



**LITHA**  
HEALTHCARE GROUP LIMITED

At the heart of health

INTEGRATED ANNUAL REPORT

**2011**

FOR THE YEAR ENDED 31 DECEMBER 2011



INTRODUCTION	1
GROUP OVERVIEW	2
BUSINESS REVENUE ANALYSIS	4
GROUP STRUCTURE	6
OUR TEAM	6
STAKEHOLDER ENGAGEMENT PROCESS	8
MATERIAL ISSUES	12
PARTICIPATION IN REGULATORY ASSOCIATIONS	14
OBJECTIVES AND DELIVERY	16
2012 OBJECTIVES	18
DELIVERY AGAINST GROUP MEASURES	20
CHAIRPERSON'S REVIEW	22
CHIEF EXECUTIVE OFFICER'S REVIEW	30
CHIEF FINANCIAL OFFICER'S REVIEW	37
REMUNERATION REVIEW	42
OPERATIONAL REVIEWS	45
CORPORATE GOVERNANCE REVIEW	60
FINANCIAL REVIEW	70
CORPORATE INFORMATION	IBC

## GROUP OVERVIEW

LITHA OFFERS A DIVERSE RANGE OF PRODUCTS AND SERVICES, WITH CROSS-SELLING OPPORTUNITIES WITHIN THE GROUP.

## LITHA DIVISIONS



- > Public private partnership in The Biovac Institute and paediatric vaccines to the South African government
- > Focus on manufacturing



- > Supplier of medical devices, equipment and single use medical consumables to private and public sectors
- > Expanding agencies and exploring local assembly and packaging



- > Expanding pipeline through acquisitions and licensing deals
- > Originator, generic and complementary medicines
- > Specialist, retail pharmacy and dispensing doctor market



Shared services: Logistics, finance, human resources, information technology and legal.

## VISION

To be the benchmark in integrated healthcare solutions in Africa.

## MISSION

To actively participate in and contribute to the creation of a healthier society through the provision of integrated healthcare solutions.

The group's customers operate in the healthcare sector in South Africa, including:

**PUBLIC SECTOR BUSINESS AT A REGIONAL  
AND NATIONAL LEVEL**

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**PRIVATE AND INDEPENDENT HOSPITALS**

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**CORPORATE AND INDEPENDENT PHARMACIES**

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**SPECIALIST DOCTORS AND HEALTHCARE WORKERS**

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**WHOLESALE AND DISTRIBUTORS**

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Our products range from vaccines and pharmaceuticals to medical devices and hospital consumables. With the recent acquisitions in Litha Pharma, we are now able to offer a range of generic and originator pharmaceuticals as well as complementary health supplements and homeopathic remedies.

## BUSINESS REVENUE ANALYSIS

### LITHA BIOTECH

Five agencies

Revenue R1 289m

	The Biovac Institute	The Biovac Institute Exports	Litha Vaccines	The Vaccine Bureau
2011 Revenue	R1 204m	R9m	R61m	R15m
Revenue contribution	93%	1%	5%	1%
Key products	<ul style="list-style-type: none"> <li>&gt; Tuberculosis</li> <li>&gt; Polio</li> <li>&gt; Tetanus</li> <li>&gt; Pertussis</li> <li>&gt; Diphtheria</li> <li>&gt; Measles</li> <li>&gt; Pneumonia</li> <li>&gt; Rotavirus</li> <li>&gt; Hepatitis B</li> <li>&gt; Influenza</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Tuberculosis</li> <li>&gt; Yellow fever</li> <li>&gt; Typhoid</li> <li>&gt; Rotavirus</li> <li>&gt; Hepatitis</li> <li>&gt; Human Papillomavirus</li> <li>&gt; Rabies</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Tuberculosis</li> <li>&gt; Influenza</li> <li>&gt; Yellow Fever</li> <li>&gt; Rabies</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Polio</li> <li>&gt; Influenza</li> <li>&gt; Tuberculosis</li> <li>&gt; Human Papillomavirus</li> <li>&gt; Hepatitis</li> <li>&gt; Cholera</li> </ul>

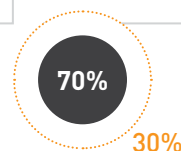
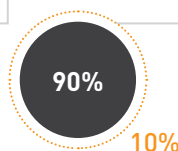
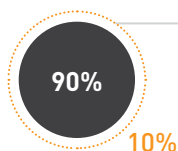
### LITHA MEDICAL

25 agencies

Revenue R338m

	Capital equipment	Medical devices	Medical consumables
2011 Revenue	R7m	R64m	R267m
Revenue contribution	2%	19%	79%
Key products	<ul style="list-style-type: none"> <li>&gt; Radiology scanners</li> <li>&gt; Human waste disposal (macerators)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Orthopaedic and ophthalmology implants</li> <li>&gt; Gynaecological and urology devices</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Surgical and medical consumables</li> <li>&gt; Forensic kits</li> <li>&gt; Wound care dressings</li> <li>&gt; Theatre clothing and draping</li> <li>&gt; Medical filters and wound drains</li> <li>&gt; Blood re-infusion products</li> </ul>
Business units	<ul style="list-style-type: none"> <li>&gt; Filterworks</li> <li>&gt; Earth Medical</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Earth Medical</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Filterworks</li> <li>&gt; Earth Medical</li> <li>&gt; Manta Medical</li> <li>&gt; ICU Medical SA</li> <li>&gt; Manta Forensic</li> </ul>

● Private  
○ Government



LITHA PHARMA

19 agencies  
108 products (SKUs)

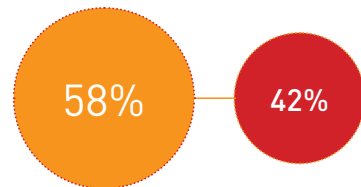
Revenue R149m (annualised)\*

	Complementary medicines	Originator medicines	Generic medicines
2011 Revenue	R66m	R61m	R22m
Revenue contribution	44%	40%	16%
Key products	<ul style="list-style-type: none"> <li>&gt; Nutritional supplements</li> <li>&gt; Homeopathic remedies</li> <li>&gt; Natural remedies</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Cardiovascular treatment</li> <li>&gt; Anti-depressants</li> <li>&gt; Anti-psychotics</li> <li>&gt; Ear, eye and throat preparations</li> <li>&gt; Treatment for bladder cancer</li> <li>&gt; Treatment for pain and inflammation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Glaucoma/eye treatment</li> <li>&gt; Treatment for pain and inflammation</li> <li>&gt; Cough and cold treatment</li> <li>&gt; Menorrhagia/female health treatment</li> </ul>

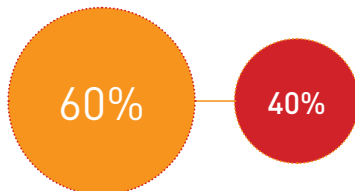
% of market sector business

● Complementary  
● Originator  
● Generic

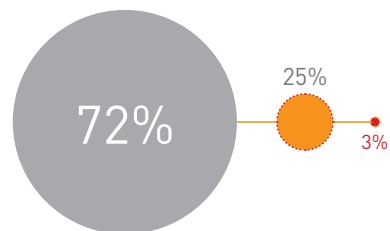
## Public hospital



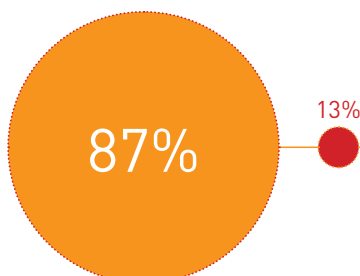
## Private hospital



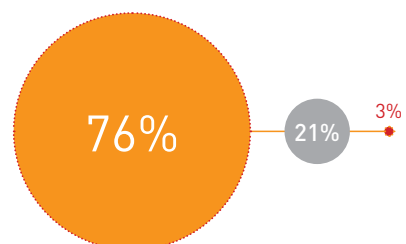
## Retail pharmacy



## Doctor



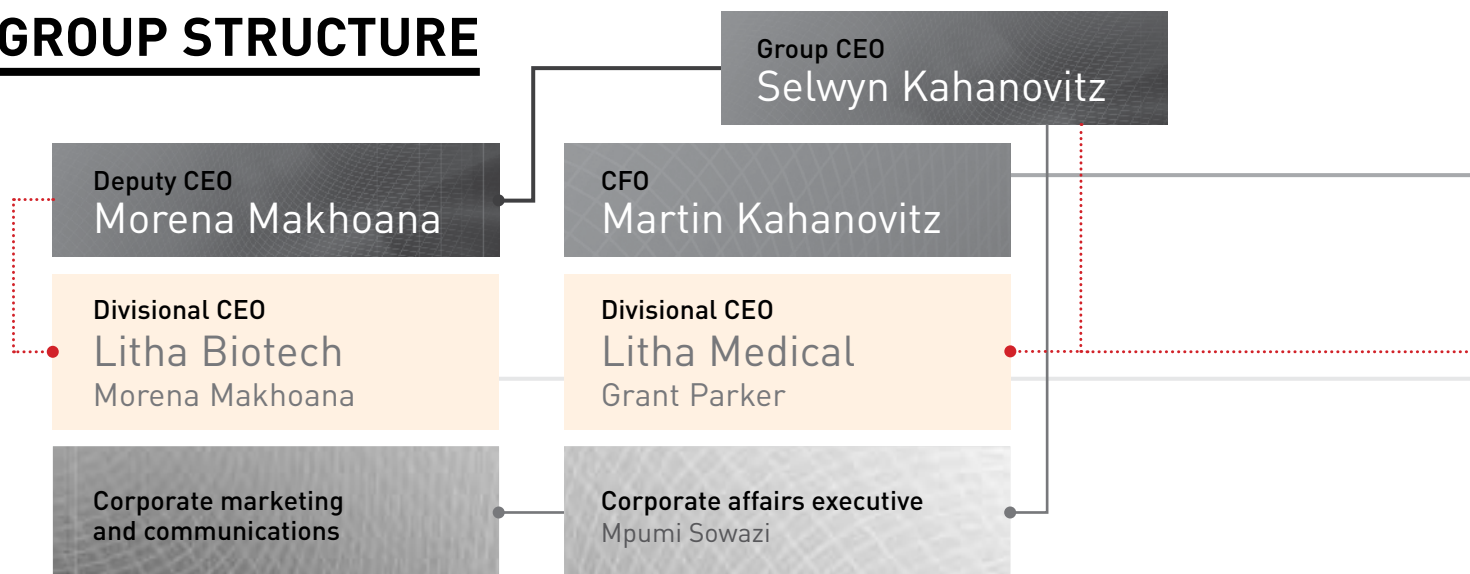
## Other/export



\* Calculated on the assumption that Goldex and OTC acquisitions were effective 1 January 2012.



## GROUP STRUCTURE



## OUR TEAM

We have a strong board and executive committee in place. Find below what value each member brings to the team.

>> Refer to pages 67 – 69 for full biographies.

### BOARD MEMBERS



#### **Andrew Bonamour**

**Non-executive chairperson**  
Corporate finance and  
deal structuring expertise



#### **Veli Mcobothi**

**Independent  
non-executive director**  
Experience as a  
chartered accountant



#### **Fadl Hendricks**

**Independent  
non-executive chairman**  
Specialist technical expertise  
in biotechnology



#### **Mandi Mzimba**

**Independent  
non-executive director**  
Strong experience in the public  
sector and regulatory issues



#### **Ian Jacobson**

**Non-executive director**  
Extensive experience in the  
pharmaceutical industry



#### **Nkululeko Sowazi**

**Independent  
non-executive director**  
Experience in corporate finance



#### **William Marshall-Smith**

**Non-executive director**  
Experience in auditing  
and corporate finance

**COO**  
**Grant Parker**

**Head of Pharma**  
**Gert Hoogland\***

**Divisional CEO**  
**Litha Pharma**  
Andrew King

**Finance and admin executive**  
Barry Budler

IT

Legal

HR

Logistics

*\* This role will be effective once the Pharmaplan transaction is concluded.*

## EXECUTIVE COMMITTEE



### **Selwyn Kahanovitz**

**Chief executive officer**

**Executive director**

Intimate knowledge of the healthcare sector and entrepreneurship



### **Barry Budler**

**Finance executive**

**and company secretary**

Specialist finance and corporate governance experience



### **Morena Makhoana**

**Deputy chief executive officer**

**Executive director**

Extensive experience in the medical field, particularly in the area of vaccines in the public sector



### **Mpumelelo Sowazi**

**Corporate affairs executive**

Legal and corporate affairs experience with strong government relationships



### **Grant Parker**

**Chief operating officer**

Qualified pharmacist with strategic and operational experience in the medical consumables and devices sector



### **Andrew King**

**Divisional CEO Litha Pharma**

Experience in pharmaceutical sector and government lobbying



### **Martin Kahanovitz**

**Chief financial officer**

**Executive director**

Specialist financial skills in the healthcare sector and corporate finance experience



# STAKEHOLDER ENGAGEMENT PROCESS

This report is the group's second integrated report. We are continuing on our journey of improving systems, processes and disclosure. During this year, we have for the first time included the start of an integrated scorecard on page 20. The non-financial measures will continue to be expanded.

We have included material issues as part of a more integrated discussion.

For example, as the board is the main custodian of ensuring the management of the group's regulatory environment, information around regulations are contained in the Chairperson's review this year instead of in a separate discussion. Similarly, as the management team is accountable to the board for managing key risks and skills, information around internal processes to manage risk and our people is provided in the CEO's review. We welcome feedback on this year's changed structure.

As part of the process of identifying our material issues for inclusion in this report, we canvassed the opinions of a number of our key stakeholders. This took the form of telephone discussions or email questionnaires. Each division is also required to submit a quarterly report outlining key stakeholder engagement and feedback.

## THE GROUP'S KEY STAKEHOLDERS INCLUDE:

1. Investors, shareholders, healthcare analysts and media
2. Employees
3. Trade unions
4. Academic institutions
5. Regulatory authorities and bodies
6. Industry associations
7. Principals and vendors
8. Government and government institutions
9. Customers (including national and provincial departments of health, healthcare practitioners and healthcare funders)
10. Business partners
11. The community

The group's stakeholder engagement strategy is overseen by a stakeholder engagement committee constituted as an ad hoc committee of the board of directors. The committee meets as and when required. The committee was created to more efficiently utilise scarce resources within the group and to provide a clearer definition of specific job functions.

A number of opportunities exists to cross-pollinate contacts across the divisions. These will be explored more fully in the coming year.

## STAKEHOLDER FOCUS AREAS

The business activities and the technical nature of the three divisions within the group are diversified, with the divisions' stakeholder requirements being different.

The divisional CEOs currently drive stakeholder management with the assistance as and when required from the head office through the deputy CEO and the corporate affairs executive. Corporate stakeholders are addressed by the group CEO and CFO.

**>> Feedback on the report  
can be provided to the  
group at 011 516 1700 or  
barry@lithahealthcare.co.za**

## LITHA BIOTECH

### 43% OF GROUP OPERATING PROFIT

Litha Biotech, through its subsidiary, The Biovac Institute, currently has a strong need for stakeholder engagement as a public private partnership (PPP) with government as a shareholder.

The Biovac Institute's major government stakeholders are the Department of Health (DoH), Department of Science and Technology (DST), the Department of Trade and

Industry (the dti), Treasury and donor organisations such as the World Health Organisation (WHO).

The main objective in terms of engagement with key stakeholders is to increase the level of awareness of Biovac with government to ensure that key objectives and expectations within the PPP are constantly aligned.

Stakeholders	Stakeholder interests	Biovac interests
DoH	Quality product at a low price. Consistent supply.	Continuous support from DoH through sales to fund operations.
Medicines Control Council (MCC)	Safe and effective vaccines.	Enabling regulatory environment to support GMP manufacturing status and registrations.
DST/Technology Innovation Agency (TIA)	Realisation of the DST and the TIA's strategy for fostering skills and intellect development through biotechnology.	Funding for research and development, manufacturing platform support and raising Biovac's profile
The dti	Increasing local manufacture, creating jobs and decreasing trade deficit.	Funding and incentives for local manufacturing, supporting and raising Biovac's international profile.
Treasury	Competitive service providers.	Meet objectives set by Treasury as the custodian of the PPP to meet government's objectives.
Public private partnership (PPP) unit	Successful implementation of the PPP.	Support for the group's PPP with government.
Industry associations	Supporting industry positions.	Raising Biovac's profile, information flow, market intelligence, relationships and input into pending legislations.
Wholesalers	Product at a low price and maximum return.	Distribution and logistics.
Hospitals/clinics (public and private)	Cost-effective, safe and effective vaccines.	Direct sales.
Aid organisations	Product at a low price and securing sources of supply.	Raise profile of The Biovac Institute and to provide technical and financial support.

## LITHA MEDICAL

### 48% OF GROUP OPERATING PROFIT

Litha Medical's major stakeholders consist of its principals, private and public hospitals, pharmacy groups, DoH Pharmacy Services (incorporating a tender system for public hospitals), Treasury and the National Health Insurance (NHI) players.

Stakeholder engagement is overseen by the divisional CEO and undertaken by the business unit managers. The strategy is implemented at ground level by the sales manager and a team of sales representatives.

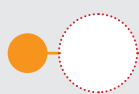
The main objective in terms of engagement with key stakeholders is to retain existing sales within an environment of increasing competition and with pressure to lower pricing and to obtain additional products/agencies. The group needs to maintain and entrench our existing principal relationships with long-term agreements to allow Litha Medical to achieve a return on investment for the brands already invested in the South African market.

The focus is on positioning the division as a niche medical devices company and to steer away from market segments that are highly crowded and only price driven.

Stakeholder engagement is important at two levels. In the private sector, products must first be approved for use by the hospital buying groups as well as by the medical aids before they can be adopted by the doctors and users. Key opinion leaders (KOLs) are vital in this process, in particular in niche businesses such as ophthalmology, urology and orthopaedics. Only once the product is approved by these stakeholders can the business unit sales managers and the sales teams call the relevant users of the products to obtain sales.

Within the government sector, it is important to maintain relationships to monitor any shifts in government policy and in the various therapeutic markets where we are able to identify opportunities to either tender or sell products into the public sector. Litha Medical aims to dovetail with relationships developed by Litha Biotech.

Stakeholders	Stakeholder interests	Medical interests
Principals	Local marketing partner.	Purchasing product and maintaining long-term relationships.
Private and public hospitals	Cost-effective, safe and effective medical products.	Direct sales and increasing market share.
Hospital pharmacies	Cost-effective, safe and effective medical products.	Direct sales and increasing market share.
Medical insurers	Cost-effective, safe and effective medical products.	Inclusion on product formularies.
NHI	Cost-effective, safe and effective medical products.	Potential to influence public sector sales.
Industry associations	Supporting industry positions.	Raising Litha's profile, information flow, market intelligence, relationships and input into pending legislations.
The DoH/Treasury	Safe and effective medical products.	Successful supply of product to government, payment security and trust as a supplier.



## LITHA PHARMA

### 9% OF GROUP OPERATING PROFIT

Litha Pharma's major stakeholders are similar to that of Litha Medical and include overseas principals for products, pharmacy networks, wholesalers, doctor groups, medical aids, individual doctors, KOLs in specific therapeutic areas of focus and the Medicines Control Council (MCC).

The main objective in terms of engagement with key stakeholders is to supply product to the market, facilitate access to buyers, obtain product registrations and raise the division and the group's profile in the pharmaceutical market.

