



CAPS HOLDINGS LIMITED

2009 Annual Report



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life

Through better health care



CAPS HOLDINGS LIMITED



CAPS PHARMACEUTICALS



GEDDES LIMITED



Pharmacies



St Anne's
HOSPITAL



CAPS SOUTH AFRICA



CAPS BOTSWANA



Farmacia Limitada

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life

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CAPS HOLDINGS LIMITED

Company information

Registered office
2 Manchester Road
P.O Box ST 202
Southerton
Harare

Auditor
PricewaterhouseCoopers
Chartered Accountants (Zimbabwe)
Building No.4 Arundel Office Park
Norfolk Road, Mt Pleasant
Harare

Company Secretaries
Caps Management Services
(Private) Limited
2 Manchester Road
P.O Box ST 202
Southerton
Harare

Bankers
Stanbic Bank Zimbabwe Limited
1st Floor, Stanbic Centre
59 Samora Machel Avenue
Harare

Transfer Secretaries
First Transfer Secretaries
4th Floor Goldridge,
Eastgate
Sam Nujoma St/
Robert Mugabe Way
Harare

Legal Advisors
Scanlen & Holderness
Legal Practitioners
CABS Centre
74 Jason Moyo Avenue
Harare

Operating Subsidiaries

- CAPS Rallis (Private) Limited
t/a CAPS Pharmaceuticals
- Hermes Laboratories (Private) Limited
t/a Autosterile
- Geddes Limited
- QV Pharmacies (Private) Limited
- St. Annes Hospital Limited
- CAPS PHARMACEUTICALS (SA)(Proprietary) Limited
- CAPS Botswana Trading (Proprietary) Limited
- QV Farmacia Limitada (Mozambique)
- CAPS Management Services (Private) Limited
- Biomed (Private) Limited

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CENTRAL AFRICAN PHARMACEUTICALS

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CAPS Holdings Limited is one of the largest vertically intergrated groups of pharmaceutical and health care companies in Africa.

The Group activities consists of manufacturing; wholesaling, retailing and hospital care in Zimbabwe and Sub- Saharan Africa.

VISION

To be Africa's leading household name in generic pharmaceuticals and health care.

MISSION

Our mission is to create and maintain continuous demand for our products and services.

To achieve this, we will continuously strive to provide customer oriented products and services, using appropriate technology and systems.

We are committed to nurturing an entrepreneurial culture to sustain and enhance our business.

