Directors:
A J Aaron *(Chairman)**, M G Attridge, M R Bagus*, L Boyd*, J F Buchanan, N J Dlamini*, P Dyani*, M Krok*, C N Mortimer*, D M Nurek*, S B Saad
*Non-executive

Company secretary:
H A Shapiro.

Transfer secretaries:
Computershare Investor Services 2004 (Pty) Limited
(Registration number 1987/003382/06)
70 Marshall Street, Johannesburg 2001
P.O. Box 1053, Johannesburg 2000

Registered office:
Building 8, Healthcare Park, Woodlands Drive, Woodmead

aspen HOLDINGS

Aspen Pharmacare Holdings Limited ("Aspen")
(Registration number 1985/002935/06)
Share code: APN ISIN: ZAE000066692

http://www.aspenpharma.com

aspen HOLDINGS

Aspen Pharmacare Holdings Limited ("Aspen")

Reviewed Preliminary Group Financial Results for the year ended 30 June 2006



Revenue

+23%

2006: R3,449 billion 2005: R2,815 billion


Normalised Earnings per Share

+32%

2006: 182 cents 2005: 138 cents

Distribution to Shareholders

29%

2006: 62 cents 2005: 48 cents

Group Income Statement

	% change	Reviewed year ended 30 June 2006 Rm	IFRS restated year ended 30 June 2005 Rm
Revenue	23	3 449,3	2 814,6
Cost of sales		(1 789,0)	(1 424,0)
Gross profit	19	1 660,3	1 390,6
Other operating income		2,2	4,7
Selling and distribution costs		(462,3)	(374,8)
Administrative expenses		(195,8)	(176,0)
Other operating expenses		(108,9)	(388,7)
Investment income		72,9	37,6
Operating profit	96	968,4	493,4
Net financing costs		(113,7)	(99,4)
Net profit before tax	117	854,7	394,0
Tax		(216,6)	(207,6)
Net profit after tax	242	638,1	186,4
Attributable to:			
Equity holders of the parent		638,0	186,4
Minority interest		0,1	—
Weighted average number of shares in issue ('000)		344 128	340 606
Earnings per share – basic (cents)	239	185,4	54,7
Earnings per share – diluted (cents)	238	179,2	53,2
Capital distribution per share (cents)*	29	62,0	48,0

*Relates to capital distribution declared after year-end. The policy of Aspen is to recommend a final distribution to shareholders when the preliminary results for each financial year are released.

HEADLING EARNINGS AND NORMALISED EARNINGS

	% change	Reviewed year ended 30 June 2006 Rm	IFRS restated year ended 30 June 2005 Rm
Reconciliation of headline earnings			
Net profit attributable to equity holders of the parent		638,0	186,4
Adjusted for:			
– Deferred tax asset in respect of Nutricia (Pty) Limited ("Nutricia") assessed loss raised		(15,6)	(7,0)
– Goodwill in respect of acquisition of Nutricia written down		0,5	7,0
– Profit on disposal of property, plant and equipment (net of tax)		—	0,1
– Fair value adjustment of investment property (net of tax)		—	0,5
– Loss/(profit) on disposal of intangible assets (net of tax)		0,1	(1,4)
– Investment in FCC written down to fair value (net of tax)		14,2	—
– Impairment of intangible assets (net of tax)		1,9	3,2
– Profit on sale of investment property (net of tax)		(0,7)	—
Headline earnings	238	638,4	188,8
Headline earnings per share (cents)	235	185,5	55,4
Headline earnings per share – diluted (cents)	233	179,3	53,9
Reconciliation of normalised earnings			
Net profit attributable to equity holders of the parent		638,0	186,4
Adjusted for:			
– Costs relating to PLIVA dd bid		21,3	—
– Section 12G claim (Strategic Industrial Project allowance)		(31,9)	—
– BEE transaction		—	282,4
– Deferred tax asset in respect of Nutricia assessed loss raised		(15,6)	(7,0)
– Goodwill in respect of acquisition of Nutricia written down		0,5	7,0
– Investment in FCC written down to fair value (net of tax)		14,2	—
Normalised earnings	34	626,5	468,8
Normalised earnings per share (cents)	32	182,1	137,6
Normalised earnings per share – diluted (cents)	32	176,1	133,9