It is critical to our product pipeline to maintain and build our relationships with existing principals and to forge new links/partnerships to access potential pipelines with other pharmaceutical manufacturers. For example, our relationship with CPoint Capital has provided us with the necessary access to partnership agreements in India and Europe.

Stakeholder engagement is driven by the divisional CEO and undertaken by the business unit managers and the group CEO. The strategy is implemented by the sales manager and a team of sales representatives.

The regulatory sphere is very important for Litha Pharma as direct relationships with the MCC is vital to keep track of the registration process and to speed this up where possible. Another key stakeholder is the pricing committee within the Department of Health as the division needs to effectively motivate for an industry-friendly pricing environment. Much of the lobbying in this area is done through industry groups to ensure consistency. The business unit heads in Litha Pharma are active with key opinion leaders in the various therapeutic categories, such as cardiology, urology and gynaecology as well as in the buying groups, such as private hospitals, wholesalers and corporate pharmacies.

Stakeholders	Stakeholder interests	Pharma interests
Principals	Local marketing partner.	Pipelines, product and maintaining long-term relationships.
Pharmacy networks	Safe, effective and cost-efficient pharmaceuticals.	Marketing channel.
Wholesalers	Maximise returns.	Distribution and logistics.
Public and private hospitals	Cost-effective, safe and effective medical products.	Direct sales.
Doctor groups and individual doctors	Safe, effective and cost-efficient pharmaceuticals.	Marketing channels.
Medical insurers	Safe, effective and cost-efficient pharmaceuticals.	Preferred supplier listing of products.
Key opinion leaders in specific therapeutic areas of focus	Safe, effective and cost-efficient pharmaceuticals.	To be a product spokesperson.
NHI	Cost-effective, safe and effective medical products.	Potential to increase public sector sales.
The DoH/Treasury	Product at a low price and availability.	Successful supply of product to government, payment security and trust as a supplier.
The dti	Creating jobs and decreasing trade balance.	Protecting imports and ensuring competitive pricing environment.
Industry associations	Supporting industry positions.	Raising Litha's profile, information flow, market intelligence, relationships and input into pending legislations.
MCC	Safe and effective pharmaceuticals.	Timeous registrations.

# MATERIAL ISSUES

Key material issues raised by stakeholders are outlined below. These are addressed throughout the report.

Stakeholder	Issues of importance to stakeholders
Investors, shareholders, healthcare analysts and media	<ul style="list-style-type: none"> <li>&gt; Transparent financial disclosure</li> <li>&gt; Legislative and regulatory issues</li> <li>&gt; Government engagement and reliance</li> <li>&gt; Remuneration practices and disclosure</li> <li>&gt; Skills development</li> <li>&gt; Progress on acquisitions, in particular Pharmaplan</li> <li>&gt; Technology agreements with multi-nationals</li> <li>&gt; Shareholding spread, especially management's stake</li> </ul>
Employees	<ul style="list-style-type: none"> <li>&gt; Development of inspirational leadership to drive transformation, especially following a number of acquisitions</li> <li>&gt; Key ratios used to monitor performance</li> <li>&gt; Environmental and social issues</li> </ul>
Trade unions	<ul style="list-style-type: none"> <li>&gt; Representation</li> <li>&gt; Management of HR issues during acquisitions</li> </ul>
Academic institutions	<ul style="list-style-type: none"> <li>&gt; Career guidance</li> </ul>
Regulatory authorities and bodies	<ul style="list-style-type: none"> <li>&gt; Compliance and implementation of regulations</li> <li>&gt; Input on draft regulations through relevant associations</li> </ul>
Industry associations	<ul style="list-style-type: none"> <li>&gt; Information around products</li> <li>&gt; Strength of partnerships and acquisitions</li> </ul>
Principals and vendors	<ul style="list-style-type: none"> <li>&gt; Legislative and political changes</li> <li>&gt; Tender processes</li> <li>&gt; Organisational and shareholder information</li> <li>&gt; African expansion strategy</li> </ul>
Government and government institutions	<ul style="list-style-type: none"> <li>&gt; Pricing</li> <li>&gt; Compliance to regulations</li> </ul>
Customers (including National and Provincial Departments of Health, healthcare practitioners and healthcare funders)	<ul style="list-style-type: none"> <li>&gt; Product quality and specifications</li> <li>&gt; Pricing</li> <li>&gt; Safety standards</li> </ul>
Business partners	<ul style="list-style-type: none"> <li>&gt; Continuity of agency businesses</li> <li>&gt; Expanding current product offering and market share</li> <li>&gt; Other markets (particularly Africa)</li> </ul>
The community	<ul style="list-style-type: none"> <li>&gt; Responsible and safe operations</li> <li>&gt; Product information and availability</li> </ul>



Taking stakeholder feedback into account and following internal discussions between the executive committee and the group's board, the group identified its key material issues for reporting as:

## **MATERIAL ISSUES**

**Addressed on page/s**

### **Managing the regulatory environment**

Due to the diversity of the group's businesses, it is necessary to consistently engage with the various industry and government groups to ensure regulatory compliance and to be part of the development process for new regulations. When regulations are either changed or implemented, this could impact the business in various ways. This needs to be addressed well before implementation dates.

>> 24 – 25

### **Managing financial health**

To ensure its strategic objectives are met through acquisitive as well as organic growth, the group requires access to finance and a strong cash-generating ability.

>> 37 – 41

### **Managing growth**

As a highly acquisitive company, it is important for the group to ensure it has processes in place to effectively integrate new acquisitions and to extract synergies throughout the expanded group.

>> 19, 31 – 32

### **Managing key skills**

Due to the technical requirements of the group's various business units, skilled employees need to be retained as well as developed to ensure the provision of a valued-added service. Furthermore, due to the acquisitive strategy of the group, integration of existing employees from new acquisitions has to be carefully managed and skills within these new businesses retained or transferred. Due to the development of the manufacturing facility in Litha Biotech for vaccines, there is a huge emphasis on skills development and training through international technology transfers and local initiatives.

>> 33, 46 – 49

### **Managing improved transformation**

An effective transformation strategy and broad-based black economic empowerment positioning is not only key to doing business with government, but also plays an important role in attracting new business partnerships and the opportunity for growth through acquisitions.

>> 26 – 27



## **PARTICIPATION IN REGULATORY ASSOCIATIONS**

Association	Role	Key issues addressed during the year
HEALTH PRODUCTS ASSOCIATION OF SOUTH AFRICA ( <b>THE HPA</b> )	Exco member and head of the herbal sub-committee – Litha Pharma	<ul style="list-style-type: none"> <li>&gt; Implementation of the Consumer Protection Act (CPA)</li> <li>&gt; Pending complementary and Alternative Medicines Regulations (CAMs)</li> </ul>
NATIONAL ASSOCIATION OF PHARMACEUTICAL MANUFACTURERS ( <b>NAPM</b> )	Exco member, marketing and technical sub-committee member and seconded member of the Technical Advisory Committee to the Marketing Code Authority Board (MCA) – Litha Pharma	<ul style="list-style-type: none"> <li>&gt; Pending pricing regulations</li> <li>&gt; Preference given to local manufacturers for tenders</li> <li>&gt; Pending National Health Insurance (NHI)</li> <li>&gt; Participation in the MCA for industry governing of Marketing Code of Conduct</li> </ul>
SELF-MEDICATION ASSOCIATION OF SOUTH AFRICA ( <b>SMASA</b> )	Member of the technical sub-committee – Litha Pharma	<ul style="list-style-type: none"> <li>&gt; Reversing ban on public advertising of Schedule 2 medicines</li> <li>&gt; Exemption of pharmaceutical industry from CPA</li> </ul>
SOUTH AFRICAN MEDICAL DEVICE INDUSTRY ASSOCIATION ( <b>SAMED</b> )	Member of the government's procurement working group – Litha Medical	<ul style="list-style-type: none"> <li>&gt; Pending devices regulations</li> <li>&gt; Non-payment by government departments</li> <li>&gt; The NHI</li> </ul>
DEVELOPING COUNTRIES VACCINES MANUFACTURERS NETWORK ( <b>DCVMN</b> )	Exco member – Litha Biotech	<ul style="list-style-type: none"> <li>&gt; Achieving pre-qualification status by the World Health Organisation</li> <li>&gt; Procurement of vaccines</li> </ul>
PHARMACEUTICALS MADE IN SOUTH AFRICA ( <b>PHARMISA</b> )	Exco member – Litha Biotech	<ul style="list-style-type: none"> <li>&gt; Lobbying for preferential procurement regulations</li> <li>&gt; Pending price regulations</li> <li>&gt; Pending the NHI</li> </ul>

## OBJECTIVES AND DELIVERY

As outlined in the 2010 report, the group committed to report on its delivery on objectives each year to provide stakeholders with a track record. On this spread we outline how we delivered on our 2011 objectives.

### 2011 OBJECTIVES

#### STRATEGY

#### Progress


Integrate the acquisitions which took place in 2010 and complete the divisional integration.

The Litha and Myriad businesses were fully integrated into the enlarged group. Divisional CEOs were appointed to drive divisional strategies aligned to the overall group strategy.

Extract the benefits of shared services and logistics across the broader group platform.

The group appointed a COO to drive the shared services strategy, as well as divisional managers to drive divisional progression in areas such as logistics, finance, human resources, information technology and legal. The group bought a stake in a building and moved all head offices and will be moving all business units into this central location over a period of time.

Drive focused operational strategies to ensure continued growth and size increments and to fill gaps in offering.

The group took steps in its Pharma division to add scale through product licensing opportunities and two acquisitions.  **Refer to pages 58 – 59.**

The group also increased its stake in the Biovac Consortium from 62.5% to 77.5% to simplify the shareholding structure. This increased the group's effective shareholding in The Biovac Institute from 33% to 45%.

Drive cost reductions and cutting duplication in the enlarged group.

This is actively driven through the shared services strategy, which included moving all of head office and certain divisions into a central location. Cost savings and reduction in duplication will start to flow through during 2012 and 2013.

The main thrust in terms of acquisitive growth will be in Litha Pharma to ensure critical mass.

This has been achieved with two smaller and one large acquisition. The group also has an extensive portfolio of products at the Medicines Control Council. This will be available for launch between 2012 and 2014.

The group is positioning Litha Pharma to be the second largest division in the group over the next three to five years.

This will be successfully achieved once the group's proposed Pharmaplan transaction is complete and included in the Litha business during 2012.

 **Refer to pages 30 and 58 – 59.**

Broaden the group's geographic footprint to increasingly provide integrated healthcare solutions to Africa.

The group has focused on enhancing its South African footprint during the year through key acquisitions. The Pharmaplan acquisition will provide impetus to a broader geographic strategy, which will be a key focus over the next few years.

#### FINANCIAL

Secure funding for the purchase of the balance of the 49% of Litha Healthcare Holdings.

This was secured in 2011 through raising a long-term loan of R80 million.

Drive consistent earnings growth.

This was achieved. Earnings per share increased by 40% from 2010 to 2011.

Roll out an Enterprise Resource Planning (ERP) system to facilitate the flow of information within the organisation and to drive integration of business units.

This was achieved. A new ERP system has been rolled out across the group from January 2012.


Optimise opportunities in the enlarged group to consolidate and centralise systems to save costs.

Insurance has already been standardised through the group. Several business units moved into a new head office and the group started to optimise warehousing and logistics operations.


## CORPORATE GOVERNANCE

### Progress

Address areas of non-conformance to King III, especially in the area of board composition.

A social and ethics committee was created and the audit committee was revised to comply with King III. A lead independent director and another independent non-executive director were appointed.  
 **Refer to page 65.**

Evaluate areas where relevant and new legislation is applicable.


Established a social and ethics committee with an ethics hotline to comply with new legislation. A company code of conduct is being developed.  
 **Refer to page 65.**

## MARKET AND REGULATORY

Further strengthen internal systems to ensure proactive adherence within a highly regulated environment.

A uniform platform was implemented to ensure all divisions coordinate and align in terms of meeting legislative requirements.

Active participation within relevant industry associations to ensure participation in legislative changes.

The group participated in numerous forums to ensure it is a core part of legislative discussions.  
 **Refer to page 14.**

Further entrench "The Litha Way" throughout the group to ensure a unified business focus.

This has been communicated in detail through the group with continued improvements seen in a more unified culture.

Roll out the stakeholder engagement plan to improve future engagement.

The group rolled out a detailed stakeholder engagement plan during the year, which was ratified by the board.

Further consolidate the HR function with three managers reporting to the group HR executive.


The group HR executive resigned during the year which delayed this process. The position will be filled as a matter of urgency to ensure the strategy is resumed.

Roll out of complete Litha socio-economic development (SED) strategy.

With the resignation of the group HR executive, an interim committee continued to drive the SED initiatives, although a strategy was not fully formalised or rolled out. The group did meet its SED spend requirements.


## TRANSFORMATION

Implement a significantly enhanced programme to achieve an improved formal broad-based black economic empowerment rating by the end of 2011.

During the year, the group was formally verified, with a level 4 certification achieved. The group continues to focus on areas requiring improvement.  **Refer to page 27.**

## SAFETY, HEALTH AND ENVIRONMENT

Improving systems to measure and monitor impact and to improve disclosure of potential risks and outcomes.

This is in progress. During the year, a health and safety committee was formed to evaluate requirements, with actions to be implemented during the course of 2012.  **Refer to page 34.**

## 2012 OBJECTIVES

Below we outline what our key objectives are going forward.  
The group will once again report against these next year.

### 2012 GOALS

#### STRATEGY

- Extract benefits of shared services to improve cost savings and reduce duplication
- Complete new business integrations currently in progress
- Greater alignment of the division's operations to the group's strategy
- Skills development and talent retention
- Further entrench "The Litha Way" to ensure a unified business focus
- Standardise HR systems across the group
- Utilise cross-selling opportunities within Litha Pharma and Litha Medical divisions
- Centralised tender department to increase coordination within the group
- Broaden the geographic footprint in Africa through a long-term export strategy

#### FINANCIAL

- Drive consistent earnings growth
- Continue to clean up legal and shareholding structures
- Use the Enterprise Resource Planning system to provide financial information, which is more relevant to business units, to assist with decision making
- Restructure financial departments in line with the shared service strategy for divisional reporting

#### CORPORATE GOVERNANCE

- Ensure balance of power at board level
- Continue to strive towards application of King III recommendations
- Expand investor relations information portal

#### MARKET AND REGULATORY

- Monitor new legislation and align the group's strategy with these changes
- Effective representation on industry associations to influence the outcome of legislative changes
- Broaden market reach both locally and internationally
- Provide skills training in hospitals for effective use of our products

#### TRANSFORMATION

- Roll out socio-economic development strategy
- Appoint an HR executive to improve systems to result in meaningful transformation as well as continued integration of new acquisitions within the group
- Ensure maintenance of BBBEE scorecard levels

#### SAFETY, HEALTH AND ENVIRONMENT

- Integrate regional reporting and formalise reporting lines
- Implement formal safety, health and environment programmes across the group

## DELIVERY ON SHARED SERVICES STRATEGY

As outlined last year, implementing the group's shared services strategy was a key focus area for the group.

Below we outline the progression so far and the planned next steps to ensure we can extract costs and optimise processes.

### FOCUS POST THE MYRIAD AND LITHA MERGER

- Centralised key functions, including logistics, finance, human resources, information technology and legal
- Key resources put in place, including divisional CEOs and a group COO to roll out the shared services strategy

### PHASE 1: MOVING BUSINESS UNITS INTO ONE LOCATION AND CONSOLIDATING WAREHOUSES INTO A SINGLE LOCATION

- |               |                                 |
|---------------|---------------------------------|
| December 2011 | ➤ Head office and Manta Medical |
| February 2012 | ➤ Litha Pharma business units   |
| April 2012    | ➤ Earth Medical                 |
| June 2012     | ➤ ICU Medical SA                |
| July 2012     | ➤ Filterworks                   |

### PHASE 2 – IN PROGRESS

- Implementation of shared services practices
- Financial report standardisation
- Centralised warehousing and logistics (Medical and Pharma)
- Unified HR and IT policies and procedures
- Create a group export and tender department



Homeopathic and natural remedies – Litha Pharma

## DELIVERY AGAINST GROUP MEASURES

To ensure stakeholders can track the group's key ratios, this year we introduced a group scorecard outlining core measures in delivering on the group's strategy. The group will continue to expand the non-financial measures.

	F2011	F2010
<b>Non-financial</b>		
Employee turnover*	0.16%	0.10%
BBBEE score	Level 4	Not available
Absenteeism as % of total working days**	12%	15%
<b>Financial</b>		
Operating margin	8.2%	9.9%
Return on shareholders' equity	19.2%	14.4%
Headline earnings per share	23.2	18.1
Debt equity ratio <sup>#</sup>	45%	12%
Cash generated by operating activities	115 495	112 664

\* Result of voluntary and involuntary retrenchments and resignations.

\*\* Due to the group's focus on wellness programmes, absenteeism is decreasing.

<sup>#</sup> Excluding Biovac, as it is ring-fenced and self-funded.

## GROUP'S SHAREHOLDING

A request from stakeholders was to provide more information about who holds the group's shares. Below we provide key information.

Issued share capital: 374 672 315

	No of shareholders	%	No of shares	%
Public/non-public shareholders				
<b>Non-public shareholders</b>	<b>12</b>	<b>0.63</b>	<b>208 825 228</b>	<b>55.74</b>
Share trust	1	0.05	3 038 442	0.81
Strategic holdings (more than 10%)	3	0.16	145 978 156	38.96
Directors and associates of the company	8	0.42	59 808 630	15.96
<b>Public shareholders</b>	<b>1 905</b>	<b>99.37</b>	<b>165 847 087</b>	<b>44.26</b>
<b>Totals</b>	<b>1 917</b>	<b>100.00</b>	<b>374 672 315</b>	<b>100.00</b>
Beneficial shareholders holding 3% or more			No of shares	%
Blackstar Group Plc*			145 978 156	38.96
S Kahanovitz			33 409 195	8.92
Rand Merchant Bank			18 147 114	4.84
Golden Hind Fund			14 613 000	3.90
M Kahanovitz			12 069 411	3.22
<b>Totals</b>			<b>224 216 876</b>	<b>59.84</b>

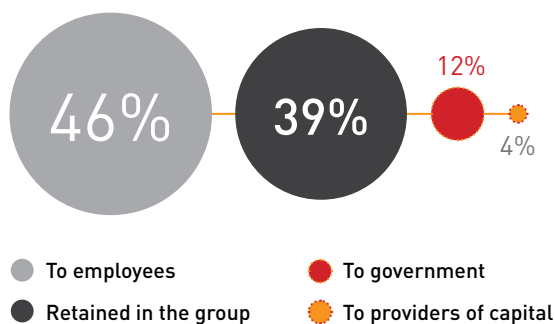


## VALUE-ADDED STATEMENT

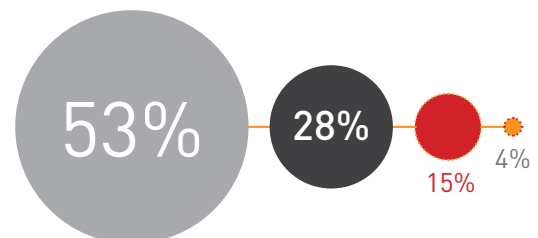
for the 12 months ended 31 December 2011

	2011		2010	
	R'000		R'000	
<b>Wealth created</b>				
Turnover	1 747 026		1 254 823	
Net cost of products and services	(1 540 512)		(1 114 051)	
Value added	206 514		140 772	
Other non-trading income	34 773		48 847	
Interest received	9 233		11 232	
Net profit on disposal of plant and equipment	81		98	
Total wealth created	250 601		200 949	
Distributed as follows:		%	%	
<b>To employees</b>				
Salaries, wages and benefits	114 496	46%	107 389	53%
<b>To government</b>				
Taxation	28 822	12%	29 885	15%
<b>To providers of capital</b>				
Interest paid	10 097	4%	8 016	4%
<b>Retained in the group</b>				
Depreciation of plant and equipment	11 849	5%	8 336	4%
Total comprehensive income	85 337	33%	47 324	24%
<b>Total wealth distribution</b>	250 601	100%	200 949	100%

### 2011 WEALTH DISTRIBUTION



### 2010 WEALTH DISTRIBUTION



- To employees
- To government
- Retained in the group
- To providers of capital

## CHAIRPERSON'S REVIEW

OUR RECENTLY ANNOUNCED TRANSACTION INVOLVING THE CANADIAN GROUP PALADIN BECOMING OUR MAJORITY SHAREHOLDER IS ONLY ONE EXAMPLE OF THE INTEREST BEING SHOWN BY GLOBAL COMPANIES IN THE SOUTH AFRICAN AND SUB-SAHARAN AFRICAN MARKET.

