



# UNAUDITED RESULTS

for the 6 months ended 30 June 2007



- Revenues increase 29% to R479,2 million
- Sixth largest SA pharmaceutical company
  - Restructuring costs of R6,6 million
  - Impairment charge of R7,3 million
- Strategically focused on pharmaceuticals
  - Sale of non-core assets progressing
- Ranked SA's most empowered JSE-listed company
- R125 million equity raised for upgrade and expansion

# COMMENTARY

## FINANCIAL PERFORMANCE

It is our pleasure to announce a satisfactory set of interim results, in the light of a revised strategy for the group and the challenging regulatory environment. The group is now focused on the exciting and growing pharmaceutical market with particular emphasis on generics and OTC (Over The Counter) medicines, and continues to show market share gains.

Revenue for the period increased by 29% to R479,2 million (2006: R371,1 million), a satisfactory performance considering that this is primarily organic growth, with no acquisitions having been concluded in the current calendar year. The minimum growth across all business units was 25% as the group continued to benefit from the positive environment for generic medicines and the buoyancy in consumer spending patterns.

The gross margin for the period is 49% (2006: 49%) despite the effect of a relatively weaker Rand in this period compared to 2006.

Operating profit for the period is R86,4 million (2006: R93,1 million), a decrease of 7%. In 2006 operating profit included gains of R3,6 million related to the profit on disposal of the Phoenix-based consumer factory and net foreign exchange of R8,3 million. In the current period foreign exchange losses amount to R2,3 million and other expenses for restructuring costs and impairment charges on PPE of R13,9 million were recorded. Thus comparable operating profit is R81,2 million and R102,6 million for 2006 and 2007 respectively, an increase of 26%.

The group has utilised the R500 million facility provided for the acquisition of Cipla Medpro consequent to the additional payment to the Cipla Medpro vendors of R300 million in March and April. During the period under review, the total interest expense was R19 million (2006: R14,5 million) and R7,7 million interest was earned from cash balances on hand. The group benefited from interest rate swap fair value adjustments of R9,5 million (2006: R7,9 million).

The effective taxation rate for the period is 37% (2006: 35%), the primary adjustments to the statutory tax rate emanating from non-deductible interest of R19,9 million, IFRS 2 expenses of R1,4 million and STC of R1,7 million.

Profit after taxation for the period is R47,3 million (2006: R53,2 million) resulting in basic EPS of 11,4 cents (2006: 13,2 cents), a decrease of 14%, and basic HEPS of 12,6 cents (2006: 12,4 cents), an increase of 2%.

Interest-bearing borrowings, net of cash on hand are R361 million (2006: R275,2 million). Subsequent to the utilisation of the R500 million borrowing-facility in connection with the Cipla Medpro acquisition, the group has repaid R3,6 million and redeemed R22,2 million of this during the period under review. The excess cash on hand results from the capital-raising exercise conducted in May and this money has been set aside for the R100 million factory upgrade. The gearing ratio is 31% (2006: 29%).

Cash flows from operating activities are R25,1 million (2006: R55,3 million). The lower cash flow at this level relates to the payment of the first provisional tax payment for 2007 clearing the bank account prior to the cut off date. Cash flows from investing activities relate primarily to expenditure on the pharmaceutical factory upgrade. Cash flows from financing activities include the net effect of the R125 million raised to finance the factory upgrade, and Cipla Medpro vendor payments of R300 million net of the preference shares issued.

## BOARD ANNOUNCEMENTS

In pursuit of the pharmaceutical strategy, the board appointed Cipla Medpro CEO Jerome Smith as the incoming CEO in June 2007 and Trevor Edwards announced his retirement. The leadership transition has been relatively smooth with Mr Smith focusing his energy on integrating the pharmaceutical businesses and addressing the challenges in the pharmaceutical facility, and Mr Edwards devoting his time to ongoing leadership of the consumer and vitality businesses and managing the disposal process for these assets. With the handover now complete and the disposal of the Consumer and Vitality Division businesses progressing according to plan, Mr Edwards resigned from the board with effect from 17 August 2007. We thank Trevor for his valuable contribution, vision and leadership of the Enaleni business since its inception.

Andrew Hall the CFO resigned from the board with effect from 17 August 2007 due to family reasons and a decision to relocate back to Johannesburg. Our thanks to Andy for his solid financial leadership of the business over the past year. The appointment of a replacement for Mr Hall is well progressed and will be announced in due course.

The board has appointed Mr Chris Aucamp as commercial director, with effect from 17 August 2007. Mr Aucamp, a chartered accountant, has been the financial director of Cipla Medpro for 11 years and has

substantial knowledge of the pharmaceutical industry. He was an integral member of the team that oversaw Enaleni's Cipla Medpro acquisition and capital-raising. Mr Aucamp will also fulfil the duties of Group CFO in the interim until such time as a replacement for Mr Hall is appointed.