VALUES

Ethics and Integrity

Mutual respects among all employees

Value and recognition of good performance

Continuous development of our people

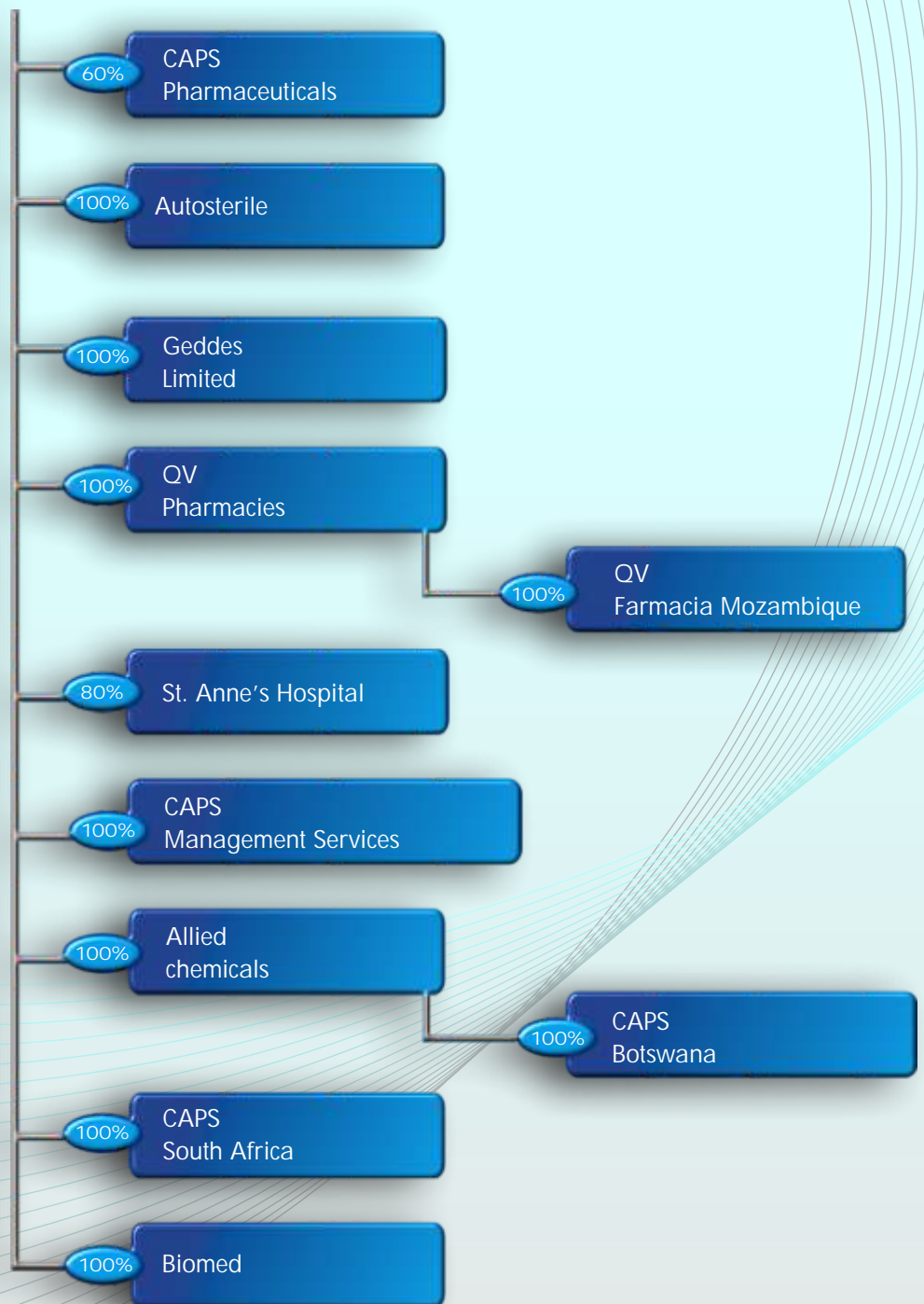
Quality products and services

Innovativeness

Good corporate governance

Responsible corporate citizenship





THE BOARD

F. Mtandah*	(Appointed on 08.08.02)	Board Chairman and Chairman of all subsidiary boards, Other directorships include Lobels (Private) Limited, New Africa Securities, Fredex Financial Services
G. Cheater	(Appointed on 24.09.09)	CA (Z) Other directorships include Scotia Holdings, Motor City Toyota, French and Smith and Iridescent Enterprises
Y. Nxumalo	(Appointed on 03.09.09)	BA Honors in Economics, BA in Biblical Studies, Diploma in Public Relations, Money and Banking Statistics. Other directorships include Fredex and Co Ltd (Zimbabwe) and Fredex Financial Services (Malawi)
J. Nderere	(Appointed on 01.01.07)	BSc Pharmacy. He is the current Chief Executive Officer of Harare Hospital and a board member of the Medicines Control Authority of Zimbabwe
B. Nkomo*	(Appointed 10.07.06)	CA (Z) Other directorships includes CAPS Holdings subsidiaries except CAPS SA (Proprietary) Limited, New Africa Securities.
M. Vickery	(Appointed 29.11.06)	B.A. General Degree and a MBA with Strategic Planning and Marketing Focus. He is the current Managing Director of Thomas Milder and a board member at Member of Young Presidents Organization In. (YPO)
M. Mutanda	(Appointed on 03.09.09)	BA (Hons) in Economics, Legal Practice Course, specialising in: Public Companies and Equity Finance, Banking Debt & Finance and Acquisitions, Graduate Diploma in Law. Other directorships includes Fredex Payment Services (UK)

*Executive

COMPANY SECRETARY

C. Mahari (Mrs.)	Honors in Accountancy (UZ), Post Graduate Diploma in Applied Accounting.
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SENIOR MANAGEMENT

T Munyika	CA (Z) CA (SA)	Chief Finance Officer
A. Magadzire	B. Compt Accounting (UNISA)	Group Finance Manager
T. Nhengu	Microsoft Certified Professional	Group ICT Manager
L. Muparuri	Microsoft Certified Professional	Group Systems Manager
E. Chindove	Bsc Pharmacology. MBL (UNISA)	Group Marketing Manager
J. Majaka	B. Pharm. (Honors) MBA (UZ)	General Manager, CAPS Pharmaceuticals and Autosterile
G. Mubata	CA (Z)	Financial Controller, CAPS Pharmaceuticals and Autosterile
S. Matingo	B. Pharm. (Honors) MBA (UZ)	General Manager, Geddes Limited and QV Pharmacies
M. Shumba	B. Pharm. (Honors) MBA (UZ)	General Manager, St. Anne's Hospital
M. Sibanda	B. Pharm. (Honors) (UZ)	Managing Director, CAPS Botswana
S. Jordaan (Mrs.)	B. Pharm. (Honors)	Managing Director, CAPS Pharmaceuticals (SA)
C. Mahuni	B. Pharm. (Honors) (UZ)	Executive Director, QV Pharmacies Mozambique

**Financial Highlights and
Key Performance Indicators**

31 Decemeber 2009

INDICATOR

Revenue	\$10.84 million
Loss per share	0.17 cents
Price/Earnings ratio	(6.73)
Market capitalisation	\$11.30 million
Gross margin	49.5%
Operating loss before amortisation of intangibles and depreciation	\$418 030
Percentage debt ratio	26%
General plant capacity	35%
Penicillin plant volumes	10%

An aggressive 3 year marketing strategy will also be implemented in Sub-Saharan Africa from 2010.



Chairman's Report

Overview

The curtain has finally come down on a remarkable year that brought with it both positive and negative developments. The year 2009 saw the coming in of the Inclusive Government which sparked hope for a better Zimbabwe, a better operating environment and a better future for the business. Against this national background we also witnessed heightened performance and growth expectations which, for various justifiable reasons, were largely not met. As we go into the year 2010, as an organisation, there is great need for us to be focused and to concentrate on those core issues which will bring about enhanced productivity, teamwork and renewed commitment to the Groups and industry's values.

Performance Review

Following the completion of the CAPS Pharmaceuticals main plant refurbishment which had commenced in 2006, the Regulatory Authority [Medicines Control Authority of Zimbabwe (MCAZ)] issued a directive to suspend production at the beginning of November 2009. This was to facilitate the inspection of the factory premises and as a result, all work in progress was quarantined. In line with this, a further directive, by the same authority, was issued to recall products manufactured at the plant from wholesalers until the completion of the inspection. These developments had a significant impact on the operations of the factory

and other subsidiaries resulting in a depressed Group turnover of \$10.8 million and a Loss of \$0.95 million for the year ended 31 December 2009.

St Anne's Hospital continued to post strong results throughout the year. This performance was driven by the introduction of competitive hospital tariffs and increased stock availability of medicines.

Our retail and wholesale operations at QV Pharmacies and Geddes Wholesale respectively recorded significant growth in both profit and turnover on a monthly basis. The propensity to spend also showed a month-on-month rise in line with improvements in the market liquidity. However, this part of the business continues to face competition on Over the Counter products from some retail operators that are not registered to sell medicines.