>> Refer to page 29 for more information on this transaction.


IN LINE WITH OUR STRATEGY, WE REMAINED ON A SIGNIFICANT GROWTH TRAJECTORY. ALTHOUGH MARKET CONDITIONS WERE CHALLENGING IN SOUTH AFRICA, WITH MARGIN PRESSURE IN BOTH THE PUBLIC AND PRIVATE SECTORS, WE SAW CONTINUED INTEREST IN THE LONG-TERM FUTURE OF THE HEALTHCARE SECTOR, WITH FOREIGN MARKET PLAYERS INCREASINGLY ENTERING THE COUNTRY.

As a board and management team, outside of managing our acquisitions and daily operations, we focused on two particular issues which are core to the success of our business – our ability to operate successfully within our regulatory environment and our internal transformation process.

## MANAGING THE REGULATORY ENVIRONMENT

The healthcare sector is highly regulated, which necessitates a deep understanding of the regulatory issues that affect us and a proven ability to operate and grow within this environment.

The public sector continued to have payment, procurement and tender issues in certain provinces. As outlined in the CFO's review, our results were impacted by payment delays. However, government has assured the industry of its commitment to address the payment backlog and reform the current healthcare administration, particularly in the affected provinces. We continue to actively engage with our public sector clients in terms of finding workable solutions to potential payment issues.

As outlined in the regulatory section on  **pages 24 – 25**, there are a number of pending pieces of legislation in our sector. As the outcomes of many of these are unclear, it makes future planning difficult. However, the group believes its strong partnerships with government as well as participation in a number of industry associations will ensure that we remain proactively engaged in effective dialogue on regulatory and legislative changes.

Tenders are currently handled by the individual business units and are monitored by various senior employees within each business. The group is in the process of creating a tender department to centralise this function to result in a more coordinated approach.

We continue to have a healthy relationship with private industry and a growing public sector base in our Litha Medical and Litha Pharma divisions. Group public sector sales currently stand at 72%, mainly due to our public private partnership (PPP) in Litha's Biotech division, with private sector business at 28%. Excluding this PPP, our public sector sales are 30%. Our longer term growth strategy is to increase our exposure to public sector business in Litha Medical and Litha Pharma through opportunities created by PPPs with private hospital groups and through local manufacture and assembly of medical consumables and devices. We plan to grow our revenue split to around 50% private, 40% public and 10% export within five years.

### **We have identified several steps to achieve this targeted growth, including:**

- Acquire and register pharmaceutical products which are compliant with tender specifications in the public sector and for export
- Local manufacture and assembly of medical devices with a high demand in the public and private sector hospitals
- Achieve World Health Organisation (WHO) accreditation within our Litha Biotech division, which will open up markets in Africa as well as with donor organisations
- Appoint an export manager to grow the export business and build distribution networks initially in the Southern African Development Community (SADC) region
- Create a tender department that will service all three divisions and provide support and assistance with tenders

We are carefully evaluating the development of the South African government's National Health Insurance (NHI) to identify potential opportunities to expand our product range as part of our public sector offering.

We maintain close working relationships with key government departments, in particular the Department of Health, a key client and partner for us, as well as the Medicines Control Council (MCC).

To make the process of product approvals at the MCC efficient for both parties, we ensure that dossiers submitted are of the highest standard. We monitor the approval process pro-actively to meet the requirements of the process at all stages. We remain open to engagement with government in their efforts to streamline the approval process and welcome steps already taken to achieve this.

## RELEVANT REGULATORY CHANGES

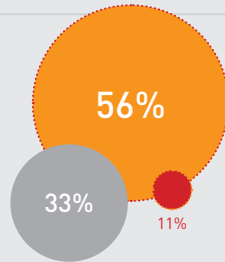
Current and planned regulatory changes which may affect the group and our position to address these are detailed on this spread:

Regulatory issue	Description	Litha position
<b>Medicines Control Council to be replaced by The South African Health Products Regulatory Authority (SAHPRA)</b>	<p>The target date for implementing the new Authority is currently 1 April 2013.</p> <p>An Amendment Bill was published on 15 March 2012, with the main focus around the definition of a "health product".</p>	Litha welcomes this new authority to replace the current system as delays on new product registration have had a significant impact on the roll out of new product pipelines.
<b>Single Exit Pricing (SEP)</b>	The SEP increase for 2012 allowed for a maximum of 2,14% before the end of March 2012.	There was no SEP increase in 2011. The 2012 increase was therefore positive for the group.
<b>International Benchmarking of Prices of medicines (IBP)</b>	The Pharmaceutical Task Group and The National Association of Pharmaceutical Manufacturers submitted responses to the Department of Health (DoH) in December 2011 which involved evaluating which countries were to be used for benchmarking, price identification and how generic medicines would be impacted.	As IBP is not finalised, the impact on the pricing of medicines is not quantifiable. The direct impact is anticipated to be on originator medicines, with generic medicines indirectly affected. The impact – which is difficult to anticipate at this stage – will mainly be in Litha Pharma.
<b>Preferential procurement: Local procurement and manufacturing (IPAP): Industrial Policy Action Plan</b>	<p>The Department of Trade and Industry (dti) has the following initiatives in the pharmaceutical sector:</p> <ul style="list-style-type: none"> <li>➤ National Industry Policy Framework (NIPF)</li> <li>➤ Industrial Policy Action Plan (IPAP). IPAP2 has currently been extended from 2010 to 2013. This identified pharmaceuticals as a priority sector to ensure access to: <ul style="list-style-type: none"> <li>– Government investment incentives (various tax incentives and tax allowances)</li> <li>– Government tenders (expenditure on pharmaceuticals for the public health sector)</li> </ul> </li> </ul> <p>NIPF provides for the implementation of a policy and system based on local content as well as a company's broad-based black economic empowerment (BBBEE) rating.</p> <p>The methodology to be used still needs to be finalised.</p>	Vaccines have been identified as a priority by IPAP2. The group's Biovac Institute has been actively involved with the dti to ensure the benefits of preferential procurement continue to be realised. This will ensure that access to more affordable vaccines for South Africans continues to be a priority. This legislation is therefore a positive for the group.
<b>National Healthcare Insurance (NHI)</b>	The NHI aims to broaden health access for South Africans by overhauling the current funding model through narrowing the gap between private and public primary healthcare.	<p>Although the majority of Litha's medical and pharma business is in the private sector, NHI will provide scope for new opportunities within the public sector.</p> <p>As the regulatory process unfolds, we continue to evaluate the potential impact of this legislation. We anticipate this to be mainly positive due to the opportunities with PPPs, with private hospital groups as well as local manufacture and assembly requirements.</p>

Regulatory issue	Description	Litha position
<b>Marketing Code Authority (MCA)</b>	<p>The formation of MCA involves potentially eight associations, including devices, in-vitro diagnostics and veterinary medicines.</p> <p>The Code has been approved with the draft guidelines, although the MCA is still finalising internal structures to provide training and support to industry as a self-governing industry authority. This is expected to be completed by the end of 2012.</p>	Litha is committed to the implementation of the MCA. We are currently incorporating it into the company's code of conduct. Litha also has a representative on the technical advisory committee to the MCA.
<b>SADC harmonisation</b>	The SADC project is aimed at improving the availability of medicines through the regional harmonisation of regulatory systems, guidelines and processes amongst member states.	Litha supports this initiative as regional harmonisation will break the barriers of access to medicines in countries where regulatory processes delay or impede new product registrations.
<b>Consumer Protection Act (CPA)</b>	The CPA applies to both health products and companies. A joint task team with representatives from the National Consumer Commission, DoH and MCC and the Council for Medical Schemes are working together to ensure alignment of the various consumer-related pieces of legislation.	Litha has embarked on training programmes within all its businesses to ensure that the CPA is fully understood and that policies and procedures are adjusted accordingly.
<b>Legislation: Patient Info Leaflets (PIL) and Package Inserts (PI)</b>	Proposals for the inclusion of both a PIL and PI in all medications have been challenged by the industry due to the cost and practicality of including both. The industry is lobbying for a central repository for electronic package inserts and only including PIL.	If enforced, this will have a big impact on the current packaging formats on both a cost to manufacture as well on storage and logistics. The group is confident that a practical and workable solution will be found which will minimise the financial and logistical impact to businesses and provide practitioners and consumers with access to the required information.
<b>Complementary and Alternative Medicines (CAMS)</b>	In future, all complementary and alternative medicine suppliers will be required to submit their products for registration with the Medicines Control Council. The publishing of these regulations are planned for 2012. Existing products will be called up in categories and given six months to produce documents for registration. Products will be prioritised in therapeutic classes.	Litha's regulatory department has already started preparing the necessary documentation for products when they are called up. We believe our existing complementary licensing agreements should ensure a smooth transition.
<b>Regulations for medical devices</b>	The main aim of the legislation is to ensure the safety of healthcare practitioners and patients as well as to protect the market from inferior quality and counterfeit products. There are no regulations out yet for industry comment.	Litha Medical is a member of the South African Medical Devices Industry Association (SAMEDI). This organisation has been proactive in engaging with government on the new regulations. We don't anticipate implementation of the legislation for at least the next three to four years.

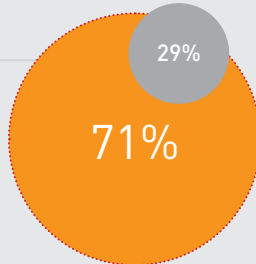
### Board of directors

White male	5
Black male	3
White female	0
Black female	1



### EXCO

White male	5
Black male	2
White female	0
Black female	0



### Group gender composition

Female	Male
237	146
Permanent	358
Temporary	25

### Group racial representation

Black males	57
Black females	71
Coloured males	35
Coloured females	65
Indian males	9
Indian females	7
Other females	3
White males	46
White females	90
<b>TOTAL</b>	<b>383</b>

## MANAGING TRANSFORMATION

Transformation has been a core aspect of our business strategy since the formation of the company. It is fundamental to our group not simply because of the nature of our business and our partnerships with government, but also because we believe we need to make a contribution to the transformation needs of our sector. The group has a transformation committee in place to guide all aspects of BBBEE. To ensure increased momentum, in the coming year, the group will strengthen its resources to drive integration and transformation processes.

In the first independent evaluation of the consolidated group's BBBEE rating, we were confirmed as a level 4 contributor in line with the target set by our board. Our strategy of achieving growth through mergers and acquisitions is one of the most significant challenges we face in maintaining this level. We continue to work towards further improving our performance in this area.

We scored well on aspects relating to ownership, enterprise development and socio-economic development. Scorecard requirements in the area of preferential procurement remain difficult to meet due to the lack of local or accredited suppliers of the specialist and often imported products we require in our business. The recruitment of senior management and board level candidates with the right experience and empowerment credentials is also challenging. >> **Refer to our BBBEE scorecard on the right.**

In the coming year, as we integrate the Pharmaplan acquisition, the board and management team will focus on continuing to improve the group's transformation. To ensure momentum in this area, the transformation committee is currently reviewing its strategy. The group is also focusing on the appointment of a new HR executive to proactively drive the implementation of the group strategy and deliverables.



## BBBEE SCORECARD

Element	Weighting	Score	Detail	2013 focus
Ownership	20	19.70	During the year the group met the scorecard requirement.	We are currently evaluating possible BBBEE ownership transactions.
Management control	10	5.92	Both the board and executive team is not suitably transformed, with four out of nine board members and two out of seven executive team members being black.	As appointments to the board and executive team through the Pharmaplan transaction is set to dilute the black composition further, the group will focus on ways to improve our empowerment position.
Employment equity*	15	5.78	At the end of the third quarter of 2011, 64% of our employees were from designated groups.	The key focus going forward will be to improve this through the dedicated transformation committee.
Skills development	15	4.54	The group did not meet its targets in terms of training spend due to increased targets through the introduction of new acquisitions.	The group's transformation committee and HR team will be working together to implement initiatives and meet targets. As we bed down some of the acquisitions during the year and align our systems and culture with theirs, we expect to see an improvement in capturing. During the year, the group spent R4,3 million on skills programmes, with the majority focused on black people.
Preferential procurement	20	12.84	As an exclusive distributor of pharmaceuticals, medical products and vaccines, a large majority of the group's procurement is foreign purchases. More than 50% of South African purchases are from BBBEE compliant suppliers.	The transformation committee will be implementing strict procurement guidelines when engaging with suppliers to ensure compliance is met. The group aims to increase the procurement spend to 70% of local purchases over the next two years.
Enterprise development	15	15.00	The group has one key enterprise development partner, the Disability Employment Concerns (DEC) Trust, a category A enterprise development beneficiary. The trust focuses on the integration of people with disabilities into all aspects of society. The group provided a further interest-free loan of R3,6 million to the trust to enhance the trust's business activities and initiatives.	The group will maintain its current targets to ensure continued high scoring in this category. Going forward, we will aim to expand our focus to include smaller businesses.
Socio-economic development (SED)	5	5.00	The group's SED initiatives focus on the key areas of health and education. The group continued its support for the LEAP Foundation, which provides disadvantaged communities with mathematics and science funding, as well as the DEC Trust. During the year, the group spent R1,1 million, which met the target of 1% of net profit after tax.	Going forward, the group will aim to maintain its position in this area, with a continued focus on expanding beneficiaries.
<b>Total</b>	<b>100</b>	<b>68.78</b>		

\* For a full employment equity report, refer to [www.lithahealthcare.co.za](http://www.lithahealthcare.co.za)



*Theatre draping – Litha Medical*

## MARKET OUTLOOK

In South Africa we continue to benefit from a fast-growing healthcare market, with the country spending more on health per capita than many of its peers in the BRICS group of countries (Brazil, Russia, India, China and South Africa). South African spend on health per capita is currently US\$860 compared to China (US\$310 per capita) and India (US\$130 per capita). There is also a major focus on innovation, with government seeking to catalyse domestic innovation to target major health challenges as it steadily increases investment in research and development towards a target of 2% of gross domestic product (GDP) by 2018.

The gap between public and private sector healthcare spend remains significant, with per capita spend in the private sector between 4.8 and 6.8 higher than in the public sector. To address this challenge, government is targeting the roll out of the National Healthcare Insurance (NHI) scheme, which we anticipate will take place over a 14-year period.

Along with many commentators, we believe that the government's expansion and improvement of public healthcare will provide an opportunity for domestic suppliers, particularly those able to meet increased demand for the provision of lower-cost medicines and those able to meet BBBEE requirements. We see the introduction of NHI as an important step towards ensuring better access to quality and affordable healthcare for the majority of the population.



*Fermentation Tanks – Litha Biotech (The Biovac Institute)*

## BEYOND SOUTH AFRICA'S BORDERS

We retain our positive outlook for the African market and will continue to progress our cross-border strategy during 2012 and beyond. Our approach will be to focus on high-potential products from the expanded range across all three of our divisions and to create a targeted market offering, focusing initially on SADC markets where we see good potential and have existing contacts. We are already supplying vaccines to Namibia, Botswana and Swaziland through The Biovac Institute.

Within five years, we plan to have meaningful exposure outside South Africa either through direct participation or through local market players. We do not believe in a "one size fits all" approach – we will move into this market on a case-by-case basis, building a portfolio of products and opportunities, which will be sustainable over the longer term. Our African expansion strategy will be ably assisted through the anticipated transaction with Pharmaplan.

With the merger of Pharmaplan and Litha Pharma, the added resources and combined product offering will improve the group's ability to formalise an export strategy for this region.

In the coming year we will therefore focus on synergising and strengthening our business model together with Pharmaplan in South Africa, as well as to work with them in developing our long-term strategy to expand our footprint in the sub-Saharan African healthcare market.

## **CLOSING AND APPRECIATION**

I am excited about the future of Litha with the merging of its Pharma business with that of Pharmaplan. The group has had enormous traction over the last few years in terms of its growth strategy. The Pharmaplan acquisition represents the most significant strategic corporate expansion to date for Litha. This is a decisive move to build critical mass and competitive differentiation in the South African pharmaceutical market.

As part of this transaction, Paladin Labs Inc, a Canadian speciality pharmaceutical company focused on acquiring or in licensing innovative pharmaceutical products for the Canadian and world markets, will become Litha's single largest shareholder. The transaction involves Paladin buying out 50% of the current Litha majority shareholder Blackstar's shares and being issued with 169 million shares at a price of R2,75. This will result in them owning 44% of the new enlarged group.

I express my appreciation to all our stakeholders and employees for their continued support as we have aimed to build a business that can – in the words of our mission statement – “contribute to the creation of a healthier society”.

Lastly, thank you to my fellow board members and Litha's CEO and CFO Selwyn and Martin for their hard work and commitment.

WITH PALADIN AS AN ANCHOR SHAREHOLDER, LITHA WILL BE ASSISTED TO FURTHER OPEN UP INTERNATIONAL LICENSING OPPORTUNITIES FROM A PRODUCT AND PIPELINE PERSPECTIVE, WHICH WILL INCREASE DEAL FLOW AND FUTURE PRODUCT ACQUISITION SUCCESS RATES.

### **ANDREW BONAMOUR**

Chairperson



## CHIEF EXECUTIVE OFFICER'S REVIEW

2011 WAS A DEFINING YEAR FOR THE GROUP, WITH A FOCUS ON COMPLETING THE INTEGRATION OF THE 2010 MYRIAD MERGER AND THE FINALISATION OF A NUMBER OF NEW ACQUISITIONS. POST YEAR-END, WE ANNOUNCED THE GROUP'S MOST SIGNIFICANT ACQUISITION TO DATE, THAT OF PHARMAPLAN.

As announced to the market on 21 February 2012, Paladin Labs Inc, a listed Canadian speciality pharmaceutical company, is buying out 50% of the current Litha majority shareholder Blackstar's shares. At the same time, Litha will be acquiring 100% of Pharmaplan, a specialist pharmaceutical company based in South Africa, from Paladin for cash and through the issue of Litha shares. This will result in Paladin owning 44% of the new enlarged group and becoming Litha's largest single shareholder. This transaction marks the group's most significant corporate transaction to date. Shareholders voted in favour of this on 6 June 2012, with the effective date expected to be 2 July 2012.

