTING POLICIES** continued

(l) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss 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, which can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulties of the debtor, indications that a debtor will enter bankruptcy, defaults of payments and national and industry-specific economic conditions.

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 inventory (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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES continued

(m) Employee benefits continued

(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.

(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 charged to profit or loss in the period in which they are incurred.

(q) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, interest rate swap refunds and changes in the fair value of interest rate swaps. Interest income is recognised as it accrues, using the effective interest rate 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 expenses on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, interest rate swap settlements and changes in the fair value of interest rate swaps. All borrowing costs are recognised in profit or loss using the effective interest rate method.

1. SIGNIFICANT ACCOUNTING POLICIES continued

(r) Taxation

Income tax expenses comprise current tax, deferred tax and STC. Income tax expenses are 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 liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

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.

STC on dividends is accrued for in the period in which the dividend is declared.

(s) Earnings per share

The group presents basic and diluted 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.

(t) Segment reporting

The group's principle format for segment reporting is based on business segments. This basis is indicative of the group's management and internal structure for financial reporting to the chief operating decision maker. Geographical segments are not presented as the group operates mainly in South Africa.

Intersegment pricing is determined on an arm's length basis.

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

(u) 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

(u) 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

The 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 a 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.

(v) Government grants

Government grants relating to assets are recognised as deferred income in the statement of financial position in the year that they become receivable. The deferred income is recognised as income in the statement of comprehensive income over the life of the underlying asset as the asset is depreciated.

2. SEGMENT REPORTING

The principle reportable operating segments are business segments that are indicative of the group's management and internal structure for financial reporting to the chief operating decision maker (CODM).

Geographical segments have not been presented as the group operates mainly in South Africa. No single customer contributes to 10% or more of the total revenue.

Intersegment pricing is determined on an arm's length basis.

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

Group financing (including finance costs and finance income), income taxes, as well as assets and liabilities are handled on a group level and are not allocated to operating segments.

Capital expenditure is handled on a group level and not managed on a segmental basis.

Business segments

The basis of segmentation is representative of the manner in which the CODM reviews the business. Based on the requirements of the group's CODM in 2011, the reporting segments were amended in accordance with IFRS 8 Operating Segments. As the factory, a previously reported operating segment, is now producing mainly for the group and with third party manufacturing reducing to immaterial levels in 2011, the segments reported on to the CODM on a monthly basis were amended. The newly reported operating segments are the segments reviewed by the CODM on which to base business decisions. Segmental information is reported to the CODM up to a profit before finance costs and income tax level.

The group comprises the following main business segments:

SEP:	Scheduled products (above schedule 2), both private and tender business
OTC:	Non-scheduled products, as well as schedule 0, 1 and 2, which are available over the counter, both private and tender business
Other operating segments:	Small animal, large animal (including tender), agricultural and other businesses

	2011 R'000	2010* R'000
GROUP		
Segment revenue – external customers		
SEP	**1 258 717**	1 046 398
OTC	**391 955**	316 978
Other operating segments	**116 889**	83 603
	1 767 561	1 446 979
Segment result		
SEP#	**440 836**	277 032
OTC	**100 641**	56 273
Other operating segments	**26 857**	14 198
Unallocated item - legal settlement##	**(117 259)**	–
	451 075	347 503
Depreciation		
SEP	**17 574**	13 866
OTC	**6 361**	4 181
Other operating segments	**168**	74
	24 103	18 121
Amortisation		
SEP	**1 017**	390
OTC	**368**	117
Other operating segments	**9**	–
	1 394	507

* *The 2010 results have been reported on based on the new operating segments identified in 2011.*

\# *The 2011 results include the settlement income, as it relates to SEP products.*

\## *The unallocated item relates to the RBSA settlement.*

3. PROPERTY, PLANT AND EQUIPMENT

GROUP 2011	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	152 400	(19 326)	133 074
Plant and machinery	302 315	(22 233)	280 082
Motor vehicles	2 807	(1 503)	1 304
Furniture and equipment	50 483	(20 486)	29 997
	508 005	(63 548)	444 457

GROUP Movement summary 2011	Opening carrying value R'000	Acquisitions through business combi-nations* R'000	Other acquisitions R'000	Disposals R'000	Transfers R'000	Depreciation# R'000	Closing carrying value R'000
Leasehold improvements	120 775	–	20 011	–	–	(7 712)	133 074
Plant and machinery	271 456	–	18 347	(18)	13	(9 716)	280 082
Motor vehicles	1 706	–	–	–	–	(402)	1 304
Furniture and equipment	26 188	14	10 086	(5)	(13)	(6 273)	29 997
	420 125	14	48 444	(23)	–	(24 103)	444 457

GROUP 2010	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	132 389	(11 614)	120 775
Plant and machinery	283 929	(12 473)	271 456
Motor vehicles	2 807	(1 101)	1 706
Furniture and equipment	42 740	(16 552)	26 188
	461 865	(41 740)	420 125

GROUP Movement summary 2010	Opening carrying value R'000	Other acquisitions R'000	Disposals R'000	Depreciation# R'000	Closing carrying value R'000
Leasehold improvements	116 561	9 408	–	(5 194)	120 775
Plant and machinery	249 196	29 646	–	(7 386)	271 456
Motor vehicles	1 671	457	(52)	(370)	1 706
Furniture and equipment	21 584	9 775	–	(5 171)	26 188
	389 012	49 286	(52)	(18 121)	420 125

* *Refer to note 25 for further details on acquisitions through business combinations.*

\# *Depreciation is recognised on a systematic basis over the estimated useful lives of each item of property, plant and equipment. Further to this, and to better reflect the expected pattern of consumption of future economic benefits embodied within the asset, for certain items within the plant and machinery, laboratory equipment and leasehold improvements categories, a UOP basis incorporating capacity and remaining useful life has been applied to these assets housed within the manufacturing facility.*

3. **PROPERTY, PLANT AND EQUIPMENT** continued

COMPANY 2011	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	127 131	(7 042)	120 089
Plant and machinery	243 935	(12 679)	231 256
Motor vehicles	64	(37)	27
Furniture and equipment	19 929	(4 740)	15 189
	391 059	(24 498)	366 561

COMPANY Movement summary 2011	Opening carrying value R'000	Acquisitions R'000	Disposals R'000	Depreciation# R'000	Closing carrying value R'000
Leasehold improvements	109 091	14 115	–	(3 117)	120 089
Plant and machinery	219 013	17 900	(18)	(5 639)	231 256
Motor vehicles	40	–	–	(13)	27
Furniture and equipment	11 821	4 529	–	(1 161)	15 189
	339 965	36 544	(18)	(9 930)	366 561

COMPANY 2010	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	113 016	(3 925)	109 091
Plant and machinery	226 065	(7 052)	219 013
Motor vehicles	64	(24)	40
Furniture and equipment	15 483	(3 662)	11 821
	354 628	(14 663)	339 965

COMPANY Movement summary 2010	Opening carrying value R'000	Acquisitions R'000	Depreciation# R'000	Closing carrying value R'000
Leasehold improvements	110 592	500	(2 001)	109 091
Plant and machinery	193 336	29 098	(3 421)	219 013
Motor vehicles	53	–	(13)	40
Furniture and equipment	12 618	384	(1 181)	11 821
	316 599	29 982	(6 616)	339 965

Depreciation is recognised on a systematic basis over the estimated useful lives of each item of property, plant and equipment. Further to this, and to better reflect the expected pattern of consumption of future economic benefits embodied within the asset, for certain items within the plant and machinery, laboratory equipment and leasehold improvements categories, a UOP basis incorporating capacity and remaining useful life has been applied to these assets housed within the manufacturing facility.

3. PROPERTY, PLANT AND EQUIPMENT continued

Manufacturing facility

During the year ended 31 December 2007, the company commenced an upgrade of its site and manufacturing facility. 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 and continuous improvement programmes. The investment in the upgrade and continuous improvements has been a total of R374 210 408 (2010: R341 119 834) to date.

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 administration 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.

Secured assets

As indicated within notes 12(b) and (c), the loan facilities of R100 000 000 (2010: R100 000 000) and R151 000 000 (2010: R125 000 000) respectively, are secured in part through a general notarial bond over the moveable assets of the group.

Secured leased assets

The group has a number of finance lease arrangements on plant and equipment as disclosed in note 12 (a).

The carrying value of secured leased assets can be summarised as follows:

	GROUP 2011 R'000	GROUP 2010 R'000	**COMPANY 2011 R'000**	COMPANY 2010 R'000
Carrying values of leased plant and equipment				
Plant and machinery	**67 452**	69 044	**67 452**	69 044
	67 452	69 044	**67 452**	69 044

4. INTANGIBLE ASSETS

GROUP 2011	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
Trademarks, registrations and dossiers	**1 516 570**	**–**	**(1 378)**	**1 515 192**
Brands	**3 261**	**–**	**–**	**3 261**
Goodwill	**13 858**	**–**	**–**	**13 858**
Computer software	**5 416**	**(2 284)**	**–**	**3 132**
	1 539 105	**(2 284)**	**(1 378)**	**1 535 443**

GROUP Movement summary 2011	Opening carrying value R'000	Acquisitions through business combi-nations* R'000	Other acquisitions R'000	Amortisation# R'000	Closing carrying value R'000
Trademarks, registrations and dossiers	**1 459 411**	**3 649**	**52 132**	**–**	**1 515 192**
Brands	**3 261**	**–**	**–**	**–**	**3 261**
Goodwill	**11 666**	**2 192**	**–**	**–**	**13 858**
Computer software	**1 132**	**–**	**3 394**	**(1 394)**	**3 132**
	1 475 470	**5 841**	**55 526**	**(1 394)**	**1 535 443**

GROUP 2010	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
Trademarks, registrations and dossiers	1 460 789	–	(1 378)	1 459 411
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	2 658	(1 526)	–	1 132
	1 478 374	(1 526)	(1 378)	1 475 470

GROUP Movement summary 2010	Opening carrying value R'000	Other acquisitions R'000	Amortisation# R'000	Closing carrying value R'000
Trademarks, registrations and dossiers	1 413 243	46 168	–	1 459 411
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	407	1 232	(507)	1 132
	1 428 577	47 400	(507)	1 475 470

* *Refer to note 25 for further details on acquisitions through business combinations.*

Amortisation of computer software is included in administrative expenses on the statement of comprehensive income, on a straight-line basis.

4. INTANGIBLE ASSETS continued

COMPANY 2011	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
Brands	1 427	–	1 427
	1 427	–	1 427

COMPANY Movement summary 2011	Opening carrying value R'000	Amortisation R'000	Closing carrying value R'000
Brands	1 427	–	1 427
	1 427	–	1 427

COMPANY 2010	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
Brands	1 427	–	1 427
	1 427	–	1 427

COMPANY Movement summary 2010	Opening carrying value R'000	Amortisation R'000	Closing carrying value R'000
Brands	1 427	–	1 427
	1 427	–	1 427

Secured assets

As indicated within notes 12 (b) and 12 (c), the loan facilities of R100 000 000 (2010: R100 000 000) and R151 000 000 (2010: R125 000 000) respectively are secured in part through the intellectual property of the group. The carrying value of intellectual property held as security for these facilities amounts to R204 482 290 (2010: R148 701 826).

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, while 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 or 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 trademarks, registrations, dossiers and brands 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 trademarks, registrations, dossiers and brands for the foreseeable future;
- Typical product life cycles for the trademarks, registrations, dossiers and brands acquired against public information on estimates of useful lives indicate that the intangibles have an indefinite period of foreseeable usage; and
- The stability of the pharmaceutical industry and the strong demand in markets within which these products are marketed and sold.

4. INTANGIBLE ASSETS continued

Impairment tests for intangible assets

CMSA views its goodwill and indefinite-life intangible assets as one cash-generating unit.

Detailed impairment testing is performed for goodwill and indefinite-life intangible assets annually at the end of each reporting period and for all other intangible assets whenever impairment indicators are present.

An impairment loss is recognised if the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the greater of the value in use and an asset's fair value.

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 recoverable amount of the asset and record an impairment loss if the resulting net recoverable amount is less than the carrying value of the intangible asset. If the resulting recoverable amount 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.

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, 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 is significantly greater than those initially forecasted. 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.

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

KEY ASSUMPTIONS APPLIED IN VALUE-IN-USE CALCULATIONS*	
Growth in revenue	Determined from financial budgets and forecasts covering a five-year period. The growth rates used range between 6% and 11% (2010: 6% and 16%).
Pre-tax operating margin	Based on previous year's margins as well as past valuation assumptions and approved management budgets. This rate ranges between 37% and 56% (2010: 32% and 49%). For the valuation of Cipla Medpro, a rate of 40% (2010: 41%) was used.
Survival periods	Assumed at 15 years (2010: 15 years) for the purposes of performing the valuation (reasonable in relation to the average remaining life of a dossier)
Book value realised on termination	Gordon's dividend growth model used to determine terminal value – assumed a 6% (2010: 6%) growth in perpetuity
Fair rate of return	Approximates 15,7% (2010: 16,1%)
Pre-tax risk-free rate	Approximates 6,7% (2010: 7,3%)
Systematic risk premium	6% (2010: 6%) – generally accepted in South Africa
Beta	1,2 (2010: 1,2)
Unsystematic risk premium	4,5% (2010: 4,5%)

* *The key assumptions are consistent with external sources of information.*

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
5.	**INVESTMENTS IN SUBSIDIARIES**				
	Shares at cost less impairment losses	**–**	–	**31 274**	31 274
	Amount due by subsidiary – non-current	**–**	–	**799 911**	799 911
	Investments in subsidiaries	**–**	–	**831 185**	831 185
	Amounts due to subsidiaries – non-current	**–**	–	**(367 074)**	(133 589)
	Net investments in subsidiaries	**–**	–	**464 111**	697 596
	Loans and receivables	**–**	–	**799 911**	799 911
	Financial liabilities measured at amortised cost	**–**	–	**(367 074)**	(133 589)
	Refer to note 25 and Annexure A, which detail the group's acquisitions during the year, as well as a description of the terms and conditions attached to inter-group borrowings.				
6.	**OTHER INVESTMENTS**				
	Non-current investments				
	Financial assets designated at fair value through profit or loss on initial recognition	**8**	6	**–**	–
		8	6	**–**	–

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 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
7. LOANS RECEIVABLE					
Non-current					
CMSA Share Option Trust	(a)	**–**	–	**28 019**	29 328
Aldabri 53 (Pty) Limited	(b)	**1 766**	–	**1 766**	–
Bioharmony (Pty) Limited	(b)	**1 425**	–	**1 425**	–
		3 191	–	**31 210**	29 328
Current					
H Brand 6 CC t/a Essential Health Kuilsrivier	(c)	**–**	1 000	**–**	–
Majestic Silver Trading 223 (Pty) Limited	(d)	**47**	47	**47**	47
Cipla Nutrition (Pty) Limited	(e)	**–**	1 632	**–**	–
Cipla Consult (Pty) Limited	(d)	**3 834**	3 265	**–**	–
Nedgroup Securities (Pty) Limited	(f)	**–**	1 765	**–**	–
		3 881	7 709	**47**	47

(a) The loan is in respect of shares issued by the company to the CMSA Share Option Trust, which will be utilised to settle options granted. The loan is interest-free and has no fixed terms of repayment. Refer to note 23 for further details relating to share options in issue.