Sweet Sensations, the empowerment consortium which has a 18,5% shareholding in Enaleni continues to add valuable strategic input through non-executive directors Dr Gil Mahlati and Miss Thembisa Dingaana. The IDC continues to be represented by Miss Mpho Mosweu.

## **OPERATIONAL REVIEW**

### **Pharmaceutical Division**

Cipla Medpro continues to grow from strength to strength and the integration of FirstPharm into Cipla Medpro, which is progressing according to expectations, will strengthen the OTC division. This integration has resulted in Cipla Medpro opening a new distribution channel into food stores which presents positive new opportunities for the business. The integration of the two businesses will also realise efficiencies and it is anticipated that sales of FirstPharm products such as AlkaFizz, Gelacid and Cipladol will be positively impacted by the larger sales force and additional marketing activities of Cipla Medpro.

Cipla Medpro alone has increased its total market share from 2,5% in June 2006 to 3,1% in June 2007. Its current growth is 37,6% whereas the total pharmaceutical market is growing at 11%. This growth of 37,6% is the highest of the top ten pharmaceutical companies. (Source: IMS)

Cipla Medpro has launched a number of exciting new products during the period under review and the company continues to benefit from the strong pipeline of products from Cipla India. Cipla Medpro continues to build on its range of ARV's and is well positioned to capitalise on the major tender opportunities in 2008. The company has also invested in a substantial and aggressive marketing strategy to increase brand awareness amongst existing and potential consumers. The campaign which is driven by television, seeks to position Cipla Medpro as the pharmaceutical company championing affordable healthcare as a right, not a privilege.

Under increasing regulatory pressure, in late June 2007 the board decided to temporarily suspend manufacturing activity in the pharmaceutical facility and accelerate the R100 million upgrade of the factory to become one of the first PIC/S compliant facilities in South Africa. The decision resulted from the Medicines Control Council (MCC) becoming PIC compliant on 1 July 2007 which changed the dynamics of the local industry. We are working with Cipla India and internationally renowned consultants on the upgrade and we remain optimistic that this will prove to be an excellent strategic investment in light of government's drive to promote local pharmaceutical manufacturing.

The upgrade is within budget and on schedule, and had no causal effect on the disruption to manufacturing. During the period under review the Contract Manufacturing division made an operating loss of R2,4 million before PPE impairments of R7,3 million and inventory write-offs of R3 million. These were provided due to the redundancy of older plant and machinery in the upgraded manufacturing facility and the board's decision to temporarily suspend manufacturing on 29 June 2007.

### **Consumer and Vitality Division**

Subsequent to the announcement by the board to divest of the businesses in this division, namely Bioharmony, Muscle Science and the Consumer Division, as they are no longer strategically aligned with the pharmaceutical strategy, the group has received expressions of interest from a number of potential bidders and has distributed information memoranda to short-listed parties. In spite of the strategic move away from consumer products these businesses have enjoyed excellent growth during the period under review, achieving combined revenue of R76,6 million (2006: R53 million), an increase of 45%. More pleasing, on the back of this impressive revenue performance, the operating profit nearly trebled to R5,1 million thereby representing almost 6% of the group's operating profit.

#### **Bioharmony**

This business has achieved a 100% increase in revenue and has improved its operating margin to more than 10% despite the relatively heavy investment in marketing via television advertising.

#### **Muscle Science**

Performance in this sports supplements business, the third largest in South Africa, has also continued to improve with an increase in revenue of 33% from the prior period, and operating margin in excess of 11%. Market share continues to increase, distribution has improved and a new listing in Clicks stores promises further increases in market share, particularly within the weight loss market.

## **Consumer Division**

This business reflects a 31% increase in revenue on the previous period and particularly pleasing is that the key brands, Caivil and Hercules, have both grown in excess of 40%. The business continues to invest substantially in marketing activities to promote these two key brands, particularly in the targeted 'black diamond' consumer market and there are few businesses as well positioned to capitalise on this sector. Consumer research was recently undertaken which confirmed the company's belief that Hercules and Caivil are valuable assets. The business made an operating profit of R1,2 million during the period under review.

Management is of the opinion that these three well-established businesses are desirable assets for potential purchasers as all three boast high levels of consumer recognition, growing support within the local markets and, in the case of Hercules and Caivil, significant growth opportunities within the growing emerging market. Management is optimistic that the values realised will be ahead of initial expectations.

## **Relocation of Group Head Office**

In conjunction with Mr Smith's appointment as CEO, the group will relocate its head office to Cape Town by the end of the year. The head office relocation will improve efficiencies and streamline communications and operations. The plan is proceeding smoothly and consensual termination agreements have been concluded with a number of employees resulting in a charge of R6,6 million during the period under review.