The group delivered a solid set of results. Refer to the CFO's review on [page 37](#) for more information on our performance.

### A CHANGING GROUP

Over the last few years the group has shown significant progression in its strategy of creating a diversified healthcare business providing services, products and solutions to the public and private hospitals, independent and corporate pharmacies and government healthcare programmes in Southern Africa.

Since the Litha and Myriad merger in 2010, the group has grown its annual turnover from R305 million to almost R2 billion.

With the announcement of the proposed Pharmaplan acquisition in February 2012, we will achieve our objectives of being a diversified healthcare business and creating scale within our Litha Pharma division. With significant presence already in the vaccine and medical device markets, the Goldex and OTC Pharma SA acquisitions in 2011 and the proposed Pharmaplan acquisition in 2012 will now give Litha the appropriate scale across our three divisions of pharmaceuticals, vaccines and medical devices. With the acquisition, the Litha Pharma division will become Litha's second largest division by revenue and most profitable by earnings.

Importantly, similar to our other acquisitions to date, Pharmaplan has an entrepreneurial culture, which will ensure a like-minded model for the integration and continuation of our business culture.

Pharmaplan is one of the fastest growing specialist pharmaceutical companies in South Africa, with an enviable market position in the private specialist and niche generics markets. The group has been a registered importer and distributor of niche specialty/biotechnology medicines since 1996, selling products from the US, Europe, India and New Zealand. Pharmaplan deals with some of the leading pharmaceutical companies in their respective countries, drawing from their innovation and expertise to register and market products in a range of therapeutic areas. These include oncology, dermatology, nephrology, paediatrics, gynaecology, surgery, radiology, neurology, cardiology and psychiatry.

In assessing their business with respect to our existing pharma businesses it was clear that there were very few conflicts by products as well as by sales channel. This should assist a smooth integration once Pharmaplan joins the Litha stable.

Over the last four years, Pharmaplan has had 24.7% compound annual gross growth, calculated using average growth in sales per the audited annual financial statements of Pharmaplan. That is double the South African pharmaceutical market growth of 12.9% for the same period.

The acquisition will solidify our position in South Africa and supports our long-term strategy of expanding our African footprint in the sub-Saharan African healthcare market.

## MANAGING GROWTH

### INTEGRATING ACQUISITIONS

Against our rapid growth over the last few years and the anticipated future growth, Litha has not lost sight of the importance of ensuring the formalisation of policies, procedures and processes to support the governance requirements of a listed company and to ensure the integrity, availability and completeness of management information.

In line with this, since the merger with Myriad in 2010, we have centralised key functions, including financial, human resources, legal and IT. Key senior resources have also been put in place, including divisional CEOs and a group COO to roll out the shared services strategy.

The strong focus on people and our organisational culture has been the driving force behind the success of the Myriad integration, which has been undertaken without significant impact on morale or operations.

However, a few areas still require attention following acquisitions. As an example, our sales force has not been fully integrated with our new acquisitions, something that is crucial to optimise cross-selling opportunities.

Relationship management across our agencies and principals and managing these relationships at both divisional and group level also require some further development.

Furthermore, our human resources department has not been able to respond adequately to the impact of these acquisitions with the departure of the HR executive during 2011 delaying some of the key strategies for human capital development within the group. Transformation and skills development remain crucial areas to address. As outlined in the Chairperson's review, this will now receive focused attention.

### MANAGING ORGANIC GROWTH

Against our acquisitive strategy, we have not lost sight of the importance of managing organic growth and running our daily operations. In Litha Biotech, on our journey to become the first local vaccine manufacturer in South Africa at the group's Biovac Institute in Cape Town, equipment was installed during the year and the commissioning of a manufacturing site for a Good Manufacturing Practice licence is under way.

A series of self-assessment audits will be conducted during the year which will provide an important indication of our readiness for Medicines Control Council (MCC) inspection in late 2012/early 2013 and manufacturing by late 2013. As outlined in the CFO's review, we continued to simplify our shareholding in the vaccine facility.

During the year the group has also partnered with a number of NGOs for vaccine development in Africa and cold chain distribution.

In Litha Medical, we continued to see strong product and agency development, with two new agencies and three new product categories added to our stable. As outlined in the CFO and operational reviews, we closed the Critical Care and Cardiac businesses during the year. Discussions around the sustainability of the Critical Care business took place while still operating as Myriad Medical and during the early period with Litha Healthcare Group. Although we are disappointed about these developments, we believe it was the most appropriate action to take.


Although the core growth during the year in Litha Pharma was acquisitive, on an operational level we continued to focus on expanding our pipeline through agreements with Indian and European manufacturers. We invested substantially in infrastructure and people in the Retail Pharmacy business unit in anticipation of adding the appropriate scale. The acquisition of OTC Pharma SA in December 2011 achieved this. The integration of this business into Litha Pharma is set to be complete by the second quarter of 2012.  **Refer to page 57.**



Although employee feedback indicates that the strategic vision of Litha is well defined and understood and that the group's cultural programme, "The Litha Way", is well entrenched, systems such as benefits, compensation, pensions, employee policies and human resource information are not unified. This is particularly crucial as Litha has a large sales team which directly affects the revenue for the group. This will receive focus in the coming year.


**DURING THE YEAR,  
80% OF EMPLOYEES  
RECEIVED REFRESHER  
TRAINING ON UPDATED  
GROUP POLICIES AND  
PROCEDURES.**

## DRIVING SHARED SERVICES

As part of the group's shared services strategy, clear roles and responsibilities for integration and a focused plan have been put in place. Some progress has already been made, as outlined on  **page 19**.

A key step in increasing momentum in our shared services strategy was the integration of a number of business units into a central head office in Gauteng. We are committed to consolidating our businesses operationally with a view to achieve cost saving and optimisation of processes.

In only a few months of being in the new building, we have already seen people starting to become more focused on working as one team. There has also been improved compliance and collaboration between business unit managers. Through our formal shared services strategy, we have a focused strategy in place to extract synergies across the group.

However, the successful implementation of a shared services model requires detailed planning and active management to limit any disruption to business as usual. The shared services programme is therefore split into two phases to ensure success at each phase and to enable the business to continue delivering to customers.  **Refer to page 19.**

While the integration of additional business units into the head office takes place during 2012, the group will also focus on further standardising processes.

This includes shared services practices and implementing standard financial reporting. Warehousing and logistics will be centralised to extract cost benefits.

Several warehouses in the Litha Medical and Litha Pharma divisions are in the process of being moved into one location in Gauteng and distribution will be from a single departure point. This will significantly simplify logistics systems and suppliers. At present a number of business units within the group are using a combination of own vehicles and external courier companies to deliver to our customers. This has a cost implication to the group as well as preventing a unified service delivery standard.

As outlined in the CFO's review, the group is currently implementing an Enterprise Resource Planning system to standardise financial processes and reporting across the group. Divisional financial resources will be strengthened, with increased accountability to the group finance executive. The group is also implementing a focused IT strategy, with the required resources to be appointed.



## MANAGING KEY RESOURCES

### Employees

Following a number of acquisitions, the group has generally been able to redeploy employees across various divisions within the group. However, some retrenchments were necessary where duplication of sales representatives existed. Change champions throughout the group assisted in driving integration and a unified vision. This is an ongoing process, with more to be achieved.

Due to the technical requirements of the group's various business units, there is a particular requirement to retain and develop skilled employees to provide value-add service. This is particularly relevant as the group develops its manufacturing facility for vaccines in Litha Biotech where there is a huge emphasis on skills development and training in manufacturing human vaccines. As the group is set to be the only vaccine manufacturer in the country, with vaccine manufacturing skills very scarce in South Africa, a strong focus has been placed on ensuring international skills transfers. Initiatives include bringing global specialists to South Africa to provide training, offering international mentorship programmes and partnering with global vaccine manufacturing companies.

As outlined in the Chairperson's review, the group needs to improve its overall skills development scorecard rating. During the year, almost 10% of our employee payroll budget was dedicated to providing technical and generic skills development opportunities. In the coming year, the group will focus on further improving skills development.

### Principals, vendors and business and technology partners

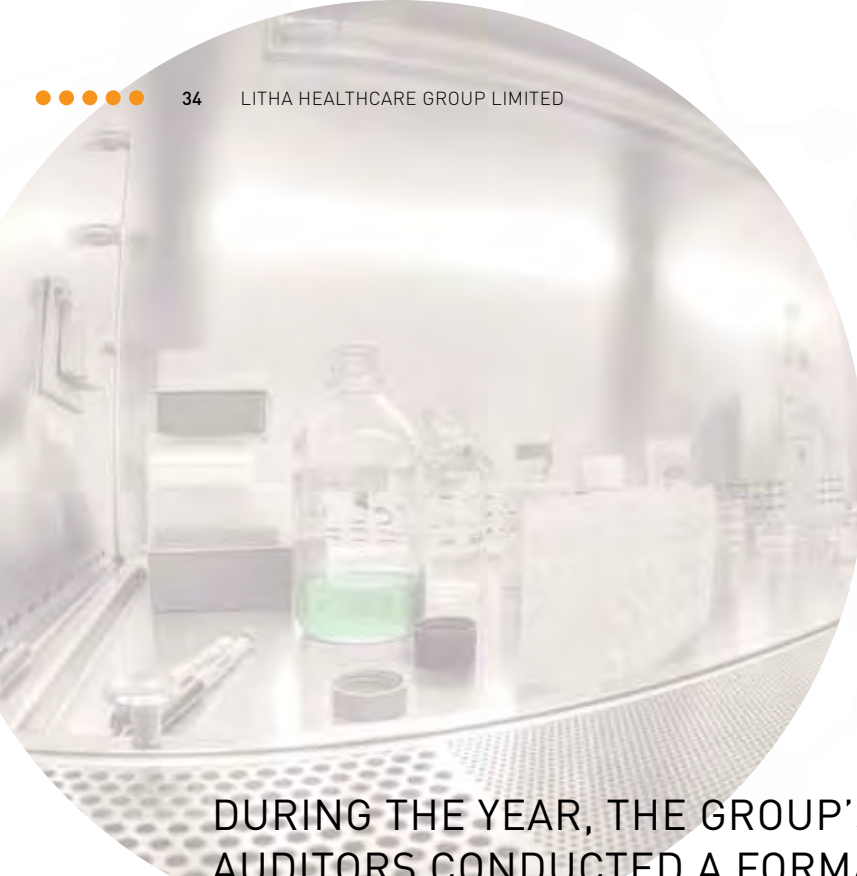
Managing the group's relationships with its key partners and suppliers is critical to Litha. The group has a focused stakeholder strategy in place to manage principal relationships to provide security and revenue for both parties and to ensure effective long-term relationships. The ownership of these relationships is shared with the business unit heads and the divisional and group CEOs. We regularly engage with our partners and encourage them to visit South Africa to unpack the intricacies of conducting business in this country.

Business and technology partnerships are key to the continuity of our business as we have a strong reliance on imports. Our partnership with CPoint Capital for example has provided us with access to Indian and European manufacturers. Through our recent acquisitions in Litha Pharma, we will be able to add products to our future pipeline.

Our relationships with overseas principals in Litha Biotech are well established. The Biovac Institute has long-term technology transfer agreements with Heber Biotec in Cuba and Sanofi in Lyon. We are currently evaluating the expansion of our product range to be manufactured at our facility and our technology transfer agreements with existing and new principals.

During the year, our wellness programme focused on providing health awareness programmes. This was implemented in line with our strategy of continuing to ensure productive and engaged employees.

RECENT EMPLOYEE FEEDBACK INDICATED THAT ALTHOUGH THE MANAGEMENT TEAM HAS BEEN VERY VISIBLE AND ENGAGED, THERE IS A NEED TO ADDRESS TRANSFORMATION IN THE SENIOR MANAGEMENT LEVELS, ESPECIALLY IN RELATION TO THE ADVANCEMENT OF WOMEN. HR PROCESSES TO IMPROVE REPRESENTATION AS WELL AS SUCCESSION AND MENTORSHIP PROGRAMMES WILL BE FINALISED ONCE A NEW HR EXECUTIVE IS EMPLOYED.



DURING THE YEAR, THE GROUP'S INTERNAL AUDITORS CONDUCTED A FORMAL POST-MERGER REVIEW. IT FOUND THAT IN GENERAL THE GROUP HAS BEEN SUCCESSFUL IN INTEGRATING ITS ACQUISITIONS, ALTHOUGH A MORE STRUCTURED APPROACH, SUPPORTED BY AN INTEGRATION BLUEPRINT, WOULD OPTIMISE SYNERGY REALISATION. A FOLLOW UP REVIEW IS PLANNED DURING 2012.

#### Managing safety and the environment

Although the group has an excellent safety record and a low environmental impact, during the year we focused on refining our approach to safety, health and environmental (SHE) management.

While The Biovac Institute has an established SHE programme, the group's other sites require more formalisation. In line with this, the group's shared services strategy includes formalising SHE processes across the group.

During the year, a committee was formed to evaluate requirements, with actions to be implemented during the course of 2012.

The group is focusing on further improving safety practices at The Biovac Institute as it progresses to a full manufacturing facility.

#### MANAGING RISKS

The group undertook a detailed risk identification process with an external service provider. This process resulted in a comprehensive list of risks, with a priority list of the top ten.

Targets are set to manage risks, with performance against these appropriately measured. Each risk has an "owner" who is responsible for managing the risk and reporting back to the board. Priority risks are continually reviewed in light of changes in the market and business environment.

During the current year, the group's key risks continued to be managed. One new risk was added to the top ten list, with one from last year removed as it is not seen as a key risk to the group anymore.

The group's risk identification process informed the internal audit charter, which was approved by the audit committee during the period under review.

## TOP TEN GROUP RISKS

Key risk	Mitigation
<b>Vulnerability to exchange rate fluctuations due to the majority of stock being imported.</b>	The group (excluding The Biovac Institute) has a policy of hedging the bulk of its expected foreign payments for up to a year in advance. The Biovac Institute adjusts prices every three months in line with terms of its supply contract.
<b>Risks associated with healthcare trends in South Africa (such as difficulty in securing timeous payment from government and hospitals putting pressure on pricing).</b>	A regulatory working group was set up which manages our group position on healthcare and product trends in South Africa. Litha is also a member of a number of relevant industry associations to proactively drive industry engagement.
<b>Tracking public private partnership contract milestones in The Biovac Institute.</b>	A technical committee meets on a quarterly basis to track compliance with contract milestones. The board and executive committee are notified on a timeous basis if there are any delays. Continued tracking of milestones is undertaken and reported to the executive committee and board on a quarterly basis.
<b>Time from submission to registration of new pharmaceutical and biotech products.</b>	To ensure a more efficient process of product approvals, we ensure that dossiers submitted to the Medicines Control Council are of the highest standard. We monitor the approval process pro-actively to meet the requirements of the process at all stages. The group is currently setting up a committee to ensure increased management of regulatory processes.
<b>Not achieving accreditation to start manufacturing vaccines in 2013.</b>	A project committee monitors progress and deals with any delays on a quarterly basis. Leading up to MCC audit, a series of self-audits are being conducted throughout the year, some using external consultants and experts. As outlined in the CFO's review, in line with ensuring no conflicts of interests in its shareholding structure with the Department of Health shareholder and regulator, the group continues to evaluate the most optimal long-term government partnership.
<b>BBBEE credentials not improved/maintained.</b>	A transformation committee was established to monitor the group's progress in terms of BBBEE compliance. Policy documents regarding procurement and HR are currently being drawn up.
<b>Shared services not delivering anticipated benefits to the group.</b>	Following the appointment of a COO, the shared services strategy and integration of business units into one central head office are being driven proactively, with traction seen.
<b>Inadequate assurance at board level regarding quality aspects of pharmaceutical and vaccine manufacture and distribution.</b>	On behalf of the group, the Biotech division has set up a committee headed by an internal senior technical expert to drive timeous reporting on all quality issues that affect Litha Biotech and Litha Pharma.
<b>Continuity management not on appropriate agendas at exco and the board.</b>	Succession planning is a key deliverable for all managers and a process is under way to formalise this at exco and board meetings.
<b>» This risk was added to the top 10 list during the year.</b>	Policies and procedures were drawn up and distributed through the organisation to ensure this is managed more proactively.
<b>King III compliance and inadequate sustainability reporting.</b>	Improved sustainability reporting is a priority for management, with a clear progression plan in place.
<b>» This risk was removed from the top 10 list during the year, as a formal IT and security process was implemented.</b>	Policies and procedures were drawn up and distributed throughout the organisation.
<b>Inadequate/ineffective information security practices.</b>	

## LOOKING FORWARD

As we move into 2012, the group is confident that it has established the appropriate base through value-add acquisitions. In the coming year, the focus will be on concluding the Pharmaplan transaction and integrating the acquisitions of 2011. A key focus will be to exploit cross-selling opportunities by concentrating on opportunities within each of the divisions.

In line with this, we are exploring ways in which the Litha Medical and Litha Pharma divisions can work together. As an example, we have created an ophthalmology area of expertise in the medical device business which will support any technical, sales and marketing functions which Litha Pharma may require when dealing with ophthalmologists.

Sales channels in both Litha Pharma and Litha Medical are being evaluated to take advantage of cross-selling opportunities.

With our shared services strategy gaining momentum, the anticipated cost benefits will start to flow through in the next year and beyond.

As outlined in the Chairperson's review, a key management priority will be to continue improving on our BBEE scorecard elements, something that is crucial to our business delivery. We are confident that we have an effective strategy in place to address this.

All these initiatives are taking place against the backdrop of continued growth in the healthcare sector in South Africa. Importantly, South Africa will account for 23% of African healthcare sales by 2014. With an ever-increasing government focus on healthcare and local manufacturing as well as an expanding middle class, the healthcare sector is set to be robust.

The generics market in particular, where Litha Pharma is now well placed following acquisitions, is set to continue on its growth trajectory. Research is showing that sub-Saharan Africa's annual gross domestic product growth average is expected to be 7% over the next 20 years while the International Monetary Fund forecasts 5.4 percent growth for the South African region this year from 5.1 percent in 2011.

Africa is extremely under-penetrated in terms of healthcare, with a large population on the continent with limited access to medicines. With the Pharmaplan transaction, we are well placed to provide impetus to our African strategy over the next few years.

Although the core focus will be on integrating Pharmaplan, some selective medical opportunities will be developed to build on the momentum of the new agencies secured in late 2011 and early 2012. We are also focusing on increasing our local medical assembly and packaging lines to include other commodity medical devices to continue growing our market share.

## APPRECIATION

I express my gratitude to each member of the Litha team and their families. It has been a year with major changes, which you have all embraced. It has been an honour working with such a dynamic team. A special thank you to my executive team who often work long hours. To the board, I appreciate your wise input.

To our customers, thank you for trusting us with your business.

2012 is set to be a very exciting year which will alter the group significantly. I look forward to welcome the Pharmaplan team and business to our group.

**SELWYN KAHANOVITZ**  
Chief executive officer





## **CHIEF FINANCIAL OFFICER'S REVIEW**

DURING THE YEAR THE GROUP CONTINUED TO DELIVER ON ITS GROWTH STRATEGY OF BUILDING SCALE IN ITS LITHA PHARMA DIVISION AND PROVIDING A PLATFORM FOR SERVICING THE PHARMACY, GENERAL PRACTITIONERS, SPECIALISTS AND DISPENSING DOCTOR MARKET.