(b) These amounts owing relate to the disposal of these two operations in late 2007. The loans were previously considered to be recoverable within 12 months, but have subsequently been reassessed as being recoverable over more than 12 months. These loans are unsecured and interest-free. There are no fixed terms of repayment.

(c) The loan to H Brand 6 CC t/a Essential Health Kuilsrivier is secured by H Brand in his personal capacity, as well as a general notarial bond registered over the moveable assets situated at the business's premises. The loan bore interest at the prime rate, and the entire principal debt and interest thereon was repaid in full on 13 September 2011.

(d) These loans are unsecured and interest-free. There are no fixed terms of repayment, but payment is expected within the next 12 months.

(e) The loan to Cipla Nutrition (Pty) Limited was unsecured and interest-free. An additional interest was acquired in Cipla Nutrition (Pty) Limited in 2011 and Cipla Nutrition (Pty) Limited is now a subsidiary of the group and therefore the loan is eliminated on consolidation (2010: joint venture). Refer to note 25 for further details.

(f) The loan to Nedgroup Securities (Pty) Limited was repaid in full on 3 January 2011.

Credit quality of loans receivable

Management assesses the ability of the entities to repay these loans as high, as there has been no default on repayments in the past. The loans are therefore not considered to be past due nor impaired.

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
8.	**DEFERRED TAX**				
	Deferred tax balance comprises:				
	Property, plant and equipment	**(43 791)**	(35 487)	**(39 530)**	(30 200)
	Trademarks, registrations and dossiers	**(9 155)**	(6 196)	**–**	–
	Inventory	**728**	586	**–**	–
	Operating leases	**1 152**	840	**628**	628
	Employee benefit accruals	**1 752**	1 062	**380**	225
	Impairment of trade receivables	**16**	16	**–**	–
	Other	**(867)**	4 917	**17**	4 167
	Tax losses carried forward	**102 554**	50 140	**100 074**	48 030
	Deferred tax balance	**52 389**	15 878	**61 569**	22 850
	Disclosed as follows in the statement of financial position:				
	Deferred tax asset	**67 179**	28 220	**61 569**	22 850
	Deferred tax liability	**(14 790)**	(12 342)	**–**	–
	Balance at end of the year	**52 389**	15 878	**61 569**	22 850
	Reconciliation of deferred tax balance				
	Balance at beginning of the year	**15 878**	9 153	**22 850**	16 879
	Property, plant and equipment	**(8 304)**	(9 484)	**(9 330)**	(10 511)
	Trademarks, registrations and dossiers	**(2 887)**	(2 066)	**–**	–
	Inventory	**142**	475	**–**	–
	Operating leases	**312**	667	**–**	548
	Employee benefit accruals	**661**	(122)	**155**	(150)
	Impairment of trade receivables	**–**	(19)	**–**	(15)
	Acquisition of subsidiary	**283**	–	**–**	–
	Other	**(5 784)**	674	**(4 150)**	(38)
	Tax losses carried forward	**52 088**	16 600	**52 044**	16 137
	Balance at end of the year	**52 389**	15 878	**61 569**	22 850

There were no unrecognised deferred tax assets or liabilities at year end (2010: nil).

There were no adjustments to deferred tax in the current or prior year 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% (2010: 14%) was used to compute deferred tax for assets and liabilities, which will be realised through sale, and a rate of 28% (2010: 28%) was used for deferred tax balances to be recovered through use.

The deferred tax asset relating to the company has been recognised, because it is considered probable that future taxable profits will be available against which the company can utilise the benefits therefrom.

There is no STC payable on our fourth dividend paid on 14 May 2012, due to the implementation of the new dividend withholding tax from 1 April 2012 (2010: STC payable on second dividend was R2,7 million).

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
9. INVENTORY				
Raw materials	**65 898**	29 485	**49 400**	18 329
Finished goods	**339 433**	258 154	**1 804**	2 663
Work-in-progress	**9 576**	2 022	**9 576**	2 022
	414 907	289 661	**60 780**	23 014
Allowance for the impairment of inventory	**(8 941)**	(3 860)	**(2 307)**	(1 410)

Cost of inventory recognised as an expense for the group during the year is R712 045 413 (2010: R548 892 305).

Write-downs of R9 308 328 (2010: R4 399 534) on inventory relates mainly to inventory of the group that has expired.

Inventory that is considered to be obsolete is written off when it cannot be sold or has reached its expiry date.

Secured assets

As indicated within notes 12 (b) and 12 (c), the loan facilities of R100 000 000 (2010: R100 000 000) and R151 000 000 (2010: R125 000 000) respectively are secured in part through a general notarial bond over the moveable assets of the group. The carrying value of the moveable assets held as security for these facilities amounts to R356 729 051 (2010: R268 739 540).

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
10. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES				
Trade receivables due from related parties	**–**	–	**33 854**	12 162
Trade receivables due from external parties	**293 118**	252 829	**4 415**	35 925
Other receivables	**9 553**	6 697	**452**	–
Prepayments	**7 748**	5 249	**2 963**	457
	310 419	264 775	**41 684**	48 544
Derivatives used for economic hedging				
Forward exchange contracts	**39 845**	–	**–**	–
	350 264	264 775	**41 684**	48 544
Allowance for impairment of trade receivables	**(77)**	(363)	**–**	–

As indicated in notes 24.4, 12 (b) and 12 (c), trade receivables of R293 117 708 (2010: R252 829 462) have been ceded to the bank as security for banking and loan facilities granted.

Trade and other receivables are carried at amortised cost, with the fair value being approximated by such carrying values due to their short-term maturities.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Wholesale	**156 867**	138 124	**33 945**	14 400
Retail	**34 527**	27 365	**–**	–
Government	**64 106**	33 995	**–**	–
	255 500	199 484	**33 945**	14 400

Further details regarding the group's exposure to credit risk are disclosed in note 19.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
10. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES continued				
Reconciliation of allowance for impairment of trade receivables				
Balance at 1 January	**(363)**	(452)	**–**	(73)
Raised during the year	**–**	(61)	**–**	–
Utilised during the year	**–**	77	**–**	–
Unused amounts reversed	**286**	73	**–**	73
Balance at 31 December	**(77)**	(363)	**–**	–
Ageing of trade receivables at reporting date:				
Neither past due nor impaired	**255 500**	199 484	**33 945**	14 400
Past due 0 to 31 days	**12 284**	10 456	**3 838**	1 203
Past due 31 to 120 days	**12 914**	12 782	**486**	2 300
More than 120 days past due	**12 497**	30 470	**–**	30 184
Allowance for impairment of trade receivables	**(77)**	(363)	**–**	–
Balance at 31 December	**293 118**	252 829	**38 269**	48 087

Based on past experience, the group believes that the impairment allowance is adequate based on the credit risk exposure and the Credit Guarantee Insurance Cover policy that is in place. 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.

Financial assets 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 2011*:

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
United States Dollar	(USD '000)	**56 100**	–		
Average forward exchange rate	(ZAR/USD)	**7,5437**	–		
Forward ZAR value		**423 200**	–		
Mark to market valuation		**463 045**	–		
Recognised fair value gain		**39 845**	–		
Dates of maturity 2011: 31 January 2012 to 28 September 2012					

* *Refer to note 13 for 2010 disclosure.*

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
11. SHARE CAPITAL AND RESERVES				
Authorised share capital				
500 000 000 ordinary shares of 0,1 cent each	**500**	500	**500**	500
Issued share capital				
Opening balance – 454 026 555 (2010: 449 856 116) ordinary shares of 0,1 cents each	**454**	450	**454**	450
4 170 439 shares issued to the CMSA Share Option Trust in 2010 (2011: nil)	**–**	4	**–**	4
7 564 796 ordinary shares of 0,1 cents each bought back (2010: nil)	**(8)**	–	**(8)**	–
Closing balance – 446 461 759 (2010: 454 026 555) ordinary shares of 0,1 cents each	**446**	454	**446**	454

	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
Number of shares in issue				
Opening balance	**454 026 555**	449 856 116	**454 026 555**	449 856 116
Issue of shares to the CMSA Share Option Trust	**–**	4 170 439	**–**	4 170 439
Ordinary shares bought back	**(7 564 796)**	–	**(7 564 796)**	–
Closing balance	**446 461 759**	454 026 555	**446 461 759**	454 026 555

Share buy-back

The company bought back 7 564 796 (2010: nil) ordinary shares of its shares in issue in terms of a general authority to repurchase shares approved by the shareholders at the last AGM. The repurchase represented approximately 1,7% of the company's issued share capital and took place over the period 16 November 2011 to 25 November 2011, at a price of between 649 cents and 660 cents per share, totalling R49 983 444.

Unissued shares

The unissued shares are under the control of the directors, in terms of a general authority. The directors are authorised to allot, issue or otherwise dispose of such shares as they deem fit. This authority is restricted to five percent of the ordinary shares in issue as at 31 December 2011 and will remain in place until the next AGM.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Share premium				
Opening balance	**1 063 098**	1 040 924	**1 063 098**	1 040 924
Issue of shares to the CMSA Share Option Trust	**–**	22 201	**–**	22 201
Ordinary shares bought back	**(49 975)**	–	**(49 975)**	–
Share issue expenses	**–**	(27)	**–**	(27)
Closing balance	**1 013 123**	1 063 098	**1 013 123**	1 063 098

Treasury shares

The treasury share reserve comprises the cost of the company's shares held by the group equating to R28 019 056 (2010: R28 019 056). At 31 December 2011, 6 439 181 (2010: 6 439 181) treasury shares were held in the CMSA Share Option Trust, which are available to be utilised for the exercise of share options.

Share-based payment reserve

The share-based payment reserve comprises the accumulated IFRS 2 Share-based Payments with regards to share options issued in terms of the CMSA Share Option Trust. Refer to note 23 for further details on the share options.

11. SHARE CAPITAL AND RESERVES continued

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.

	GROUP 2011 cents	GROUP 2010 cents	**COMPANY 2011 cents**	COMPANY 2010 cents
The following cash dividends were declared and paid to equity holders of the parent during the year:				
2010 Final dividend of 6,0 cents per ordinary share paid (2010: no dividend)	**(27 242)**	–	**(27 242)**	–
2011 Interim dividend of 6,5 cents per ordinary share paid (2010: 2010 Interim dividend of 5,0 cents)	**(29 511)**	(22 493)	**(29 511)**	(22 493)
	(56 753)	(22 493)	**(56 753)**	(22 493)
Subsequent to the reporting dates the following final cash dividends were declared and paid to equity holders of the parent:				
Final dividend of 7,5 cents (2010: 6,0 cents) per ordinary share paid	**(33 485)**	(27 241)	**(33 485)**	(27 241)
	(33 485)	(27 241)	**(33 485)**	(27 241)

The total cash dividend declared for the 2011 financial year is 14,0 cents (2010: 11,0 cents) per share, which equates to a dividend cover of 4,2 (2010: 4,0) times, when analysed on a normalised basis. The final dividend of 7,5 cents (2010: 6,0 cents) per share was declared subsequent to 31 December 2011. No liability regarding the final dividend for 2011 has therefore been recognised as at 31 December 2011 and there are no tax consequences.

Non-controlling interest

During the current and the preceding year, the group allocated a 25% share of profits earned by Cipla Vet (Pty) Limited to non-controlling parties.

During the current year, the group accounted for the disposal of 11 of its shares held in Cipla Agrimed (Pty) Limited, in terms of the shareholders' agreement. The group did not lose control over Cipla Agrimed (Pty) Limited. The group allocated a 35,75% share of the profits earned by Cipla Agrimed (Pty) Limited to non-controlling parties.

The group acquired an additional 25% interest in Cipla Nutrition (Pty) Limited during the 2011 year and Cipla Nutrition (Pty) Limited is now a subsidiary of the group (2010: joint venture).

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
12. LOANS AND BORROWINGS					
This note provides information about the contractual terms of the group's loans and borrowings. For more information about the group's exposure to interest-rate risk, refer to notes 19 and 27.					
Non-current					
Held at amortised cost:					
Nedbank Limited	(a)	**28 128**	43 470	**28 128**	43 470
Nedbank Limited	(b)	**100 000**	100 000	**–**	–
Nedbank Limited	(c)	**151 000**	125 000	**–**	–
Depfin Investments (Pty) Limited	(d)	**–**	34 500	**–**	–
At fair value through profit or loss					
Forward exchange contracts	(e)	**–**	8 458	**–**	–
		279 128	311 428	**28 128**	43 470
Current					
Nedbank Limited	(a)	**16 319**	15 596	**16 319**	14 934
L'amar (France) Pharmatec (Pty) Limited	(f)	**5 137**	1 758	**–**	–
		21 456	17 354	**16 319**	14 934
Finance lease liabilities					
The future minimum lease payments under finance leases are as follows:					
Less than one year		**18 302**	18 964	**18 302**	18 302
Between two and five years		**31 873**	48 914	**31 873**	48 914
More than five years		**–**	–	**–**	–
Total future minimum lease payments		**50 175**	67 878	**50 175**	67 216
Interest		**(5 728)**	(8 812)	**(5 728)**	(8 812)
Present value of future minimum lease payments		**44 447**	59 066	**44 447**	58 404

(a) The liabilities held under finance lease arrangements are repayable over a period of five years at prime less 0,5%. The finance leases are secured by plant and machinery with a book value of R67 452 425 (2010: R69 043 769) as referred to in note 3. The liabilities are being repaid in fixed monthly instalments of R1 525 175 (2010: R1 525 175).

(b) This loan bears interest at rates linked to the JIBAR rate. The loan is repayable in full on 31 December 2013, with interest payable biannually. The loan is secured through guarantees and subordination of their claims against Cipla Medpro Holdings (Pty) Limited 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 moveable assets of Cipla Medpro Holdings (Pty) Limited, the cession of trade receivables, cash balances, insurances and claims of Cipla Medpro Holdings (Pty) Limited and Inyanga Trading 386 (Pty) Limited, and the pledge and hypothecation of rights in intellectual property held by Cipla Medpro Holdings (Pty) Limited.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Seven-year (2010: five-year) facility of R100 000 000				
Opening balance	**100 000**	100 000	**–**	–
Interest capitalised	**10 076**	11 198	**–**	–
Repayment of interest	**(10 076)**	(5 714)	**–**	–
Interest disclosed in trade and other payables (note 13)	**–**	(5 484)	**–**	–
Closing balance	**100 000**	100 000	**–**	–

(c) This loan bears interest at rates linked to the JIBAR rate. The loan is repayable in full on 31 December 2013, with interest payable quarterly. The loan is secured through guarantees by Cipla Medpro Holdings (Pty) Limited, the cession of trade receivables, cash balances, insurances and a general notarial bond over all moveable assets of Cipla Medpro Holdings (Pty) Limited, as well as the hypothecation of trademarks and any other intellectual property held by Cipla Medpro Holdings (Pty) Limited.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
12. LOANS AND BORROWINGS continued				
Five-year facility of R151 000 000 (2010: R125 000 000)				
Opening balance	**125 000**	25 000	**–**	–
Capital advanced	**26 000**	100 000	**–**	–
Interest capitalised	**12 389**	6 854	**–**	–
Repayment of interest	**(12 389)**	(6 854)	**–**	–
Closing balance	**151 000**	125 000	**–**	–

(d) 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. During the 2011 financial year, the C preference shares were settled in full (2010: the A and B preferences shares were settled in full) and as at 31 December 2011, all preference shares were fully settled (2010: the preference shares in issue only consisted of 3 450 C preference shares, with a par value of 1 cents and a subscription price of R10 000 each).