Current Developments

In order to fully unlock the potential of the factory, pieces of equipment especially in the packing area that we ordered, were subsequently delivered and installed in November 2009. The strong demand that exists locally and regionally will begin to be fulfilled soon. The vertically linked units of the Group are poised to benefit from expected product throughput.

The Group will continue to seek to diversify by spreading its operations into the Region.

Future Prospects

As the local business environment continues to improve, the Group will seek to maximize returns in line with rising disposable incomes in the market. With most indicators pointing to the passing of the world recession, this will potentially be a period of growth for the Group, and must be managed closely to ensure sustainability. The Group will continue to seek to diversify by spreading its operations into the Region depending on opportunities.

An aggressive 3 year marketing strategy will also be implemented in Sub-Saharan Africa from 2010 onwards with the aim of re-establishing CAPS brands in markets where we once enjoyed dominance.

Directorate

I would like to welcome Messrs. G. Cheater and M. Mutanda and Ms. Y. Nxumalo who were appointed to the CAPS Holdings Board of Directors during the course of the year.



My sincere gratitude goes to Mr. R. Nyaruwanga and Mrs. S. Jordaan who resigned during the year for their tireless dedication during their tenure.

Appreciation

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 the difficult trading environment and the need to conserve cash and strengthen operations.

FC Mtandah
EXECUTIVE CHAIRMAN

12 April 2010

Operations' Report

Overview

The functional currency was changed in February 2009 from the Zimbabwe Dollar to a multi currency system. This development presented a platform for trading. Even though no values were attached to Zimbabwe dollar balances held in various financial institutions, at the time of change in the functional currency, a base for lending in stable currencies by financial institutions was created.

Overall, the Group reported a loss before tax of \$1.68 million, the bulk of which emanated from the manufacturing sector. The loss from operations above includes amortization of intangibles and depreciation amounting to US\$ 1.26 million.

SEGMENTAL OVERVIEW

Manufacturing

The segment contributed a depressed 25% to Group turnover. This was mainly due to working capital constraints following the change in the functional currency.

Turnover established an incremental trend from one quarter to another.

For the first six months of the year, banks did not lend as a result of the liquidity crunch that existed in the market. The liquidity crunch had a major effect on the customers' propensity to spend and many customers requested to be offered credit terms.

Furthermore, public institutions which constitute over 80% of the market for the manufacturing sector, received little funding from the Government throughout the year. This was compounded by donors who brought in finished medical products which were sourced from external manufacturers at the expense of local manufacturers. As a result, export sales in percentage terms increased in comparison with prior periods.

Financial institutions resumed short term lending for working capital at the beginning of July 2009 even though the interest rates that were quoted were high.

Production improved in the third quarter but was disrupted when a directive was issued by the Regulator for the company to stop production at the beginning of November 2009. This was meant to facilitate the re-inspection of the main plant following the completion of the factory refurbishment which had started in 2006. A further directive was issued instructing the company to withdraw and quarantine all products that were held by wholesalers until the inspection was completed. This meant that no significant revenue was generated during the last two months of the year. Subsequent to year end, the factory passed the inspection that was carried out by the Medicines Control Authority of Zimbabwe (MCAZ) and resumed production.

Distribution

The company continued operating below the expected capacity. Turnover established an incremental trend on a quarterly basis.



The growth potential of the business was compromised by the recall of CAPS products from wholesalers following the closure of the main factory. Foreign suppliers continued exercising caution in extending credit terms to the wholesaler citing, among other things, country risk. This perception showed slight changes towards the end of the fourth quarter when a few foreign suppliers began to extend credit terms to the wholesaler. For the first eight months of the year, local manufacturers also, did not extend credit terms to the wholesaler as a result of the liquidity crunch that existed in the market, resulting in low stock levels throughout the year. The overhead structure of the company remained high during the entire trading period.



Retail

The segment recorded a steady growth in turnover on a monthly basis. The product mix improved and was complemented by some imported products. Medical aid drug access schemes were reintroduced during the course of the year which also improved trading activity.

The profit margins were maintained during the year and price competitiveness was also achieved.

Despite the challenges that existed in the economy, the company managed to retain its entire critical staff. This business remains strategic to the Group and has a very bright future.

Hospital

The hospital posted decent results for the year. Turnover and profits grew on a monthly basis. The hospital reviewed prices downwards in an effort to align the hospital's costs to those charged in the region. Staff costs remain a cause for concern accounting for over 40% of total expenditure. These are set to increase if the skills shortages currently being experienced remain.

There was an improved patient count following the reintroduction of medical aid schemes.

Various projects are underway that will improve service delivery to patients.

Foreign Operations

Significant growth in turnover and profit was reported from the South African entity while no growth in turnover was recorded in the Botswana entity. The order book for these markets remained full and unfulfilled throughout the year as a result of working capital constraints and the closure of the factory that was mentioned above. The revenue achieved by these entities is set to increase with every significant increase in the supply of products from the main factory.

Human resources

Trade Unions continued to influence workers to demand higher wages in the midst of a depressed economy. In spite of this, the Group managed to agree on an amicable remuneration with its workers. The Group will continue to assess remuneration structures in order to remain competitive both locally and regionally.

B Nkomo CA (Z)
EXECUTIVE DIRECTOR- GROUP OPERATIONS

12 April 2010



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Corporate Governance Report

CAPS Holdings Limited is committed to meeting generally accepted corporate governance practices and conduct. The directors recognise the need to conduct the affairs of the Group with principles of integrity, transparency and accountability at all times, and in accordance with generally accepted corporate practices, in the interests of its shareholders, employees, and other stakeholders. Compliance with the generally accepted corporate practices is actively monitored to ensure ongoing improvement of operational and corporate practices. This process enables the Group's shareholders to derive the assurance that in protecting and adding value to CAPS Holdings Limited's assets, the Group is being managed ethically, according to prudently determined risk parameters and in compliance with international best practice. The Group aims to achieve new advancements in corporate governance each year.