Group Balance Sheet

	Reviewed 30 June 2006 Rm	IFRS restated 30 June 2005 Rm
ASSETS		
Non-current assets		
Property, plant and equipment	613,1	477,7
Investment property	—	4,0
Goodwill	262,1	195,6
Intangible assets	820,5	665,8
Preference share investment	376,8	376,8
Non-current financial assets	12,9	0,1
Deferred tax assets	34,4	57,6
Total non-current assets	2 119,8	1 777,6
Current assets		
Inventories	798,3	428,2
Receivables and prepayments	721,9	509,7
Current tax assets	3,0	2,0
Current financial assets	1,3	1,0
Cash and cash equivalents	625,2	439,6
Total current assets	2 149,7	1 380,5
Total assets	4 269,5	3 158,1
SHAREHOLDERS' EQUITY		
Share capital and share premium	954,4	1 100,8
Treasury shares	(623,0)	(641,7)
Share-based compensation reserve	31,2	16,3
Non-distributable reserves	191,2	52,6
Retained income	997,5	426,3
Ordinary shareholders' equity	1 551,3	954,3
Preference shares – equity component	162,0	162,0
	1 713,3	1 116,3
Minority interest	12,5	—
Total shareholders' equity	1 725,8	1 116,3
LIABILITIES		
Non-current liabilities		
Preference shares – liability component	403,3	406,6
Interest-bearing borrowings	49,0	62,7
Interest-bearing deferred-payables	23,7	23,2
Deferred revenue	2,1	—
Deferred tax liabilities	103,9	71,6
Non-current financial liabilities	—	3,6
Retirement benefit obligations	7,3	10,6
Total non-current liabilities	589,3	578,3
Current liabilities		
Trade and other payables	713,6	571,9
Interest-bearing borrowings	1 173,8	761,7
Interest-bearing deferred-payables	4,8	48,6
Current tax liabilities	62,2	81,3
Total current liabilities	1 954,4	1 463,5
Total liabilities	2 543,7	2 041,8
Total equity and liabilities	4 269,5	3 158,1
Number of shares in issue (net of treasury shares) ('000)	347 449	339 441
Net asset value per share (cents)	446,5	281,1

Group Cash Flow Statement

	Reviewed year ended 30 June 2006 Rm	IFRS restated year ended 30 June 2005 Rm
Cash flows from operating activities		
Cash operating profit	1 127,5	929,3
Changes in working capital	(487,5)	(52,9)
Cash generated from operations	640,0	876,4
Net financing costs	(128,3)	(84,6)
Investment income	72,9	37,6
Tax paid	(182,2)	(176,6)
Net cash from operating activities	402,4	652,8
Cash flows from investing activities		
Replacement capital expenditure – property, plant and equipment	(55,6)	(23,1)
Expansion capital expenditure – property, plant and equipment	(119,1)	(58,0)
Proceeds on disposal of property, plant and equipment	0,4	0,4
Proceeds on disposal of investment property	4,7	—
Replacement capital expenditure – intangible assets	(9,2)	—
Expansion capital expenditure – intangible assets	(123,2)	(93,4)
Proceeds on disposal of intangible assets	1,0	4,0
Acquisition of subsidiaries and joint ventures, net of cash acquired	(267,6)	(262,1)
Disposal of 50% of FCC, net of cash	120,8	—
Investment in preference shares	—	(376,8)
Decrease in non-current financial assets	—	9,2
Net cash used in investing activities	(447,8)	(799,8)
Cash flows from financing activities		
Proceeds from interest-bearing borrowings	1 767,5	734,7
Repayment of interest-bearing borrowings	(1 736,4)	(434,0)
Repayment of interest-bearing deferred-payables	(49,7)	(59,3)
Proceeds from interest-bearing deferred-payables	4,2	2,7
Net capital distribution/dividend paid	(166,0)	(101,2)
Proceeds from issue of ordinary shares	33,7	13,1
Proceeds from issue of ordinary shares (BEE)	—	256,6
Share repurchase – cancellation of shares	—	(32,1)
Share repurchase – acquisition of treasury shares	—	(641,7)
Proceeds from issue of preference shares	—	376,8
Net cash (used in)/from financing activities	(146,7)	115,6
Effects of exchange rate changes	14,8	5,5
Cash and cash equivalents		
Movement in cash and cash equivalents	(177,3)	(25,9)
Cash and cash equivalents at the beginning of the year	439,6	465,5
Cash and cash equivalents at the end of the year	262,3	439,6
Operating cash flow per share (cents)	116,9	191,7