All classes of preference shares bore interest at rates linked to the prime rate, payable biannually in arrears.

This facility was 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.

Refer to the table below, which sets out the issues and redemptions of the preference shares during the year.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Compulsory redeemable preference shares:				
Par value: 1 cents each				
Subscription price – R10 000 each				
Opening balance including accrued interest	**35 032**	198 250	**–**	–
Interest capitalised				
– A shares	**–**	1 007	**–**	–
– B shares	**–**	1 245	**–**	–
– C shares	**1 005**	7 279	**–**	–
Redemption of shares				
– A shares	**–**	(35 000)	**–**	–
– B shares	**–**	(34 270)	**–**	–
– C shares	**(34 500)**	(90 500)	**–**	–
Repayment of interest				
– A shares	**–**	(1 705)	**–**	–
– B shares	**–**	(1 975)	**–**	–
– C shares	**(1 537)**	(9 299)	**–**	–
	–	35 032	**–**	–
Interest disclosed in trade and other payables (note 13)	**–**	(532)	**–**	–
Closing balance excluding accrued interest	**–**	34 500	**–**	–

(e) This refers to the non-current portion of forward exchange contracts.

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

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
13. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES				
Trade payables due to external parties	**321 733**	204 091	**31 696**	8 580
Other payables and accruals	**19 229**	46 590	**9 653**	30 350
Interest payable on R100 000 000 loan facility	**–**	5 484	**–**	–
Interest payable on preference shares	**–**	532	**–**	–
	340 962	256 697	**41 349**	38 930
Derivatives used for economic hedging				
Forward exchange contracts	**–**	60 922	**–**	–
Interest rate swaps	**1 174**	5 237	**–**	–
	342 136	322 856	**41 349**	38 930
Interest payable on preference shares				
This relates to interest payable on variable rate cumulative redeemable preference shares in issue. Refer to note 12 (d) for the terms thereof.				
Arrear interest payable:				
C preference shares (2010: 3 450 shares)	**–**	532	**–**	–
	–	532	**–**	–
Financial liabilities 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 2010*:				
United States Dollar (USD '000)	**–**	118 300	**–**	–
Average forward exchange rate (ZAR/USD)	**–**	7,5102	**–**	–
Forward ZAR value	**–**	888 462	**–**	–
Mark to market valuation	**–**	819 082	**–**	–
Recognised fair value loss	**–**	69 380	**–**	–
Dates of maturity: 2010: 31 January 2011 to 30 May 2012				
* *Refer to note 10 for 2011 disclosure.*				
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. The interest rate swaps listed under (i) and (ii) below, reached their termination dates on 17 January 2011 and the swap listed under (iii) below, on 30 April 2012. At year end the fair values were as follows:				
(i) R75 000 000 fixed at 7,35%, linked to the three-month JIBAR, effective 16 January 2006 and expired on 17 January 2011	**–**	47	**–**	–
(ii) R125 000 000 fixed at 7,4%, linked to the three-month JIBAR, effective 16 January 2006 and expired on 17 January 2011	**–**	721	**–**	–
(iii) R100 000 000 fixed at 9,18%, linked to the three-month JIBAR, effective 30 April 2007 and expired on 30 April 2012	**1 174**	4 469	**–**	–
	1 174	5 237	**–**	–

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
14. REVENUE				
Sale of goods	**1 744 304**	1 427 604	**196 888**	94 527
Interest received (trading)	**23 257**	19 375	**–**	–
	1 767 561	1 446 979	**196 888**	94 527
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	**(72)**	–	**(72)**	–
Gain on forward exchange contracts	**(109 225)**	–	**–**	–
Gain on foreign exchange	**–**	(4 871)	**–**	(3 402)
Fair value gain on listed investment	**(2)**	(2)	**–**	–
Non-recurring income	**(68 750)**	–	**–**	–
Expenditure				
Loss on disposals of property, plant and equipment	**–**	42	**–**	–
Loss on deemed disposal of joint venture	**385**	–	**–**	–
Depreciation	**24 103**	18 121	**9 930**	6 616
Amortisation	**1 394**	507	**–**	–
Loss on forward exchange contracts	**–**	44 739	**–**	–
Loss on foreign exchange	**59 952**	27 396	**7 106**	–
Staff costs	**229 831**	200 821	**46 771**	50 698
– defined contribution costs	**14 017**	11 151	**4 644**	4 169
– directors' remuneration and benefits (refer to note 21 for detailed disclosure of remuneration and benefits paid to the company's directors)	**32 322**	39 535	**2 157**	12 043
– other staff costs	**183 492**	150 135	**39 970**	34 486
Auditors' remuneration	**1 545**	2 228	**363**	351
– audit fees	**1 359**	2 145	**363**	351
– other	**186**	83	**–**	–
Lease rentals	**33 040**	26 480	**4 234**	3 357
– premises	**26 957**	21 232	**2 992**	3 226
– equipment	**6 083**	5 248	**1 242**	131
Impairment losses on inventory	**9 308**	4 400	**1 977**	2 037
Settlement costs	**117 259**	–	**117 259**	–
– settlement amount	**80 000**	–	**80 000**	–
– impairment of receivables	**37 259**	–	**37 259**	–

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
16.	**FINANCE COSTS AND FINANCE INCOME**				
	Interest expense on financial liabilities measured at amortised cost	**23 470**	27 583	**–**	–
	Fair value loss on interest rate swaps	**–**	2 228	**–**	–
	Interest rate swap settlements	**4 345**	3 020	**–**	–
	Interest expense on bank overdrafts	**4 907**	6 226	**4 620**	5 882
	Notional interest on extended credit terms (a)	**21 066**	16 894	**–**	–
	Interest expense on finance leases	**4 424**	4 920	**4 424**	4 920
	Other interest paid	**–**	37	**–**	36
		58 212	60 908	**9 044**	10 838
	Borrowing costs capitalised	**–**	(323)	**–**	–
	Finance costs	**58 212**	60 585	**9 044**	10 838
	Dividend income	**(7)**	(8)	**(7)**	(8)
	Fair value gain on interest rate swaps	**(4 063)**	–	**–**	–
	Interest rate swap refunds	**–**	(266)	**–**	–
	Interest on bank balances	**(4 073)**	(2 381)	**(59)**	(222)
	Other interest received	**(7 443)**	(175)	**(7 378)**	–
	Finance income	**(15 586)**	(2 830)	**(7 444)**	(230)
	Net finance costs and income	**42 626**	57 755	**1 600**	10 608

(a) 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 a finance expense over the period of financing. The application of the circular has the effect of decreasing cost of sales and increasing finance costs by R21 065 688 (2010: R16 894 142).

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
17.	**INCOME TAX EXPENSE**				
	Current tax expense				
	Current period	**151 733**	94 481	**–**	–
		151 733	94 481	**–**	–
	Deferred tax expense (income)				
	Origination and reversal of temporary differences	**15 932**	11 247	**13 397**	12 001
	Assessed loss created	**(52 088)**	(16 137)	**(52 044)**	(16 137)
	Adjustment for prior periods	**(72)**	(1 835)	**(72)**	(1 835)
		(36 228)	(6 725)	**(38 719)**	(5 971)
	STC				
	Current period	**5 957**	2 689	**5 328**	1 736
		5 957	2 689	**5 328**	1 736
	Total income tax expense (income)	**121 462**	90 445	**(33 391)**	(4 235)

GROUP	**2011 %**	**2011 R'000**	2010 %	2010 R'000
Reconciliation of effective tax rate				
Profit for the year		**286 987**		199 303
Income tax expense		**121 462**		90 445
Profit before income tax		**408 449**		289 748
Income tax using the company's domestic tax rate	**28,00**	**114 366**	28,00	81 129
Non-deductible expenses net of tax-exempt income	**0,30**	**1 211**	2,92	8 462
STC	**1,46**	**5 957**	0,93	2 689
Deferred tax – prior period adjustments	**(0,02)**	**(72)**	(0,63)	(1 835)
	29,74	**121 462**	31,22	90 445
COMPANY				
Loss for the year		**(106 113)**		(34 173)
Income tax income		**(33 391)**		(4 235)
Loss before income tax		**(139 504)**	–	(38 408)
Income tax using the company's domestic tax rate	**28,00**	**(39 061)**	28,00	(10 754)
Non-deductible expenses net of tax-exempt income	**(0,29)**	**414**	(7,67)	2 948
STC	**(3,82)**	**5 328**	(4,52)	1 736
Deferred tax – prior period adjustments	**0,05**	**(72)**	(4,78)	1 835
	23,94	**(33 391)**	11,03	(4 235)

	GROUP 2011 R'000	GROUP 2010 R'000
18. EARNINGS PER SHARE		
Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.		
Profit attributable to equity holders of the parent	**281 961**	195 403
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**454 026 555**	449 856 116
Effect of own shares held in the CMSA Share Option Trust (treasury shares) – included in opening balance	**(6 439 181)**	(7 729 072)
Shares issued to the CMSA Share Option Trust	**–**	4 170 439
Effect of own shares held in the CMSA Share Option Trust (treasury shares) – acquired during the year	**–**	(4 170 439)
Effect of ordinary shares bought back	**(642 490)**	–
Effect of share options exercised during the year	**–**	362 200
Weighted average number of ordinary shares	**446 944 884**	442 489 244
Total basic earnings per share (cents)	**63,1**	44,2
Diluted earnings per share		
Diluted basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential ordinary shares.		
Profit attributable to equity holders of the parent	**281 961**	195 403
Weighted average number of ordinary shares (diluted):		
Weighted average number of ordinary shares	**446 944 884**	442 489 244
Effect of share options in issue	**2 319 011**	4 751 675
Weighted average number of ordinary shares (diluted)	**449 263 895**	447 240 919
Total diluted earnings per share (cents)	**62,8**	43,7

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 2011 R'000 Gross	GROUP 2011 R'000 Net	GROUP 2010 R'000 Gross	GROUP 2010 R'000 Net
Headline earnings per share				
Headline earnings per share is calculated by dividing the headline earnings attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.				
Reconciliation of headline earnings:				
Profit attributable to equity holders of the parent		**281 961**		195 403
(Less) add: (Gain) loss on disposals of property, plant and equipment	**(72)**	**(62)**	42	36
Add: Loss on deemed disposal of joint venture	**385**	**277**	–	–
Headline earnings		**282 176**		195 439
Total headline earnings per share (cents)		**63,1**		44,2
Diluted headline earnings per share				
Diluted headline earnings per share is calculated by dividing the headline earnings attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential ordinary shares.				
Headline earnings		**282 176**		195 439
Total diluted headline earnings per share (cents)		**62,8**		43,7

19. 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's Audit and Risk Committee is assisted in its oversight role by a co-sourced internal audit function comprising an independent firm of internal auditors and in-house personnel. 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 on a regular basis.

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 due 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, 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 represent 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 five years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a wholesale, retail or government customer, ageing 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 has a secured claim against the customer. The group does not require collateral in respect of trade and other receivables. Where appropriate, credit guarantee insurance cover is purchased.

The group establishes an allowance for impairment that represents its estimate of probable 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. This loss allowance is determined based on historical data of payment statistics for similar debtors (refer to note 10 for further details).

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 24.4 for further details).

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
19. FINANCIAL RISK MANAGEMENT continued				
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 at fair value through profit or loss – other investments (designated)	**8**	6	**–**	–
Financial assets at fair value through profit or loss – forward exchange contracts (held for trading)	**39 845**	–	**–**	–
Loans and receivables – other	**7 072**	7 709	**31 257**	29 375
Loans and receivables – trade	**302 211**	264 775	**38 721**	48 544
Loans and receivables – subsidiaries	**–**	–	**799 911**	799 911
Loans and receivables – cash and cash equivalents	**16 493**	46 448	**174**	167
	365 629	318 938	**870 063**	877 997

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 30 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 notes 12 and 24.4 for details of the lines of credit maintained by the group.

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

GROUP 31 December 2011	**Carrying amount R'000**	**Contractual cash flows R'000**	**Less than 12 months R'000**	**Between one to five years R'000**	**More than five years R'000**
Non-derivative financial liabilities					
Secured bank loans	**251 000**	**299 320**	**24 227**	**275 093**	**–**
Other loans at amortised cost	**5 137**	**5 137**	**5 137**	**–**	**–**
Finance lease liabilities	**44 447**	**50 175**	**18 302**	**31 873**	**–**
Trade and other payables (excluding derivatives)	**339 003**	**339 003**	**339 003**	**–**	**–**
Bank overdrafts	**106 963**	**106 963**	**106 963**	**–**	**–**
	746 550	**800 598**	**493 632**	**306 966**	**–**
Derivative financial liabilities					
Interest rate swaps used for hedging	**1 174**	**1 191**	**1 191**	**–**	**–**
	1 174	**1 191**	**1 191**	**–**	**–**

		Carrying amount R'000	Contractual cash flows R'000	Less than 12 months R'000	Between one to five years R'000	More than five years R'000
19.	**FINANCIAL RISK MANAGEMENT** continued					
	GROUP					
	31 December 2010					
	Non-derivative financial liabilities					
	Secured bank loans	225 000	289 820	21 558	268 262	–
	Other loans at amortised cost	1 758	1 758	1 758	–	–
	Cumulative redeemable preference shares	34 500	38 654	2 502	36 152	–
	Finance lease liabilities	59 066	67 878	18 964	48 914	–
	Trade and other payables (excluding derivatives)	256 697	256 697	256 697	–	–
	Bank overdrafts	71 296	71 296	71 296	–	–
		648 317	726 103	372 775	353 328	–
	Derivative financial liabilities					
	Interest rate swaps used for hedging	5 237	5 239	770	4 469	–
	Forward exchange contracts used for hedging outflow	69 380	69 380	60 922	8 458	–
		74 617	74 619	61 692	12 927	–
	COMPANY					
	31 December 2011					
	Non-derivative financial liabilities					
	Finance lease liabilities	**44 447**	**50 175**	**18 302**	**31 873**	**–**
	Amounts due to subsidiaries	**367 074**	**367 074**	**–**	**–**	**367 074**
	Trade and other payables (excluding derivatives)	**39 509**	**39 509**	**39 509**	**–**	**–**
	Bank overdraft	**73 158**	**73 158**	**73 158**	**–**	**–**
		524 188	**529 916**	**130 969**	**31 873**	**367 074**
	COMPANY					
	31 December 2010					
	Non-derivative financial liabilities					
	Finance lease liabilities	58 404	67 216	18 302	48 914	–
	Amounts due to subsidiaries	133 589	133 589	–	–	133 589
	Trade and other payables (excluding derivatives)	38 930	38 930	38 930	–	–
	Bank overdraft	58 221	58 221	58 221	–	–
		289 144	297 956	115 453	48 914	133 589

Market risk

Market risk is the risk relating to changes in market prices, such as foreign exchange rates, interest rates and equity prices, which 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 as part of its approved hedging strategy, 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 the group's entities i.e. ZAR. The currency giving rise to this risk is primarily USD.

