

Sonke Pharmaceuticals (Proprietary) Limited

Annual Financial Statements
(Reg. No. 2005/011027/07)
for the year ended 31 December 2010

Sonke Pharmaceuticals (Proprietary) Limited

Directors' responsibility for the annual financial statements

The directors are responsible for the preparation and fair presentation of the annual financial statements of Sonke Pharmaceuticals (Proprietary) Limited, comprising the statement of financial position at 31 December 2010, and the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

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

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

Approval of annual financial statements.

The annual financial statements for the year ended 31 December 2010, set out on pages 4 to 27, were approved by the board of directors on 21 February 2011 and signed on its behalf by:

Sd/-
Name : Saxen van Coller
Director:

Sd/-
Name: Sotse Segoneco
Director:

Sonke Pharmaceuticals (Proprietary) Limited

Independent auditor's report

To the members of Sonke Pharmaceuticals (Proprietary) Limited

We have audited the annual financial statements of Sonke Pharmaceuticals (Proprietary) Limited, which comprise the statement of financial position at 31 December 2010, and the statement of comprehensive income, the statement of changes in equity and statement 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 4 to 28.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sonke Pharmaceuticals (Proprietary) Limited at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Sd/-

Per LP Fourie

Chartered Accountant (SA)

Registered Auditor

Director

21 February 2011

Sonke Pharmaceuticals (Proprietary) Limited

Directors' report

for the year ended 31 December 2010

The directors have pleasure in presenting their report for the year ended 31 December 2010.

Review of business and operations

Main business and operations

The company is engaged in import, marketing and trade of pharmaceutical goods and operates principally in South Africa.

The operating results and state of affairs of the company are fully set out in the attached financial statements.

Net profit of the company was R4 790 745 (In Rs.30,244,602)

[2009: R1452 405 (In Rs.9,169,223)]. Going concern

We draw attention to the fact that at 31 December 2010, the company had accumulated losses of R2 505 284 (In Rs.16,870,599) [2009: R7 296 027 (In Rs.49,131,495)] and that the company's total liabilities exceed its assets by R504 784 (In Rs.3,399,219) [2009: R5 295 527 (In Rs.35,660,114)].

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Events after reporting date

The directors are not aware of any matter or circumstance arising since the end of the financial year.

Authorised and issued share capital

There were no changes in the authorised or issued share capital of the company during the year under review.

Dividends

No dividends were declared or paid to the shareholders during the year.

Directors

The directors of the company during the year and to the date of this report are as follows:

Name	Nationality	Changes
R Chakravarti	Indian	Resigned 24/06/2010
MC Segoneco	South African	
AT Mokgogong	South African	
MJ Madungandaba	South African	
O Sethi	Indian	Resigned 24/06/2010
A Sobti	Indian	Resigned 24/06/2010
SI Dani	Indian	Appointed 24/06/2010
SR van Coller	South African	Appointed 24/06/2010
A Sawhney	Indian	Appointed 24/06/2010
S Mahna	Indian	Appointed 24/06/2010

Auditors

KPMG Inc.

Sonke Pharmaceuticals (Proprietary) Limited

Directors' report

for the year ended 31 December 2010

Business address

Floor 3

Outspan House

Lenchen Avenue North

Centurion

Postal address

PO Box 8927

Centurion

0046

Registered office

Floor 3

Outspan House

Lenchen Avenue North

Centurion

Holding Company

The holding company is Ranbaxy South Africa (Pty) Limited and the ultimate holding company is Daiichi Sankyo Co. Limited

Secretary

The company had no secretary during the year.