Statement of Changes in Group Equity

	Share capital and premium Rm	Treasury shares Rm	Share-based compensation reserve Rm	Non-distributable reserves Rm	Retained income Rm	Equity component of preference shares Rm	Minority interest Rm	Total Rm
Balance as at 1 July 2004	764,0	(75,8)	5,5	(3,2)	434,8	—	—	1 125,3
Negative goodwill adjustment in terms of IFRS 3	—	—	—	—	4,4	—	—	4,4
Restated opening balance	764,0	(75,8)	5,5	(3,2)	439,2	—	—	1 129,7
Currency translation differences	—	—	—	22,3	—	—	—	22,3
Net profit for the year	—	—	—	—	186,4	—	—	186,4
Dividend paid	—	—	—	—	(101,2)	—	—	(101,2)
Cash flow hedges realised	—	—	—	3,2	—	—	—	3,2
Cash flow hedges recognised	—	—	—	4,7	—	—	—	4,7
Issue of ordinary share capital	13,1	—	—	—	—	—	—	13,1
Share repurchase – acquisition of treasury shares	—	(641,7)	—	—	—	—	—	(641,7)
Cancellation of treasury shares	(32,1)	75,8	—	—	(73,2)	—	—	(29,5)
Preference shares issued	—	—	—	—	—	162,0	—	162,0
Share options awarded	—	—	11,5	—	—	—	—	11,5
Transfer from share-based compensation reserve	—	—	(0,7)	—	0,7	—	—	—
Issue of ordinary share capital (BEE) – net of transaction costs	355,8	—	—	—	—	—	—	355,8
Non-distributable portion of earnings	—	—	—	25,6	(25,6)	—	—	—
Balance as at 30 June 2005	1 100,8	(641,7)	16,3	52,6	426,3	162,0	—	1 116,3
Surplus on revaluation of available-for-sale financial assets	—	—	—	(0,6)	—	—	—	(0,6)
Currency translation differences	—	—	—	63,8	—	—	—	63,8
Net profit for the year	—	—	—	—	638,0	—	0,1	638,1
Capital distribution	(184,7)	18,7	—	—	—	—	—	(166,0)
Acquisition of subsidiaries	—	—	—	—	—	—	12,4	12,4
Cash flow hedges realised	—	—	—	(4,7)	—	—	—	(4,7)
Cash flow hedges recognised	—	—	—	5,2	—	—	—	5,2
Issue of ordinary share capital	38,3	—	—	—	—	—	—	38,3
Share options and appreciation rights awarded	—	—	23,0	—	—	—	—	23,0
Transfer from share-based compensation reserve	—	—	(8,1)	—	8,1	—	—	—
Non-distributable portion of earnings	—	—	—	74,9	(74,9)	—	—	—
Balance as at 30 June 2006	954,4	(623,0)	31,2	191,2	997,5	162,0	12,5	1 725,8