The group aims to hedge about 85 to 90 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 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.

19. FINANCIAL RISK MANAGEMENT continued

Exposure to currency risk

The group's exposure to foreign currency risk, including a sensitivity of a 10% weakening of the ZAR against these foreign currencies, is as follows:

	USD '000	EUR '000	GBP '000	AUD '000	ZAR '000	Decrease in profit before taxation ZAR '000
GROUP 2011						
Trade payables – USD	**36 689**	**–**	**–**	**–**	**295 713**	**(29 571)**
Trade payables – EUR	**–**	**201**	**–**	**–**	**2 094**	**(209)**
Trade payables – AUD	**–**	**–**	**–**	**1**	**8**	**(1)**
GROUP 2010						
Trade payables – USD	31 144	–	–	–	203 059	(20 306)
Trade payables – EUR	–	3	–	–	26	(3)
Trade payables – GBP	–	–	62	–	636	(64)

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 ZAR 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 10, 12 and 13 for the group's exposure to foreign currency risk relating to USD-denominated forward exchange contracts. At year end there were no open forward exchange contracts to cover the group's exposure to EUR-, GBP- and AUD-denominated trade payables as these amounts were considered to be immaterial at year end.

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

	2011	2010
USD	**8,06**	6,52
EUR	**10,42**	8,83
GBP	**n/a**	10,26
AUD	**8,28**	n/a

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.

Profile

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

	GROUP 2011 R'000	GROUP 2010 R'000	**COMPANY 2011 R'000**	COMPANY 2010 R'000
Variable rate instruments				
Financial assets	**(56 338)**	(47 448)	**(174)**	(167)
Financial liabilities	**403 584**	463 817	**117 605**	116 625
	347 246	416 369	**117 431**	116 458

19. FINANCIAL RISK MANAGEMENT continued

Interest rate sensitivity analysis

An increase of 100 basis points in interest rates at the respective reporting dates would have decreased equity and decreased profit by the amounts shown opposite for the financial liabilities listed. A 100 basis point decrease in interest rates at the respective reporting dates would have an equal but opposite effect on the financial liabilities listed. This analysis assumes that all other variables remain constant.

	GROUP 2011 R'000	GROUP 2010 R'000	**COMPANY 2011 R'000**	COMPANY 2010 R'000
Decrease in profit before taxation:				
Compulsory redeemable preference shares	**126**	1 200	**–**	–
Seven-year (2010: five-year) facility of R100 000 000	**1 010**	1 023	**–**	–
Five-year facility of R151 000 000 (2010: three-year facility of R125 000 000)	**1 387**	320	**–**	–
Finance lease liabilities	**468**	519	**468**	519
	2 991	3 062	**468**	519

Refer to note 12 for more details relating to these financial liabilities.

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.

Exposure to equity price risk

As indicated in note 6 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 multinational company and due to the immaterial nature of the amount of the investment.

Capital management

The group manages its capital to ensure that the group will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged from the previous year.

The capital structure of the group consists of net debt (i.e. loans and borrowings offset by net cash and cash equivalents) and equity (i.e. issued share capital, reserves, retained earnings and non-controlling interests).

	GROUP 2011 R'000	GROUP 2010 R'000
Interest-bearing borrowings	**295 447**	328 782
Net cash and cash equivalents – overdrawn	**90 470**	24 848
Net debt	**385 917**	353 630
Equity	**1 966 631**	1 784 868
	2 352 548	2 138 498

The group's strategy is to maintain a gearing ratio of between 15% to 25%. There are no externally imposed capital requirements.

The gearing ratio determined as the proportion of net debt to equity was 19,6% at year end (2010: 19,8%). 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.

In 2010, the board approved a dividend policy where a dividend cover of between four and five times was approved. In 2011, this policy has been maintained and a cover of between four and five times has been complied with when the results are analysed on a normalised basis. The group continues to use earnings to fund growth opportunities and to repay debt as well. In order to maintain the capital structure, the board may adjust the proposed dividend policy.

Fair values

All loans, 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 and finance lease liabilities 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.

20. RELATED PARTIES

Cipla Medpro South Africa Limited is the ultimate holding company. Related party relationships exist between the holding company, fellow subsidiaries, joint ventures and with its directors and key management personnel.

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

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

Direct interest
Cipla Medpro Manufacturing (Pty) Limited – 100%
Galilee Marketing (Pty) Limited – 100%
Inyanga Trading 386 (Pty) Limited – 100%
Xeragen Laboratories (Pty) Limited – 100%

Indirect interest through 100% held subsidiary Inyanga Trading 386 (Pty) Limited
Cipla Medpro Holdings (Pty) Limited – 100%

Indirect interest through 100% held subsidiary Cipla Medpro Holdings (Pty) Limited
Agropharm (Pty) Limited (effective holding) – 100%
Cipla Agricare (Pty) Limited – 100%
Cipla Agrimed (Pty) Limited (effective holding) – 64,25%
Cipla Consult (Pty) Limited (joint venture) – 50%
Cipla Dibcare (Pty) Limited – 100%
Cipla Health Care (Pty) Limited – 100%
Cipla Life Sciences (Pty) Limited (effective holding) – 100%
Cipla-Medpro (Pty) Limited – 100%
Cipla-Medpro Distribution Centre (Pty) Limited – 100%
Cipla Medpro ARV (Pty) Limited – 100%
Cipla Medpro Botswana (Pty) Limited – 100% (2010: 0%)
Cipla Medpro Cardio Respiratory (Pty) Limited – 100%
Cipla Nutrition (Pty) Limited – 75% (2010: joint venture – 50%)
Cipla Personal Care (Pty) Limited – 100%
Cipla Vet (Pty) Limited – 75%
Gardian Cipla (Pty) Limited – 100%
Medpro Gen (Pty) Limited – 100%
Medpro Holdings (Pty) Limited – 100%
Medpro Pharmaceutica (Pty) Limited – 100%
Medpro Pharmaceutica Africa (Pty) Limited – 100%
Medpro-On-Line (Pty) Limited – 100%
Smith and Couzin (Pty) Limited – 100%

The group also includes the CMSA Share Option Trust.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
20. RELATED PARTIES continued				
Transactions with subsidiaries				
a) Transactions with related parties				
The following transactions were carried out by Cipla Medpro South Africa Limited with related parties:				
(i) Revenue				
Cipla Medpro Holdings (Pty) Limited	–	–	(168 542)	(65 226)
(ii) Management fees received				
Cipla Medpro Holdings (Pty) Limited	–	–	(21 386)	(19 102)
b) Loans (to) from subsidiaries:				
Cipla Medpro Holdings (Pty) Limited	–	–	(355 486)	(122 919)
Inyanga Trading 386 (Pty) Limited	–	–	799 911	799 911
Xeragen Laboratories (Pty) Limited	–	–	(11 588)	(10 670)
	–	–	432 837	666 322
Refer to Annexure A for the terms and conditions attached to the above balances.				
c) Loan due from the CMSA Share Option Trust				
CMSA Share Option Trust	–	–	28 019	29 328
d) Trade receivable due from subsidiary				
Cipla Medpro Holdings (Pty) Limited	–	–	33 854	12 162
e) Issue of shares to the CMSA Share Option Trust				
2011: no shares issued				
2010: 4 170 439 shares issued	–	22 205	–	22 205

20. RELATED PARTIES continued

Transactions with directors and key management personnel

a) Loans (direct/indirect)

Medpro Pharmaceutica (Pty) Limited has a loan due to L'amar (France) Pharmatec (Pty) Limited of R5 137 342 (2010: R1 757 986). JS Smith and C Aucamp are both directors and hold an immaterial interest in this company, as declared in terms of Section 75 of the Companies Act.

Medpro Pharmaceutica (Pty) Limited has a loan due from Cipla Consult (Pty) Limited of R3 833 930 (2010: R3 265 284). Cipla Consult (Pty) Limited is a jointly controlled entity of which Cipla Medpro Holdings (Pty) Limited shares control.

Medpro Pharmaceutica (Pty) Limited also has a loan due from Cipla Nutrition (Pty) Limited of R4 632 618 (2010: R1 631 597). Cipla Nutrition (Pty) Limited became a subsidiary of Cipla Medpro Holdings (Pty) Limited in 2011, after Cipla Medpro Holdings (Pty) Limited acquired additional shares in Cipla Nutrition (Pty) Limited. Therefore, the loan balance is eliminated on consolidation in the 2011 consolidated financial statements, whereas in 2010, Cipla Nutrition (Pty) Limited was a jointly controlled entity of which Cipla Medpro Holdings (Pty) Limited shared control.

b) Property leases

For a portion of 2010, Medpro Pharmaceutica (Pty) Limited leased property from JSSTD Properties (Pty) Limited. JS Smith is a director of JSSTD Properties (Pty) Limited. JSSTD Properties (Pty) Limited sold all properties to independent third parties during the course of 2010. Lease rentals paid during 2010 amounted to R450 496 (2011: Rnil), with an amount of R1 107 815 (2010: R1 666 735) due from JSSTD Properties (Pty) Limited at 31 December 2011, which has subsequently been settled in full. The properties under question are now leased from the independent third parties referred to above.

c) Royalties

During the year, Medpro Pharmaceutica (Pty) Limited incurred royalties amounting to R3 964 988 (2010: R1 829 581) due to L'amar (France) Pharmatec (Pty) Limited. JS Smith and C Aucamp are both directors and hold immaterial indirect interest in this company, as declared in terms of Section 75 of the Companies Act.

d) Rentals

During the year Medpro Pharmaceutica (Pty) Limited chartered on an ad hoc basis, for entertainment purposes, yachts owned by JS Smith (trading as Executive Waterfront Charter) and Ocean Adventurer World Explorer CC, in which JS Smith has a 50% indirect interest. During 2011, R194 290 (2010: R130 000) was paid for the hire of the Executive Waterfront Charter, with nothing paid to the Ocean Adventurer World Explorer CC, as that yacht was not hired by the company during 2011 (2010: R571 404 paid to the Ocean Adventurer World Explorer CC).

e) Consulting fees

During the year, Medpro Pharmaceutica (Pty) Limited paid consulting fees amounting to R600 000 (2010: R400 000) to Cipla Consult (Pty) Limited.

f) Compensation

In addition to their salaries, the group also provides non-cash benefits in the form of share options to directors and key personnel. Refer to note 23 for details of share options granted to these employees.

21. DIRECTORS' REMUNERATION AND BENEFITS

2011 31 December 2011	Directors' fees[1] R'000	Basic salary for management services R'000	Annual bonus R'000	Other benefits R'000	Life cover and medical benefits[2] R'000	Total remuneration and benefits[3] R'000	IFRS 2 Share-based Payment expense[4] R'000	Total package R'000
Executive directors								
JS Smith (CEO)	–	10 061	2 838	1 725	163	14 787	–	14 787
C Aucamp (CFO)	–	3 256	1 815	575	91	5 737	90	5 827
Total A	–	13 317	4 653	2 300	254	20 524	90	20 614
Non-executive directors								
PCS Luthuli (Chairman)	722	–	–	–	–	722	–	722
MB Caga	245	–	–	–	–	245	–	245
JvD du Preez[5]	432	–	–	–	–	432	–	432
ND Mokone	200	–	–	–	–	200	–	200
MT Mosweu	368	–	–	–	–	368	–	368
SMD Zungu[5]	100	–	–	–	–	100	–	100
Total B	2 067	–	–	–	–	2 067	–	2 067
Total directors' remuneration and benefits paid (A+B)	2 067	13 317	4 653	2 300	254	22 591	90	22 681
Remuneration and benefits paid by:								
CMSA	2 067	–	–	–	–	2 067	90	2 157
Cipla Medpro	–	13 317	4 653	2 300	254	20 524	–	20 524
2010 **31 December 2010**								
Executive directors								
JS Smith (CEO)	–	9 350	2 389	1 052	93	12 884	8 515	21 399
C Aucamp (CFO)	–	3 015	1 181	241	65	4 502	1 963	6 465
Total A	–	12 365	3 570	1 293	158	17 386	10 478	27 864
Non-executive directors								
PCS Luthuli (Chairman)	719	–	–	–	–	719	–	719
MB Caga	238	–	–	–	–	238	–	238
JvD du Preez[5]	237					237		237
ND Mokone	104	–	–	–	–	104	–	104
MT Mosweu	218	–	–	–	–	218	–	218
SMD Zungu[5]	49	–	–	–	–	49	–	49
Total B	1 565	–	–	–	–	1 565	–	1 565
Total directors' remuneration and benefits paid (A+B)	1 565	12 365	3 570	1 293	158	18 951	10 478	29 429
Remuneration and benefits paid by:								
CMSA	1 565	–	–	–	–	1 565	10 478	12 043
Cipla Medpro	–	12 365	3 570	1 293	158	17 386	–	17 386

1 *Directors' fees include payments for attendance at board, Audit and Risk Committee, Remuneration Committee and Nomination Committee meetings, as well as retainer fees for the Chairman of the board.*

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

3 *Total remuneration and benefits reflects the total cash payments and benefits paid to directors. The IFRS 2 Share-based Payment expense has been shown separately in the next column; this refers to the amount recognised in the statement of comprehensive income in relation to share options that have been granted to the executive directors.*

4 *The IFRS 2 Share-based Payment expense refers to the amount recognised in the statement of comprehensive income in relation to share options that have been granted to the executive directors.*

5 *Appointed in March 2010.*

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

		GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
22.	**PROVISIONS, COMMITMENTS AND CONTINGENCIES**				
	Provisions				
	Balance at 1 January 2011	**–**	–	**–**	–
	Provisions made during the year	**80 000**	–	**80 000**	–
	Finance portion	**(7 378)**	–	**(7 378)**	–
	Balance at 31 December 2011	**72 622**	–	**72 622**	–
	Non-current	**42 622**	–	**42 622**	–
	Current	**30 000**	–	**30 000**	–
		72 622	–	**72 622**	–

Further to the announcement dated 27 October 2010 in which shareholders were advised of arbitration proceedings between RBSA and CMSA in relation to a claim of approximately R300 million by RBSA (which was subsequently increased to approximately R332 million) and a counter claim of approximately R280 million by the company arising from a manufacturing agreement entered into in 2003 and relating to the temporary closure in 2007 of its factory in Durban by the MCC ("the Claims"), whilst it was still named Enaleni Pharmaceuticals, shareholders are advised as follows:

- The arbitration proceedings (which commenced in Cape Town in April 2012, and which have run for some 7 weeks), have been settled by agreement between the company and RBSA;
- The agreement was approved by CMSA's board after consultation with and on the recommendation of its external legal counsel;
- The salient terms of the agreement are:
  - The company will pay a settlement amount of R80 million to RBSA in full and final settlement of certain of RBSA's claims, such settlement amount to be paid in three tranches as follows:
    - R30 million by 3 July 2012;
    - R30 million by 31 July 2013; and
    - R20 million by 30 January 2014
  - The company will abandon its counter claims against RBSA (which includes receivables reflected in its books as due by RBSA, in the amount of R37 million), and RBSA will likewise abandon the remainder of its claims;
- As such, the settlement is a full and final settlement of the arbitration proceedings and all and any claims between the company and RBSA;
- The amount to be paid represents compensation by the company to RBSA for the higher cost to RBSA of procuring alternative supplies of the products the company would otherwise have supplied to it, had its manufacturing facility not temporarily closed for the reasons above, and whilst it underwent a necessary upgrade to international manufacturing requirements and standards.