### **DRIVING GROWTH**

2011 continued to be a year of growth for the group, with a number of key corporate transactions.

These transactions included the acquisition of the remaining 49% of Litha Healthcare Holdings (LHH) and increasing its stake in The Biovac Consortium (Proprietary) Limited, a majority shareholder in the group's vaccine manufacturing facility The Biovac Institute in Cape Town from 62.5% to 77.5%. On 1 June 2011, the group further increased its stake in the consortium to 85%.

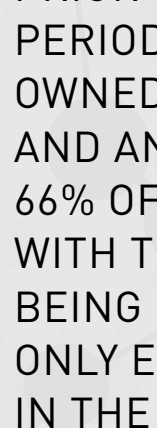
This increased the group's effective shareholding in The Biovac Institute from 33% to 45% and is a further move towards continuing to simplify shareholding structures across the group. In line with the shareholders agreement with The Biovac Institute's current shareholder the Department of Health (DoH), its long-term objective is to re-evaluate its shareholding to ensure no conflict of interest in terms of it being regulator, customer and shareholder as the facility gears up for manufacturing and World Health Organisation certification.

The group also acquired 100% of Goldex Healthcare (Goldex) with effect from 1 May 2011. Goldex is a South African pharmaceutical company which distributes its own generic pharmaceutical products using local contract manufacturers, as well as being an exclusive distributor under licence for a leading Indian generics multi-national.

On 1 December 2011, the group acquired 100% of OTC Pharma SA, which markets and sells complementary medicines to retail pharmacies, health shops and fast-moving consumer goods outlets. It procures its products from three international companies with the bulk under licence from OTC Pharma International.

During the period, the businesses of Litha Critical Care (LCC) and Litha Cardiac were discontinued. The group is required to account for the two businesses as discontinued operations and Non-Current Asset Held for Sale. This did not have a material impact on the group's results.

FOR ACCOUNTING PURPOSES, LHH AND PHARMAFRICA WERE FULLY CONSOLIDATED FOR THE FULL 12 MONTHS, WITH GOLDEX AND OTC PHARMA BEING CONSOLIDATED ONLY FOR EIGHT MONTHS AND ONE MONTH RESPECTIVELY. IN THE PRIOR COMPARABLE PERIOD, THE GROUP OWNED 51% OF LHH AND AN EFFECTIVE 66% OF PHARMAFRICA, WITH THEIR RESULTS BEING INCLUDED FOR ONLY EIGHT MONTHS IN THE PRIOR YEAR.



## MANAGING FINANCIAL HEALTH

To ensure its strategic objectives are met through acquisitive as well as organic growth, the group requires access to finance and a strong cash-generating ability. During the year, although cash inflow from operating activities was affected by working capital challenges, cash generated by operating activities before the effects of working capital changes and taxation payments increased by 22%.

As outlined in the table below, debtors days at 80 were well above our target of 60 days. The receipt of outstanding payments from the Gauteng province in early 2012 has assisted us to move closer to achieving our target. We will continue to work closely with government hospitals to ensure we reach the target range as soon as possible.

The group is in the process of accessing further capital for the Pharmaplan transaction and believes there is remaining capacity to borrow should more opportunities present themselves.

As indicated to the market, management is comfortable with a debt equity ratio of 40% excluding The Biovac Institute. The Biovac Institute is ring-fenced and should be viewed in isolation both in terms of its debt and its cash flows as cash is retained within the public private partnership and cannot be utilised by the greater Litha group until dividends are paid in the future.

As several of the group's products are imported, the management of foreign exchange is a key consideration. The group's policy is to take out forward cover for approximately 70% of its estimated foreign purchases for a year in advance. Litha Biotech is largely hedged against currency fluctuations due to exchange rate mechanisms in place with the DoH, which allows for the pricing to be changed every quarter based on the exchange rate of the day.

## KEY FINANCIAL RATIOS

To proactively monitor its core financial health, a number of key ratios are constantly tracked:

	LHG	LHG (Excl BIOVAC)*
<b>Liquidity ratios</b>		
Current ratio	1.3	2.0
Quick ratio	0.9	1.37
Debtors days	80	65
Creditors days	169	81
Inventory days	75	125
Working capital as % of revenue	94%	30%
<b>Profitability ratios</b>		
Return on net assets	14.8%	17.9%
Return on equity	18%	12%
<b>Debt indicators</b>		
Net debt equity ratio	45%	24%
Interest cover	8	15

\* The Biovac Institute continues to be shown separately as it is ring-fenced and should be looked at in isolation given the fact that its cash flows are retained within the public private partnership and cannot be utilised by the greater Litha group.





Litha Biotech (The Biovac Institute)



Originator and generic medicines – Litha Pharma

## FINANCIAL REVIEW

### STATEMENT OF COMPREHENSIVE INCOME

Revenue increased by 38% from R1,3 billion to R1,8 billion and operating profit increased by 14% from R128 million to R146 million, mainly due to the inclusion of 100% of the LHH and Pharmafrica businesses for the full year compared to only eight months in the previous comparable reporting period.

Earnings per share (EPS) increased by 40% to 23.2 cents per share (2010: 16.6 cents per share) and headline earnings per share (HEPS) increased by 28% to 23.2 cents (2010: 18.1 cents per share). As was outlined at interim results, the difference between HEPS and EPS in the prior period was due to the writing back of the once-off goodwill impairment relating to the Litha Critical Care business.

Operating profit was negatively impacted by a R26,8 million foreign exchange revaluation of the group's foreign creditors and outstanding foreign exchange contracts. In the comparable period, these revaluations had a R15,1 million positive impact on operating profit. R24,7 million of the loss can be attributed to The Biovac Institute.

The group's policy is to take out forward cover for approximately 70% of its estimated foreign purchases for a year in advance.

The Biotechnology division is largely hedged against currency fluctuations due to exchange rate mechanisms in place with the National Department of Health. This results in prices being adjusted every quarter to the spot rate at the time. However, large fluctuations experienced within the first quarter of 2011 resulted in the large forex loss in Biovac.

The group's net operating margin was 8.3% (2010: 10.2%) during the period under review. As outlined at the year to December 2010, the decline in operating margin was due to a change in product mix from originally only medical devices to a broader product basket consisting of both higher- and lower-margin products. Litha Biotech, which contributed 41% to net operating profit before head office costs, has lower margins as it is purely an importer and distributor. Without Litha Biotech, the group margin was 21%. This provides a clear indication of the strength of the majority of the group's profit contributors, with Litha Pharma and Litha Medical contributing 60% to group operating profit. During the year, group margin was also impacted by the negative foreign exchange adjustments, as described on the left.

### OPERATING MARGIN ANALYSIS

	December 2011	June 2011	December 2010
Biotechnology	5.2%	3.5%	6.0%
Medical	21.4%	30.2%	23.2%
Pharmaceutical	13.7%	20.0%	20.9%
Total	8.3%*	8.9%*	10.2%*

➤ Biotech: Forex losses in the first quarter of 2011 (excluding forex operating margin was 7.1%)

➤ Medical: Forensic tender roll-out in the first half of 2011 provided a high base

➤ Pharma: Scaling up for anticipated new product expansion

\* Calculated after head office costs.

## STATEMENT OF FINANCIAL POSITION

The majority of purchases of property, plant and equipment occurred in Litha Biotech with the investment in The Biovac Institute's vaccine manufacturing facility in Cape Town.

The purchase of the remaining 49% of LHH was settled through 40% in cash, with the balance being settled through the issue of 48,3 million LHH shares at R2,20 per share. The majority of the reserve on equity transactions in the Statement of Changes in Equity was created as a result of this transaction. The group raised an R80 million term loan with Rand Merchant Bank, while at the same time settling its liabilities of R21,3 million to the vendors of Pharmafrica and its existing term loan of R25,1 million. Biovac finalised the loan from the Industrial Development Corporation (IDC) to fund further capital investment and R75 million was drawn down on this loan in the period under review.

The net non-current assets held for sale of R7 million relates to the Litha Critical Care and Litha Cardiac discontinued operations.

The investment in associate relates to an investment of 30% in a new property holding company together with Blackstar Real Estate (Pty) Ltd, which owns the remaining 70%. The property company purchased a property for

R58 million during the period under review, with the majority financed through a bond. The group leases this property from the property holding company. The lettable area of the property comprises 10 300 square metres and will be used to consolidate a large part of Litha Healthcare Group's operations within Gauteng. This is also in line with the group's strategy of utilising shared services across its businesses to extract synergies.

Other non-current assets relate to a non-interest bearing loan to the Disability Empowerment Concerns Trust as part of the group's socio-economic development initiatives.

The group has an interest bearing debt equity ratio of 24% (2010: 12%) excluding Biovac, which is ring-fenced and self-funded as a private public partnership (PPP) with government. Including Biovac, the debt equity ratio was 45% (2010: 22%).

The most appropriate debt:equity ratio for the group is the one excluding Biovac as it is ring-fenced and operates as a stand-alone company. Management is comfortable with a debt:equity ratio of less than 40% excluding Biovac.

## GEARING

	EXCLUDING BIOVAC				INCLUDING BIOVAC		
	December 2011	June 2011	December 2010	Post Pharma-plan	December 2011	June 2011	December 2010
Interest bearing debt (R000)	95 766	109 783	49 586	232 536	232 536	180 790	111 663
Equity (R000)	407 152	359 901	420 179	872 478	512 778	465 010	502 258
%	23.5%	30.5%	11.8%	26.7%	45.3%	39.0%	22.2%

Note: Debt:equity ratio is calculated using interest bearing debt.

## WORKING CAPITAL

	(R000)			DAYS			
	December 2011	June 2011	December 2010	December 2011	June 2011	December 2010	Target
Inventory	280 763	337 481	233 795	75	89	69	75 – 90
Debtors	442 371	484 288	354 828	92	99	79	60
Creditors	(629 655)	(800 265)	(546 957)	(169)	(213)	(166)	130 – 160
Net working capital invested	93 479	21 504	41 666	(2)	(25)	(18)	

Net effect of working capital changes to cash generated from operations (R71,2 million)

- > Inventory and creditors: Stock days normalised after an unusually high holding in June
- > Debtors: Delayed payment from certain provincial departments (post year-end all payments were received)

The increase in goodwill and intangibles from R295 million to R318 million is as a result of the Goldex and OTC Pharma acquisitions mentioned on >> pages 56 – 57.

The levels of inventories, accounts payable and accounts receivable were affected by the large quantity of Expanded Programme on Immunisation (EPI) vaccines which were received and supplied during the period under review.

The increase in accounts receivable relates to increased sales as well as overdue amounts receivable from the Gauteng Department of Health at year end. By the end of April 2012, the full amount owing was received.

### STATEMENT OF CASH FLOWS

Cash generated by operating activities before the effects of working capital changes and taxation payments increased by 22% to R149 million (2010: R121 million). Cash inflow from operating activities of R54 million (2010: R116 million) for the period under review was affected by the working capital challenges discussed above. With the settlement of the overdue accounts by the Gauteng Department of Health in April, the group's overdue debtors amounts reduced significantly and brought the debtors days down to normalised ranges.

The majority of the cash outflow from investing activities of R248 million (2010: R148 million) related to purchases of property, plant and equipment amounting to R120 million (2010: R2,2 million) as the group gears up for manufacturing in Litha Biotech and due to cash payments made to the vendors of LHH, Goldex and OTC Pharma.

Most of the cash inflow from financing activities related to cash raised to fund the cash portion of the LHH equity transaction and the draw down on the IDC loan less the settlement of the vendor finances portion of the Pharmafrica acquisition and the settlement of the previous term loan.

Net cash and cash equivalents at year-end was R112 million (2010: R232 million), of which R96 million (December 2010: R165 million) related to Biovac, which is ring-fenced.

### DIVIDEND POLICY

As disclosed previously, the group did not anticipate paying dividends in the next year or two in light of its strategy of acquisitive growth. However, the group's recent announcement of the acquisition of the cash-generative Pharmaplan will better position the group to initiate the payment of dividends in the short- to medium-term.

## LOOKING FORWARD

The recently-announced Pharmaplan transaction is set to transform the group. Litha Pharma will become the largest contributor to earnings on an annual basis while contributing more turnover than the Litha Medical division. This acquisition assists the group in becoming a truly diversified healthcare business that will provide investors with a balanced exposure to the South African healthcare industry.

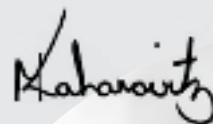
Integration and consolidation of our financial reporting is a focus area for us and the implementation of an Enterprise Resource Planning system from January 2012 will assist us to significantly improve the speed of our reporting cycles, especially as Paladin, our new controlling shareholder, reports quarterly as a listed company on the Toronto stock exchange.

## APPRECIATION

I thank our financial team headed by Barry Budler, our CEO and our board for their continued support. I have enjoyed working with you and look forward to 2012, especially as Pharmaplan is set to bring exciting changes.

### MARTIN KAHANOVITZ

Chief financial officer




## REMUNERATION REVIEW

THE GROUP'S SALARIES WILL BE REVIEWED AND BENCHMARKED IN 2012 AGAINST SIMILAR GROUPS WITHIN THE HEALTHCARE INDUSTRY. THE COMPANY'S LONG-TERM AND SHORT-TERM INCENTIVE PROGRAMMES WILL ALSO BE REVIEWED AS PART OF THE SAME PROCESS. THE OUTCOME WILL BE PRESENTED TO THE REMUNERATION COMMITTEE, WHICH WILL MAKE RECOMMENDATIONS TO THE BOARD.

Litha aims to develop and grow as a viable and dynamic company. It aims to adopt remuneration policies which have a balance between sustaining business profitability and managing a competitive employment market.

The group is currently reviewing its remuneration policy. In line with this, it will seek to:

- Provide a framework to attract, retain and motivate the right talent
- Align employee and director activities to the achievement of business objectives that drive a performance culture and shareholder value
- Maintain fair and reasonable, equitable and affordable rates of pay for all
- Remunerate employees and directors based on their performance and in comparison with competitive pay practices in the market
- Encourage, recognise and reward individual, team and business performance
- Operate a remuneration system which is accountable, flexible and aligns, engages and develops the Litha workforce

### BASE PAY

The company currently follows a job grading system which will be benchmarked against other healthcare companies when salaries are reviewed.

### VARIABLE PAY

#### LONG-TERM INCENTIVES

The group has a long-term share incentive scheme in place, which was launched in 2006 when Myriad was listed. It was restructured and reintroduced in early 2010 to coincide with the Litha transaction and the group's move to the main board of the JSE Limited.

Share options are allocated to executive directors as well as senior employees. The intention is to attract, retain and reward employees who are able to influence the group's performance.

In 2010 the remuneration committee agreed to allocate options based on seniority in accordance with an annual multiple of individual guaranteed earnings. To lessen the impact on shareholders, it will be phased in over three years.

Employee category	Annual multiple of guaranteed earnings outstanding in the form of options exercisable over a five-year period
CEO	4
Senior executives	3
Executives	2
Senior management	1

Certain company-specific performance criteria are stipulated, although generally employees who are granted these shares have and will continue to meet or exceed expectations.

### SHORT-TERM INCENTIVES

The group has a number of different short-term incentive mechanisms in place. Some have been introduced by the management team while others were inherited over the last few years with acquisitions made.

It is our intention to evaluate the different mechanisms in place for short-term incentives. In line with this, a short-term incentive policy for each division will be developed as divisions have unique requirements, which need to be monitored and incentivised to ensure objectives are achieved.

### DIRECTORS' REMUNERATION AND SHAREHOLDING

The tables below and on the next few pages set out the remuneration paid to directors, highest paid executives and details of directors' shareholding in the group.

MANAGEMENT UPDATES THEIR KEY RESULTS AREAS (KRAs) IN THEIR PERFORMANCE CONTRACTS ANNUALLY. EACH KRA IS ASSESSED AGAINST A FIVE-POINT PERFORMANCE RATING SCALE. 20% OF MANAGEMENT'S KRAs ARE NON-FINANCIAL AND RELATES TO VALUES AND BEHAVIOURS, WHICH INCLUDE AREAS SUCH AS LEADERSHIP QUALITIES, EFFECTIVE PARTNERING, PEOPLE MANAGEMENT AND PROFESSIONALISM.

### DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

GROUP							
31 Dec 2011 Director's name	Fees R'000	Bonus R'000	Salaries R'000	Short-term benefits R'000	Contributions to provident fund R'000	Share-based payments R'000	Total emoluments R'000
<b>Non-executive</b>							
AD Bonamour*	338	–	–	338	–	–	338
NL Sowazi	141	–	–	141	–	–	141
MS Mzimba	242	–	–	242	–	–	242
W Marshall-Smith*	219	–	–	219	–	–	219
I Jacobson	141	–	–	141	–	–	141
V Mcobothi#	–	–	–	–	–	–	–
F Hendricks	113	–	–	113	–	–	113
	1 194	–	–	1 194	–	–	1 194
<b>Executive</b>							
S Kahanovitz	–	885	1 807	2 692	82	193	2 967
MFD Makhoana	–	553	1 124	1 677	57	105	1 839
MM Kahanovitz	–	752	1 279	2 031	53	105	2 189
	–	2 190	4 210	6 400	192	403	6 995
Paid by Litha	1 194						
Paid by subsidiaries	6 995						
	8 189						

\* These fees were paid to Blackstar.

# Appointed post year-end.

## HIGHEST PAID EXECUTIVES WHO ARE NOT DIRECTORS

	Bonus R'000	Salaries R'000	Share-based payments R'000	Total remuneration R'000
Employee A	868	1 890	105	2 863
Employee B	162	1 940	–	2 102
Employee C	157	1 880	–	2 037

The employees' identities have not been disclosed due to confidentiality.

## DIRECTORS' INTERESTS IN LITHA HEALTHCARE GROUP'S SHARES

Shares under option offered to and accepted by executive directors in 2011:

Selwyn Kahanovitz	<b>2 424 423</b>
Morena Makhoana	<b>1 313 229</b>
Martin Kahanovitz	<b>1 313 229</b>

2010 options outstanding:

Selwyn Kahanovitz	<b>1 411 765</b>
Morena Makhoana	<b>548 523</b>
Martin Kahanovitz	<b>764 706</b>

The directors' interests in Litha shares as at the 31 December 2011 are set out below:

Director	Total as at 31 December 2011	TOTAL	
		Direct	Indirect
AD Bonamour	<b>14 441 637</b>	106 582	14 335 055
W Marshall-Smith	<b>9 681 569</b>	120 000	9 561 569
MS Mzimba	–	–	–
NL Sowazi	<b>7 480 203</b>	7 480 203	–
F Hendricks	–	–	–
S Kahanovitz	<b>33 409 196</b>	11 941 026	21 468 170
MM Kahanovitz	<b>12 069 411</b>	–	12 069 411
V Mcobothi	–	–	–
I Jacobson	–	–	–
MFD Makhoana	<b>6 103 648</b>	6 103 648	–
	<b>91 453 655</b>	25 751 459	65 702 196



## OPERATIONAL REVIEWS

### LITHA BIOTECH

LITHA BIOTECH CONTRIBUTED 43% TO GROUP OPERATING PROFIT BEFORE HEAD OFFICE COSTS. THE CURRENT BIOTECHNOLOGY FOCUS AREA IS HUMAN VACCINES. THE MAJORITY IS PAEDIATRIC VACCINES WHICH ARE PROVIDED AS PART OF THE GOVERNMENT'S PROGRAMME KNOWN AS THE EXPANDED PROGRAMME ON IMMUNISATION (EPI).