Sd/-

Saxen van Coller

Director

Sd/-

Sotse Segoneco

Director

Sonke Pharmaceuticals (Proprietary) Limited

Statement of financial position

at 31 December 2010

	<i>Notes</i>	2010		2009	
		R	In Rs.	R	In Rs.
Assets					
Non-current assets		937,773	6,314,970	2,802,336	18,870,949
Property, plant and equipment	2	54,214	365,077	53,653	361,300
Deferred tax	3	883,559	5,949,892	2,748,683	18,509,650
Current assets		55,230,689	371,923,832	48,028,013	323,420,963
Inventories	4	27,909,363	187,941,838	20,884,324	140,635,178
Trade and other receivables	5	23,547,984	158,572,283	19,755,063	133,030,727
Cash and cash equivalents		3,773,342	25,409,710	7,388,626	49,755,057
Total assets		56,168,462	378,238,801	50,830,349	342,291,912
Equity and liabilities					
Equity		(504,783)	(3,399,212)	(5,295,527)	(35,660,114)
Share capital	6	2,000,500	13,471,380	2,000,500	13,471,380
Accumulated loss		(2,505,283)	(16,870,593)	<u>(7,296,027)</u>	(49,131,495)
Liabilities					
Current liabilities		56,673,244	381,638,007	56,125,876	377,952,027
Trade and other payables	7	56,673,244	381,638,007	56,125,876	377,952,027
Total equity and liabilities		56,168,462	378,238,801	50,830,349	342,291,912

Sonke Pharmaceuticals (Proprietary) Limited

Statement of comprehensive income for the year ended 31 December 2010

	Notes	2010		2009	
		R	In Rs.	R	In Rs.
Revenue		124,264,494	784,498,068	101,396,651	640,130,372
Cost of sales		<u>(100,199,722)</u>	<u>(632,574,003)</u>	<u>(82,571,484)</u>	<u>(521,284,621)</u>
Gross profit		24,064,772	151,924,066	18,825,167	118,845,751
Other income		449,417	2,837,229	936,553	5,912,582
Operating expenses		<u>(13,894,781)</u>	<u>(87,719,577)</u>	<u>(13,406,628)</u>	<u>(84,637,803)</u>
Operating profit	9	10,619,408	67,041,717	6,355,092	40,120,530
Finance income	10	8,864	55,960	7,980	50,379
Finance expenses	11	<u>(3,972,404)</u>	<u>(25,078,308)</u>	<u>(4,320,787)</u>	<u>(27,277,696)</u>
Profit before taxation		6,655,868	42,019,369	2,042,285	12,893,213
Taxation	12	(1,865,123)	(11,774,766)	(589,880)	(3,723,990)
Profit and total comprehensive income for the year		4,790,745	30,244,602	1,452,405	9,169,223

Sonke Pharmaceuticals (Proprietary) Limited

Statement of changes in equity for the year ended 31 December 2010

	Share capital R	Share premium R	Total share capital R	Accumulated loss R	<u>Rand</u> Total equity R
Balance at 31 December 2008	500	2,000,000	2,000,500	(8,748,432)	(6,747,932)
Changes in equity					
Total comprehensive profit for the year	-			1,452,405	1,452,405
Balance at 31 December 2009	500	2,000,000	2,000,500	(7,296,027)	(5,295,527)
Changes in equity					
Total comprehensive profit for the year	0			4,790,745	4,790,745
Balance at 31 December 2010	500	2,000,000	2,000,500	(2,505,282)	(504,782)

	Share capital In Rs.	Share premium In Rs.	Total share capital In Rs.	Accumulated loss In Rs.	<u>In Rs.</u> Total equity In Rs.
Balance at 31 December 2008	3,367	13,468,013	13,471,380	(58,912,000)	(45,440,620)
Changes in equity					
Total comprehensive profit for the year	-			9,780,505	9,780,505
Balance at 31 December 2009	3,367	13,468,013	13,471,380	(49,131,495)	(35,660,114)
Changes in equity					
Total comprehensive profit for the year	-			32,260,909	32,260,909
Balance at 31 December 2010	3,367	13,468,013	13,471,380	(16,870,586)	(3,399,205)