The company has sought specialist accounting advice on the appropriate accounting treatment of the above settlement. Such advice is that:

- Notwithstanding that evidence as to the actual potential extent of the liability only came to light after 31 December 2011 and the finalisation of the provisional financial statements for the period ending 31 December 2011, the underlying potential liability to RBSA was in existence at 31 December 2011;
- The board had not, as at the date of approval of the settlement agreement, approved this integrated annual report, including the group annual financial statements, for the period ending 31 December 2011; and
- The appropriate and correct accounting treatment for the settlement is to account for the settlement in the accounting period ending 31 December 2011.

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
Operating lease commitments (as lessee)				
The future minimum lease payments under non-cancellable operating leases are as follows:				
– Less than one year	**23 020**	15 691	**3 101**	3 101
– Between one and five years	**54 288**	50 119	**10 078**	12 403
– More than five years	**1 631**	4 433	**–**	775
	78 939	70 243	**13 179**	16 279

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

ANNUAL FINANCIAL STATEMENTS

22. PROVISIONS, COMMITMENTS AND CONTINGENCIES2 continued

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 2011, R33 039 542 (2010: R26 479 593) was recognised (straight-line) as an expense in the statement of comprehensive income in respect of operating leases.

Capital commitments

At 31 December 2011, R374 210 408 (2010: R341 119 834) had been expended on the upgrade and continuous improvement of the CMM site and manufacturing facilities. Subsequent to year end, R908 378 (2010: R3 577 779) had been spent on the upgrade.

At year end Cipla Medpro South Africa Limited had outstanding orders for plant and machinery of R1 797 223 (2010: R30 644 443), which has been approved and contracted for (2010: R51 000 had not been contracted for).

23. SHARE OPTIONS AND SHARE-BASED PAYMENTS

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

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 R10 478 163 was recognised as the IFRS 2 expense during the 2010 year (2011: Rnil) relating to the CMSA Share Option Trust.

The fair value of services received from employees in return for share options granted is 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 the share price on the date of the grant, the 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 CMSA's 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 or approval 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 since 2008, which vested one year after grant date and the share options granted in March 2010, which vested immediately.

A new share option scheme was approved by the shareholders at a general meeting held on 24 November 2010. In terms of the new scheme, no further share options will be granted under either of the two old schemes, detailed above. Once all the unexercised share options that have previously been granted in terms of the old schemes have vested, these schemes will be collapsed. The new scheme states that share options may be taken up in four tranches: 10% of the share options vest two years after grant date, 30% in the third year, 30% in the fourth year, and the final 30% in the fifth year. All vested options must be exercised, paid for in full and taken up within 18 months of its vesting date.

In terms of the new scheme, a maximum of 44 million shares were set aside for the purpose of the CMSA Employee Share Option Trust (representing approximately 10% of the shares currently in issue), of which each beneficiary could have been granted up to a maximum of 4,4 million shares (representing approximately 1% of the shares currently in issue).

In accordance with IFRS 2 Share-based Payments, an amount of R1 454 924 (2010: Rnil) was recognised as the IFRS 2 expense during the year, relating to the CMSA Employee Share Option Trust.

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

23. SHARE OPTIONS AND SHARE-BASED PAYMENTS continued

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 empoyees to be valued at the grant date and expensed through the statement of comprehensive income over the vesting period of the share options. The fair value of each option granted by CMSA 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.

GROUP AND COMPANY **Date of grant**	Number of options granted '000	**Number of options out-standing 2011 '000**	Number of options out-standing 2010 '000	Expected life of options years	Share price at grant date cents	Exercise price cents	Expected volatility[3] %	Expected dividend yield[4] %	Risk-free rate[5] %
December 2005[1]	4 480	**35**	35	2 – 5	331	300	25 – 27	–	7,17 – 7,34
April 2008	1 000	**91**	91	1 – 4	302	306	33	–	9,16
May 2008	2 928	**405**	405	1 – 4	290	296	33	–	9,67
June 2009[2]	3 711	**1 882**	1 882	1 – 4	385	354	38	–	8,43
November 2009	3 120	**3 026**	3 026	1 – 4	459	478	37	–	8,43
March 2010	1 000	**1 000**	1 000	1 – 4	582	531	37	1,9	8,00
March 2011	289	**289**	–	2 – 5	685	726	32	1,9	7,18 – 8,16
May 2011	4 700	**4 400**	–	2 – 5	663	680	32	1,9	7,18 – 8,16
August 2011	250	**250**	–	2 – 5	630	641	32	1,9	7,18 – 8,16

1 *The share options were granted to employees in December 2005, but issued to the share incentive trust during the 2006 financial year.*

2 *The share options were approved by the board during April 2009.*

3 *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.*

4 *The expected dividend yield is management's best estimate of the forward-looking dividend yield over the expected life of the option.*

5 *The risk-free rate is the implied yield currently available on zero-coupon government issues, with a remaining term equal to the expected term of the option being valued (based on the option's contractual life and taking into account the effects of expected early exercise).*

		GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
23. SHARE OPTIONS AND SHARE-BASED PAYMENTS continued					
Share options outstanding					
The movement in the number of share options outstanding can be reconciled as follows:					
Outstanding at beginning of the year[6]	('000)	**6 439**	11 947	**6 439**	11 947
Granted during the year[6]	('000)	**5 239**	1 000	**5 239**	1 000
Options cancelled during the year	('000)	**(300)**	(1 048)	**(300)**	(1 048)
Exercised during the year[6,7]	('000)	**–**	(5 460)	**–**	(5 460)
Outstanding at end of the year[6]	('000)	**11 378**	6 439	**11 378**	6 439
Exercisable at 31 December[6]	('000)	**6 439**	6 439	**6 439**	6 439
[6] *The weighted average excercise price of share options for each of the above groups of options are as follows:*					
Outstanding at beginning of the year	(cents)	**435**	348	**435**	348
Granted during the year	(cents)	**681**	531	**681**	531
Unallocated options cancelled during the year	(cents)	**–**	132	**–**	132
Exercised during the year	(cents)	**–**	320	**–**	320
Outstanding at end of the year	(cents)	**542**	435	**542**	435
Excercisable at 31 December	(cents)	**435**	435	**435**	435

GROUP AND COMPANY	Number of options exercised 2011 '000	Weighted average share price 2011 cents	Number of options exercised 2010 '000	Weighted average share price 2010 cents
[7] *The weighted average share price at the date of exercise of these share options was:*				
Exercised during the year				
April	**–**	**–**	(909)	714
May	**–**	**–**	(2 523)	718
June	**–**	**–**	(1 829)	715
November	**–**	**–**	(94)	710
December	**–**	**–**	(105)	745
	–	**–**	(5 460)	

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 new CMSA Employee Share Option Trust amounted to 289 256 (2010: 1 000 000 shares under options offered in terms of the previous CMSA Share Option Trust). At 31 December 2011, 6 728 437 (2010: 6 439 181) share options were still outstanding, calculated as follows:

GROUP AND COMPANY Grantee	Options outstanding at 31 December 2011 '000	Options outstanding at 31 December 2010 '000	Options granted during 2011 '000	Options granted during 2010 '000	Exercise price cents	Vesting date
JS Smith	**1 883**	1 883	**–**	–	354	June 2010
JS Smith	**2 345**	2 345	**–**	–	478	November 2010
JS Smith	**1 000**	1 000	**–**	1 000	531	March 2010
C Aucamp	**680**	680	**–**	–	478	November 2010
C Aucamp	**289**	–	**289**	–	726	March 2013
	6 197	5 908	**289**	1 000		
Other key personnel	**–**	–	**–**	–		
Other ex-key personnel	**531**	531	**–**	–		
Unallocated options	**–**	–	**–**	–		
Total	**6 728**	6 439	**289**	1 000		

Note: *On 20 March 2012, C Aucamp was granted and accepted 617 284 share options at a strike price of 648 cents per share, in terms of the CMSA Employee Share Option Scheme.*

	GROUP 2011 R'000	GROUP 2010 R'000	COMPANY 2011 R'000	COMPANY 2010 R'000
24. NOTES TO THE CASH FLOW STATEMENTS				
24.1 Cash generated (utilised) by operations				
Profit (loss) before taxation	**408 449**	289 748	**(139 504)**	(38 408)
Adjustments for:				
Depreciation	**24 103**	18 121	**9 930**	6 616
Amortisation	**1 394**	507	**–**	–
Finance costs	**58 212**	60 585	**9 044**	10 838
Finance income	**(15 586)**	(2 830)	**(7 444)**	(230)
(Gain) loss on disposals of property, plant and equipment	**(72)**	42	**(72)**	–
Loss on deemed disposal of joint venture	**385**	–	**–**	–
Fair value adjustment of listed investments	**(2)**	(2)	**–**	–
(Gain) loss on forward exchange contracts	**(109 225)**	44 739	**–**	–
IFRS 2 Share-based Payment expenses	**1 455**	10 478	**1 455**	10 478
Operating profit (loss) before working capital changes	**369 113**	421 388	**(126 591)**	(10 706)
Increase in inventory	**(125 246)**	(107 988)	**(37 766)**	(10 801)
(Increase) decrease in trade and other receivables	**(44 776)**	(33 630)	**6 860**	(9 466)
Increase in trade and other payables	**63 595**	34 687	**2 419**	24 405
Increase in provisions	**80 000**	–	**80 000**	–
	342 686	314 457	**(75 078)**	(6 568)
24.2 Reconciliation of taxation (paid) refunded				
Balance at beginning of the year	**(9 175)**	(9 208)	**–**	1 117
Statement of comprehensive income charge	**(151 733)**	(94 481)	**–**	–
Balance at end of the year	**27 941**	9 175	**–**	–
	(132 967)	(94 514)	**–**	1 117
24.3 Reconciliation of STC paid				
Balance at beginning of the year	**(95)**	(1 448)	**–**	–
Statement of comprehensive income charge	**(5 957)**	(2 689)	**(5 328)**	(1 736)
Balance at end of the year	**42**	95	**–**	–
	(6 010)	(4 042)	**(5 328)**	(1 736)
24.4 Cash and cash equivalents				
Bank balances	**6 910**	5 377	**5**	4
Call deposits	**9 583**	41 071	**169**	163
Cash and cash equivalents	**16 493**	46 448	**174**	167
Bank overdrafts used for cash management purposes	**(106 963)**	(71 296)	**(73 158)**	(58 221)
Cash and cash equivalents in the statements of cash flow	**(90 470)**	(24 848)	**(72 984)**	(58 054)

24. NOTES TO THE CASH FLOW STATEMENTS continued

24.4 Cash and cash equivalents continued

Cipla Medpro South Africa Limited has a multi-option facility comprising overdrafts and overnight loans for an amount of R80 million (2010: R80 million), letters of guarantee amounting to R490 000 (2010: R490 000), an asset-based finance facility of R72,5 million (2010: R72,5 million) and a derivative facility of R30 million (2010: R30 million) held with Nedbank Limited. These are secured in part through:

– Cross deed of suretyship by Cipla Medpro Holdings (Pty) Limited, Cipla Medpro Manufacturing (Pty) Limited and Cipla Medpro South Africa Limited.

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

– Guarantee of the obligations of Cipla Medpro Holdings (Pty) Limited;

– 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

– Cession of Inyanga Trading 386 (Pty) Limited's trade debtors, deposits, cash, rights to insurances and government authorisations.

The R35 million (2010: R35 million) general banking facility comprising overdrafts, guarantees, Customer Foreign Currencies (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.

Nedbank Limited has a reversionary right to the cash balances of the group.

25. CHANGES IN OWNERSHIP INTEREST

Refer to Annexure A, which details the group's investments in subsidiaries.

Disposal of a portion of interest held

In terms of the shareholders' agreement, the group accounted for the disposal of 11 of its 43 shares held in Cipla Agrimed (Pty) Limited where the Jan Wentzel Familie Trust exercised its option to acquire 11 shares of Cipla Medpro Holdings (Pty) Limited's 43 shares in Cipla Agrimed (Pty) Limited. The purchase consideration was settled via loan account. Cipla Medpro Holdings (Pty) Limited now effectively holds 64,25% in Cipla Agrimed (Pty) Limited and the group did not lose control over Cipla Agrimed (Pty) Limited after this disposal.

Acquisitions of subsidiaries and joint ventures

In June 2011, the group acquired a 100% interest in Cipla Medpro Botswana (Pty) Limited, registered in Botswana, for R104, with the purchase consideration settled in cash. Cipla Medpro Botswana (Pty) Limited is now a wholly owned subsidiary of the group.

On 1 March 2010 and 16 April 2010, the group acquired a 50% interest in Cipla Nutrition (Pty) Limited and Cipla Consult (Pty) Limited, for five rand and R50, with the purchase considerations settled in cash. Both entities were jointly controlled by Cipla Medpro Holdings (Pty) Limited and outside parties and were classified as joint ventures in 2010. In 2011, Cipla Consult (Pty) Limited remains a joint venture and is accounted for as such in the consolidated results. During December 2011, the group acquired an additional 25% interest in Cipla Nutrition (Pty) Limited. This increased the group's shareholding in Cipla Nutrition (Pty) Limited to 75% (2010: 50% joint venture) and Cipla Nutrition (Pty) Limited is now classified as a subsidiary of the group. The total purchase consideration was settled in cash. The excess of the consideration paid was recognised as goodwill in 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.

	GROUP 2011 R'000
Joint venture's net assets at acquisition date	
Plant and equipment	**14**
Intangible assets	**3 649**
Deferred tax	**283**
Trade and other receivables	**54**
Loan from group company	**(4 633)**
Trade and other payables	**(136)**
Net fair value at acquisition date	**(769)**
Less: non-controlling interest	**192**
Less: fair value of investment previously held as joint venture	**385**
Excess over purchase consideration	**2 192**
Net cash outflow	**2 000**

The goodwill is attributable mainly due to the synergies expected to be achieved from integrating Cipla Nutrition (Pty) Limited into the group's current operations.