Supplementary Information

	Reviewed year ended 30 June 2006 Rm	IFRS restated year ended 30 June 2005 Rm
Capital expenditure		
Incurred	307,1	174,5
– tangible assets	174,7	81,1
– intangible assets	132,4	93,4
Contracted	113,0	35,1
Authorised but not contracted for	282,7	221,1
Operating profit has been arrived at after charging:		
Depreciation of property, plant and equipment	47,5	35,4
Amortisation of intangible assets	91,8	94,8
Share-based payment expenses – BEE	–	282,4
Share-based payment expenses – employees	27,6	11,6
Investment income		
Preference share dividend received	25,3	1,0
Interest received	47,6	36,6
Total investment income	72,9	37,6
Net financing costs		
Interest paid	(93,2)	(76,2)
Net foreign exchange loss	(7,1)	(8,3)
Fair value gains/(losses) on financial instruments	14,8	(7,7)
Notional interest on financial instruments	(0,1)	(7,2)
Preference share dividends paid	(28,1)	–
Net financing costs	(113,7)	(99,4)
Other commitments		
During the 2003 financial year Aspen entered into a 12-year agreement with GlaxoSmithKline ("GSK") South Africa to distribute and market a range of their products. In terms of this agreement Aspen is committed to pay the following amounts to GSK South Africa:		
– payable within one year	21,6	30,6
– payable thereafter	80,3	101,3
	101,9	131,9
During the 2005 financial year Aspen Australia entered into a 10-year agreement with Novartis Pharmaceuticals Australia Pty Limited to distribute and market a range of their products. In terms of this agreement Aspen is committed to spend the following amounts on promotion of the products:		
– payable within one year	8,0	8,7
– payable thereafter	48,2	54,5
	56,2	63,2
The dispute with Tibbett and Britten Africa (Pty) Limited, regarding a claim of approximately R39 million for additional distribution fees, was withdrawn during the year. This claim was previously reported as a contingent liability.		
Contingent liabilities		
There are contingent liabilities in respect of:		
– Additional payments in respect of the Quit worldwide intellectual property rights	6,6	6,0
– Guarantee covering potential rental default relating to sale of discontinued operations	2,5	3,7
– Guarantees covering loan and other obligations to third parties	5,4	1,6

Basis of Accounting

The consolidated preliminary results have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the Listings Requirements of the JSE Limited and Schedule 4 of the South African Companies Act.

These results have been reviewed by Aspen's auditors, PricewaterhouseCoopers Inc. Their unqualified review report is available for inspection at the company's registered office.

The date of the Group's transition to IFRS is 1 July 2004, and this is the first full-year financial results prepared under IFRS. IFRS 1 – First-time adoption of IFRS, has been applied in the preparation of this report.

The audited results for the year to June 2005 have been restated to comply with IFRS. The June 2005 balance sheet as published at the interim stage has subsequently been finalised.

The following are the most significant exemptions available in terms of IFRS 1 which Aspen elected to use:

— Business combinations: The Group has elected not to retrospectively apply the requirements of IFRS 3 – Business Combinations to business combinations with agreements dated before 31 March 2004.

— Fair value as deemed cost: The Group has elected to measure certain individual items of property, plant and equipment at fair value at the date of transition to IFRS.

— Cumulative translation differences: The Group has elected to transfer all foreign currency translation reserves to distributable earnings at the date of transition to IFRS.

Normalised earnings

Aspen believes that excluding material once-off transactions from its results represents a better indicator of the Group's performance.

Segmental Analysis

	SOUTH AFRICA				AUSTRALASIA AND ASIA				UNITED KINGDOM AND UNITED STATES				TOTAL			
	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total
Primary segments: Geographical																
Revenue	2 848,6	82,6	2 297,4	81,6	437,2**	12,7	308,5	11,0	163,5*	4,7	208,7*	7,4	3 449,3	100,0	2 814,6	100,0
Normalised operating profit before amortisation and investment income***	912,6	89,2	751,3	89,4	66,4	6,5	43,5	5,2	44,0	4,3	45,2	5,4	1 023,0	100,0	840,0	100,0
Adjusted for:																
– PLIVA dd costs	(21,3)	100,0	–	–	–	–	–	–	–	–	–	–	(21,3)	100,0	–	–
– BEE transaction	–	–	(282,4)	100,0	–	–	–	–	–	–	–	–	–	–	(282,4)	100,0
– Goodwill in respect of acquisition of Nutricia written down	(0,5)	100,0	(7,0)	100,0	–	–	–	–	–	–	–	–	(0,5)	100,0	(7,0)	100,0
– Investment in FCC written down	(13,9)	100,0	–	–	–	–	–	–	–	–	–	–	(13,9)	100,0	–	–
Operating profit before amortisation and investment income	876,9	88,8	461,9	83,9	66,4	6,7	43,5	7,9	44,0	4,5	45,2	8,2	987,3	100,0	550,6	100,0
Amortisation – intangible assets	(59,3)	64,6	(67,8)	71,5	(13,0)	14,2	(9,0)	9,5	(19,5)	21,2	(18,0)	19,0	(91,8)	100,0	(94,8)	100,0
Investment income	69,3	95,1	34,9	92,9	1,6	2,2	0,9	2,4	2,0	2,7	1,8	4,7	72,9	100,0	37,6	100,0
Operating profit	886,9	91,6	429,0	86,9	55,0	5,7	35,4	7,2	26,5	2,7	29,0	5,9	968,4	100,0	493,4	100,0