Board of Directors

The Board currently comprises of five non-executive directors (2008 - three), and two executive directors including the Executive Chairman (2007 - four). The independent non-executive directors hold, or have previously held, appointments at the highest level in major business and public organisations, and are able to independently evaluate strategies and objectives, as well as to act in the Group's best interest as a balance to the executive directors. An assessment was made for each independent director to determine whether the existence of any business or other relationships interfered materially with the individual's capacity to act in an independent manner. The Board is satisfied that the classification of the Group's independent non-executive directors is appropriate. In a rapidly changing environment, the present mix of experience and skill of the directorate meets the future requirements of the company.

The Board meets at least quarterly, to monitor the performance of management and to ensure proper control over the strategic direction of the Group. Directors are comprehensively briefed, well in advance of the scheduled Board meetings, with relevant information to enable them to fulfill their responsibilities effectively.

Attendance at Board and sub-committee meetings for the year is set out below:

Director	Board Meetings	Audit Committee Meetings	Investment Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Total no. of meetings attended
Frederick Mlandah	5			1	1	7
Graham Cheater *	1	1	1			3
Samantha Jordaan +	2					2
Michael Mutanda *	1	1	1			3
Jealous Nderere *	5	3	3		1	12
Bhekinkosi Nkomo	5	3	3	1		12
Yvonne Nxumalo *	1	1	1			3
Regis Nyaruwanga +	3					3
Mark Vickery *	4	3			1	8

* Independent Non-Executive Director
+ resigned during the year under review

The names of and brief curriculum vitae of each director are set out on page 5 of the annual report.

In line with CAPS Holdings' Articles of Association, Messrs G. Cheater, M. Mutanda, and Ms. Y. Nxumalo who were appointed by directors during the course of the year, retire in terms of Article 93 of the Company's Articles of Association, and being eligible, offer themselves for re-election.

In accordance with Articles 89 and 91 of the Company's Articles of Association, Mr. M. Vickery will retire by rotation at the upcoming annual general meeting and, being eligible, offers himself for re-election. The Board has evaluated his performance and has recommended his reappointment.

The Board Charter provides for automatic retirement of a director at the age of 65. However, at the Board's discretion, the retiree can be invited to serve as a non-executive director on a year-on-year basis.

The members in a general meeting fix fees payable to non-executive directors.

The roles of the Chairman, Executive Director and the Deputy Chairman who is an Independent non-executive Director are strictly separated. The Chairman provides leadership and guidance to the Board and encourages proper deliberation on all matters requiring the Board's attention with input from other directors. The Executive Director is responsible for implementing strategy and operational decisions in respect of the day-to-day operations of the Group.

The Deputy Chairman, who is an independent non-executive director assumes the responsibilities of the Chairman in circumstances where the Chairman has a conflict of interest, when the Chairman's performance is being appraised or when the Chairman's term of office is being considered.

Non-executive directors contribute their independent and objective knowledge, extensive experience and diverse expertise towards Board deliberations. They have unrestricted access to management at all times. All directors are also entitled to seek independent, professional advice on any matters.

Conflict of Interest and Share Dealings

Directors must disclose any potential conflict of interest and any other directorships held by them, which are then reflected in the minutes of Board meetings. Furthermore, directors are obliged to obtain clearance from the Chairman and, in his absence, from the Deputy Chairman, prior to dealing in the shares of the Company. The Company Secretary is notified of all share dealings.

All directors and employees, who are likely to have access to the Company's financial results and other price-sensitive information, are prohibited from dealing in CAPS's shares during "closed periods". The "closed period" further extends to periods during which the Company trades under a cautionary announcement.

Directors' interests and shareholdings directly or indirectly are disclosed in the table below:

Name	Number of Shares	% Shareholding
Mr. F. Mutanda		
a) Mutanda Frederick Charles	7,345,719	1.62%
b) FCM Investments (Pvt) Ltd	67,018,098	14.79%
c) Fredex Financial Services	187,855,863	41.46%
Total	<u>262,219,680</u>	<u>57.87%</u>
Mr. J. Nderere	23,013	0.01%

Composition of the Board of Directors and the sub-Committees are reflected below:

To assist the Board in discharging its collective responsibilities, certain Board tasks have been delegated to the Audit Committee, Investment Committee and, Remuneration & Nomination Committee. The Board recognises that it is ultimately

accountable and responsible for the performance and affairs of the Company and that of the Group and that the delegation of authority in no way absolves the directors of the obligation to carry out their duties and responsibilities.

Audit Committee

The Audit Committee comprises four non-executive directors. A candidate is being sought to fill the position of Group Internal Audit Manager. The Chief Finance Officer and Group Operations Director attend by invitation. The Committee meets quarterly with the company's external auditors to discuss accounting, auditing, internal control and financial reporting matters. The Committee places strong emphasis on achieving the highest level of financial management, accounting and reporting to shareholders. In this regard, the Group complies in all material respects with International Financial Reporting Standards to the extent possible. The external auditors have unrestricted access to the Audit Committee to ensure the independence and objectivity of their reports. The Committee works with written down terms of reference approved by the Board. Mr. M. Vickery currently chairs the committee.

The Audit Committee has recommended the annual financial statements for approval to the Board. The annual financial statements for all Group subsidiary companies have also been reviewed and recommended for approval by the Committee. In accordance with corporate governance guidelines, the Committee holds a minimum of four (4) meetings a year. Three (3) meetings were held during the year and attendance at meetings is set out in the table on page 15.