The fair value of the trade and other receivables is approximated by the carrying value of R54 150, which comprise the gross contractual amounts. The full contractual amounts are expected to be collected.

The deemed disposal of the joint venture resulted in a loss of R384 696 being recognised in the administrative expenses in the statement of comprehensive income.

Cipla Nutrition (Pty) Limited contributed neither revenue, nor any profit or loss to the group's results for the year ended 31 December 2011. If the acquisition had occurred on 1 January 2011, management estimates that Cipla Nutrition (Pty) Limited would have contributed no revenue and a loss of R466 017 for the 2011 year.

The group acquired additional interests in subsidiaries in 2010, as shown in the table below, with no changes in these shareholdings in 2011:

	Date of additional interest acquired	Additional interest acquired %	Purchase consideration for additional interest* R	Current shareholding %
Medpro Pharmaceutica Africa (Pty) Limited	3 June 2010	50	5	100
Cipa Dibcare (Pty) Limited	26 October 2010	33	334	100
Cipla Agricare (Pty) Limited	3 June 2010	50	5	100

** All purchase considerations were settled in cash.*

ANNUAL FINANCIAL STATEMENTS

26. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

26.1 Standards, amendments and interpretations effective 1 January 2011 and adopted during the current financial year

During the current year, the group adopted the following new and amended standards and interpretations:

IFRS 3 Business Combinations (revised) (effective for annual periods beginning on or after 1 July 2010). The amendment clarifies that the initial measurement of non-controlling interest shall be measured at acquisition date fair values, unless otherwise required by IFRS. Only those interests that represent a present ownership interest shall be measured at either fair value or the present ownership's proportionate share in the recognised amounts of the acquiree's identifiable assets. The adoption of this amendment did not impact the results or disclosures of the group.

IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). The amendment clarifies the requirements for risk disclosures. The adoption of this amendment did not impact the results of the group, but resulted in additional disclosures with regards to risk related to financial instruments.

IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011). The amendment requires that an entity must present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item. The adoption of this amendment did not impact the results or disclosures of the group.

IAS 24 Related Party Disclosures (revised) (effective for annual periods beginning on or after 1 January 2011). This amendment clarifies the definition of a related party. In terms of the definition, the revision clarifies that joint ventures or associates of the same third party are related parties of each other. The adoption of this amendment did not impact the results or disclosures of the group.

IAS 32 Financial Instruments: Presentation Amendment: Classification of Rights Issue (effective for annual periods beginning on or after 1 February 2010). The amendment provides that rights, options or warrants, to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of this amendment did not impact the results or disclosures of the group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The interpretation clarifies the accounting treatment where a debtor and creditor renegotiate the terms of a financial liability and the terms result in the debtor issuing equity instruments to the creditor. The adoption of this interpretation did not impact the results or disclosures of the group.

26.2 Standards, amendments and interpretations not yet effective for the current financial year, but effective for ensuing financial years

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 financial statements:

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015). This new standard deals with the classification and measurement of financial assets and liabilities as follows:

- Financial assets will be categorised as those subsequently measured at fair value or at amortised cost (where assets are held to collect contractual cash flows);
- Financial assets may only be reclassified if the entity changes its business model for the management of financial assets (prospectively);
- Investments in equity instruments may be measured at fair value through other comprehensive income, but such a decision may not be revoked subsequently; and
- The classification and measurement of financial liabilities will remain mostly unchanged, with one exception: an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive section of the statement of comprehensive income, rather than profit or loss.

26. **NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS** continued

26.2 Standards, amendments and interpretations not yet effective for the current financial year, but effective for ensuing financial years

The group does not plan to early adopt this standard. The adoption of this new standard is not expected to impact the results of the group, but will result in additional disclosure.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013). This new standard will supersede IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. It sets out the accounting requirements for the preperation of consolidated financial statements and provides a definition for control of an investee. It establishes control as the basis for determining which entities are consolidated. The principle of control is based upon the following three elements:

- Power over the investee;
- Exposure, or rights, to variable returns from involvement with the investee; and
- The ability to use power over the investee to affect the amount of the investor's returns.

The group does not plan to early adopt this standard. The impact of the adoption of this new standard is currently being assessed.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013). This new standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). It addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

A joint arrangement can be either a joint venture or a joint operation. Joint ventures are to be equity accounted as and when the option of proportionate consolidation has been eliminated. A joint operation (an investor in a joint operation) will recognise its share of assets, liabilities, revenues and expenses and/or its share of those items, if any.

The group does not plan to early adopt this standard. The impact of the adoption of this new standard is currently being assessed.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013). This new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, special purpose vehicles and other off-balance-sheet vehicles, requires an entity to disclose information that enables users of the financial statements to evaluate:

- The nature of, and risks associated with, its interests in other entities, and
- The effects of those interests on its financial position, financial performance and cash flows.

The group does not plan to early adopt this standard. The impact of the adoption of this new standard is currently being assessed.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013). This new standard sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. It applies to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. It does require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. It also explains how to measure fair value for financial reporting.

The standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The standard also establishes a fair value hierarchy that categorises the inputs to the valuation techniques used to measure fair value into three levels.

The group does not plan to early adopt this standard. The impact of the adoption of this new standard is currently being assessed.

27. FINANCIAL INSTRUMENTS

Fair value hierarchy of financial instruments at fair value through profit or loss

The group used the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

	GROUP 2011 R'000	GROUP 2010 R'000
Financial assets measured at fair value		
Listed shares (level 1)	**8**	6
Financial assets (liabilities) measured at fair value		
Forward exchange contracts (level 2)	**39 845**	(69 380)
Interest rate swaps (level 2)	**(1 174)**	(5 237)
	38 671	(74 617)

Categories of financial intruments and fair values

The group's financial instruments consist primarily of deposits with banks, loans receivable, trade and other receivables, trade and other payables, derivatives and loans and borrowings.

Categories of financial instruments and fair values versus carrying amounts

The fair values of the financial assets and liabilities approximate their carrying amounts. Refer to accounting policy (u) for a discussion of how fair values are determined. The fair values of financial assets and liabilities are as follows:

	GROUP 2011 R'000	GROUP 2010 R'000
Financial assets		
Financial assets at fair value through profit or loss – Listed equity securities (designated)	**8**	6
Financial assets at fair value through profit or loss – Forward exchange contracts (held for trading)	**39 845**	–
Loans and receivables	**325 776**	318 932
Trade and other receivables (excluding derivatives)	**302 211**	264 775
Long-term loans receivable	**3 191**	–
Short-term loans receivable	**3 881**	7 709
Cash and cash equivalents	**16 493**	46 448
Financial liabilities		
Financial liabilities at fair value through profit or loss (held for trading)	**(1 174)**	(74 617)
Forward exchange contracts	**–**	(69 380)
Interest rate swaps	**(1 174)**	(5 237)
Financial liabilities held at amortised cost	**(746 550)**	(648 317)
Secured bank loans	**(251 000)**	(225 000)
Other loans at amortised cost	**(5 137)**	(1 758)
Redeemable preference shares	**–**	(34 500)
Finance lease liabilities	**(44 447)**	(59 066)
Trade and other payables (excluding derivatives)	**(339 003)**	(256 697)
Bank overdrafts	**(106 963)**	(71 296)

	COMPANY 2011 R'000	COMPANY 2010 R'000
27. FINANCIAL INSTRUMENTS continued		
Financial assets		
Loans and receivables	**870 063**	877 997
Trade and other receivables (excluding derivatives)	**38 721**	48 544
Long-term loans receivable	**831 121**	829 239
Short-term loans receivable	**47**	47
Cash and cash equivalents	**174**	167
Financial liabilities		
Financial liabilities held at amortised cost	**524 188**	(289 144)
Finance lease liabilities	**(44 447)**	(58 404)
Amounts due to subsidiaries	**(367 074)**	(133 589)
Trade and other payables (excluding derivatives)	**39 509**	(38 930)
Bank overdraft	**(73 158)**	(58 221)

Annexure A **Interests in subsidiary companies**

All subsidiaries are incorporated in South Africa and are mainly engaged in the manufacturing, marketing and distribution of pharmaceutical products.

COMPANY	Date acquired	Issued share capital R	**Effective group holding 2011 %**	Effective group holding 2010 %	**Investment 2011 R'000**	Investment 2010 R'000	**Amounts due by (to) subsidiaries[1] 2011 R'000**	Amounts due by (to) subsidiaries[1] 2010 R'000
Direct holdings								
Cipla Medpro Manufacturing (Pty) Limited	02/12/08	100	**100**	100	**–**	–	**–**	–
Galilee Marketing (Pty) Limited	02/10/06	100	**100**	100	**–**	–	**–**	–
Inyanga Trading 386 (Pty) Limited	15/12/05	100	**100**	100	**–**	–	**799 911**	799 911
Xeragen Laboratories (Pty) Limited	01/09/05	100	**100**	100	**31 274**	31 274	**(11 588)**	(10 670)
Total direct holdings					**31 274**	31 274	**788 323**	789 241
Indirect holdings								
Cipla Medpro Holdings (Pty) Limited	16/01/06[2]	10	**100**	100	**1 391 054**	1 391 054	**(355 486)**	(122 919)
Total indirect holdings					**1 391 054**	1 391 054	**(355 486)**	(122 919)
Total holdings					**1 422 328**	1 422 328	**432 837**	666 322

1 *All amounts due by (to) subsidiaries are unsecured and interest free. There are no specific repayment terms attached to the above loans. The loan due by subsidiary will not be called upon within the next 12 months and is therefore classified as non-current.*

2 *Cipla Medpro Holdings (Pty) Limited was effectively purchased by Cipla Medpro South Africa Limited on 1 November 2005, with control passing to the company 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 Cipla Medpro South Africa Limited. Refer to note 20 for the list of subsidiaries of which Cipla Medpro Holdings (Pty) Limited is the holding company.*

Analysis of shareholders[1]

Issued shares: **446 461 759** (2010: 454 026 555)

2011	Number of shareholders	Percentage of total shareholders	Number of shares	Percentage of total shareholding
Shareholder spread				
1 – 1 000 shares	1 547	20,46	930 257	0,21
1 001 – 10 000 shares	4 401	58,20	18 664 718	4,18
10 001 – 100 000 shares	1 334	17,64	39 726 402	8,90
100 001 – 1 000 000 shares	219	2,90	69 204 258	15,50
1 000 001 shares and over	61	0,80	317 936 124	71,21
Total	7 562	100,00	446 461 759	100,00
Public/non-public shareholders				
Non-public shareholders	11	0,14	12 817 967	25,27
Strategic holdings (more than 10%)	1	0,01	82 000 000	18,37
Directors of the company[2]	5	0,07	20 538 911	4,60
Directors of subsidiaries	4	0,05	3 839 875	0,86
CMSA Share Option Trust	1	0,01	6 439 181	1,44
Public shareholders	7 551	99,86	333 643 792	74,73
Total	7 562	100,00	446 461 759	100,00
Beneficial shareholders holding 3% or more				
Sweet Sensation 67 (Pty) Limited			82 000 000	18,37
Government Employees Pension Fund			22 065 612	4,94
RMB Securities (Pty) Limited			20 220 036	4,53
African Pharma Investments Limited			17 892 857	4,01
JS Pharm Trust (JS Smith)			16 821 954	3,77
Liberty Life Association of Africa Limited			14 353 374	3,21

1 *Representative of shareholders on the share register as at 31 December 2011.*

2 *The breakdown of directors' shareholdings can be found within the directors' report, on page 60.*

Share trading statistics

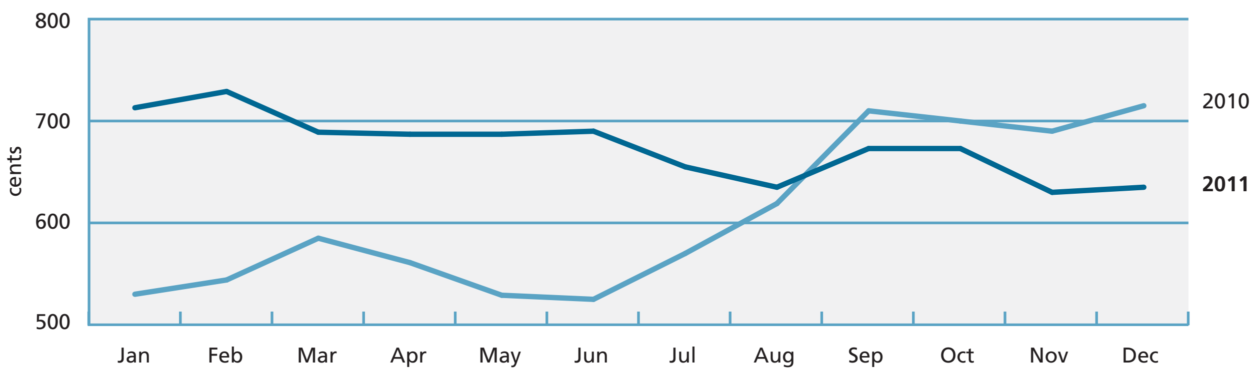
for the years ended 31 December

Issued shares: **446 461 759** (2010: 454 026 555)

2011 MONTHLY TRADING STATISTICS	High cents	Low cents	Close cents	Volume of shares	Value R	Number of transactions
January	765	705	713	13 123 921	95 559 358	2 621
February	800	713	729	29 542 914	220 336 490	3 813
March	737	655	689	18 476 243	129 166 904	3 298
April	700	645	687	14 126 327	96 565 892	2 258
May	700	658	687	7 117 978	48 197 698	1 855
June	700	650	690	11 616 309	79 187 265	1 653
July	695	625	655	6 360 808	42 581 076	1 381
August	675	500	635	9 735 120	61 026 008	2 762
September	673	615	673	15 791 457	100 980 411	3 557
October	685	651	673	14 301 542	95 860 211	2 072
November	680	586	630	21 878 258	142 880 979	2 228
December	665	615	635	11 010 248	70 787 268	1 520
				173 081 125	1 183 129 560	29 018

SHARE STATISTICS		2011	2010
High	(cents)	800	779
Low	(cents)	500	490
Year end	(cents)	635	715
Volume of shares traded		173 081 125	137 014 671
Volume as a percentage of the number of shares in issue	(%)	38,12	30,18
Value of shares traded	(R'000)	1 183 130	839 716
Number of transactions		29 018	21 484
Earnings yield at year end	(%)	12,7	6,2
Adjusted yield*	(%)	11,0	n/a
Dividend yield at year end	(%)	2,2	1,5
Price earnings ratio at year end	(times)	7,9	16,2
Adjusted price earnings ratio*	(%)	9,1	n/a
Market capitalisation at year end net of treasury shares	(R'000)	2 794 143	3 200 250
Market capitalisation to shareholders' equity at year end	(times)	1,6	1,8

* *Excludes settlement income*



Closing share price

Source: Computershare Investor Services (Pty) Limited

Annexure B **Salient features of the Memorandum of Incorporation**

The salient features of the Memorandum of Incorporation (MOI) to be adopted are set out below.