	Pharmaceutical				Consumer				TOTAL			
	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total	Reviewed year ended 30 June 2006 Rm	% of total	IFRS restated year ended 30 June 2005 Rm	% of total
Secondary segments: Business												
Revenue	2 562,1	74,3	2 092,3	74,3	887,2	25,7	722,3	25,7	3 449,3	100,0	2 814,6	100,0
South Africa	2 053,7		1 655,2		794,9		642,2		2 848,6		2 297,4	
Australasia	351,1		233,6		86,1		74,9		437,2		308,5	
United Kingdom and United States	157,3		203,5		6,2		5,2		163,5		208,7	
Normalised operating profit before amortisation and investment income***	794,5	77,7	673,8	80,2	228,5	22,3	166,2	19,8	1 023,0	100,0	840,0	100,0
South Africa	711,6		606,6		201,0		144,7		912,6		751,3	
Australasia and Asia	39,7		22,3		26,7		21,2		66,4		43,5	
United Kingdom and United States	43,2		44,9		0,8		0,3		44,0		45,2	
Operating profit before amortisation	764,7	77,5	462,0	83,9	222,6	22,5	88,6	16,1	987,3	100,0	550,6	100,0
South Africa	681,8		394,8		195,1		67,1		876,9		461,9	
Australasia and Asia	39,7		22,3		26,7		21,2		66,4		43,5	
United Kingdom and United States	43,2		44,9		0,8		0,3		44,0		45,2	
Operating profit	755,5	78,0	415,3	84,2	212,9	22,0	78,1	15,8	968,4	100,0	493,4	100,0
South Africa	701,6		372,2		185,3		56,8		886,9		429,0	
Australiasia and Asia	28,3		14,4		26,7		21,0		55,0		35,4	
United Kingdom and United States	25,6		28,7		0,9		0,3		26,5		29,0	

* Net of inter-segment sales to Aspen Australia of R85,0 million (2005: R80,1 million).

** Net of inter-segment sales to the South African segment of R25,5 million.

*** Represents operating profit before amortisation, adjusted for PLIVA dd costs, the writedown of the investment in FCC to fair value and the writedown of the Nutricia goodwil as well as the BEE charge in 2005.

Reconciliation of Equity

	30 June 2005 Rm	1 July 2004 Rm
SA GAAP	1 106,8	1 066,5
Property, plant and equipment	28,1	23,1
Investment property	—	(0,9)
Goodwill	(76,2)	(71,1)
Intangible assets	133,0	157,2
Inventories	2,3	(3,7)
Other current assets	(15,6)	(1,6)
Preference shares – liability component	(57,6)	—
Other liabilities	19,9	1,2
Tax effect of adjustments	(24,4)	(45,4)
As reported under IFRS	**1 116,3**	**1 125,3**

Reconciliation of Net Profit Attributable to Ordinary Shareholders

	Year ended 30 June 2005 Rm
SA GAAP	494,0
Share-based payment expenses – BEE (note 1)	(282,4)
Share-based payment expenses – employees (note 2)	(11,6)
Amortisation (note 3)	(21,5)
Depreciation	5,9
Other	2,0
As reported under IFRS	**186,4**

Note 1

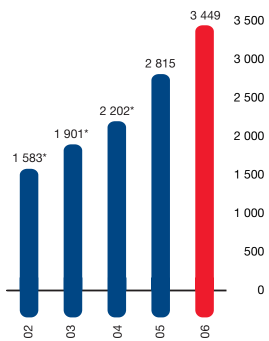
Represents the amount expensed in terms of IAS 32 – Financial Instruments: Presentation and IFRS 2 – Share-based Payment in respect of the ordinary shares and preference shares issued in terms of the BEE transaction.