THIS DIVISION CONSISTS OF TWO COMPANIES, THE BIOVAC INSTITUTE AND LITHA VACCINES. LITHA VACCINES FOCUSES ON ADULT VACCINES, WHILST THE BIOVAC INSTITUTE FOCUSES ON PAEDIATRIC VACCINES TO THE GOVERNMENT, AS WELL AS SOME VACCINE EXPORTS. WHILST BOTH COMPANIES ARE CURRENTLY IMPORTING AND SELLING FINISHED PRODUCTS, THE BIOVAC INSTITUTE IS GEARING UP TO LOCALLY MANUFACTURE VACCINES.

## LITHA BIOTECH CONTINUED

SKILLS CONTINUE TO BE A MAIN PRIORITY FOR THE BIOVAC INSTITUTE AND SEVERAL EMPLOYEES WERE SENT OVERSEAS FOR TRAINING DURING THE YEAR. THESE SKILLS ARE CRITICAL TO THE COMMISSIONING, TESTING AND VALIDATION PROCESSES NECESSARY TO ENSURE COMPLIANCE FOR GOOD MANUFACTURING PRACTICES (GMP) CERTIFICATION.

## THE BIOVAC INSTITUTE

The largest business in this division is The Biovac Institute. It is a public private partnership which was established in 2003 between the South African government and The Biovac Consortium, of which Litha Healthcare Group owns 77.5 %. The aim of the partnership is to establish domestic production facilities to ensure the security and sustainability of vaccine supply to the South African and the greater southern African region.

The Biovac Institute has established facilities for warehousing, cold chain distribution, research and development and quality control laboratories for vaccines. Following the anticipated GMP inspection and certification in late 2012/early 2013 by the local national regulatory authority, commercial manufacture is anticipated to start in 2013. Vaccine production is expected to increase from 2014 depending on the number of new products signed with technology transfer agreements.

## LITHA VACCINES

Litha Vaccines is a wholesaler in the private sector and a provider of adult vaccines to the government through tenders. Tenders run in two-year periods. Litha Vaccines currently has a tender in place for the supply of vaccines to the public sector.

Litha Vaccines sources vaccines from multi-national companies with registered products in South Africa. Key clients include immunisation clinics, baby wellness clinics, private hospitals, travel clinics, paediatricians and general practitioners.

## MARKET OVERVIEW

In South Africa, the vaccines industry is robust, with government prioritising vaccines to achieve the Millennium Development Goals of reducing childhood mortality by two-thirds by 2015. The roll out of paediatric immunisation programmes continues to be a healthcare focus by the South African government and the World Health Organisation (WHO).

However, there is increased pressure on manufacturers to lower vaccine prices to make vaccines more affordable and accessible. Although South Africa does not rely on donor funding to purchase vaccines, donor funding has assisted with the development of vaccine manufacturing capability worldwide. The reduction of vaccine prices in developing countries, coupled with added pressure from civil society groups, will impact South Africa's vaccine prices in the foreseeable future.

To address this potential impact on Litha Biotech, the group is aiming to sign more technology transfer agreements to increase the number of manufactured products as well as focusing on reducing operational costs. The group is also evaluating options to increase the distribution base of vaccines outside of its core market to Southern African Development Community (SADC) countries.

THE GLOBAL REGULATORY LANDSCAPE FOR VACCINES IS BECOMING MORE COMPLEX, WITH A NUMBER OF MANUFACTURERS BEING DISQUALIFIED FOR WHO PRE-QUALIFICATION STATUS LAST YEAR DUE TO POOR QUALITY OF PRODUCT AND QUALITY PROCESSES. THE BIOVAC INSTITUTE IS FOCUSING ON ENSURING HIGH QUALITY PROCESSES AS IT WORKS TOWARDS OBTAINING ITS MEDICINES CONTROL COUNCIL GMP LICENCE FOR MANUFACTURING VACCINES AND ULTIMATELY WHO PRE-QUALIFICATION.

Designation of the pharmaceutical sector for preferential procurement with vaccines remains a priority. This gives us comfort that locally-manufactured vaccine purchases will be supported by the government in the near and longer future.

Local manufacture is a key priority for The Department of Trade and Industry as a strategy for job creation and to reduce South Africa's reliance on imports. This will result in priority given to local manufacturing companies who tender, provided pricing is competitive and they meet the requirements of the tender.

## STRATEGY OVERVIEW

### 2011 objectives

Commercial manufacturing facility at The Biovac Institute to be operational by 2013.

Partnering with NGOs for vaccine development in Africa and cold chain distribution in the region.

Securing technology transfers with major suppliers.

Uninterrupted paediatric supply of vaccines.

Ongoing increase of effective shareholding in The Biovac Institute.

### Progress

Equipment has been installed and commissioning of the manufacturing site for the GMP licence is under way. Medicines Control Council inspection is due in late 2012/early 2013.

WHO grant through partnerships with NGOs received.

Secured a technology transfer with Sanofi Pasteur in early 2012.

There were supply chain challenges in the wholesale supply of vaccines. This was addressed by year-end.

Increased from 33 – 45% in 2011.



## LITHA BIOTECH CONTINUED



*Utilities – Litha Biotech (The Biovac Institute)*



*Processing – Litha Biotech (The Biovac Institute)*

### OPERATIONAL OVERVIEW

The division continued to experience strong sales in the supply of paediatric vaccines for the Extended Programme on Immunisation in the public sector. Going forward, volumes are not expected to continue increasing as the programme has already reached the majority of the population and as birth rates in the country remain constant.

Turnover for the year was R1,3 billion (8 months ended 31 December 2010: R843 million) and operating profit was R67 million (8 months ended 31 December 2010: R50 million).

Operating profit was negatively impacted by a R24,7 million foreign exchange loss (2010: R18,9 million profit).

Litha Biotech is largely hedged against currency fluctuations due to exchange rate mechanisms in place with the National Department of Health. This involves the quarterly adjustment of prices to the spot rate at the time. However, large fluctuations experienced within the first quarter of 2011 resulted in the large forex loss in this division.

The vast majority of the group's property plant and equipment is situated in this division. The division spent R62,8 million on upgrading the building and invested

R40 million in plant and equipment for the facility in Cape Town. This expenditure was mostly funded by a loan from the Industrial Development Corporation.

Working capital was negatively affected by outstanding and overdue amounts from the Gauteng Department of Health. However, subsequent to the year-end, government settled all overdue amounts in this division and working capital normalised.

THE BIOVAC INSTITUTE'S TOP THREE DISTRIBUTED PRODUCTS BY VALUE ARE THE PNEUMOCOCCAL (PNEUMONIA) VACCINE, THE COMBINED (DIPHTHERIA, PERTUSSIS, TETANUS, HAEMOPHILUS INFLUENZA B, POLIO) AND THE ROTAVIRUS VACCINE.

### THE BIOVAC INSTITUTE

During the year, the operational focus was on the completion of the facility in preparation for certification. Clean rooms and the installation of highly-specialised vaccine manufacturing equipment were finalised.

The Biovac Institute has partnered with the WHO through a grant of US\$1,4 million towards preparation of influenza vaccine production in the next few years. The Institute has also negotiated with a number of international vaccine manufacturers for the finalisation of technology transfers. These agreements will involve the transfer of skills to the Institute's employees, including manufacturing skills. A skills transfer agreement was signed with a leading multi-national, Sanofi Pasteur, in January 2012.

### LITHA VACCINES

Litha Vaccines supplies adult vaccines under a government tender. The division maintained growth from last year, although the anticipated tender for non-paediatric vaccines was postponed to late 2012 when a new tender scoring system is anticipated to take effect. The new scoring system is anticipated to favour local manufacture as well as broad-based black economic empowerment (BBBEE). The group is well placed to address these requirements.

### OUTLOOK

The division will continue to focus on ensuring commissioning and qualification of the vaccine manufacturing facility and a successful GMP audit by the MCC.

Going forward, The Biovac Institute will focus on concluding further technology transfers and identifying other opportunities and partnerships to fill the product pipeline. This includes formulation, filling packaging and assembly of other biologicals.

Following the designation of oral solid dosage forms (tablets/capsules) for preferential procurement for the pharmaceutical sector, we remain encouraged that vaccines will follow. We will continue lobbying through industry associations to ensure vaccines remain a priority.

The Biovac Institute continues to export some products to the Southern African Development Community region. The aim is to increase exports into the future to counter a mature local vaccine market.

LITHA VACCINES' KEY PRODUCT IS A RABIES VACCINE, USED TO ADDRESS THE PREVALENCE OF OUTBREAKS OF RABIES IN CERTAIN AREAS OF THE COUNTRY.

THESE VACCINES ARE GENERALLY GIVEN POST EXPOSURE EXCEPT IN CASES WHERE THERE ARE HIGH RISKS OF INFECTION WHEN IT IS GIVEN PREVENTATIVELY (PROPHYLACTICALLY).



## OPERATIONAL REVIEWS

### LITHA MEDICAL

LITHA MEDICAL CONTRIBUTED 48% TOWARDS GROUP OPERATING PROFIT BEFORE HEAD OFFICE COSTS. THE DIVISION'S MAIN ACTIVITIES RELATE TO THE IMPORTATION, MANUFACTURING, ASSEMBLY AND DISTRIBUTION OF LOCAL AND INTERNATIONAL MEDICAL DEVICES AND CONSUMABLES TO PRIVATE AND PUBLIC HOSPITALS.

THE DIVISION CURRENTLY CONSISTS OF FIVE BUSINESS UNITS SUPPLYING MEDICAL DEVICES AND CONSUMABLES TO THE HOSPITAL AND SPECIALIST MARKET.





In line with the group's strategy of integrating all businesses into one central office to drive shared services and cross-business interaction, Manta Medical moved into the new Litha head office in late 2011. Earth Medical, ICU Medical SA and Filterworks will also move in during 2012.

### **FILTERWORKS**

Filterworks is the exclusive supplier of Pall Medical filtration products in South Africa and sub-Saharan Africa. These products include a full range of blood filters, intravenous filters and breathing filters. In addition, Filterworks also distributes wound drainage and blood reinfusion products manufactured by a Dutch group. The business recently signed a distribution agreement for the Vernacare agency. This agency provides human waste solutions, which offer a safer and more environmentally-friendly solution to the hospital environment.

### **ICU MEDICAL SA**

ICU Medical SA's market is multi-disciplinary and broad-based, covering a wide spectrum of medical practitioners and healthcare professionals in both the public and private healthcare sector. In 2000, this business became the pioneer of intravenous needle-free technology in South Africa with the introduction of the CLAVE® Needle-free device.

### **MANTA MEDICAL**

Manta Medical represents well-known international brands and a large range of medical devices and disposables in both the private and public hospital market. It provides quality products in the medical, surgical and wound care environment, as well as training to all clinical and technical employees. Mantaflex is a local assembling and packaging facility which produces a range of devices for the infusion market.

### **EARTH MEDICAL**

Earth Medical distributes quality products to the private and public hospital sector, with a key focus on specialist doctors and nurses. Therapeutic areas include orthopaedics, sports medicine, arthroplasty and total joint replacement surgery, spinal surgery, urology, women's health and most recently ophthalmology.

### **MANTA FORENSIC**

Manta Forensic manufactures forensic evidence collection and crime scene kits at its state-of-the-art manufacturing facility. It is the sole supplier of these kits to the Forensic Science Laboratory division of the South African Police Service.

### **MARKET OVERVIEW**

The South African government is committed to public private partnerships (PPP) as a possible solution to develop and upgrade the conditions in public hospitals. The Minister of Health has been proactive in supporting PPPs, with the Inkosi Albert Luthuli Hospital in KwaZulu-Natal being a good example of this business model.

However, as is seen in other sectors, clarity in terms of policy will be crucial to ensure the success of more PPPs. Payment issues are also being addressed as a matter of urgency to ensure workable partnerships. The non-payment by certain public hospitals in Gauteng during the year incited strong demand for action from the private sector.

The South African Medical Devices Association (SAMED) used the media to raise awareness around the issue as many of its members were affected by non-payments. Against this, the government put payment plans in place and prioritised its creditors for urgent payment.

Delays in the publishing of public tenders by the government are also a concern as it creates uncertainty and impacts production. With aggressive competition from Indian and Chinese imports, clarity is crucial. However, we are confident that with the publishing of new regulations and the continued demand for safe, quality and innovative products, we can maintain and grow our market share within our relevant sectors.

Going forward, the National Health Insurance (NHI) scheme will have a significant impact on long-term growth prospects in the South African medical devices market. The aim of NHI is to provide affordable, quality healthcare services to the majority of the uninsured population. This will be achieved by growing the base of hospitals in the public sector and increasing the number of healthcare service providers. This provides many opportunities for us to grow our market share in the public sector.

## **LITHA MEDICAL** CONTINUED

BY MAINTAINING AN ACTIVE MEMBERSHIP WITHIN OUR INDUSTRY ASSOCIATION SAMED, WE ARE ABLE RESOLVE ISSUES SUCH AS DELAYED PAYMENTS BY GOVERNMENT DEPARTMENTS, AS WELL AS CONTRIBUTE MEANINGFULLY TO FUTURE DEVICES' REGULATIONS THROUGH WORKING GROUPS.

WE ARE CURRENTLY WORKING WITH OTHER LITHA DIVISIONS TO SYNERGISE TRAINING AND COMPLIANCE EFFORTS IN TERMS OF THE MARKETING CODE OF CONDUCT AS WELL AS THE CONSUMER PROTECTION ACT.



Government's policies with regard to dealing with the serious shortage of healthcare personnel and inadequate budgeting in public hospitals were key issues in 2011. The public sector lacks the skills necessary to cope with the large number of patients requiring specialist care. The government is therefore focusing on putting skills programmes in place to retain existing skills and to provide an environment that will attract skilled healthcare professionals, especially in rural areas.

On the private healthcare side, there is increasing pressure to lower costs from medical aid funders. However, against this, there is a constant demand for new technologies to improve medical care as well as attract and retain good doctors and nurses.

As preferential supplier lists (formularies) can be up to two years in certain hospital groups, prices can be subject to fluctuations of the Rand. Forward cover is therefore essential when relying on imports.

There is currently an increasing trend towards local manufacturing, assembly and packaging in the commodity devices market to address price pressure especially against cheap imports. To address this, we are looking at increasing our current packaging and assembly operations in particularly the commodity device market.

## STRATEGY OVERVIEW

### 2011 objectives

Delivery of cost-effective products and solutions to public and private sectors.

Exploit government and export opportunities, such as local assembly and packaging.

Drive cross-selling within the group.

Careful management of operating costs.

Principals (agencies) secured in 2010 bedded down and adding more agencies and therapeutic areas.

Expanding footprint in Africa.

### Progress

Continue to maintain and source quality product offerings. Several formulary and tender contracts secured in 2011.

Local assembly was delayed due to tender delays in some business units.

The new centralised head office will give momentum to business unit synergy.

Operating costs well controlled.

Added two new agencies in 2011, but exited Litha Critical Care and Litha Cardiac.

Detailed evaluation complete. Remains work in progress.

## OPERATIONAL OVERVIEW

Despite continued pricing pressure from the public and private healthcare sectors, the division managed to grow revenue by 5% from R320 million to R338 million.

The Litha Critical Care and Litha Cardiac business units within this division were exited towards the end of the financial year due to the continued losses. Net operating profit from continuing operations was maintained at R82,5 million.

Agencies acquired in 2010 were successfully integrated.

In Filterworks, filtration technology remained a key focus in infection control and the sale of both intravenous and blood filter categories grew 12% and 16% respectively, with key formularies (supplier agreements) gained at several private hospital groups. The development of the Vernacare pulp business agency by Filterworks has already resulted in strong interest from customers as a cost-effective, environmentally-friendly option for hospitals needing products for human waste disposal. The business intends expanding into other areas of infection control.

ICU Medical SA's affiliation with ICU Medical Inc in the USA provided the business with access to new first-to-market technologies as well as the potential for local assembly and packaging to expand into niche markets such as radiology and oncology.

During 2011 the ICU Medical infusion set business grew strongly, with the recently-acquired Polymed agency growing by a healthy 36%. However, pricing pressure continues to be a factor, especially in the public sector.

Manta Medical experienced good growth in public tenders as well as in the private sector for the advanced wound care lines. Mantaflex, which produces locally assembled and packaged custom-made transducer sets, continued to be the largest revenue earner for the business unit. Their popular Biogel glove range was the second highest revenue earner in Manta Medical for 2011 against strong

import competition. The new Argon Medical agency with its range of interventional and renal products promises growth in the critical care market where Manta Medical has a strong presence.

The growth in the surgical disciplines within the Earth Medical business unit provided access to new and future agency opportunities such as ophthalmology. Growth in sports medicine (orthopaedics) and specialist intra-operations with ultrasound contributed to an excellent financial year for Earth Medical.

Despite the dependence on a forensics tender, the year-on-year sales of forensic kits still grew well in this niche market, largely through an active marketing and demonstration platform.

## OUTLOOK

Increased sales to the public hospital sector and exploring growth in the export market remain key focus areas. Optimising the current business models to include local assembly and packaging will assist in addressing the current pricing pressure in all its markets.

Utilising the group's shared services platform will allow for the management of operational costs. Ongoing training for nursing and other hospital employees remains a priority.

Certain of the Medical business units, in particular Manta Forensic (one of the smallest in the division), is very dependent on public tender business. Despite achieving excellent results in the first half of 2011, 2012 will therefore see renewed focus on reducing this dependence through export opportunities within the Southern African Development Community region. In line with our strategy of increased geographic presence, we are currently expanding our export department to ensure a concentrated drive cross-border.

**LITHA MEDICAL** CONTINUED

*Advanced wound care range – Litha Medical*

Going forward, the product portfolio will be increased and the expansion of the local assembly and packaging facility is being evaluated. It is anticipated that locally manufactured products will compete favourably with cheaper competitor products from India and China. It will also better position the company to meet the requirements of the Department of Health's National Health Insurance plan as well as allow the business to develop opportunities beyond its borders.

Before the end of 2012, Litha Medical intends introducing the first robot-assisted urology surgery agency in South Africa.

In the coming year, the group will continue to secure new agencies as well as securing product ranges in specialist disciplines. The ophthalmology agencies will be fully active by mid-2012.

In line with Litha's shared services model, four medical business units will be moving into one premise by the end of 2012. This will allow for cost rationalisation and process optimisation to further extract synergies between the business entities.



## OPERATIONAL REVIEWS

### LITHA PHARMA

TO OPTIMISE MARKET PENETRATION AND BROADEN COVERAGE, LITHA PHARMA WAS SPLIT INTO TWO BUSINESS UNITS – A PRESCRIBING AND A RETAIL PHARMACY PORTFOLIO. THE DIVISION CONTRIBUTED 9% TO GROUP OPERATING PROFIT BEFORE HEAD OFFICE EXPENSES.