## **Prospects**

The second half of 2007 will see new product launches and the finalisation of the sale of the Consumer and Vitality Division businesses. While the next six months will be a challenging period given the restructuring, we will continue to build the platform for a pure pharmaceutical company focusing on the OTC and generics markets. We believe the company will continue to show revenue growth and market share gains. We will continue to leverage off our strong relationship with Cipla India to realise our vision of becoming a top five pharmaceutical company within the next three years.

## **BASIS OF PREPARATION OF THE UNAUDITED RESULTS**

The interim consolidated financial statements consist of an income statement, balance sheet, statement of changes in equity, condensed cash flow statement and condensed segment report for the period ended 30 June 2007.

The interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and in accordance with the Companies Act in South Africa. The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 December 2006.

## **DIVIDENDS**

Currently all earnings generated by the group are utilised to repay debt and fund growth opportunities.



**PCS LUTHULI**  
*Chairman*



**JS SMITH**  
*Joint CEO*



**TD EDWARDS**  
*Joint CEO*

17 August 2007

## CONSOLIDATED INCOME STATEMENTS

	6 months ended 30 June 2007 Unaudited R'000	6 months ended 30 June 2006 Unaudited R'000	Year ended 31 December 2006 Audited R'000
<b>Revenue</b>	<b>479 214</b>	371 056	789 494
<b>Gross profit</b>	<b>233 296</b>	182 919	388 392
Other operating income	1 036	5 289	7 478
Operating expenses*	(147 941)	(95 116)	(205 861)
<b>Operating profit before financing costs and taxation</b>	<b>86 391</b>	93 092	190 009
Finance costs	(18 963)	(14 529)	(32 084)
Finance income	7 705	3 089	7 446
<b>Profit before taxation</b>	<b>75 133</b>	81 652	165 371
Taxation	(27 799)	(28 407)	(60 856)
<b>Profit after taxation</b>	<b>47 334</b>	53 245	104 515
<b>Attributable to:</b>			
Equity holders of the parent	46 945	52 833	104 079
Minority interest	389	412	436
<b>Profit for the period</b>	<b>47 334</b>	53 245	104 515
<b>Reconciliation of headline earnings</b>			
Profit attributable to ordinary shareholders	46 945	52 833	104 079
Adjusted for:	5 031	(3 086)	(4 257)
Impairment of property, plant and equipment	5 160	–	–
Profit on disposals of property, plant and equipment	(55)	(3 086)	(3 073)
Excess of assets acquired over purchase price	(74)	–	(1 184)
<b>Headline earnings</b>	<b>51 976</b>	49 747	99 822
Number of shares ('000)			
Weighted average (basic)	413 566	400 360	400 609
Weighted average (diluted)	415 454	407 491	408 530
Earnings per share (cents)			
Basic	11,4	13,2	26,0
Diluted	11,3	13,0	25,5
Headline earnings per share (cents)			
Basic	12,6	12,4	24,9
Diluted	12,5	12,2	24,4

## NOTES

### Operating expenses\*

#### Restructuring costs

The board has approved plans to restructure the corporate office and relocate the head office of the Enaleni Pharmaceuticals Limited Group ('Enaleni') to Cape Town at the end of 2007. Restructuring costs of R6,6 million, primarily related to employee termination and relocation costs, have been recognised during the period ended 30 June 2007.

#### Impairment of plant and machinery

Included in operating expenses is an impairment charge of R7,3 million for the period ended 30 June 2007. Newer assets being integrated into the upgraded manufacturing facility has led to some assets being rendered redundant resulting in the impairment of certain plant and machinery.

## CONSOLIDATED BALANCE SHEETS

	30 June 2007 Unaudited R'000	30 June 2006 Unaudited R'000	31 Dec 2006 Audited R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 468 122</b>	<b>1 213 746</b>	<b>1 446 339</b>
Property, plant and equipment	44 917	22 323	30 261
Intangible assets	1 403 911	1 174 807	1 400 848
Investments	5 071	5 510	5 071
Loans receivable	–	2 136	–
Deferred tax	14 223	8 970	10 159
<b>Current assets</b>	<b>473 042</b>	<b>324 098</b>	<b>421 760</b>
Inventories	111 689	84 930	91 718
Income tax receivable	1 378	61	24
Trade and other receivables	207 764	160 112	144 280
Loans receivable	4 825	–	3 453
Cash and cash equivalents	147 386	78 995	182 285
<b>Total assets</b>	<b>1 941 164</b>	<b>1 537 844</b>	<b>1 868 099</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves	1 176 658	942 680	997 821
Minority interest	170	(1 147)	(213)
<b>Total equity</b>	<b>1 176 828</b>	<b>941 533</b>	<b>997 608</b>
<b>Non-current liabilities</b>	<b>491 861</b>	<b>252 169</b>	<b>352 550</b>
Loans and borrowings	487 025	250 688	350 416
Deferred tax	4 836	1 481	2 134
<b>Current liabilities</b>	<b>272 475</b>	<b>344 142</b>	<b>517 941</b>
Bank overdraft	3 776	2 067	3 175
Loans and borrowings	17 628	101 472	308 922
Income tax payable	12 328	45 703	36 744
Trade and other payables	238 743	194 900	169 100
<b>Total liabilities</b>	<b>764 336</b>	<b>596 311</b>	<b>870 491</b>
<b>Total equity and liabilities</b>	<b>1 941 164</b>	<b>1 537 844</b>	<b>1 868 099</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