Note 2

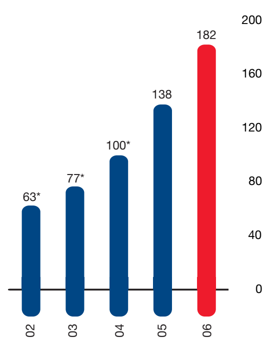
IFRS 2 has been applied to all grants of equity-settled share options and share appreciation rights awarded to employees after 7 November 2002, that had not vested by 1 January 2005. Equity-settled instruments are measured at fair value as at grant date.

Note 3

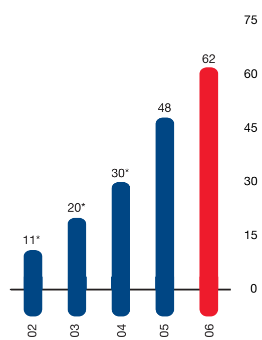
The most significant adjustment to amortisation comprises the additional amortisation in respect of recognition of intangible assets previously written off, and now reinstated.



Revenue
(Rm)
*SA GAAP



Normalised earnings
per share (cents)
*SA GAAP



Distribution
per share (cents)
*SA GAAP

Commentary

Group

Aspen's results for the year ended 30 June 2006 reflect a 235% increase in headline earnings per share to 185,5 cents. This increase is affected by a number of material once-off transactions in both the prior and current year, namely:

- a charge of R282,4 million in the prior year in respect of the Black Economic Empowerment ("BEE") transaction concluded by Aspen in June 2005;
- the claiming of the Strategic Investment Project tax allowance under section 12G of the Income Tax Act relating to the investment by Aspen in its Oral Solid Dosage ("OSD") facility. This has reduced the tax charge in the year under review by R31,9 million; and
- costs relating to Aspen's unsuccessful bid to acquire PLIVA dd, a Croatian-based generic pharmaceutical company, during the latter part of the year under review, which amounted to R21,3 million.

After adjusting for these once-off transactions, Aspen has recorded an increase of 32% in "normalised earnings" per share of 182,1 cents.

Revenue of R3,449 billion reflected growth of 23% whilst normalised earnings before interest, investment income, tax and amortisation ("EBITA") rose by 22% to R1,023 billion. Normalised earnings in the second half of the year exceeded those reported in the first half with 53% of normalised earnings being recorded in the second half.

The results for the year ended 30 June 2006 are the first reported under IFRS. The most material adjustments between reporting under IFRS and previous reporting under South African Statements of Generally Accepted Accounting Practice ("SA GAAP") are:

- the recognition of share-based payment expenses in respect of employees of R27,6 million (prior year R11,6 million);
- the recognition of expenses in respect of the prior year BEE transaction of R282,4 million; and
- additional amortisation arising from the reinstatement of intangible assets previously written off of R16,6 million (prior year R21,1 million).

South African operations

The South African business once again turned in solid results. Revenue grew by 24% to R2,849 billion and EBITA was up 21% at R913 million. These increases were achieved despite the disposal of 50% of Fine Chemicals Corporation (Pty) Limited ("FCC") to Matrix Laboratories Limited ("Matrix") midway through the year. FCC made an outstanding first-half contribution before difficult market conditions tempered its performance in the second half.