Sonke Pharmaceuticals (Proprietary) Limited

Statement of cash flows for the year ended 31 December 2010

	Notes	R	2010 In Rs.	R	2009 In Rs.
Cash flows from operating activities					
Cash generated from operations	13	373,600	2,515,825	11,356,332	76,473,616
Finance income		8,864	59,690	7,980	53,737
Finance expenses		(3,972,404)	(26,750,195)	(4,320,787)	(29,096,209)
Net cash inflows from operating activities		(3,989,940)	(26,868,283)	7,043,525	47,431,145
Cash flow from investing activities					
Purchase of property, plant and equipment	2	<u>(25,344)</u>	(170,667)	<u>(8,948)</u>	(60,256)
Net cash outflows from investing activities		(25,344)	(170,667)	(8,948)	(60,256)
Cash flows from financing activities					
Repayment of loan from group company				(687,149)	(4,627,266)
Net cash outflows from financing activities				(687,149)	(4,627,266)
Total cash movement for the year		(3,615,284)	(24,345,347)	6,437,428	43,349,684
Cash at the beginning of the year		7,388,626	49,755,057	1,041,198	7,011,434
Total cash at end of the year		3,773,342	25,409,710	7,388,626	49,755,057

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010

1. Presentation of financial statements

1.1 Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations adopted by the International Accounting Standards Board and the requirements of the South African Companies Act.

1.2 Basis of preparation

The annual financial statements are presented in Rand, which is the company's functional currency. They are prepared on the historical cost basis except for certain financial instruments recognised at fair value as stated below.

The preparation of financial statements in conformity with IFRS requires management to make certain 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.

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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following accounting policies and notes:

- Depreciation on property, plant and equipment
- Deferred tax assets
- Impairment of assets

The accounting policies set out below have *been* applied consistently to all periods presented in these financial statements.

1.3 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs

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

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

1. Presentation of financial statements (continued)

1.3 Property, plant and equipment (continued)

Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives to estimated residual values of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

Furniture and fixtures	6 years
IT equipment	3 years

Where appropriate, and if significant, expected residual values are taken into account in determining the depreciable values of assets.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Residual values, methods of depreciation and useful lives of assets are reassessed annually. Depreciation of an item of property, plant and equipment begins when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised.

Gains and losses on the disposal of property, plant and equipment, determined by comparing the proceeds from disposal with the carrying value, are included in profit or loss.

1.4 Impairment of non financial assets

Nonfinancial assets

The carrying amount of the company's assets other than inventories and deferred tax assets are reviewed at least annually to determine whether there is any indication of impairment. If there is an indication that an asset may be impaired, its recoverable amount is estimated.

A previously recognised impairment will be reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in profit or loss.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

1. Presentation of financial statements (continued)

1.5 Financial assets

The company classifies its financial assets as loans and receivables.

Financial assets are recognised on transaction date when the company becomes a party to the contracts and thus obtains rights to receive economic benefits and are derecognised when these rights no longer exist.

Financial assets are stated initially on transaction date at fair value including transaction costs and cost using the effective interest rate method.

An assessment is performed at each reporting date to determine whether objective evidence exists that a financial asset is impaired.

1.6 Trade and other receivables

Trade and other receivables are recognised at fair value and subsequently stated at amortised cost. Impairment is recognised when there is evidence that an entity will not be able to collect all amounts due according to the original terms of the receivable. The amount of the impairment is charged to profit or loss.

1.7 Cash and cash equivalents

Cash and cash equivalents are stated at carrying value which is deemed to be their fair value.

1.8 Impairment of financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of its 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.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

1. Presentation of financial statements (continued)

1.8 Impairment of financial assets (continued)

All impairment losses are recognised in profit or loss. The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is impossible: at that point the amount is considered irrecoverable and is written off against the financial asset directly.

Reversal of impairment

A previously recognised impairment loss is reversed if there is an indication that the impairment loss no longer exists and the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years.

1.9 Inventories

The cost of inventories is based on the weighted average cost basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Inventories are stated at the lower of cost and net realisable value taking account of market conditions and technology changes.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

1.10 Foreign currency transactions

Income and expenditure transactions are translated into the functional currency of the entity at the rate of exchange ruling at the transaction date. To the extent that transactions occur regularly throughout the year, they are translated at the average rate of exchange for the year since this is deemed to provide a good approximation of the actual exchange rates at which those transactions occurred. Monetary assets and liabilities are translated into the functional currency of the entity at the rate of exchange ruling at the reporting date. Foreign exchange gains and losses resulting from the translation and settlement of monetary assets and liabilities are recognised in of profit or loss, except when they relate to cash flow hedging activities in which case these gains and losses are recognised as other comprehensive income and are included in the hedging reserve.

