

# Operations and Governance Reports



The company has embarked on a re-tooling exercise which started at the Autosterile plant where an Autoclave was procured, and was delivered subsequent to year end.

OVERVIEW

The 2010 financial year has been another difficult one for our Group.

The market conditions remained unchanged throughout the trading period. The deterioration in the disposable income and market illiquidity which began in the latter half of 2009 continued into 2010. Interest rates remained very high and the banking facilities remained short term which limited the ability of the Group to access working capital.

Financial	US\$m
Revenue	12.4
Gross Profit	6.8
Loss for the year	2.8
Amortisation & Depreciation	1.4

The margins of the Group's products remain competitive. Our main factory which was closed in November 2009, by Medicine Control Authority of Zimbabwe (M.C.A.Z), effectively resumed operations in April 2010 after it passed the inspection that was carried out. The closure of the main factory affected revenues from the wholesale division, the retail division as well as all the foreign operations. All these units are dependent on the products from the main factory. The high borrowing costs also contributed significantly to the loss position of the Group. Against this background the Group made a loss for the year of \$ 2.8 million. What is significant to note is that the bulk of the loss arose as a result of the closure of the factory.

SEGMENT OVERVIEW

MANUFACTURING

Despite the closure of the factory by the M.C.A.Z, the company also faced operational challenges caused by ageing machinery. The company has embarked on a re-tooling exercise which started at the Autosterile plant where an Autoclave was procured, and was delivered subsequent to year end.

The machine was installed and commissioned in March 2011 and this development has revitalized the operation. Autosterile is currently the largest producer of Intravenous fluids in the country. Packing machines which are meant to achieve automation of production in the main factory were also ordered and will be commissioned in the second quarter. The sterile section of the penicillin plant was not operational for the entire year. It is expected to resume production in the second quarter of 2011.

This business has a lot of untapped potential both locally and in the export market.

### DISTRIBUTION

This business was severely affected by the recall of products following the closure of the factory. The high rental costs incurred at Prospect Industrial Park forced the business to relocate its operation to a comparable site along Bristol road. There is a thrust aimed at widening the product range as well as increased imports. The Galenical and Essential range was introduced in the fourth quarter. These products continue to have a positive impact on turnover.

The potential of Geddes is affected by unregistered operators that compete for the same market.

### RETAIL

QV contributed positively in both turnover and profit to the Group results. The product mix continued to improve resulting in growth in both revenue and profit compared to the previous trading period. The brand remains very strong and all efforts are being made to make full use of the existing opportunities in the market.

### HOSPITAL

Staff costs continued to choke the profitability of the business. Unions continued to demand salary increments on behalf of staff on the backdrop of a struggling economy. The infrastructural development of the Accident & Emergency Unit was completed in the fourth quarter. This unit is expected to open in third quarter of 2011. A number of joint venture agreements aimed at enhancing the service provision at the Hospital are under way. These should be concluded by the first quarter of 2011.

### FOREIGN OPERATIONS

The demand for the Group's products in the regional operations remained largely unfulfilled. Product delivery to these markets increased during the fourth quarter.

Qv Beira operations remained constrained due to insufficient working capital; this will be addressed in the first quarter of 2011.



### FUTURE PROSPECTS

Notwithstanding the difficult environment, we expect the Group to use its strong brand in conjunction with the improved manufacturing facilities, in the next financial year. To this end, the Group will continue to invest in the existing operating facilities and human resources to improve its competitiveness and to meet current Good Manufacturing Practice (cGMP) requirements.

The potential in the export market will be exploited.

Our Group remains in good condition and is well positioned to take advantage of any available opportunities in the local and regional markets.

Given the level of the Group Debt position and the local take up of rights issues, the Board is in the process of exploring alternative funding through equity based instruments at subsidiary level. Given these various initiatives, the financial statements have been prepared on a going concern.

### DIRECTORATE

Mr J Nderere, who is a senior pharmacist, was appointed Chief Executive Officer of CAPS Holdings Limited. Following this development I relinquished my role as Executive Chairman and I took the post of Non-Executive Chairman. I would like to wish Mr Nderere all the best in his new role.

I would like to thank the board, management and staff for their hard work and commitment during the year.

### DIVIDEND

The directors have resolved that no dividend will be declared given that the Group reported a loss.

**F. MTANDAH**  
**CHAIRMAN**

13 May 2011

The main plant closed the year at a capacity utilisation of 38% owing to improved raw material deliveries as a result of a fresh working capital injection.