1 Powers of the company

The powers of the company are not restricted and the company has all legal powers and capacity of an individual subject to the MOI.

2 MOI and company rules

2.1 The MOI may be amended by court order or by special resolution of the shareholders, which may be proposed by the board or shareholders entitled to exercise at least 10% of the voting rights of the company.

2.2 Any amendment relating to preferences, rights, limitations of any share terms may not be implemented without a special resolution of the holders of those shares taken at a separate meeting.

2.3 Amendment may take the form of a new MOI or one or more alterations to the various provisions of the MOI. Amendments must be submitted to the Commission and take effect on the date of registration in the case of the company's name or otherwise on the date of notice of amendment.

2.4 The board does not have the authority to make rules relating to governance of the company, in terms of section 15(3) of the Companies Act.

3 Public company provision

3.1 The company is a public company, all listed shares must be fully paid up, there is no restriction of transferability and offers to the public are not prohibited.

3.2 The company must comply with extended accountability requirements and its securities are subject to part B and C of the Companies Act, including the take-over regulations.

3.3 Unless otherwise approved of by the JSE, shareholders may not ratify any resolution that is contrary to the listing requirements.

4 Securities of the company

4.1 The company is authorised to issue 500 million ordinary shares. Each ordinary share ranks *pari passu* and entitles the holder to a vote and to participate in a distribution to ordinary shareholders, as well as a distribution of the residual value of the company on its dissolution. With the prior approval of the shareholders of the company and the JSE, the board is authorised to issue shares and/or grant options in accordance with the listing requirements to the extent that they are within the existing classes and have been authorised. Approval may be by way of a general authority or a specific authority for a particular allotment. General authorities are valid only until the next AGM.

4.2 Subject to paragraph 4.1, unissued shares must be offered first to existing shareholders pro-rata to the existing shareholding on the same terms and conditions offered to all shareholders of the company or to all shareholders of the class or classes of shares being issued unless issued for the acquisition of assets.

4.3 Any issue of shares or options or rights exercisable for security must be approved by special resolution of the shareholders, if issued to a director, prescribed officer, future prescribed officer, person related to any of the aforementioned or any nominee of any of the aforementioned.

4.4 The rights of the board to increase, decrease, classify or reclassify shares are not varied, but must be carried out in accordance with the listings requirements. The right of the board to authorise financial assistance subject to the provisions of section 44(3) of the Companies Act is not restricted.

4.5 Subject to the provisions of sections 46 and 48 of the Companies Act and the listings requirements, the board may determine that the company will acquire a number of its own shares provided:

(1) That the resolution of the board is approved by a special resolution of the shareholders if those shares are acquired from a director, prescribed officer or related person; and

(2) That it is subject to the requirements of sections 114 and 115 of the Companies Act, if considered alone, or together with other transactions involves an acquisition by the company of more than 5% of the issued shares in a particular class.

4.6 Subject to the provisions of sections 46 and 48 of the Companies Act, the company may determine that it will acquire shares in its holding company, provided that it may not hold more than 10% in aggregate of the number of issued shares of any class in its holding company, and no voting rights attached to those shares will be exercised by the company while it remains a subsidiary of the holding company.

4.7 The company may not pay a commission of more than 10% for subscribing or agreeing to subscribe shares or securities in the company.

4.8 The board is authorised to issue secured or unsecured debt instruments at any time. The board may not grant special privileges to holders of a debt instrument.

4.9 The authority to allow shares to be held by and be registered in the name of one person for the beneficial interest of another is not restricted.

5 Shareholders

5.1 Shareholders have the right to have access to information as set out in section 26 of the Companies Act and no additional rights.

5.2 Shareholders' resolutions may not be voted on in writing.

5.3 Shareholders' resolutions are taken by a show of hands or by a poll, subject to certain requirements.

5.4 An entity holding shares may, by resolution of the directors of that entity, appoint a representative to exercise the powers of the shareholders.

5.5 Shareholders are entitled to appoint proxies.

5.6 The appointment of, and the form of proxy for the appointment thereof, is set out in the MOI. Representation by concurrent proxies and the authority of a proxy to delegate and give authority of a proxy is not limited by the MOI.

5.7 A proxy's appointment remains valid for its intended purpose until revoked in writing or a later appointment is made.

5.8 If not determined by the board, the record date of a relevant matter is, in the case of a meeting, the latest date by which the company is required to give notice and, in any other case, the date of the action or event in question.

6 Shareholders' meetings

6.1 The company is not required to hold meetings other than those specifically required in terms of section 61 of the Companies Act and those set out below.

6.2 The board must call a shareholders' meeting for a particular purpose if requisitioned by the holders of at least 10% of the voting rights entitled to be exercised in relation to that matter. A general meeting may also be called by two or more shareholders holding not less than 20% of the company's issued shares.

6.3 The board will determine the location of any meeting. Notice to call a shareholders' meeting is 15 business days before the meeting both in respect of a meeting for a special resolution and an ordinary resolution. Notices must be in writing and must be sent simultaneously to the JSE and announced on SENS.

6.4 Shareholders may participate in a shareholders' meeting by electronic means.

6.5 The quorum for a shareholders' meeting to begin is at least 25% of the voting rights that are entitled to be exercised on at least one matter to be decided at the meeting, and the quorum for any particular matter is at least 25% of all the votes entitled to be exercised on that matter, at the time the meeting is called on the agenda. A meeting may be adjourned by a motion supported by a majority of the voting rights present at the meeting or entitled to be exercised in respect of at least one matter remaining on the agenda. The meeting may not be adjourned beyond the earlier of 120 business days after the record date or 60 business days after the date on which the adjournment occurred.

6.6 Ordinary resolutions must be supported by more than 50% of the voting rights exercised on the resolution. Special resolutions must be supported by at least 75% of the voting rights exercised in the resolution.

6.7 The company must hold an AGM and must deal inter alia with the matters required by the Companies Act to be dealt with in that AGM.

7 Director and officers

7.1 The board must comprise at least four directors appointed by the shareholders. Each director, other than the first directors and subject to provisions set out below, must be elected by persons entitled to exercise votes in the election. No director may be appointed for life or for an indefinite period. There will be no *ex officio* directors.

7.2 The board is entitled to fill temporary vacancies and the appointment of a director, whether to fill a casual vacancy or as an addition to the board, must be confirmed by shareholders at the first AGM following the appointment. If the number of directors falls below the minimum, the directors must act only to fill the vacancies and to call general meetings.

7.3 To become or continue to be a director or prescribed officer, a person must not be:

(1) A juristic person;

(2) An unemancipated minor, or a person under a similar legal disability;

(3) A person who has been declared a delinquent or placed under probation by a court in terms of section 162 or section 47 of the Close Corporations Act, 1984, except to the extent permitted by the order of probation;

(4) An unrehabilitated insolvent;

(5) Prohibited in terms of any public regulation to be a director;

(6) Removed from an office of trust, on the grounds of misconduct involving dishonesty;

(7) A person who has been convicted, in the Republic or elsewhere, and imprisoned without the option of a fine, or fined more than the prescribed amount, for theft, fraud, forgery, perjury or an offence:

(a) Involving fraud, misrepresentation or dishonesty;

(b) In connection with the promotion, formation or management of a company;

(c) In connection with having been appointed or elected as a director or acting as a director whilst ineligible or disqualified, or whilst having been placed under probation by a court; or

(d) Under the Companies Act, the Insolvency Act, 1936, the Close Corporations Act, 1984, the Competition Act, 1998, the Financial Intelligence Centre Act, 2001, the Securities Services Act, 2004, or Chapter 2 of the Prevention and Combating of Corruption Activities Act, 2004.

7.4 At least one third of all non-executive directors must retire at each AGM. Those retiring must be those longest in office. If at any AGM or other meeting a director has held office for longer than three years since his last election, he must also retire.

7.5 Retiring directors may be re-elected if eligible. The board must recommend eligibility.

7.6 Directors are entitled with the approval of shareholders to appoint alternate directors. The powers and duties of alternative directors are set out in the MOI.

7.7 The authority of the board is not restricted.

7.8 Directors' meetings may be called at any time and must be called if required by 25% of the directors if the board has 12 members, or by two directors in any other case. A meeting may be called if there is good reason.

7.9 A quorum for a directors' meeting is a majority of the directors.

7.10 Each director has one vote. The board must elect a chairman who has a casting vote, unless there are only two directors present at a meeting.

7.11 Directors have the power to effect borrowing.

7.12 The authority of the company to pay remuneration to the directors (in accordance with a special resolution approved by the shareholders within the previous two years) is not restricted.

7.13 If a director is employed in any other capacity, their appointment and remuneration must be determined by a disinterested quorum of directors.

7.14 Directors may be paid the travelling and other expenses that are properly and necessarily incurred by them.

7.15 The authority of the board to provide financial assistance subject to the provisions of section 44(3)(4) and 45(3)(4) is not restricted or varied by the MOI.

7.16 The authority of the company to advance expenses to directors to defend litigation, to indemnify directors, or to purchase insurance to protect directors against liability or the company against contingency, including but not limited to expenses that the company may be permitted to advance to indemnify directors, is not varied or restricted by the MOI.

7.17 The authority of the company to appoint committees is not restricted or varied. The director or any person appointed by the directors is entitled to authenticate resolutions and other documents pertaining to the company.

8 Audit committee

The company must at each AGM appoint an audit committee comprising at least three members, each of which must be a director of the company who satisfies the requirements of section 94(5) of the Companies Act, and must not be involved in the day to day management of the company's business during the previous financial year, must not be a prescribed officer or full time employee of the company or any related or interrelated company within the previous three financial years or a material supplier or customer of the company, such that a reasonable third party would conclude in the circumstances that the integrity, impartiality or objectivity of the director is compromised by the relationship or a related person to any of the aforementioned.

9 Social and ethics committee

If the Companies Act requires the company to appoint a social and ethics committee, the board must appoint a social and ethics committee comprising three directors or prescribed officers, at least one of whom is not involved in the day to day management of the business of the company in the previous three financial years.

10 Company secretary

The board must appoint a company secretary in accordance with the Companies Act.

11 Distributions

11.1 Subject to the listings requirements and the Companies Act, the company may make distributions either where the distributions are pursuant to an existing legal obligation of the company or a court order, or are authorised by resolution of the board, and provided the solvency and liquidity test has been satisfied.

11.2 Distributions are made to shareholders according to their respective rights and interests in proportion to the number of shares held by them in each class.

11.3 Dividends are payable to shareholders registered as at a date subsequent to the date of declaration of the dividend or the date of confirmation of the dividend, whichever is the latter.

11.4 The board may set aside profits of the company, that they think proper, as reserves. Subject to section 47 and the other requirements imposed by the Companies Act, shareholders may authorise the board, and the board may resolve, that it is desirable to capitalise all or part of the credit of the company's reserves or any part of the share premium account or capital redemption reserve fund or the amount standing to the credit of the income statement, or otherwise available for distribution and not required for the payment of fixed dividends on preference shares.

12 Books of account

12.1 The board must keep accurate and complete accounting records at the registered office of the company. Annual financial statements must be prepared and laid before the company at the AGM in accordance with the provisions of sections 30 and 31 of the Companies Act and must be delivered, posted or made available to each shareholder.

12.2 Auditors must be appointed and their duties regulated in accordance with the Companies Act.

12.3 If the company is wound up, the liquidator may, with the sanction of a special resolution of the shareholders, distribute among the shareholders in specie or in part or in whole, the assets of the company.

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)

Notice is hereby given that the AGM of CMSA will be held at the Cipla Medpro Offices, Board Room number 1, Belvedere Office Park, Block F, Bella Rosa Street, Bellville, Cape Town at 14:00 on Thursday, 2 August 2012, for the following purposes:

1. **Ordinary resolution number 1**
   Approval of the audited annual financial statements
   To receive, consider and adopt the audited annual financial statements of CMSA for the financial year ended 31 December 2011.

2. **Ordinary resolution number 2**
   Re-election of directors
   To re-elect directors of CMSA, namely:

   2.1. Mr C Aucamp;

   2.2. Mr JvD du Preez; and

   2.3. Mr SMD Zungu

   who retire by rotation in terms of CMSA's MOI 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 integrated 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 3**
   Control of authorised but unissued shares
   "Resolved that all of the ordinary shares in the authorised but unissued share capital of CMSA 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, the MOI of CMSA and the JSE Listings Requirements 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 5% (five percent) of the ordinary shares in issue as at 31 December 2011 and will remain in place until the next AGM of CMSA's shareholders."

4. **Ordinary resolution number 4**
   Approval to issue shares for cash
   "Resolved that the directors of CMSA 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 CMSA for cash, as and when they in their discretion deem fit, subject to the Companies Act, the MOI of CMSA, 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 2,5% (two and a half percent) of CMSA'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 CMSA's next AGM, 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 percent) 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 percent) 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 CMSA."

Ordinary resolution number 4 is required, under the JSE Listings Requirements, to be passed by achieving a 75% (seventy-five percent) majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote at the AGM.

5. **Ordinary resolution number 5**
Reappointment of external auditors
"To reappoint Mazars as the external auditors of CMSA for the ensuing year (the designated auditor being Conrad Burger) and to authorise the directors to determine the remuneration of the auditors."

6. **Ordinary resolution number 6**
Remuneration policy
"Resolved, through a non-binding vote, that the company's remuneration policy (excluding the remuneration of the non-executive directors and members of board committees for their services as directors and members of committees), as set out on pages 22 to 25 of the integrated annual report be approved."

7. **Ordinary resolution number 7**
Appointment of Audit and Risk Committee members
"Resolved that the members of the CMSA Audit and Risk Committee be appointed in accordance with the Companies Act, i.e. the committee should be constituted of three independent non-executive directors. The membership, therefore, as proposed by the board of directors is:

7.1. Mrs MT Mosweu (Chairman) – Independent non-executive director;

7.2. Mr JvD du Preez – Independent non-executive director; and

7.3. Mrs ND Mokone – Independent non-executive director."

8. **Ordinary resolution number 8**
Directors' authorisation
"Resolved that any director or the company secretary of CMSA be and is hereby authorised to do all such things and sign all such documents as may be necessary to give effect to the resolutions contained in this notice."