1.1 1 Share capital

Share capital is stated at the amount of the proceeds received less directly attributable issue cost.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

1. Presentation of financial statements (continued)

1.12 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost.

1.13 Provisions

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

1.14 Taxation

Tax on the profit or loss for the year comprises current, deferred tax and secondary tax on companies. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantively enacted at the statement of financial position date, and any adjustments of tax payable for previous years.

Deferred tax is provided for using the liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary taxation on companies is recognised as part of the current tax charge in profit or loss when the related dividend is declared.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

1. Presentation of financial statements (continued)

1.15 Revenue

Goods and services

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, value added tax, trade discounts, rebates and marketing and logistics fees. Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of or continuing management involvement with the goods.

1.16 Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

1.17 Finance expenses

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

1.18 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are recognised in profit and loss on a straight-line basis over the lease period. When an operating lease is terminated before the lease period has expired, any payment required to be made by the lessee by way of penalty is recognised as an expense in the period in which the termination takes place.

1.19 Employee benefits

Short-term employee benefits

Short-term employee benefits are those that are due to be settled within twelve months after the end of the period in which the services have been rendered. Remuneration to employees is charged to the profit or loss. An accrual is made for accumulated leave, incentive bonuses and other shortterm employee benefits.

Retirement benefits

For defined contribution plans, the company pays contributions to Sanlam and Momentum on a contractual or voluntary basis. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

		Accumulated depreciation	<u>Rand</u> Carrying value
	Cost R	R	R
2 Property, plant and equipment			
2010			
Furniture and fixtures	111,929	(83,896)	28,033
IT equipment	<u>51,015</u>	(24,834)	26,181
	162,944	(108,730)	54,214
2009			
Furniture and fixtures	111,929	(65,240)	46,689
IT equipment	25,670	(18,706)	6,964
	137,599	(83,946)	53,653
			<u>In Rs.</u>
	Cost In Rs.	Accumulated depreciation In Rs.	Carrying value In Rs.
2 Property, plant and equipment			
2010			
Furniture and fixtures	753,731	(564,956)	188,774
IT equipment	343,535	(167,232)	176,303
	1,097,266	(732,189)	365,077
2009			
Furniture and fixtures	753,731	(439,327)	314,404
IT equipment	172,862	(125,966)	46,896
	926,593	(565,293)	361,300

Reconciliation of property, plant and equipment - December 2010

	<u>Rand</u>			
	Opening balance R	Additions R	Depreciation R	Total R
Furniture and fixtures	46,689	-	(18,656)	28,033
IT equipment	6,964	25,345	(6,128)	26,181
53 653	25,345	(24,784)	54,214	

	<u>In Rs.</u>			
	Opening balance In Rs.	Additions In Rs.	Depreciation In Rs.	Total In Rs.
Furniture and fixtures	314,404	-	(125,630)	188,774
IT equipment	46,896	170,673	(41,266)	176,303
53 653	170,673	(166,896)	365,077	

Reconciliation of property, plant and equipment - December 2009

	<u>Rand</u>			
	Opening balance R	Additions R	Depreciation R	Total R
Furniture and fixtures	65,345	-	(18,656)	46,689
IT equipment	1,926	8,948	(3,910)	6,964
53 653	67,271	8,948	(22,566)	53,653

	<u>In Rs.</u>			
	Opening balance In Rs.	Additions In Rs.	Depreciation In Rs.	Total In Rs.
Furniture and fixtures	440,034	-	(125,630)	314,404
IT equipment	12,970	60,256	(26,330)	46,896
53 653	453,003	60,256	(151,960)	361,300

A register containing the information required by paragraph 22(3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the company.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

3	Deferred tax	2010		2009	
		R	In Rs.	R	In Rs.
<i>Deferred tax asset</i>					
	Tax losses available for set off against future taxable income	775,730	5,223,771	2,729,848	18,382,815
	Provisions	107,829	726,121	18,835	126,835
		883,559	5,949,892	2,748,683	18,509,650
<i>Reconciliation of deferred tax asset</i>					
	At beginning of the year	2,748,683	18,509,650	3,338,563	22,481,906
	Reduction due to rate change	-	-	-	-
	(Decrease)/increase in tax losses available for set off against future taxable income	(1,954,117)	(13,159,037)	(593,995)	(3,999,966)
	Temporary difference on provisions	88,993	599,279	4,115	27,710
		883,559	5,949,892	2,748,683	18,509,650

Recognition of deferred tax asset

Deferred tax asset in respect of the calculated loss has been recognised as the Company has budgeted to make a profit in 2011.