	6 months ended 30 June 2007 Unaudited R'000	6 months ended 30 June 2006 Unaudited R'000	Year ended 31 Dec 2006 Audited R'000
<b>Cash flows from operating activities</b>	<b>25 114</b>	<b>55 309</b>	<b>89 308</b>
<b>Cash flows from investing activities</b>	<b>(31 161)</b>	<b>(3 629)</b>	<b>(42 820)</b>
<b>Cash flows from financing activities</b>	<b>(29 453)</b>	<b>(82 172)</b>	<b>25 202</b>
Net (decrease) increase in cash and cash equivalents	(35 500)	(30 492)	71 690
Cash and cash equivalents at beginning of the period	179 110	107 420	107 420
<b>Cash and cash equivalents at end of the period</b>	<b>143 610</b>	<b>76 928</b>	<b>179 110</b>

## CONDENSED SEGMENTAL REPORT

	6 months ended 30 June 2007 Unaudited R'000	6 months ended 30 June 2006 Unaudited R'000	Year ended 31 Dec 2006 Audited R'000
<b>Segment revenue</b>			
Pharmaceutical	402 598	318 045	673 586
Consumer and vitality	76 616	53 011	115 908
<b>Total</b>	<b>479 214</b>	<b>371 056</b>	<b>789 494</b>
<b>Segment result</b>			
Pharmaceutical	81 253	91 347	184 568
Consumer and vitality	5 138	1 745	5 441
<b>Total</b>	<b>86 391</b>	<b>93 092</b>	<b>190 009</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					Minority interest R'000	Total equity R'000
	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained earnings R'000	Total R'000		
<b>Balance at 1 January 2006</b>	403	875 218	(2 651)	18 596	891 566	(1 559)	890 007
Profit for the year	–	–	–	104 079	104 079	436	104 515
Issue of share capital	6	18 216	–	–	18 222	–	18 222
Share issue expenses	–	(2 706)	–	–	(2 706)	–	(2 706)
Shares held by share incentive trust	–	–	(16 222)	–	(16 222)	–	(16 222)
IFRS 2 Share-based payments	–	–	–	2 882	2 882	–	2 882
Acquisition of minority interest	–	–	–	–	–	910	910
<b>Balance at 1 January 2007</b>	<b>409</b>	<b>890 728</b>	<b>(18 873)</b>	<b>125 557</b>	<b>997 821</b>	<b>(213)</b>	<b>997 608</b>
Profit for the period	–	–	–	46 945	46 945	389	47 334
Issue of share capital	33	128 184	–	–	128 217	–	128 217
Share issue expenses	–	(1 577)	–	–	(1 577)	–	(1 577)
Issued from share incentive trust	–	–	3 818	–	3 818	–	3 818
IFRS 2 Share-based payments	–	–	–	1 434	1 434	–	1 434
Acquisition of minority interest	–	–	–	–	–	(6)	(6)
<b>Balance at 30 June 2007</b>	<b>442</b>	<b>1 017 335</b>	<b>(15 055)</b>	<b>173 936</b>	<b>1 176 658</b>	<b>170</b>	<b>1 176 828</b>

## CORPORATE INFORMATION

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<b>Non-executive directors</b>	PCS Luthuli ( <i>Chairman</i> ), Dr G Mahlati, T Dinga, M Mosweu
<b>Executive directors</b>	JS Smith ( <i>Joint CEO</i> ), TD Edwards ( <i>Joint CEO</i> ), AG Hall ( <i>CFO</i> ) PA Pillay, Chris Aucamp ( <i>appointed 17 August 2007</i> )
<b>Registration number</b>	2002/018027/06
<b>JSE</b>	ENL
<b>ISIN</b>	ZAE000067740
<b>Registered address</b>	1474 South Coast Road, Mobeni, KwaZulu-Natal, 4052
<b>Postal address</b>	PO Box 32003, Mobeni, 4060
<b>Transfer secretaries</b>	Computershare Investor Services 2004 (Proprietary) Limited
<b>Telephone</b>	+27 31 451 3800
<b>Facsimile</b>	+27 31 451 3889
<b>Sponsor</b>	Nedbank Capital

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These results may also be viewed at [www.enaleni.com](http://www.enaleni.com)