The Audit Committee Charter tasks the Committee with reviewing the interim and annual results to ensure that the financial results are valid, accurate and fairly present the Group's performance. The internal controls governing accounting, auditing and financial reporting are also assessed. Further responsibilities include:

- Reviewing and monitoring the adequacy of the structure, performance and activities of the internal audit department;

- Reviewing and monitoring the adoption of internal control procedures including accounting policies, legislative compliance, regulatory matters and governance;
- Recommending the appointment of external independent auditors for approval by shareholders and monitoring the extent to which the approved auditors are able to add value to the Group;
- Evaluating the external auditors' proposed audit scope and approach;
Setting the criteria for recommending the engagement of external auditors for non-audit purposes;

Remuneration & Nomination Committee

The Committee is composed of three non-executive directors and an executive director who determine, on behalf of the Board, the remuneration of the executive directors and other executive management. No executive director is involved in the determination of his own remuneration. The Committee has written terms of reference approved by the Board. Mr. F. Mtandah currently chairs the Committee. During the year the Committee met once. Attendance at meetings is set out in the table on page 15.

The Remuneration & Nomination Committee is responsible for ensuring that the Company's executive directors and management are rewarded fairly in accordance with the extent to which their individual performance contributes towards the Group's objectives. The Committee is also responsible for making recommendations to the Board on the remuneration of non-executive directors, which is subsequently approved by shareholders at the annual general meeting.

These responsibilities are designed to ensure that the Board is sufficient in number, expertise and diversity to lead and control the Group and to be responsible to stakeholders for strategically setting the direction for the Group.

Investment Committee

The Committee is comprised of two non-executive directors and one executive director. The Committee meets quarterly to appraise capital projects and the

Group's investment policy. Mr. J. Nderere currently chairs the Committee.

The Board Charter

The Board is governed by a Board Charter which details the Board's composition, procedures for the appointment of directors, directors' responsibilities and Board processes. The fiduciary duties and role of each director is also defined. In terms of the Charter, the Board is responsible for monitoring key risk areas, performance indicators and the effectiveness of management. Further responsibilities include:

- Ensuring that the policies and procedures of the Charter are complied with;
- Ensuring the development and maintenance of succession plans;
- Monitoring Board plans in terms of economic, environmental and social issues relating to the Group;
- Assessing and reviewing the strategic direction of the Group;
- Evaluating performance and determining key performance criteria;
- Evaluating the performance of the Chairman on an annual basis before the annual general meeting; and
- Evaluating legal and regulatory compliance.

Board processes

New appointments

New Board appointments are proposed by the Remuneration & Nomination Committee, taking into account a balance of skills, experience and diversity required to lead, control and best represent the Group. In this regard, the Committee submits a formal proposal to the Board for its consideration each year.

A formal induction programme is in place for new Board members which sets out directors' responsibilities and fiduciary duties and also includes information pertaining to relevant regulatory and statutory frameworks and to Group protocol. The Chairman and Company Secretary manage the induction of new directors and the orientation includes introductions to key management and site visits to all of our subsidiaries.

New appointees receive copies of the latest interim announcements and annual financial results and are also provided with details on the current budget, Group structure, current Board and sub-committee composition, a schedule of upcoming Board meetings as well as the agenda and board pack for the next Board meeting.

Succession planning

CAPS continues to promote succession planning for all key positions. Succession plans are integrated into the key performance areas at management and executive levels. Succession plans are reviewed at every Remuneration & Nomination Committee meeting.

Self-evaluation

An annual internal-evaluation process takes place which includes an evaluation of the Board as a whole and individual evaluations for the various committees. Assessments for individual directors were conducted by both executive and non-executive directors during the year. Peer reviews of each non-executive director were also undertaken by the Board. The Chairman discusses the results of these assessments with each director.

An evaluation of the Chairman was also carried out by each director and the findings were communicated to the Chairman and the Board.

The evaluation questionnaires incorporated matters such as the constitution of the Board, meetings and documentation for meetings, policy setting and monitoring, succession planning, ethics, risk management responsibility and CAPS's status as a "going concern".

The company secretary

The Company Secretary acts as a central adviser to the Board, giving guidance to individual directors and committees on matters such as corporate governance, updates on legal and statutory amendments and on effective execution of their responsibilities and fiduciary duties. The Company Secretary attends Board meetings at the invitation of the Board and is responsible for preparing a comprehensive agenda

and Board pack in advance of Board and committee meetings, and for accurately recording the minutes of these meetings.

Whenever deemed necessary, the Company Secretary also reviews the rules and procedures applicable to the conduct of the affairs of the Board. Where required, the Company Secretary will ensure that the directors have adequate information to discharge their responsibilities effectively.

Board committees

Four established committees assist the Board in discharging its responsibilities, namely the Audit Committee, the Remuneration & Nomination Committee and the Investment Committee. These committees enhance governance of specific matters and contribute towards the sustainability of the Group. Each committee is governed by a formal charter which is reviewed and updated annually to reflect ongoing regulatory and corporate governance developments.

The Board is of the opinion that these Board committees have effectively discharged their responsibilities in accordance with the specific committee charters.

The Nomination Committee has considered and is satisfied with the expertise and experience of Fred Mutanda -Executive Chairman. Further, the Audit Committee has considered and is satisfied with the independence of the external auditors.

Reputation management

Both internal and external matters that could impact the Group's reputation are regularly monitored and, where necessary, and when appropriate, press releases are published to inform shareholders of the Group's position. The Group conducts its activities on principles of good corporate governance which are incorporated in the Code of Ethics. Identified reputational risks are reported to the Board.

Corporate communication is managed in a structured manner to ensure that accurate and valid information is disseminated consistently to all stakeholders.

Moreover, the Group prides itself on supplying high-quality products and customer service to the market through the application of current Good Manufacturing Practice (cGMP), strong business relationships, competent staff and strict adherence to regulations. All product-related complaints and recalls are tracked and appropriate corrective action is implemented timeously.