SOUTH AFRICAN PHARMACEUTICAL PRICES ARE REVIEWED ANNUALLY BY THE DEPARTMENT OF HEALTH. ALTHOUGH THERE WAS NO INCREASE IN 2011, THERE WAS A 2.14% INCREASE IN 2012. THIS WAS WELL RECEIVED BY ALL INDUSTRY PLAYERS. THE INCREASE ASSISTED IN RELIEVING MARGIN PRESSURE FROM A WEAKENING RAND AND A GLOBAL INCREASE IN THE PRICE OF ACTIVE PHARMACEUTICAL INGREDIENT (API), THE RAW MATERIALS USED IN TABLETS.

## **LITHA PHARMA** CONTINUED

THE PRESCRIBING PORTFOLIO CURRENTLY CONSISTS OF PHARMAFRICA, A SUPPLIER OF BRANDED NICHE PRODUCTS TO THE SPECIALIST DOCTOR MARKET. MOST OF THESE BRANDS ARE WELL ESTABLISHED, WITH ECOTRIN BEING THE FLAGSHIP AND UNDER LICENCE FROM MERCURY PHARMA UK. AS BRAND MARKET LEADER FOR LOW DOSE ASPIRINS, IT REPRESENTS AROUND 60% IN REVENUE AND IS RANKED NO 1 IN THE TOP FIVE PRODUCTS FOR THIS PORTFOLIO.

### **PRESCRIBING PORTFOLIO**

The Pharmafrica product range within the prescribing portfolio includes therapies for cardiovascular disease, women's health, dermatology, ear/eye conditions, pain/inflammation and depression.

These products are sold through pharmaceutical wholesalers, key specialists and certain pharmacy groups. There are direct supplier agreements with government departments in South Africa as well as supplying wholesalers in Namibia, Swaziland and Botswana.

Pharmafrica has the scale in product and people to continually make a positive contribution to the Pharma division.

### **RETAIL PHARMACY PORTFOLIO**

The retail pharmacy portfolio was established to house the recently-acquired Goldex Healthcare and OTC Pharma SA businesses along with the existing Litha Pharma retail pharmacy brands.

Prior to the acquisitions of Goldex Healthcare and OTC Pharma SA in 2011, Litha Pharma purchased a range of established complementary brands called Formule Naturelle. Formule Naturelle is a range of nutritional supplements, which is retailed in pharmacies and health shops. Formule Naturelle performed well during 2011, comprising 26% of the top five products' revenue for this portfolio.

The remainder of the retail pharmacy portfolio consists of a number of professional skin care products as well as a pipeline of generic pharmaceuticals undergoing registration with the Medicines Control Council (MCC).

91% of the top five brands in the retail pharmacy portfolio are owned by Litha and are manufactured or packed locally. 9% are under a licensing agreement with an Indian manufacturer, which mainly comprise, the Goldex Healthcare brands.

### **Goldex Healthcare**

Goldex Healthcare was acquired in 2011 and includes its own registered generic pharmaceutical products using local contract manufacturers as well as being an exclusive distributor under licence from a leading Indian generics multi-national. Products include Sinustat and Goldex Throat Lollies. Its entire product line currently holds 32 active pharmaceutical products, which include mainly generic brands.

Of the top five performing brands in the retail pharmacy portfolio during 2011, Sinustat contributed 44% and Goldex Throat Lollies 11%, with Merck-Fed and M-Cam making up 10% and 9% respectively.



DURING THE YEAR LITHA PHARMA CONTINUED TO DEVELOP AN EFFECTIVE PRODUCT PIPELINE AS WELL AS SECURING SUCCESSFUL SUPPLIER AGREEMENTS WITH ALL MAJOR EXISTING PRINCIPALS. FIVE SUPPLIER AGREEMENTS WERE SIGNED WITH EUROPEAN AND INDIAN SUPPLIERS, WHICH WILL RESULT IN THE SUBMISSION OF OVER 40 PRODUCTS TO THE MCC BY THE END OF 2012.

#### OTC Pharma SA

OTC Pharma SA was acquired late in 2011 and markets and sells complementary medicines to retail pharmacies, health shops and fast-moving consumer goods outlets. Apart from its own brands Cetralin and Rescue Select, OTC Pharma SA procures its products from three international companies, with the bulk under licence from OTC Pharma International in the Netherlands.

Its flagship product, Marcus Rohrer Spirulina, contributes 40% of its turnover. Other products in its range include Similasan, Spatone and Rescue Remedy. It has an established sales force, which was voted the Dischem supplier of the year for the second year in a row since 2010. This acquisition occurred in December 2011.

#### MARKET OVERVIEW

The pharmaceutical market in South Africa is highly regulated. Recent changes include the introduction of the new Marketing Code and the Consumer Protection Act, with Complementary and Alternative Medicines regulations on its way. >> **Refer to page 25.**

Challenges in the sector include medical inflation and reduced medical aid benefits, as well as the current disparity between public and private healthcare. The National Healthcare Insurance will start rolling out pilot projects in rural areas during 2012, with the long-term goal being the broadening of access to affordable, quality medicines for all South African citizens, primarily the poor and the elderly.

The South African pharmaceuticals market is expected to continue growing over the next few years, with a shift from branded pharmaceuticals to generics. Generics volumes have already surpassed that of branded pharmaceuticals. Market growth for non-generic (originator) medicines decreased from 6.2% in 2010 to 5.6% in 2011. This can be attributed to the aggressive marketing strategies of generics companies in the pharmacy market and out of pocket payments by private consumers due to the high cost of private healthcare funding.

In 2011 the total private pharmaceutical market grew by 10%, with generic medicine utilisation up from 12.8% in 2010 to 14.4% in 2011. Unscheduled products, which include homeopathic remedies and vitamin supplements sold through pharmacies, were up from 8.2% in 2010 to 20% in 2011.

In April 2012, the Minister of Health announced fast-tracking the South African Health Products Regulatory Authority to replace the MCC. This is welcome news for pharmaceutical companies, which have been burdened with excessive waiting periods for product registrations.

## LITHA PHARMA CONTINUED

### STRATEGY OVERVIEW

#### 2011 objectives

Product pipeline expansion through partnership agreement with CPoint Capital Inc.

Key acquisitions that will grow product scale offering.

Expand retail pharmacy footprint for further growth in prescription and OTC market.

Integration of Pharmafrica and Goldex Healthcare.

Two business units created to optimise market penetration.

Product rationalisation, improved listings and implementing operational systems.

Continued products for submission to MCC.

#### Progress

Agreements with Indian and European manufacturers signed.

Goldex, OTC Pharma SA and current Pharmaplan acquisitions adding significant scale.

Aggressive strategy to increase infrastructure and personnel to exploit existing and additional product offerings.

Certain units moved into Selby office location. Since year-end, they moved into the group head office in Midrand.

Set up and systems being rolled out.

Aggressive campaigns deployed to leverage existing listings and already benefiting from shared services strategy.

On track with more to come in the Pharmaplan pipeline.

### OPERATIONAL OVERVIEW

Revenue was R107 million compared to the R79 million for the eight months ended 31 December 2010. Operating profit was R15 million (R17 million for the eight months ended 31 December 2010). In line with the group's strategy of bulking up in this division, during the year Litha Pharma continued to invest in sales and marketing employees as well as business development. This resulted in an increase in overheads, which had an impact on results during the period. With the acquisitions of OTC Pharma SA towards the end of 2011 and the pending Pharmaplan transaction (as outlined on page 59), the benefits of this investment are anticipated to come through in 2012 and 2013.

The purchase of the Goldex Healthcare and OTC Pharma SA businesses were finalised during the period under review. The OTC Pharma SA acquisition provided quality and well-known brands as well as a broader market share with a rapidly growing international portfolio. It has provided the retail pharmacy team with enough scale to achieve the growth of the retail business unit.

The OTC Pharma SA business is currently being integrated into the Retail Pharmacy portfolio. All warehousing and logistics will be incorporated into one facility to provide cost savings. This will take place during 2012, with the facility moving from Cape Town to Midrand in Gauteng.

The relocation of Goldex Healthcare was completed in the first quarter of 2012, with warehousing and logistics operations moving from Durban to the Midrand facility. The integration of these two pharma businesses will continue during 2012 and will form part of the integration process of the pending Pharmaplan acquisition. The relocation to the Midrand facility will allow the division to benefit from the Litha shared services platform, with the resultant synergies and efficiencies.

**BOTH PHARMA BUSINESS UNITS GREW FASTER THAN THE TOTAL PRIVATE PHARMACEUTICAL MARKET GROWTH OF 10%. THE RETAIL PHARMACY PORTFOLIO GREW AT 14% AND THE PRESCRIBING PORTFOLIO AT 16%.**

## OUTLOOK

Continued improvement in scale for these business units remains a focus to compete against other pharmaceutical businesses in the South African market. A number of new products are set to be launched during the year, including more products from Litha Pharma and Pharmafrica.

Going forward, the business will concentrate on completing the integration and consolidation of Pharmafrica, Goldex Healthcare and OTC Pharma SA.

The proposed acquisition of Pharmaplan and its integration will take priority in ensuring the continuity of the business and future growth of this division. With the acquisition of Pharmaplan, product pipelines will be consolidated and rationalised. The regulatory departments in Gauteng will be integrated and strengthened and once the new regulations for complementary and alternative medicines is implemented, resources will be in place to comply and submit the required clinical information. The Pharmaplan transaction achieves our objectives of being a diversified healthcare business and delivers on our stated strategy of creating scale within our Pharma division through acquisitions.

To ensure the effective integration of Pharmaplan and implementation of the division's growth strategy, a permanent Litha Pharma divisional CEO has been appointed.

With significant presence already in the vaccine and medical device markets, the Goldex Healthcare and OTC Pharma SA acquisition in 2011 and the proposed Pharmaplan acquisition in 2012 will now give Litha the appropriate scale across our three divisions of pharmaceuticals, vaccines and medical devices and the group as a whole. With this new acquisition, the Pharma division will become Litha's second largest division by revenue and most profitable by earnings.

Pharmaplan's healthy product pipeline will see seven new product registrations completed for market launch during 2012 and a further 62, which are currently in various stages of the regulatory process, set for completion over the next three years.

**PHARMAPLAN HAS 14 YEARS OF EXCEPTIONAL ORGANIC GROWTH (MORE THAN 25% COMPOUND AVERAGE GROWTH RATE ON TOP AND BOTTOM LINE) AND IS THE 8TH LARGEST GENERIC PHARMACEUTICAL COMPANY IN SA BY REVENUE<sup>1</sup>.**

<sup>1</sup> Source: IMS MAT September 2011, price at ex-manufacturing (Exch rate ZAR6.9669 Oanda.com)

## PHARMAPLAN

**Pharmaplan is one of the fastest-growing specialist pharmaceutical companies in South Africa, with an enviable market position in the private specialist and niche generics markets.**

**The group offers a full service of registering, importing, promoting and distributing the products of its principals exclusively to all wholesalers, hospitals and clinics in South Africa and selected neighbouring countries.**

**Pharmaplan has been a registered importer and distributor of niche speciality/biotechnology medicines since 1996. It sells products from the US, Europe, India and New Zealand.**

**Pharmaplan markets products in a range of therapeutic areas which include oncology, dermatology, nephrology, paediatrics, gynaecology, surgery, neurology, cardiology and psychiatry.**

**Pharmaplan has a solid market base in the originator, specialist prescription medicine market and exclusive distribution agreements with all its international principals.**

# CORPORATE GOVERNANCE REVIEW

## Introduction

During the year Litha performed a self-assessment against the King Report on Governance for South Africa (King III) to identify Litha's level of governance maturity. In accordance with the "apply or explain" philosophy of King III, this review outlines how the group meets these requirements.

Governance structures and processes are reviewed regularly to reflect best practice and the best interests of the group and to ensure compliance with the JSE Listings Requirements, the Companies Act and other legislation.

Actions to improve the application of King III are continually implemented to improve the level of governance maturity into the future. These actions have been included in the table below.

## GOVERNANCE ISSUES AND ACTION PLANS

Material issues	Summary of status and response	Reference
<b>Company's code of ethics</b>	<p>Although Litha has no formal code of ethics or conduct, the group's internal culture programme "The Litha Way" was implemented throughout the group. Statements dealing with "Showing Good Corporate Governance" and "Having Integrity" are included in this. Culture and change management workshops were held throughout the group following the merger of Litha Healthcare Holdings and Litha Healthcare Group Limited (formerly Myriad Medical Holdings Limited) to create a culture that is aligned with the group's vision, mission and values. A code of conduct incorporating the "The Litha Way" and the Marketing Code of Conduct for the healthcare industry will be finalised during 2012.</p> <p>A social and ethics committee was established during the year. This committee reports directly to the board at every board meeting. An ethics hotline, operated by an independent third party, was implemented, which enables Litha's stakeholders to anonymously report any perceived unethical dealings within the group. The results are sent directly to the social and ethics committee on a monthly basis. Awareness on how to access the hotline has been raised through email announcements, posters in public areas and calling cards with key contact numbers.</p> <p>Since implementing the ethics hotline, no unethical behaviour within the company has been reported.</p>	Principles 1.1 and 1.3 of King III
<b>Independent non-executive chairperson</b>	<p>The board has appointed the current non-executive chairperson due to his knowledge and industry experience. However, he is not independent as per the King III independence criteria as he is a director of one of Litha's major shareholders. As a result, Litha appointed a lead independent non-executive director in March 2012 to act in cases where the chairman may be conflicted.</p>	Principle 2.16 of King III



Material issues	Summary of status and response	Reference
<b>Balance of board power</b>	<p>The board has appointed an additional independent non-executive director to ensure an appropriate balance of power. The company secretary has implemented a process to assess the independence of all directors on an annual basis.</p> <p>Paladin, who will be Litha's largest shareholder on implementation of the proposed transaction with Paladin and Pharmaplan, will appoint three representatives to the board.</p>	Principle 2.18 of King III
<b>Formal appointment process</b>	<p>The process of appointing directors has been disclosed for the first time this year.</p> <p>Refer to the directors' section on page 67 for the age and qualifications of all directors. There were no resignations of board directors during the year.</p>	Principle 2.19 of King III
<b>Evaluation of the board, its committees and the individual directors</b>	<p>No formal evaluation of the current board, its committees or individual directors took place during the year.</p> <p>A formal process will be implemented in the 2012 financial year.</p>	Principle 2.22 of King III
<b>Delegation of certain functions by the board to well-structured committees</b>	<p>The board has delegated certain functions to an audit and a remuneration committee. The responsibilities of the audit and remuneration committee are disclosed on page 64.</p>	Principle 2.23 of King III
<b>Audit committee members</b>	<p>To ensure the committee meets all legislative and best practice governance requirements, the audit committee consists of three independent non-executive directors. On 20 March 2012, an additional independent non-executive director was appointed to the committee to satisfy the skills set and experience required, as set out in King III.</p>	Principle 3.2 of King III Companies Act 94(2)
<b>Effective audit committee</b>	<p>No material breakdown in controls came to the attention of management or the audit committee for the year under review. A statement to this effect is included in the audit committee report.</p>	Principle 3.8 of King III
<b>Information Technology (IT) Governance</b>	<p>An IT report is prepared for the board every quarter. The report includes information on IT controls, governance issues, such as disaster recovery, medium- and long-term IT strategy, project status and IT spend.</p>	Principle 5.1 of King III
<b>Compliance framework and processes</b>	<p>The group's listing sponsor ensures that the JSE Listings Requirements are met and compliance is managed within the business process in which it occurs. "The Litha Way" refers to management's responsibilities in terms of compliance. No formal over-arching compliance framework is in place.</p> <p>Management will discuss the most practical way to meet this requirement and provide the appropriate assurance on compliance to the board. There were no material regulatory sanctions or fines in the period under review.</p>	Principle 6.4 of King III

Material issues	Summary of status and response	Reference
<b>Effective risk-based internal audit</b>	Litha appointed an outsourced internal audit provider in 2010. An internal audit charter and a risk-based coverage plan were approved by the audit committee and audits commenced during the 2011 financial year. The internal audit function reports to the audit committee which assesses its effectiveness on an annual basis.	Principle 7.1 of King III
<b>Stakeholder relationships</b>	A stakeholder management and communications strategy is in place. Ongoing communication with key stakeholders is taking place. The board receives a quarterly report regarding progress against the strategy and any stakeholder meetings or communications that have taken place in the last quarter. The board has formed a sub-committee to ensure improved stakeholder relationships in the coming year.	Principle 8.2 of King III
<b>Communication with stakeholders</b>	A stakeholder management and communications strategy is in place. Communication with key stakeholders is taking place. The board receives a quarterly report regarding progress against the strategy and any stakeholder meetings or communications that have occurred in the last quarter.	Principle 8.5 of King III

## BOARD OF DIRECTORS

Litha is headed by a board with defined duties and responsibilities. The board directs and governs the group. Board governance structures and processes have been designed to ensure that the board fulfils these duties and responsibilities. The board has reserved certain powers and delegated other responsibilities to management. There is a clear balance of power and authority at board level, ensuring that no one director has unfettered powers of decision making.

Board members are appointed through a formal and transparent process. The Litha human resources team sources relevant CVs of potential members. These are distributed to the entire board for their review and assessment. The board votes on the appointment of new members. The following board changes took place in the 2011 financial year and to the last practical date:

- Ian Jacobson joined the board as a non-executive director on 16 February 2011
- Fadl Hendricks joined the board as an independent non-executive director on 23 March 2011
- Velile Mcobothi was appointed as an independent non-executive director to the board with effect from 20 March 2012

➤➤ **Refer to pages 67 – 68 for full CVs.**

The chairperson of the board is a non-executive director and was appointed to this role due to his knowledge and experience. However, he is not independent as per the King III classification as he is a director of Litha's largest shareholder. As a result, Litha appointed a lead independent non-executive director to function in cases where the chairman may be conflicted.

## COMPOSITION

At the end of the year, the board comprised nine members. Three were independent non-executive directors, three non-executive directors and three executive directors.

Post year-end, one director was appointed. The board therefore comprises ten members. Four are independent non-executive directors, three non-executive directors and three executive directors.

## SKILLS AND EXPERIENCE OF THE BOARD

The board comprises members with skills and experience in diverse industries, ranging from the sciences and biotechnology, pharmaceutical, health and medical, corporate finance, private equity and investment banking, financial management and operations to business development and sales and marketing. The board is of the opinion that having diverse skills and experience is beneficial to provide perspective and input into the business strategy and to rigorously evaluate the key risks and challenges facing the group.

The board monitors the mix of skills, knowledge and experience of its members to ensure it has the correct resources to effectively fulfil its responsibilities. The board is responsible for setting the criteria for identifying and recommending nominees for board positions.



## BOARD INDUCTION AND DIRECTOR DEVELOPMENT

Although no formal induction and ongoing development programme is in place for directors, new board members attend a directors' programme through the University of the Witwatersrand and receive ongoing briefings on changes to laws, risks and the business environment, as required.

## BOARD EFFECTIVENESS ASSESSMENT

The first formal board assessment will be conducted during the 2012 financial year.

## BOARD MEETINGS AND ATTENDANCE

The board meets at least four times a year and meetings are convened by formal notice. Board packs and information are distributed in advance to ensure adequate time for preparation for board meetings. The board regularly reviews its information needs to ensure they are adequate and relevant to decision making.