9. **Special resolution number 1**
Remuneration of non-executive directors
"Resolved that, in accordance with section 66(8) and (9) of the Companies Act, the remuneration payable to non-executive directors for their services as directors, with effect from 1 August 2012 until the next AGM, be approved on the following basis:"

Type of fee	Proposed fee in ZAR applicable for the period 1 August 2012 until the next AGM R	Approved fee in ZAR for the year ending 31 December 2011 and up to 31 July 2012 R	Proposed percentage increase %
Board			
Chairman	**65 000***	51 000*	27,5
Member	**37 500#**	34 950#	7,3
Audit and Risk Committee			
Chairman	**46 000#**	42 000#	9,5
Member	**33 700#**	31 800#	6,0
Remuneration Committee			
Chairman	**42 400#**	40 000#	6,0
Member	**21 200#**	20 000#	6,0
Nomination Committee			
Chairman	**42 400#**	40 000#	6,0
Member	**21 200#**	20 000#	6,0
Social, Ethics and Transformation Committee			
Chairman	**42 400#**	n/a	n/a
Member	**21 200#**	n/a	n/a

* *Retainer per month. The Chairman of the board will no longer receive fees for attending committee meetings. Refer to page 23 of the Remuneration Committee report for further details.*

Fee per meeting

Reason for and effect of special resolution number 1

The reason and effect for special resolution number 1 is to authorise CMSA 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 CMSA, subject to the limitations set out above.

10. Special resolution number 2

Approval of amendments to the MOI, in terms of the requirements of the Companies Act

"Resolved, as a special resolution, that the revised MOI, in the form of the draft tabled at the AGM and initialled by the Chairman of the meeting for the purposes of identification, be and is hereby adopted in substitution for and to the exclusion of the entire current MOI."

A copy of the MOI may be inspected at the company's registered office, 1474 South Coast Road, Mobeni, Durban, 4052, during normal business hours from 8 am to 5 pm by appointment with the Company Secretary, from the date of issue of this integrated annual report up to and including the date of the AGM. Refer to pages 121 to 124 for the salient features of the MOI.

Reason for and effect of special resolution number 2

The reason for special resolution number 2 is to adopt the revised MOI. The effect is that the new MOI will become the MOI of the company. The revised MOI contains substantially similar provisions and principles to those contained in the current MOI other than as required as a result of harmonising the revised MOI with the requirements of the Companies Act and the JSE Listings Requirements.

11. Special resolution number 3

Financial assistance

"Resolved that, subject to compliance with the provisions of the Companies Act and the company's MOI, the company may, at any time and from time to time during the period of 2 (two) years commencing from the date of adoption of this special resolution, provide such direct or indirect financial assistance, by way of a loan, guarantee of a loan or other obligation or securing of a debt or other obligation or otherwise as the board of directors may authorise, i) to any one or more related or inter-related company(ies) or corporation(s), or ii) to any one or more member(s) of a related or inter-related company or corporation, or iii) to any one or more person(s) related to any such company(ies) or corporation(s) or member(s) (as such relations and inter-relationships are outlined in the Companies Act), on such terms and conditions as the board of directors may deem fit, but subject at all times to the board complying with the requirements of the Companies Act."

Reason for and effect of special resolution number 3

The reason and effect for special resolution number 3 is to authorise the board, pursuant to the provisions of section 45 of the Companies Act, and subject to the provisions thereof, to provide such direct or indirect financial assistance, by way of a loan, guarantee of a loan or other obligation or securing of a debt or other obligation or otherwise as the board of directors may authorise."

12. Special resolution number 4

Approval to repurchase shares

"Resolved that CMSA and/or any subsidiary of CMSA be and is hereby authorised by way of a general approval contemplated in section 48(2)(b) of the Companies Act, to acquire the issued ordinary shares of CMSA, upon such terms and conditions and in such amounts as the directors of CMSA may from time to time determine, but subject to the MOI of CMSA, 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 CMSA and the counterparty;
- This general authority shall only be valid until CMSA's next AGM, 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 CMSA's ordinary shares are acquired by CMSA 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 CMSA;
- The acquisitions of ordinary shares in the aggregate in any one financial year do not exceed 20% (twenty percent) of CMSA's issued ordinary share capital from the date of the grant of this general authority;
- CMSA 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 CMSA first acquiring securities under this general approval;
- The assets of CMSA and the group, being fairly valued in accordance with IFRS, are in excess of the liabilities of CMSA and the group at the time of CMSA first acquiring securities under this general approval;
- The ordinary capital and reserves of CMSA and the group are adequate for a period of 12 (twelve) months from CMSA first acquiring securities under this general approval;

- The available working capital is adequate to continue the operations of CMSA and the group for a period of 12 (twelve) months from CMSA first acquiring securities under this general approval;
- Prior to entering the market to proceed with the repurchase, CMSA's Sponsor has complied with its responsibilities contained in Schedule 25 of the JSE Listings Requirements;
- CMSA 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 CMSA has cumulatively repurchased 3% (three percent) of the initial number of the relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement will be made; and
- CMSA only appoints one agent to effect any repurchase(s) on its behalf."

Reason for and effect of special resolution number 4
The reason and effect for special resolution number 4 is to authorise CMSA 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 CMSA, subject to the limitations set out above.

The directors of CMSA have no specific intention to effect the provisions of special resolution number 4 but will, however, continually review CMSA's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of special resolution number 4.

Statement of intent
The directors undertake that, to the extent it is required by the JSE Listings Requirements and the Companies Act, they will not implement any repurchase as contemplated in this special resolution number 4 while this general authority is valid, unless:

- The board of directors has resolved to authorise such repurchase subject to the limitations set out in this special resolution, has applied the solvency and liquidity test set out in section 4 of the Companies Act and has reasonably concluded that the group will satisfy the solvency and liquidity test immediately after completing such repurchase, and is satisfied that since the test was carried out there have been no material changes to the financial position of the group; and
- The group will comply with the provisions of section 46 of the Companies Act and the JSE Listings Requirements in relation to such repurchase.

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

- Directors – pages 14 and 15;
- Major shareholders of CMSA – page 119;
- Directors' interests in securities – page 60; and
- Share capital of CMSA – page 89.

13. Litigation statement
In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on pages 14 and 15 of the integrated 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, save for arbitration proceedings that have been settled, the details of which are disclosed on page 107.

14. Directors' responsibility statement
The directors, whose names are given on pages 14 and 15 of the integrated annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to the special resolutions 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.

15. 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.

16. Electronic communication and participation
Shareholders are advised in terms of section 63(3) of the Companies Act that:

- While the meeting will be held in person, it is open to shareholders and/or their proxies to participate in the AGM by electronic communication, as contemplated in subsection (2); and
- Shareholders and/or their proxies will be able, at their own expense, to access the meeting by means of a teleconference facility, arrangements for which can be made through the office of the Company Secretary.

17. 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 CMSA. A proxy form is included in this report and may also be obtained from the transfer secretaries.

The record date for a shareholder to be entitled to attend, participate and vote at the AGM is Friday, 27 July 2012.

Please note that the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Accordingly, meeting participants (including shareholders and proxies) must provide satisfactory identification.

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 AGM, 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 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than Tuesday, 31 July 2012.

By order of the board

MW Daly
Company Secretary

Durban
20 June 2012

Terms and abbreviations

AGM	Annual general meeting
AltX	A division of the JSE Limited – an alternative exchange. It is a parallel market focused on good quality, small and medium sized high-growth companies.
ARV	Antiretrovirals, used in the treatment of HIV/AIDS
AUD	Australian Dollar
BBBEE	Broad-based black economic empowerment
BEE	Black economic empowerment, as defined in the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, and which means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies
CA (SA)	Chartered Accountant (South Africa), designation governed by the Chartered Accountants Designation Act, 1993 (Act No. 67 of 1993), which regulates and permits the use of the CA (SA) designation exclusively by members of the South African Institute of Chartered Accountants (SAICA)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
cGMP	Current Good Manufacturing Practice
Cipla India	Cipla Limited, (registration number 11-2380), a public company incorporated in India
CME	Continuing medical education
Cipla Medpro	Cipla Medpro Holdings (Pty) Limited (registration number 2000/018468/07), a private company situated in Cape Town and its group of subsidiaries
CMM or Cipla Medpro Manufacturing	The division commonly referred to as ''the factory" whose place of operation is in Mobeni, Durban
CMSA or group or company	Cipla Medpro South Africa Limited (registration number 2002/018027/06), a public company incorporated in accordance with the laws of South Africa, all the ordinary shares of which are listed on the JSE with share code CMP, and its group of subsidiaries (abbreviation not applicable to the form of proxy)
CMSA Share Option Trust	Cipla Medpro South Africa Limited Share Option Trust (trust deed number 865/2005)
CODM	Chief Operating Decision Maker
COIDA	Compensation for Occupational Injuries and Diseases Act, 1993
Companies Act	Companies Act No. 71 of 2008
CSI	Corporate social investment
EHS	Environmental, health and safety
Empowerdex	Empowerdex (Pty) Limited (registration number 2001/027963/07), an economic empowerment rating agency
EPS	Earnings per share
EUR	Euro
EV	Evolution Index
FDA	United States Food and Drug Administration
FEC	Forward exchange contract
GBP	Pound Sterling
HEPS	Headline earnings per share
HR	Human resources
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMS	IMS Health is an international company that supplies the pharmaceutical industry with statistical sales data and consulting services
IOD	Injury on duty
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King III	King Code on Governance Principles for South Africa
MOI	Memorandum of Incorporation
MCC	Medicines Control Council of South Africa
NAPM	The National Association of Pharmaceutical Manufacturers (association incorporated under Section 21, registration number 77/02941/08), is a trade association focused on the supply of generic medicines taking into account the environmental needs of the country and its members. CMSA is a member of NAPM.
NSAIDs	Nonsteroidal anti-inflammatory drugs – medications used primarily to treat inflammation, mild to moderate pain, and fever
OTC	Over-the-counter products i.e. available without prescription
PIC/S	Pharmaceutical Inspection Convention/Pharmaceutical Inspection Cooperation Scheme
PBIT	Profit before finance costs and income tax
Pfizer	Pfizer Limited and Pfizer Laboratories (Pty) Limited
Prime rate	Lending rate used as a basis by financial institutions
Pty	Proprietary
QA	Quality assurance
QC	Quality control
RBSA	Reckitt Benckiser (SA) (Pty) Limited
Risk-free rate	Theoretical rate of return of an investment with zero risk
SA GAAP	The South African Statement of Generally Accepted Accounting Practice
SANAS	South African National Accreditation System
SENS	The Stock Exchange News Service provided by the JSE to JSE-listed companies
SEP	Single exit price, the price determined by regulation, at which medicines may be offered for sale on the South African private market
SHE	Safety, health and environment
SPE	Special-purpose entity
STC	Secondary taxation on companies
Sweet Sensation	Sweet Sensation 67 (Pty) Limited, registration number 2005/040970/07
UOP	Units of Production, a method of depreciation based on use or output of the asset
USD	United States Dollar
WHO	World Health Organisation
ZAR	South African Rand

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)

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 AGM of shareholders of CMSA to be held at the Cipla Medpro Offices, Board Room number 1, Belvedere Office Park, Block F, Bella Rosa Street, Bellville, Cape Town at 14:00 on Thursday, 2 August 2012.

Dematerialised shareholders holding shares other than with "own-name" registration, must inform their CSDP or broker of their intention to attend the AGM and request their CSDP or broker to issue them with the necessary Letter of Representation to attend the AGM in person and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the AGM 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 CMSA do hereby appoint (see note):

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the AGM,

as my/our proxy to act for me/us at the AGM 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	Ordinary resolution number 1 – approval of the audited annual financial statements			
2	Ordinary resolution number 2 – re-election of directors:			
2.1	To re-elect as a director, Mr C Aucamp who is retiring by rotation			
2.2	To re-elect as a director, Mr JvD du Preez who is retiring by rotation			
2.3	To re-elect as a director, Mr SMD Zungu who is retiring by rotation			
3	Ordinary resolution number 3 – control of authorised but unissued shares			
4	Ordinary resolution number 4 – approval to issue shares for cash			
5	Ordinary resolution number 5 – reappointment of external auditors			
6	Ordinary resolution number 6 – approval of remuneration policy			
7	Ordinary resolution number 7 – appointment of Audit and Risk Committee members:			
7.1	To appoint Mrs MT Mosweu as Chairman of the Audit and Risk Committee			
7.2	To appoint Mr JvD du Preez as a member of the Audit and Risk Committee			
7.3	To appoint Mrs ND Mokone as a member of the Audit and Risk Committee			
8	Ordinary resolution number 8 – directors' authorisation			
9	Special resolution number 1 – remuneration of non-executive directors			
10	Special resolution number 2 – amendments to the MOI			
11	Special resolution number 3 – financial assistance			
12	Special resolution number 4 – approval to repurchase shares			

For the purpose of resolutions now proposed in terms of the JSE Listings Requirements wherein any votes are to be excluded from that resolution, any proxy given by a holder of securities to the holder of such an excluded vote shall be excluded from voting for the purposes of that resolution.

Signed at on 2012

Signature

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of CMSA) 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 Chairman of the AGM". A proxy need not be a shareholder of CMSA. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
4. Please note that the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder, or as a proxy for a shareholder, has been reasonably verified. Accordingly, meeting participants (including shareholders and proxies) must provide satisfactory identification.
5. 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 AGM as he/she deems fit in respect of all the shareholder's votes.
6. A vote given in terms of an instrument of proxy shall be valid in relation to the AGM 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 AGM.
7. 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 AGM be proposed, the proxy shall be entitled to vote as he/she thinks fit.
8. The Chairman of the AGM may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
9. 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.
10. 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 CMSA or unless this requirement is waived by the Chairman of the AGM.
11. 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 CMSA.
12. 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 CMSA'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).
13. Forms of proxy should be lodged with or mailed to Computershare Investor Services (Pty) Limited:

Hand deliveries to:	*Postal deliveries to:*
Ground Floor, 70 Marshall Street	PO Box 61051
Johannesburg, 2001	Marshalltown, 2107

    to be received by no later than Tuesday, 31 July 2012 (or 48 (forty-eight) hours before any adjournment of the AGM which date, if necessary, will be notified in the press).
14. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.

Administration

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, Durban, 4052
PO Box 32003, Mobeni, 4060

Contact numbers
Tel: +27 31 451 3800
Fax: +27 31 451 3889
investor@ciplamedpro.co.za
www.ciplamedsa.co.za

Whistle-blowing hotline
Hotline (toll-free): 0800 21 21 51

Legal advisors
Norton Rose South Africa (incorporated as Deneys Reitz Inc)
Registration number: 1984/003385/21
3 Pencarrow Crescent, La Lucia Ridge, Durban, 4051
PO Box 5003, Pencarrow Park, 4019

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
Mazars House
Rialto Road, Grand Moorings Precinct, Century City, 7441
PO Box 2785, Cape Town, 8001

Commercial bankers
Nedbank Limited
ABSA Bank Limited

Shareholders' diary

AGM	2 August 2012
Interim reporting period	30 June 2012
Interim report	August 2012
Financial year end	31 December 2012

Foward-looking statements

This integrated annual report contains certain forward-looking statements with respect to the financial condition and results of the operations of Cipla Medpro South Africa Limited that, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. These may relate to future prospects, opportunities and strategies. If one or more of these risks materialise, or should underlying assumptions prove incorrect, actual results may differ from those anticipated. By consequence, all forward-looking statements have not been reviewed or reported on by the group's auditors.

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Cipla Medpro
SOUTH AFRICA LTD.

Contact us:
PO Box 1096, Durbanville, 7551
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www.ciplamedsa.co.za