Accounting and Auditing

The external auditors are responsible for reporting on whether the financial statements are fairly presented and whether they are prepared in compliance with International Financial and Reporting Standards ("IFRS"). Their audit also includes an assessment of select internal controls. The preparation of the annual financial statements and the adequacy of the system of internal controls remains the responsibility of the directors.

Internal controls

With the assistance of the Audit Committee, the directors have satisfied themselves that an adequate system of internal controls is in place to mitigate significant risks identified to an acceptable level, and the directors are satisfied that nothing has come to their attention during the year to indicate that a material breakdown in the effective functioning of this system within the Group has occurred.



FC Mtandah
EXECUTIVE CHAIRMAN

12 April 2010

Directors' Responsibility for Financial Reporting

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of CAPS Holdings Ltd and its subsidiaries.

The directors of the company are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which present a true and fair view of the consolidated and separate financial position of CAPS Holdings Ltd at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards to the extent possible and incorporate full and responsible disclosure. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the reporting period. Actual results could differ from those estimates. Suitable accounting policies have been used and consistently applied and reasonable and prudent judgments' and estimates have been made. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The Board recognises and acknowledges its responsibility for the Group's system of internal financial control. CAPS Holdings maintains internal controls and systems that are designed to safeguard the assets of the Group, detect and prevent errors and fraud and ensure the completeness and accuracy of the Group's records. The Group's Board has considered and discussed the external auditor's report, which include assessments of the relative strengths and weaknesses of key control areas. No breakdowns involving material loss have been reported to the Directors in respect of the period under review.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards to the extent possible. The company's external auditors, PricewaterhouseCoopers have audited the financial statements and their report is set out on page 24.

In discharging this responsibility the Group maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that transactions are executed and recorded in accordance to Group policies.

The going-concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the Group or any company within the Group will not be going concerns in the foreseeable future, based on forecasts, available cash resources and available banking facilities. These financial statements support the viability of the Company and the Group.

The Code of Corporate Practices and Conduct has been adhered to.

Emphasis of matter

As directors we draw attention to the current position with regards to the manufacturing plant issues raised by the Medicines Control Authority of Zimbabwe as outlined in note 17.

The financial statements for the year ended 31 December 2009, which appear on pages 25 to 57 have been approved by the Board of Directors and are signed on its behalf by:



F. C. Mutanda
EXECUTIVE CHAIRMAN
Harare
12 April 2010



M. Vickery
AUDIT COMMITTEE CHAIRMAN

Certificate of the Company Secretary

In my capacity as the Company Secretary, I hereby confirm, in terms of the Companies Act (Chapter 24:03), that for the year ended 31 December 2009, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



C. Mahari (Mrs)
COMPANY SECRETARY

Harare
12 April 2010



Directors' Report

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the Company and the Group for the year ended 31 December 2009.

Nature of business

CAPS Holdings is a vertically integrated Group of pharmaceutical and health care companies in Africa. The Group's activities consist of manufacturing, wholesaling, retailing and hospital care. Its subsidiary, CAPS Pharmaceuticals located in Zimbabwe, is a leading manufacturer of generic pharmaceutical products and produces over 200 products, in solids, liquids and creams. CAPS Pharmaceuticals manufactures, a wide range of products for both foreign-based and domestic pharmaceutical companies. There is a penicillin plant and the general facility plant. The general facility manufactures liquids, creams and ointments and solid dosage forms.

Another subsidiary, Autosterile, produces small volumes and large volumes parenterals and has a self-contained manufacturing unit consisting of water purification, a mixing plant, filling and packaging plants. The manufacturing facility is made up of three separate manufacturing plants based in Harare, Zimbabwe.

Its distribution arm, Geddes Limited is one of the largest wholesaler and distributor of pharmaceutical and personal care products in Zimbabwe, representing almost all local suppliers and a number of international companies. Geddes operates state of the art warehouse facilities at two locations in Zimbabwe.

QV Pharmacies (Private) Limited ["QV Pharmacies"] which is a chain of strategically located retail pharmacies. The core business of QV Pharmacies is the provision of prescription and over-the-counter medication with a strong emphasis on group products. With 10 branches in Zimbabwe and one in Beira, Mozambique, QV Pharmacies has become a household name in retail pharmacy. St Anne's Hospital Limited is one of the leading

private hospitals in the provision of high quality health care services in Zimbabwe. It is situated in Avondale, a northern suburb in the capital city, Harare. The Hospital has 164 beds set on three floors of spacious wards. A variety of accommodation is available from general wards, semi private, private rooms and en suite rooms fitted with satellite television. An exquisite garden setting creates a tranquil atmosphere conducive to recuperation.

St Anne's Hospital, through experienced specialists, is able to provide exceptional standards of medical care in the following: Oncology; General Surgery; Urology; Orthopaedic Surgery; Paediatric Medicine/Surgery; Neurology and Neurosurgery; Gynaecology; Cardio-thoracic Surgery and Ear, Nose and Throat Surgery.

The Group has foreign operations. These consists of CAPS Pharmaceuticals (SA) (Proprietary) Limited ["CAPS South Africa"] and CAPS Botswana Trading (Proprietary) Limited ["CAPS Botswana"]. CAPS South Africa is engaged in the marketing of the Group's products in the South African market. CAPS Botswana operates as a wholesaler and distributor of pharmaceutical and allied health care products, with special emphasis on the Group's range of products;

General review of the results

The financial results of the Group and of the company are set out on pages 25 to 29 of this report. The segmental analysis is included in note 3.

The consolidated loss attributable to ordinary shareholders of CAPS Holdings Limited for the year ended 31 December 2009, amounted to \$758 526.