Pharmaceutical Division revenue increased by 24% to R2,054 billion. This was muted by the reduced shareholding in FCC in the second half. Finished dosage form ("FDF")

Commentary (continued)

pharmaceuticals raised revenue by 26%. The FDF performance was achieved entirely through organic volume growth and new product launches. The price freeze implemented by the regulator based on 2003 average prices has eliminated price-driven growth and the highly competitive generic market has continued to deflate the prices of many product lines. New pharmaceutical product launches from Aspen's rich product pipeline once again led the market.

Aspen increased volumes on award of the most recent South African public sector tender which commenced in October 2005. However, business was gained at reduced margins and the overall contribution from the public sector declined slightly for the year. Anti-retroviral ("ARV") sales for the year were R266 million, of which more than R100 million was from exports to Africa with the balance coming from the South African private sector (R79 million) and public sector (R83 million). Aspen ARVs presently cover the lives of an estimated 300 000 patients.

Revenue from the Consumer Division improved by 24% to R795 million. This strong performance was led by Aspen's infant milk formula brands which have increased market share over the year. The infant milk formulations also contributed to improved operating margins in the Consumer Division as the benefits of production for a full year from Aspen's Clayville-based factory were realised. The launch of Playgirl deodorants and line extensions to the Playboy and Vinolia brands further supported the good performance in the consumer market. For the third consecutive year Aspen was placed first in the nationwide Campbell Belman Confidence Standing survey. This independent survey of retail pharmacies and buying groups assessed the 39 leading OTC companies in South Africa.

High levels of production were maintained over the year. Capacities were improved in the OSD facility with the addition of a second integrated granulation suite and the extension of packing capabilities. An investment in more efficient packing equipment was also made in the Port Elizabeth general facility. The additional capacity has allowed Aspen to manage increased demand more effectively, with a significant improvement in service levels.

Construction of the sterile facility in Port Elizabeth is proceeding well and initial validation remains scheduled for the beginning of 2008. In order to cater for the considerable opportunities in the United States market in particular, Aspen has further enhanced the facility specifications and capacity. The revised capital cost of the enlarged project is expected to be R360 million.

International operations

Aspen Australia recorded a 28% increase in revenue to R396 million whilst improving EBITA by 22% to R53 million. The decline in operating margin percentage is a consequence of the full-year effect of a long-term distribution contract with Novartis which is only expected to become profit generating in the 2008 financial year. The consumer offering in Australia was expanded by the distribution of a range of deodorant brands commencing in January 2006.

Commentary (continued)

UK-based Aspen Resources increased its intellectual property portfolio by the acquisition of the abovementioned consumer brands which are distributed by Aspen Australia. Aspen Resources increased EBITA by 12% to R41 million. The UK commodity generic market remained intensely competitive and Co-pharma reported a decline in revenue of 23% to R162 million and a reduction of 64% in EBITA to R3 million.

Aspen USA was incorporated during the year. This operation is very much in its formative stage and is presently focused on developing strategic opportunities in the USA market. No material trade took place during the year.

Aspen acquired 50% of Indian-based Astrix Laboratories Limited ("Astrix") in January 2006 for R233 million. Astrix is jointly owned with Matrix and provides vertical integration into the manufacture of active pharmaceutical ingredients used in the production of ARVs. As such, revenue and profits generated by Astrix in its transactions with Aspen are eliminated on consolidation.

Infectious diseases

Aspen continues to commit substantial resources to the enhancement of its portfolio of generic ARVs. The development of ARVs, including combination products, are prioritised at the Group's Pharmaceutical Research laboratories in Port Elizabeth. During the course of the year the Group has secured a voluntary licence with Merck Sharp and Dohme for the generic ARV Efavirenz and has concluded an agreement with Bristol-Meyers Squibb for the technology transfer and manufacture of a generic version of the new generation ARV, Atazanavir.

Aspen has widened its coverage of infectious diseases with the arrangement reached with Lupin Limited ("Lupin") of India to provide tuberculosis medication to the southern African market. Lupin is the world leader in generic tuberculosis drugs. In addition, Aspen and Lupin are in the process of finalising a proposed joint venture to manufacture and distribute tuberculosis products globally, with the exception of southern Africa (exclusively Aspen), India and the USA (exclusively Lupin).