**J. B. Nderere**  
**B.Pharm (Hons),MPS**  
**Group Chief Executive Officer**

## OVERVIEW

The economic environment remained very unfriendly to business and was characterized by high interest rates, short term facilities and a persistent liquidity crunch. The public sector remained largely unfunded throughout the trading period. This negatively affected the business as a significant portion of the revenue stream of the factory emanates from government funded institutions.

## SEGMENTAL OVERVIEW

### MANUFACTURING

Turnover for the year ended 31 December 2010 closed at \$4 839 667 representing 70% of the projected budget. A trading loss of \$1,289,441 was reported.

The major setback in this business is its ageing machinery some of which finally became irreparable in 2010. Material losses were reported due to machine breakdown during production resulting in product losses. At Autosterile the autoclave was barely functioning. A new autoclave was ordered during 2010 as a replacement of the old machine and was delivered, installed and commissioned subsequent to year end. This is expected to boost production to meet the unfulfilled orders that have piled up as a result of the unreliability of the old autoclave in the factory. The capacity of this autoclave will fulfil both local and export demand for products.

The sterile section of the penicillin Plant was not operational for the entire trading period. The sterile section is the heart of the Penicillin plant. Procaine penicillin worth US\$161 000 that was held at the factory pending release by the Medicines Control Authority of Zimbabwe (MCAZ) after they had been satisfied by the production facility expired on CAPS before delivery. This was earmarked for the 2007 European Union funded tender. There are still regulatory requirements to be met before this section gets approval to operate from MCAZ.

The packing in the tablets section remained predominately manual for the entire trading period. This bottleneck was addressed by purchasing certain pieces of automatic packing machines for the tablets section. These machines should be delivered and installed in the second quarter of 2011.



Capacity utilisation for the factory closed the year at 38% owing to improved raw material deliveries as a result of a fresh working capital injection from the CBZ facility. The liquids section was the busiest section due to the Botswana government tender which was running.

A gross profit margin averaging 54% was maintained throughout the year. Despite the good gross profit margin, the bottom line remained negative due to the low turnovers which were affected by the closure of the factory as well as the other plants that were not operational during the trading period.

There was little activity in the R&D department during the year. The company managed to register the triple combination ARV. The uncompetitive prices of raw materials from the principal who provided the dossiers under technology transfer agreement, prevented the product from being commercialised. However, the product will still be marketed for the private market as negotiation for better raw material prices with the principal continue.

#### RETAIL

Turnover achieved over the year was US\$ 3.1 million which was 71% increase from what was achieved in prior year. This was on the back of improved stock procurement, price competitiveness, and product range improvement. The average gross profit margin was 52% .

#### HOSPITAL

The year 2010 was generally characterized by increasing volumes and revenue due to improved nursing care, strengthening of medical aid relationships and improved supplies of drug and sundries. The revenue for the year 2010 was \$ 4,230,226 against a forecast of \$ 5,048,098 which was an 84% achievement of the target.

The overall bed occupancy for the year 2010 was 28% compared to 24% for the year 2009.

Management will continue to roll out new projects and acquiring new equipment in an effort to increase bed occupancy.

The average gross profit margin achieved for the year 2010 was 45%.

#### GEDDES

The turnover achieved for the year was \$ 1.6 million which was far below the expected potential of the wholesale. The turnover growth for the entity was affected by the closure of the factory and the subsequent recall of products. The galenical range of products which once was a significant contributor to revenue was resuscitated in the third quarter. The average GP was 13% for the year.

#### FOREIGN OPERATIONS

##### CAPS BOTSWANA

The company achieved a turnover of US\$0.35 million for 2010, compared with revenues of US\$0.53 million in the previous year. This was as a result of the closure of the main factory.

Caps Botswana achieved a net income of US\$0.01million compared with a net income of US\$0.02million for the same period in the previous year.

**CAPS SOUTH AFRICA**

The absence of a substantive General Manager affected the operations of CAPS South Africa. It is anticipated that this business will report improved results in 2011.

**FUTURE PROSPECTS**

The Group will continue to invest in plant and equipment to increase its competitiveness and meet the demand for its products. Compliance with current Good Manufacturing Practices (cGMP) will be enhanced by the purchase of the new equipment. Consideration will be given to opportunities that will arise in the region which will result in diversifying the geographical risk of the Group.

The branch network of the retail arm of the Group will be expanded in the ensuing year by looking for more strategic locations to open up more branches.

The St Anne's brand will be rolled out by opening clinics in strategic sites preferably next to QV pharmacies branches.

Distributorship agreements with manufacturers will be sought in 2011.



**J. B. NDERERE**

**GROUP CHIEF EXECUTIVE OFFICER**

13 May 2011