The Group's financial results are dealt with more comprehensively in the financial statements.

Share capital

The share capital of the company at 31 December 2009 comprised 453 092 169 ordinary shares. The nominal value of the shares will be redenominated in line with the guidance issued by the Registrar of Companies.

Shareholders' funds

Shareholders funds increased by \$424 042 and the details are shown in the Statement of Changes in Equity.

Directorate and secretary

The following changes in the directorate occurred during the year under review and to the date of this report:

Resignation: Regis Nyaruwanga on 24 November 2009

Resignation: Samantha Jane Jordaan on 01 September 2009

The names of the directors in office at the date of this report are set out on page 7. The name and address of the Company Secretary is set out on page 2.

Directors' valuation of Property, Plant and Equipment and Intangible Assets

On 1 January 2009, a directors' valuation was performed on property, plant and equipment and Intangible assets. The determination of the values of assets was based on estimates that took account of the general market conditions and the performance of the assets.

Directors' interest

As at 31 December 2009, the Directors directly or indirectly held CAPS Holdings shares as shown on page 16 of the Annual Report.

Directors' fees

Members will be asked to approve the payment of the directors' fees in respect of the year ended 31 December 2009.

Post year end event

In March 2010, our manufacturing entity Caps Pharmaceuticals was authorised by the Medicines Controls Authority of Zimbabwe to resume production and between April and May the company was authorised to resell their products that were recalled from the market in November 2009 .

Auditors

Members will be asked to approve the remuneration of the auditors for the financial year ended 31 December 2009 and to appoint auditors for the Group to hold office for the ensuing year.

Contracts

None of the directors and officers of the Company had an interest in any contract of significance during the financial year.

Borrowings

Borrowings at year-end (net of cash and cash equivalents) amounted to \$5,476,135 including short term loans of \$1 352 431 (2008: \$4,205,173 including short term loan of \$138,000). The level of borrowings is authorised in terms of the Company's and its subsidiaries Articles of Association.

A detailed list of borrowings is set out in note 7.4 to the Group financial statements.

Dividend

No dividend has been declared in respect of the year ended 31 December 2009.

For and on behalf of the Board



F. C. Mtandah
EXECUTIVE CHAIRMAN

Harare
12 April 2010

Independent Auditor's Report

To the Shareholders of CAPS Holdings Limited

We have audited the consolidated financial statements of CAPS Holdings Limited and its subsidiaries (the "Group") and the statement of financial position of CAPS Holdings Limited (the "Company") standing alone, together the "financial statements", which comprise the consolidated and separate statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, set out on pages 25 to 57.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Zimbabwe Companies Act (Chapter 24:03) and the relevant Statutory Instruments ("SI") SI 33/99 and SI 62/96. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

BASIS FOR ADVERSE OPINION

As explained in note 2.3 to the financial statements, the functional and presentation currency of the Company and the presentation currency of the Group changed on 1 February 2009 from the Zimbabwe Dollar (ZWD) to the United States of America Dollar (USD). The Zimbabwe economy was previously recognised as being hyperinflationary for purposes of financial reporting. To effect the change in functional currency, the Group and the Company were required by International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates, to restate their financial statements as at and for the month ended 1 February 2009 in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies, before translating the amounts at the closing exchange rate as at 1 February 2009. However, only those assets and liabilities that could be settled or recovered in a currency other than the ZWD or could be reasonably translated into a currency other than ZWD and represented as asset or liability of the Group or Company, have been recorded as take on balances on 1 February 2009, in the manner disclosed in note 2.1 to the financial statements. These assets and liabilities were not restated as required by IAS 29 and IAS 21.

IAS 21 and IAS 29 also require that the inflation adjusted comparative financial information should be translated at the closing exchange rate as at 31 December 2008. No comparative information has been presented for the reasons stated in note 18 to the financial statements. Presentation of comparative information is required by IAS 1, Presentation of Financial Statements.

It was impracticable for us to quantify the effects of non-compliance with IAS 1, IAS 21 and IAS 29 on the financial statements.

Non-preparation of inflation-adjusted financial information as required by IAS 29 was the basis for our adverse opinion on the financial statements as at and for the year ended 31 December 2008, dated 30 June 2009.

ADVERSE OPINION

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not give a true and fair view of the financial position of the Group and of the Company as at 31 December 2009 and of the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Zimbabwe Companies Act (Chapter 24:03) and the relevant Statutory Instruments SI 33/99 and SI 62/96.

EMPHASIS OF MATTER

Without further qualifying our opinion, we draw attention to note 20 to the financial statements which indicates that the Group and the Company operate in an uncertain macro-economic environment in Zimbabwe.

PricewaterhouseCoopers

Group Statement of Financial Position

	Accounting Policy Note	Notes	2009 USD
ASSETS			
Non-current assets			
Property, plant and equipment	2.6.1	4	11 681 191
Intangible assets	2.6.5	5	16 860 079
Financial instruments:			
• Other receivables	2.6.8	15.2	632 823
Deferred tax assets	2.6.14	9	134 418
Total non-current assets			29 308 511
Current assets			
Inventories	2.6.7	6	4 239 069
Financial instruments:			
• Trade and other receivables	2.6.8	7.1	1 461 486
• Financial assets at fair value through profit and loss	2.6.8	7.2	11 472
• Cash and cash equivalents	2.6.9	7.3	340 311
Prepayments		7.1	438 720
Total current assets			6 491 058
Total assets			35 799 569
SHAREHOLDERS' EQUITY			
Share capital and share premium	2.6.10	10	-
Foreign currency translation reserve	2.3		1 742 539
Non-distributable reserves			10 971 215
Retained income			4 480 543
Equity attributable to owners of the parent			17 194 297
Minority interest			5 548 255
Total shareholders' equity			22 742 552
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	2.6.14	9	5 243 037
Financial instruments:			
• Borrowings	2.6.8	7.4.2	4 291 537
• Finance lease liability	2.6.3	7.4.3	13 022
Total non-current liabilities			9 547 596
Current liabilities			
Financial instruments:			
• Trade and other payables	2.6.8	7.6	2 001 490
• Borrowings	2.6.8	7.4.1	1 352 431
• Finance lease liability	2.6.3	7.4.3	4 297
Current tax liabilities	2.6.14	7.8	31 542
Other liabilities	2.6.15	7.7	119 662
Total current liabilities			3 509 422
Total liabilities			13 057 018
Total equity and liabilities			35 799 569