4	Inventories	2010		2009	
		R	In Rs.	R	In Rs.
	Raw materials and components	13,785,154	92,829,320	18,696,906	125,905,091
	Finished goods	12,674,622	85,350,990	1,108,535	7,464,882
	Goods in transit	1,449,587	9,761,529	1,078,883	7,265,205
		27,909,363	187,941,838	20,884,324	140,635,178
5	Trade and other receivables				
	Trade receivables	23,446,737	157,890,485	19,644,753	132,287,899
	Employee costs in advance	100,000	673,401	101,758	685,239
	Prepayments	1,247	8,397	8,552	57,589
		23,547,984	158,572,283	19,755,063	133,030,727

The carrying value of trade receivables is considered a reasonable approximation of fair value.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

6	Share capital	2010		2009	
		R	In Rs.	R	In Rs.
	<i>Authorised</i>				
	1000 Ordinary shares of R 1 each	1,000	6,734	1,000	6,734
	<i>Issued</i>				
	500 Ordinary shares of R1 each	500	3,367	500	3,367
		<u>2,000,000</u>	13,468,013	<u>2,000,000</u>	13,468,013
		2,000,500	13,471,380	2,000,500	13,471,380
7	Trade and other payables				
	Trade payables	46,208,978	311,171,569	50,946,232	343,072,269
	VAT	492,165	3,314,242	387,844	2,611,744
	Other payables	9,508,420	64,029,764	4,556,659	30,684,572
	Accrued leave pay and bonuses	<u>463,681</u>	3,122,431	<u>235,141</u>	1,583,441
		56,673,244	381,638,007	56,125,876	377,952,027

The carrying values are considered to be a reasonable approximation of fair value.

8. Retirement benefits

Defined contribution plan

It is the policy of the company to provide retirement benefits to all its full-time employees. A defined contribution pension fund, which is subject to the Pensions Fund Act exists for this purpose. The scheme is funded both by member and by company contributions which are charged to the profit or loss as they are incurred. The total company contribution to the scheme in the *current* period was R272 177 (In Rs.1,718,289) [2009: R158 804 (In Rs.1,002,551)].

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

	2010		2009	
	R	In Rs.	R	In Rs.
9 Operating profit				
Operating profit for the year is stated after accounting for the following:				
Auditor's remuneration	90,680	572,475	91,235	575,979
Fees	90,680	572,475	82,500	520,833
Other services			8,735	55,145
<i>Operating lease charges</i>				
- premises	172,304	1,087,778	151,715	957,797
Directors' emoluments paid by the company	1,531,235	9,666,888	1,622,292	10,241,742
Profit on foreign exchange transactions	(449,417)	(2,837,229)	(929,395)	(5,867,393)
Depreciation on property, plant and equipment	24,784	156,465	22,566	142,462
Employee costs	1,630,533	10,293,769	2,641,292	16,674,823
10 Finance income				
Interest received	8,864	55,960	7,980	50,379
11 Finance expenses				
Interest - group company	3,972,404	25,078,308	4,320,787	27,277,696
12 Taxation				
Major components of the tax expense:				
<i>Deferred tax</i>	1,865,123	11,774,766	589,880	3,723,990
Reconciliation of the tax expense				
Reconciliation between accounting profit and tax expense.				
Accounting profit	6,655,868	42,019,369	2,042,285	12,893,213
Tax at the applicable tax rate of 28%	1,863,643	11,765,423	571,839	3,610,095
<i>Tax effect of adjustments on taxable income</i>				
Legal fees	1,480	9,343	18,041	113,895
Assessed loss utilised	(1,865,123)	(11,774,766)	(589,880)	(3,723,990)
Deferred tax recognised on assessed loss	1,865,123	11,774,766	589,880	3,723,990
	1,865,123	11,774,766	589,880	3,723,990

No provision has been made for tax as the company has a tax computed loss for the purposes. The estimated tax loss available for set off against future taxable income is R2 774 464 (In Rs.18,683,259) (2009:R9 749 457 (In Rs.65,652,909)).