The board met five times in the past financial year. Attendance of directors at meetings was as follows:

	1 February 2011	22 March 2011	6 June 2011	20 September 2011	2 December 2011
<b>Members</b>					
AD Bonamour	X	X	X	X	X
F Hendricks		X	X	X	
I Jacobson		X	X	X	X
MM Kahanovitz	X	X	X	X	X
S Kahanovitz	X	X	X	X	X
MFD Makhoana	X	X	X	X	X
W Marshall-Smith	X	X	X		X
MS Mzimba	X	X	X		X
NL Sowazi			X		X

## BOARD COMMITTEES

The board has an audit committee, a social and ethics committee and a remuneration committee to assist in discharging its responsibilities. All other areas of responsibility are being carried out directly by the board. The board will continually re-assess the need for additional committees.

Committee composition, responsibilities and meeting attendance are provided on the next few pages.

## AUDIT COMMITTEE

The audit committee comprised three members during the 2011 financial year, with a fourth member being appointed on 20 March 2012.

### Fadi Hendricks

Independent non-executive director  
Appointed 22 March 2011

### Mandi Mzimba

Independent non-executive director  
Appointed 6 June 2011

### Nkululeko Sowazi

Independent non-executive director  
Appointed 29 June 2011

### Velile Mcobothi (Chairperson)

Independent non-executive director  
Appointed 20 March 2012

Representatives of the external auditors, internal auditors, executive management and the company secretary attend meetings as invitees. Written terms of reference have been adopted by the committee.

The committee met three times in the last financial year, although the aim is to meet four times a year going forward. Attendance was as follows:

Members	17 March 2011	13 September 2011	1 December 2011
Fadl Hendricks*		X	
Mandi Mzimba**	X	X	X
Nkululeko Sowazi <sup>#</sup>			X
Velile Mcobothi <sup>^</sup>			

\* Appointed 22 March 2011

\*\* Appointed 6 June 2011

<sup>#</sup> Appointed 29 June 2011

<sup>^</sup> Appointed 20 March 2012

## AUDIT COMMITTEE: SUMMARISED TERMS OF REFERENCE

The audit committee was established and its chairperson appointed by the board. The chairperson of the committee is present at group annual general meetings to answer shareholder questions.

The audit committee has considered and satisfied itself of the appropriateness of the expertise and experience of the financial director.

The committee aims to meet four times a year, at least a week before the formal board meeting. The audit committee has the following responsibilities, which it successfully met during the year:

- Oversee the integrated report
- Recommend financial statements and financial reports on the stock exchange news service (SENS) or published reports
- Review accounting practices and the internal control function of the group and reporting to the board
- Review the going concern assessment performed by management
- Approve reporting of sustainability in the integrated report
- Ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities
- Satisfy itself with the expertise, resources and experience of the financial management of the group
- Oversee the internal audit
- Approve the internal audit coverage plan

- Recommend the appointment of the external auditor and oversee the external audit process
- Report to the board and shareholders on how it discharged its duties
- Determine the extent and nature of non-audit related services that the auditor may provide to the group

## REMUNERATION COMMITTEE

The remuneration committee comprises two members, one of whom is an independent non-executive director and chairperson.

### Mandi Mzimba (Chairperson)

Independent non-executive director

### William Marshall-Smith

Non-executive director

The committee determines the group's policy on executive remuneration on behalf of the shareholders and recommends the remuneration of executives. It is also responsible for the Litha Share Incentive Scheme, a senior management remuneration share scheme. No executive director is involved in determining his/her own remuneration.

The primary objective of the group's remuneration committee is to develop a rewards strategy.

Responsibilities include:

- Evaluate the performance of executive directors
- Recommend remuneration packages for executive directors
- Recommend the policy relating to the Litha Share Scheme
- Recommend the fees payable to non-executive and executive directors for approval at the annual general meeting of the group

The remuneration committee met once in the past financial year. Attendance was as follows:

Members	18 February 2011
W Marshall-Smith	X
MS Mzimba	X

## SOCIAL AND ETHICS COMMITTEE

The social and ethics committee comprises four members, one of whom is an independent non-executive director and chairperson.

### Fadl Hendricks (Chairperson)

Independent non-executive director

### Morena Makhoana

Executive director

### Selwyn Kahanovitz

Executive director

### Gabrielle Lobban

Corporate marketing and communications manager

The committee's terms of reference are as follows:

To monitor the group's compliance with the following:

- The ten principles set out in the United Nations Global Compact principles
- The Employment Equity Act
- Broad Based Black Economic Empowerment Act
- Good corporate citizenship, including:
  - the promotion of equality, prevention of unfair discrimination and reduction of corruption
  - the contribution to the development of the community in which the group operates
  - the recording of sponsorships, donations and charitable giving
- Environment, health and public safety, including the impact of the group's activities and products and services
- Customer relationships, including the Consumer Protection Act and the group's advertising
- Labour and employment
- The group's standing in terms of International Labour Organisation protocol on decent work and working conditions
- The group's employee relationships and the contribution towards the educational development of its employees
- To draw matters within its mandate to the attention of the board
- To report to stakeholders through one of its members at the annual general meeting of the group

As the committee was constituted in November 2011, it only met once during the financial year. Attendance was as follows:

	16 November 2011
<b>Members</b>	
F Hendricks	X
S Kahanovitz	X
M Makhoana	X
G Lobban	X

## GOVERNANCE FRAMEWORK FOR THE GROUP

All subsidiaries of the group, except for The Biovac Consortium and The Biovac Institute, are wholly-owned subsidiaries. The governance framework of the group therefore applies to the subsidiaries. The Biovac Institute is a public private partnership between the South African government and The Biovac Consortium. Litha Healthcare Holdings owns a controlling interest in The Biovac Consortium and manages the day-to-day activities of The Biovac Institute. The Biovac Institute has its own board of directors and audit committee. Representatives of Litha Healthcare Group serve on the The Biovac Institute's board of directors. Policies and procedures of the group have only been implemented in the subsidiaries where appropriate due to the different nature of the business operations.

## THE GOVERNANCE OF RISK

The board is responsible for the governance of risk. The board has delegated the responsibility of the design, implementation and monitoring of the risk management process to the Litha executive committee.

The committee considers risk on a quarterly basis and reports back to the board on this process and the management of significant risks.

## THE GOVERNANCE OF INFORMATION TECHNOLOGY (IT)

King III introduced a number of guidelines for the board's governance of IT. Litha is in the process of analysing these and implementing the required action plans, including a best practice governance framework. An IT pack is presented at each board meeting which details the medium- to long-term IT strategy, IT budgets and spending, corporate governance requirements, including disaster recovery planning, IT integration and IT vendors.

## ETHICS PERFORMANCE

Litha is committed to achieving high levels of business integrity and ethics across all its activities. A group-wide ethics value statement is in place and encapsulated in “The Litha Way”. This involves:

- to be recognised as a company having dedication, honesty and showing integrity, whilst maintaining high standards and values at all times
- to build trust through listening and understanding our customers
- to display fairness to our customers, employees, partners and shareholders at all times

“The Litha Way” is communicated through an induction and communication process with training of employees, as required. Employees are recognised by their peers by being nominated through a recognition programme every quarter called the Biostars Awards. There is an overall winner for the year, which is selected by the CEO for the CEO Award.

There were no material breaches of Litha’s values during the year under review.

## COMPLIANCE

As a healthcare company and a company operating in South Africa, Litha is subject to regulations applicable to healthcare companies and the ordinary laws of the country. In this regard, Litha has generated standard operating procedures and policies which regulate the relationship of the employees and its stakeholders.

The board and the Litha executive management team encourage a compliance culture. The following statement has been adopted to guide all employees in compliance-related activities:

“Litha recognises its accountability to all its stakeholders, both internal and external, under the legal and regulatory requirements, as well as internal policies and procedures applicable to its business. It is committed to high standards of integrity and fair dealing in the conduct of its business. It is committed to comply with both the spirit and the letter of applicable requirements giving rise to good corporate governance, prudence, transparency and full disclosure and to always act with due skill, care and diligence.”

The board receives notification of any legal disputes or areas of non-compliance as part of the formal board reporting process. There were no regulatory sanctions, penalties or fines during the reporting period.

## CONFLICTS OF INTEREST

All board members and company secretaries of the group and major subsidiaries are required to disclose their shareholding in the group, other directorships and any potential conflicts of interest. Where a potential conflict of interest exists, directors are expected to excuse themselves from relevant discussions and decisions.

## INSIDER TRADING

No employee may deal directly or indirectly in Litha’s shares on unpublished information regarding its affairs. No director or officer may trade in the shares of the group during a closed period, determined by the board. The closed periods are between the reporting period date and the date of publication of results for the period. Where appropriate, a closed period is also operated during periods where major transactions are being negotiated and a public announcement is imminent. The policy for dealing in shares has been distributed to all board members and employees. Notification of closed periods is sent out by the company secretary.

## INTERNAL CONTROL AND INTERNAL AUDIT

The board is ultimately responsible for the effectiveness of the group’s system of internal controls.

The directors are of the opinion that, based on the information provided by management and external auditors, there were no material breakdowns of internal controls during the year. The directors believe that these controls are adequate to ensure that financial records may be relied on for preparing the financial statements and maintaining accountability of assets and liabilities.

An outsourced internal audit provider was appointed and operated throughout the 2011 financial year. An internal audit charter and a risk-based coverage plan were approved by the audit committee and are approved for each financial year. The internal audit function reports directly to the audit committee, which assesses its effectiveness on an annual basis.

## COMPANY SECRETARY

The board has appointed and empowered the company secretary, in conjunction with the group’s sponsor, to advise on the appropriate procedures for the management of board meetings and the implementation of governance procedures.

The company secretary, Barry Budler, provides the board collectively, and each director individually, with guidance on how to discharge their responsibility in the best interests of the group and in terms of legislation and regulatory requirements applicable in South Africa. The company secretary is qualified to perform his duties and the board considers him to be fit and proper for the position.

## STAKEHOLDER ENGAGEMENT

Litha understands the importance of stakeholder relations and timely and relevant communication to stakeholders. Litha’s key stakeholders have been identified and a stakeholder engagement strategy has been finalised and is in the process of being implemented. The board formed a sub-committee to ensure the proactive roll out of the group’s stakeholder plan.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The group has purchased insurance against directors' and officers' liability for the benefit of the group and its subsidiaries.

## TEAM BIOGRAPHIES

### BOARD

Members	Age	Position	Qualification	Address	Occupation
<b>Andrew David Bonamour</b>	41	Non-executive director (Chairperson)	BCom	2nd floor, 11 Crescent Drive, Melrose Arch	CEO of Blackstar Group SE
<b>Fadl Hendricks</b>	63	Independent non-executive director	BSc Chemical Engineering	TIA House, 83 Lois Avenue, Menlyn, Pretoria	Group executive: Technology Innovations Agency
<b>Ian Jacobson</b>	52	Non-executive director	BSoc Science	65 B West Beaver Creek, Richmond Hill, Ontario, Canada	Director of CPoint Capital Inc.
<b>Martin Michael Kahanovitz</b>	43	Chief financial officer	CA(SA)	106 16th Road, Midrand	CFO Litha Group
<b>Selwyn Kahanovitz</b>	53	Chief executive officer	B Pharm (Rhodes) MBA (Wits)	106 16th Road, Midrand	Founder of LHH in the early 1990s; CEO of Litha Group
<b>Morena Francesco Douglas Makhoana</b>	35	Deputy chief executive officer	MBChB (UCT) Programme in Portfolio Management and Investment Analysis (UNISA)	106 16th Road, Midrand	Deputy CEO Litha Group; CEO Litha Biotech
<b>William Marshall-Smith</b>	34	Non-executive director	CA(SA)	2nd floor, 11 Crescent Drive, Melrose Arch	Investment director of Blackstar Group Proprietary Limited
<b>Velile Welcome Mcobothi</b>	37	Independent non-executive director	CA(SA)	The Firs Office Block, Corner Cradock & Biermann Avenues, Rosebank	Investment executive
<b>Mandi Shumikazi Mzimba</b>	54	Independent non-executive director	PhD (Leeds) MBA (Wits) MSc (University of Leeds), BSc (Hons) (University of Ibadan)	16 Fredman Drive, Sandton	Deputy General Manager of policy and regulatory affairs at Discovery Health Proprietary Limited
<b>Nkululeko Leonard Sowazi</b>	49	Independent non-executive director	BA, MA (UCLA)	Kagiso Tiso House, 100 West Road, Sandton	Director of various companies

All the directors of the company, except for Ian Jacobson, who has a British passport, are South African nationals.

**Andrew Bonamour** – Andrew has been involved in corporate finance and securities investment businesses since 1993. Andrew started his career in 1993 at Rand Merchant Bank (RMB), where he gained experience and exposure across several divisions, including equities, derivatives and treasury.

In 1999, Andrew joined Brait SA Limited, South Africa's largest private equity firm. While at Brait, Andrew held senior executive positions in investment banking and principal investment. He originated and played a lead role in a variety of transactions including leveraged buyouts, unique public opportunities, capital replacements and restructurings.

In 2005, Andrew founded Blackstar and is currently the chief executive officer of Blackstar Group Proprietary Limited (Blackstar SA) which acts as the Investment Adviser to Blackstar. During the last six years Blackstar has invested £113,7 million in South Africa. Andrew is responsible for idea generation and oversees the investment advisory function.

Andrew serves on the boards of a number of private and publicly quoted companies.

**Fadl Hendricks** – Fadl has specialised in innovative chemical engineering technologies. Fadl was the CEO of Cape Biotech Trust, one of three Biotechnology Regional Innovation Centres established by the Department of Science and Technology in 2006. He held this position until March 2010 when it merged to become the Technology Innovation Agency (TIA). He was appointed as the group executive of the TIA in April 2010.

**Ian Jacobson** – Ian heads up CPoint Capital Inc, a Canadian-based company. He has over 30 years' experience in the pharmaceutical industry, specialising in operations, business development and marketing. Ian has succeeded in a number of high profile positions at various companies around the globe, including the USA, Canada, Europe and South Africa.

**William Marshall-Smith** – William qualified as a chartered accountant at Deloitte and has worked in their financial services division in New York, Cape Town and the Isle of Man.

William has over ten years' experience in corporate finance and public and private investing in South Africa. Prior to joining Blackstar SA in 2005, William was a partner in a boutique corporate finance and principal investing company with particular focus on public investing and broad-based black empowerment advisory.

**Velile Mcobothe** – Velile was a senior member of the Investec private equity team, where he was responsible for origination, execution and board representation in various investee companies. He is an executive director of Cinga Holdings (Pty) Ltd, a non-executive director of Value Group Limited and he is on the Value Group Limited audit committee.

**Mandi Mzimba** – Mandi has served in numerous senior positions. These include the deputy director of District Health Systems where she was responsible for the development of district health systems. She was the deputy director of support services for the Council of Geoscience and the senior science and technology representative to Europe for the Department of Science and Technology. She was also the deputy general manager of policy and regulatory affairs for Discovery Health (Pty) Ltd. She was awarded a Mellon Foundation Research Fellowship at the University of the Witwatersrand.

**Nkululeko Sowazi** – Nkululeko is the co-chairperson of Kagiso Tiso Holdings Limited (KTH) a leading South African investment holding company with significant interests in the media, financial services and resources sectors. KTH was formed in July 2011 following the merger of two leading black-owned investment firms, Kagiso Trust Investments (Pty) Ltd and Tiso Group Limited, with combined gross assets of R14 billion. Nkululeko was the executive chairman and co-founder of the Tiso Group Limited.

Selwyn Kahanovitz, Martin Kahanovitz and Morena Makhoana are executive members on the Litha board.

#### None of the directors have:

- Been bankrupt or entered into individual voluntary arrangements
- Entered into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of any company where such a person is a director with an executive function at the time of or within 12 months preceding such an event
- Entered into compulsory liquidation, administration or partnership voluntary arrangements of any partnerships where such a person was a partner at the time of or within 12 months preceding such events
- Entered into receiverships of any asset of such person or of a partnership of which the person was a partner at the time of or within the 12 months preceding such event
- Been publicly criticised by statutory or regulatory authorities (including recognised professional bodies) or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company
- Been convicted of an offence involving dishonesty nor found guilty in disciplinary proceedings by an employer or regulatory body due to dishonest activities
- Been or has been a director or alternate director in any company at the time of the offence, been convicted in any jurisdiction of any criminal or an offence under legislation relating to the Companies Act; and/or
- Been barred from entry into any profession or occupation



## EXECUTIVE COMMITTEE

### **Selwyn Kahanovitz** 53

#### **Chief executive officer**

Selwyn holds a BPharm degree from Rhodes University as well as a Masters in Business Science from the Witwatersrand University.

Previously, he was the CEO of LHH and The Biovac Institute. Under his leadership, LHH concluded strategic partnerships with the Department of Health, ultimately becoming the preferred supplier of vaccines to the South African Department of Health and the SADEC region for 15 consecutive years. As a result of these significant partnerships and his visionary style of leadership, LHH expanded and tapped into other health segments such as private hospitals, pharmaceutical, surgical and private diagnostic.

He has nearly three decades of experience in the pharmaceutical and medical industry.

### **Martin Michael Kahanovitz** 43

#### **Chief financial officer**

Martin started his career at Fisher Hoffman Sithole, where he completed his articles. He has served as Litha's financial director for the past 14 years. Martin was instrumental in growing LHH from a R40 million to a R1 billion turnover business. Martin has 16 years' specialist financial experience in the healthcare industry.

### **Morena Francesco**

### **Douglas Makhoana** 35

#### **Deputy chief executive officer**

Morena started his career with The Biovac Institute and Litha Healthcare Holdings as the Medical Affairs Manager at Biovac SA (now Litha Vaccines) in 2004. His significant contribution and commitment to the group's major deals led to his appointment as CEO of The Biovac Institute. He was closely involved in the specialist team assisting the South African government in sourcing emergency vaccines for the H1N1 outbreak in 2010.

### **Grant Parker** 51

#### **Chief operating officer**

Grant is an entrepreneur who opened the first Americanised Drugstore, Grant's Drugstore, in South Africa in 1995. He subsequently sold the business and moved to the exco of the Amalgamated Group of Hospitals. He was involved in the sale of this group of privately-owned hospitals to Life Healthcare in 2002. He then moved to the Pall Corporation until he established Filterworks in 2007. This business was sold to Myriad Medical, which merged with Litha Healthcare Group. Grant is the CEO of Litha Medical and was recently appointed as group COO.

### **Barry Charles Budler** 33

#### **Group finance executive and company secretary**

Barry has held managerial positions in South Africa, Australia and America. He has experience with listed companies, JSE Limited and management reporting, external and internal audit, company secretarial functions, implementing corporate governance structures and concluding acquisitions. Prior to becoming a director of Myriad Medical in 2008, he was group financial controller at two listed South African companies and an audit manager at Deloitte.

### **Mpumelelo Sowazi** 52

#### **Group corporate affairs executive**

Mpumelelo (Mpumi) has served in the legal departments of a number of large South African corporations, including Anglovaal Limited and IBM as senior legal adviser. In both these companies, he was actively involved in restructuring and positioning.

Mpumi has been with Litha Healthcare Holdings for ten years, having played a key role in the creation of the group's public private partnership with government in the Biotech division.

### **Andrew King** 50

#### **CEO: Litha Pharma Division**

With over 21 years' experience within the pharmaceutical, OTC and FMCG industries, Andrew has held positions in senior and executive management at both Adcock Ingram and Aspen Pharmacare. His experience includes dealing with the Department of Health and Medical Control Council on matters related to pricing and product registration as well as lobbying through industry groups on sector policy and legislation.