Investment income, finance costs and cash flows

IFRS disclosure requires that investment income be disclosed in operating profit and separately from net financing costs which is disclosed after operating profit. Both items are a consequence of the management of Aspen's financial resources and should sensibly be considered together. Interest paid, net of interest received, has been contained to a rise of 15% to R46 million despite the sharp increase in working capital. Finance costs attached to interest-bearing deferred-payables decreased in the current year as these commitments have now terminated. A fair value gain on financial instruments of R15 million was recorded in the current year (prior year: loss of R8 million).

Commentary (continued)

The net cash inflow from operating activities of R402 million was less than earnings of R638 million. This is a consequence of an investment in working capital of R488 million. An additional R409 million in stock was carried at year-end. Of this amount, R240 million is in additional ARV materials and finished products necessary to service the anticipated increase in ARV offtake, R52 million is in stockholding relating to new product launches and R117 million is in increased safety stock levels to optimise customer service. Maintenance of prudent levels of ARV stock is essential given the life-critical dependence of patients on constant availability of the medication. The increase in debtors and creditors was in line with increased trading activity.

Prospects

The Group is presently investing strongly in development and manufacturing capabilities in areas that have been identified as potential growth drivers for the future. An example is the sterile production facility currently under construction, which is planned to position Aspen at the highest international standards in an area of niche manufacture. As evidenced by the recent unsuccessful bid for PLIVA dd, Aspen is prepared to explore growth opportunities in new geographies provided these are expected to be value enhancing for shareholders.

The Group is committed to remaining at the forefront of the global generic ARV market. Significant further expansion of this market is anticipated as UNAIDS and the World Health Organisation seek to achieve universal access to ARVs by 2010. Further substantial revenue growth can be expected from ARVs albeit at subdued margins. The proposed joint venture with Lupin in the international tuberculosis market is expected to commence trade in the year ahead. Aspen will also seek opportunities to further extend its influence in infectious diseases, particularly those afflicting Africa.

In the year ahead, Aspen is set to retain its leadership position in generics in the South African private market and in the public sector, supported by a robust product pipeline. The weakening of the Rand in recent months will create margin pressure as the cost of imported raw material rises. The Department of Health has been approached in respect of an approved price increase as contemplated in the applicable legislation which, if granted, will provide relief from the currency exposure as well as the effects of inflation since prices were frozen at 2003 levels. Competitive forces in the market will, however, act to moderate the benefit of any price increase which is granted.

Growth prospects over the forthcoming year are likely to be most strongly influenced by the extent of additional generic substitution which takes place in the South African market, market penetration achieved by new product launches, the level at which price increases are accepted in the South African pharmaceutical market and demand patterns for ARVs.

Commentary (continued)

Capital distribution

Taking into account the earnings performance for the year, notice is hereby given that in terms of a general authority to distribute the company's capital granted by shareholders at the annual general meeting held on 26 October 2005 a capital distribution of 62 cents per ordinary share (prior year: 48 cents) has been declared, payable to shareholders recorded in the share register of the company at the close of business on Friday, 10 November 2006.

This represents an increase of 29% over the previous year distribution and is covered three times by headline earnings per share.

In compliance with IAS 10 – Events After The Balance Sheet Date, the capital distribution will only be accounted for in the financial statements in the year ending 30 June 2007. It remains the policy of Aspen to declare a final distribution to shareholders when the preliminary results for each financial year are released.

In compliance with STRATE, the company has determined the following salient dates for the payment of the capital distribution:

Last day to trade *cum* capital distribution	Friday, 3 November 2006
Shares commence trading *ex* capital distribution	Monday, 6 November 2006
Record date	Friday, 10 November 2006
Payment date	Monday, 13 November 2006

Share certificates may not be dematerialised or rematerialised between Monday, 6 November 2006 and Friday, 10 November 2006, both days inclusive.

By order of the board

SB Saad	**MG Attridge**	**HA Shapiro**
(Group Chief Executive)	*(Deputy Group Chief Executive)*	*(Company Secretary)*

Woodmead: 21 August 2006

BASTION GRAPHICS