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

	2010		2009	
	R	In Rs.	R	In Rs.
13 Cash generated from operations				
Profit before taxation	6,655,868	42,019,369	2,042,285	12,893,213
<i>Adjustments for:</i>				
Depreciation	24,784	156,465	22,566	142,462
Finance income	(8,864)	(55,960)	(7,980)	(50,379)
Finance expenses	3,972,404	25,078,308	4,320,787	27,277,696
<i>Changes in working capital:</i>				
(Increase)/decrease in inventories	(7,025,039)	(44,349,994)	19,611,532	123,810,177
Increase in trade and other receivables	(3,792,921)	(23,945,208)	(3,608,961)	(22,783,845)
Increase/(decrease) in trade and other payables	<u>547,368</u>	3,455,606	<u>(11,023,897)</u>	(69,595,309)
	373,600	2,358,586	11,356,332	71,694,015

14. Related parties

Relationships	
Ultimate holding company	Daiichi Sankyo Co. Limited
Holding company	Ranbaxy (SA) (Pty) Limited
Fellow subsidiaries	Be-Tabs Pharmaceuticals (Pty) Limited Be-Tabs Investments (Pty) Limited
Shareholders	MC Segoneco Misty Sea Trading 145 (Pty) Limited Ranbaxy South Africa (Pty) Limited
Directors	MC Segoneco AT Mokgokong MJ Madungandaba S Mahna A Sawhney SR van Colter SI Dani

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

14 Related parties (continued)

Related party balances	2010		2009	
	R	In Rs.	R	In Rs.
<i>Amounts of trade and other payables regarding related parties</i>				
Ranbaxy (SA) (Pty) Limited	25,385,571	170,946,606	48,277,206	325,099,030
Ranbaxy Laboratories Limited	20,693,301	139,348,828	-	
 <i>Related party transactions</i>				
<i>Interest paid to related parties</i>				
Ranbaxy (SA) (Pty) Limited	3,972,404	25,078,308	4,320,787	27,277,696
 <i>Purchases from related parties</i>				
Ranbaxy (SA) (Pty) Limited	44,781,409	282,710,915	35,264,682	222,630,568
Ranbaxy Laboratories Limited	28,125,513	177,560,057	-	

15. Financial instruments

15.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

The Board of Directors is also responsible for analysing the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Credit risk

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

- *Trade and other receivables*

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the company's customer base, including the default risk of the industry and country in which customers operate also has an influence on credit risk.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

15. Financial instruments (continued)

The company has established a credit process under which each new customer is evaluated individually for creditworthiness before the company's standard payment terms and conditions are offered. Exposure limits are established for each customer, in accordance with the approval framework.

The company does not require collateral in respect of trade and other receivables, as it mainly renders services to major companies in the industries in which they operate and the exposure to credit risk is monitored on an ongoing basis.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

• *Cash and cash equivalents*

The company limits its exposure to credit risk by only investing in liquid investments in financial institutions with a high credit rating. Given these high credit ratings, management does not expect any counter party to fail to meet its obligations. Cash balances are all maintained with reputable financial institutions.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company'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 normal conditions.

The company manages its working capital requirements stringently and ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates may cause a decrease in fair values of future cash flows of financial instruments and consequently result in a financial loss for the company.

• *Currency risk*

The company is exposed to currency risk on certain group creditors that are denominated in a currency other than the functional currency of the company, the South African Rand. The currencies in which these transactions primarily are denominated is the United States Dollar.

• *Interest rate risk*

External borrowings are generally at a rate linked to the prime bank overdraft rate.

Group company borrowings are linked to the South African prime bank overdraft rate plus 2%.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

15. Financial instruments (continued)

15.2 Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2010		2009	
	R	In Rs.	R	In Rs.
Trade and other receivables	23,547,984	158,572,283	19,746,511	132,973,138
Cash and cash equivalents	<u>3,773,342</u>	<u>25,409,710</u>	<u>7,388,626</u>	<u>49,755,057</u>
	27,321,326	183,981,993	27,135,089	182,727,872

Impairment losses

The ageing of trade receivables at the reporting date was:

	2010		2009	
	R	In Rs.	R	In Rs.
Not past due	22,464,552	151,276,444	11,000,383	74,076,653
Past due 0 - 30 days	630,821	4,247,953	8,024,523	54,037,192
Past due 31 - 120 days	340,423	2,292,411	3,001,171	20,209,906
Past due 121 - 150 days	52,674	354,707	98,726	664,822
Past due more than 151 days	288,261	1,941,152	220,863	1,487,293
	23,776,704	160,112,485	22,335,666	150,408,525

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2010		2009	
	R	In Rs.	R	In Rs.
Balance at beginning of period	-	-	-	-
Reversal of impairment losses	-	-	-	-
Impairment loss recognised in profit or loss	<u>331,889</u>	<u>2,095,259</u>	-	-
Balance at end of period	331,889	<u>2,095,259</u>	-	-

Neither a provision for bad or doubtful debts has been raised in respect to a related party.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

15. Financial instruments (continued)

15.3 Liquidity risk

The following are the contractual maturities of financial liabilities:

Non-derivative financial liabilities

	Carrying amount R	Contractual cash flows R	<u>Rand</u> 1 year or less R
2010			
Trade and other payables	56,631,257	56,631,257	56,631,257
2009			
Trade and other payables	55,444,456	55,444,456	55,444,456

	Carrying amount In Rs.	Contractual cash flows In Rs.	<u>In Rs.</u> 1 year or less In Rs.
2010			
Trade and other payables	381,355,266	381,355,266	381,355,266
2009			
Trade and other payables	373,363,340	373,363,340	373,363,340

15.4 *Currency risk*

The company's exposure to foreign currency risk was as follows based on equivalent Rand amounts:

	Rate used 2010	Foreign currency amount R	31.Dec 2010 R	
<i>Uncovered foreign liabilities</i>				
United States Dollar				
	Rate used	Foreign amount 2009	31.Dec 2009 R	In Rs.
Uncovered foreign liabilities				
United States Dollar	7.415	226,270	1,677,792	11,298,263
<i>Sensitivity analysis</i>				
	2010 R	2009 R	In Rs.	

A 10% strengthening of the Rand against the above currencies

would have increases profits by- 167,779 1,0592,109

A 10% weakening of the Rand against the above currencies would have decreased profits on exchange differences by the equal but opposite effect of the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

15. Financial instruments (continued)

15.5 Interest rate risk

At the reporting date the interest rate profile of the company's interest bearing financial instruments was as follows :

Variable rate instruments

	2010		2009	
	R	In Rs.	R	In Rs.
Cash and cash equivalents	3,773,342	25,409,710	7,388,626	49,755,057
Loan from holding company	3,773,342	25,409,710	7,388,626	49,755,057

A change of 50 (2009: 100) basis points in interest rates would have increased/(reduced) profits by the amounts shown below based on balances at year end.

	2010		2009		<u>Rand</u>
	50 by Decrease	50 by Increase	100 by Decrease	100 by Increase	
Variable rate instruments - net	18,867	(18,867)	73,886	(73,886)	

	2010		2009		<u>In Rs.</u>
	50 by Decrease	50 by Increase	100 by Decrease	100 by Increase	
Variable rate instruments - net	119,110	(119,110)	466,452	(466,452)	

15.6 Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows :

	2010		2009		<u>Rand</u>
	Carrying amount R	Carrying Fair value R	amount R	Fair value R	
Trade and other receivables	23,546,737	23,546,737	19,746,511	19,746,511	
Cash and cash equivalents	3,773,342	3,773,342	7,388,626	7,388,626	
Trade and other payables	(56,673,244)	(56,673,244)	(55,502,891)	(55,502,891)	

	2010		2009		<u>In Rs.</u>
	Carrying amount R	Carrying Fair value R	amount R	Fair value R	
Trade and other receivables	158,563,886	158,563,886	132,973,138	132,973,138	
Cash and cash equivalents	25,409,710	25,409,710	49,755,057	49,755,057	
Trade and other payables	(381,638,007)	(381,638,007)	(373,756,842)	(373,756,842)	

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

15. Financial instruments (continued)

15.7 Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments reflected in the table above:

Trade and other receivables

The fair value of trade and other receivables is estimated at its carrying value as these instruments are short term in nature and thus carrying amount approximates fair value.

Trade and other payables

The fair value of trade and other payables is estimated at its carrying value as these instruments are short term in nature and thus carrying amount approximates fair value.

Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

16. Judgements made by management

In preparing financial statements in conformity with International Financial Reporting Standards, estimates and assumptions that affect the reported amounts and related disclosures are as follows:

Depreciation on property, plant and equipment

The useful lives and residual values of property, plant and equipment are reassessed annually based on current utilisation, prospects and market conditions.

Impairment of assets

Property, plant and equipment is considered for impairment when conditions indicate that impairment may be necessary. These conditions include the economic conditions of the operating unit as well as the viability of the asset itself.

Deferred tax assets

Deferred tax assets have been raised at year end on computed tax losses and temporary differences based on current profit forecasts for the business.

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

17. Going concern

We draw attention to the fact that at 31 December 2010, the company had accumulated losses of R2 525 282 (In Rs.17,005,266)[2009: R7 296 027 (In Rs.49,131,495)] and that the company's total liabilities exceed its assets by R505 782 (In Rs.3,405,939) [2009: R5 295 527 (In Rs.35,660,114)].

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on the continued support in the form of working capital from its holding company Ranbaxy (SA) (Proprietary) Limited. In the absence of such support the company would be unable to continue trading.

18. Standards and interpretations in issue but not yet effective

18.1 Standards and interpretations not yet effective:

During the year, the following accounting standards, interpretations and amendments to published accounting standards were adopted:

- IAS 1 - Presentation of financial statements
- IAS 7 - Statement of Cash flows
- IAS 17 -Leases
- IFRS 2 - Share based payments
- IFRS 5 - Non-current assets held for sale and discontinued operations
- IAS 36 - Impairment of assets
- IAS 39 - Financial instruments hedge accounting

The newly adopted standards did not significantly impact the financial results.

Standards and interpretations not yet effective:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements.

Standards and interpretations	Details of amendment	Effective for annual periods beginning on or after	
IFRS 9	Financial Instruments	Introduces a new standard that forms part of a three-part project to replace <i>IAS 39: Financial instruments: Recognition and Measurement</i> .	1 January 2013

Sonke Pharmaceuticals (Proprietary) Limited

Notes to the financial statements

for the year ended 31 December 2010 (continued)

New standards and interpretations not yet adopted (continued)

Standards and interpretations

IAS 24	Related Party Disclosures
IAS 32	Financial Instruments: Presentation
IFRIC 14 IAS 19	The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction
IFRIC 19	Extinguishing Financial Liabilities with equity
IFRS 7 amended	Financial instruments disclosure

Note: Conversion rate against Indian Rupee for the year 2010 and 2009 have been used as under:

i) For items relating to Profit and Loss account at Average rate : 1South African Rand =0.1584

ii) For items relating to Balance Sheet at Closing Rate: 1 South African Rand = 0.1485

Details of amendment

Effective for
annual periods
beginning on
or after

Simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. 1 January 2011

Addresses the accounting for rights issues (including rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. 1 February 2010

Addresses the amendments relating to the recognition as assets of some voluntary prepayments for minimum funding contributions. 1 January 2011

The interpretation applies to the accounting by the debtor in a debt for equity swap transaction. 1 July 2010

Additional disclosure will be provided regarding transfers of financial assets that are: 1 July 2011

- Not derecognised in their entirety
- Derecognised in their entirety but for which the company retains continuing involvement.

Note : Conversion rate against Indian rupee for the year 2010 and 2009 have been used as under:

**i) Items relating to Profit and Loss
Account at Average rate : 1 South Africa
RAND = 0.1584**

**ii) Items relating to Balance Sheet at
Closing Rate : 1 South African Rand =
0.1485**