The financial statements were authorised for issue by the Board of Directors on the 12 April 2010 and signed on its behalf by




Company Statement of Financial Position

	Accounting Policy Note	Notes	2009 USD
ASSETS			
Non-current assets			
Property, plant and equipment	2.6.1		523 764
Investments in subsidiaries	2.6.8	14	732 108
Financial instruments:			
• Other receivables	2.6.8	15.2	632 823
Total non-current assets			1 888 695
Current assets			
Financial instruments:			
• Trade and other receivables	2.6.8		11 275
• Financial assets at fair value through profit and loss	2.6.8	7.2	11 472
• Amounts due by group companies	2.6.8		3 988 916
• Cash and cash equivalents	2.6.9		63 192
Total current assets			4 074 855
Total assets			5 963 551
SHAREHOLDER'S EQUITY			
Share capital and share premium	2.6.10		-
Non-distributable reserve			283 126
Accumulated loss			(31 051)
Total shareholders equity			252 075
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	2.6.14		93 461
Financial instruments:			
• Borrowings	2.6.8	7.4.2	4 291 537
Total non-current liabilities			4 384 998
Current liabilities			
Financial instruments:			
• Trade and other payables	2.6.8		30 182
• Amounts due to Group companies	2.6.8		1 282 436
Other liabilities	2.6.15		13 860
Total current liabilities			1 326 478
Total liabilities			5 711 476
Total equity and liabilities			5 963 551

The financial statements were authorised for issue by the Board of Directors on the 12 April 2010 and signed on its behalf by


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Group Statement of Comprehensive Income

	Accounting Policy Note	Notes	2009 USD
Revenue	2.6.13	11.1	10 837 865
Cost of sales			(5 469 056)
Gross profit			5 368 809
Other operating income		11.3	160 370
Selling and distribution expenses		11.6	(49 271)
Administrative expenses		11.6	(3 251 798)
Other operating expenses		11.6	(3 751 493)
Operating loss			(1 523 383)
Loss on investments	2.6.8	11.2	(4 429)
Finance income		11.4	1 562
Finance costs		11.5	(151 787)
Loss before tax			(1 678 037)
Income tax credit	2.6.14	12	724 044
Loss for the year			(953 993)
OTHER COMPREHENSIVE INCOME			
Currency translation differences arising from foreign subsidiaries	2.3		1 182 569
Total comprehensive income			228 576
Loss for the year attributable to:			
Equity holders of the parent			(758 526)
Minority interest			(195 467)
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent			424 042
Minority interest			(195 467)
Earnings per share			
Basic loss per share (cents)		13	(0.17)
Diluted loss per share (cents)		13	(0.17)

Group Statement of Changes in Equity

	Share capital	Share premium	Foreign currency translation reserve	Non-distributable reserve	Retained earnings	Total attributable to equity holders of the parent	Minority interest	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Balance at 1 January 2009	-	-	559 970	-	5 239 069	5 799 039	-	5 799 039
Balance arising from the deemed costs attributed to assets and liabilities on change in functional currency	-	-	-	10 971 215	-	10 971 215	5 743 722	16 714 937
Total comprehensive income/ (loss)	-	-	1 182 569	-	(758 526)	424 042	(195 467)	228 576
Loss for the year	-	-	-	-	(758 526)	(758 526)	(195 467)	(953 993)
Other comprehensive income	-	-	1 182 569	-	-	1 182 569	-	1 182 569
Balance at 31 December 2009	-	-	1 742 539	10 971 215	4 480 543	17 194 297	5 548 255	22 742 552

The non-distributable reserve represents translation reserves arising from changes in functional currency of the Zimbabwe entities, being the net effect of restatement of assets and liabilities previously denominated in Zimbabwe dollars on 1 February 2009.

Group Statement of Cash Flows

	Accounting Policy Note	Notes	2009 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations		8	(150 897)
Changes in working capital			(405 312)
Increase in inventories	2.6.7		40 667
Increase in trade and other receivables	2.6.8		(1 284 007)
Increase in prepayments	2.6.8		(438 720)
Increase in trade and other payables			1 276 748
Cash used in operations			(550 217)
Financing costs paid	2.6.2		(151 787)
Tax paid	2.6.15		(17 400)
Net cash used in operating activities			(725 396)
CASH FLOWS FROM INVESTING ACTIVITIES			
Replacement capital expenditure – property, plant and equipment	2.6.1		(466 169)
Net cash used in investing activities			(466 169)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	2.6.8		1 995 798
Repayment of borrowings	2.6.8		(620 922)
Net cash generated from financing activities			1 374 876
Net increase in cash and cash equivalents			183 311
Cash and cash equivalents at the beginning of the year	2.6.9		157 000
Cash and cash equivalents at the end of the year	2.6.9		340 311

Note	Page	IFRS/IAS reference	Content
1	31	Corporate information	Corporate information
2.1	31	Basis of preparation	Basis of preparation
2.2	32	IAS 27	Basis of consolidation
2.3	32	IAS21	Foreign currency translation
2.4	33	Adoption of Standards	Adoption of new and revised Standards
2.5	33	IAS 1 (R)	Significant assumptions and key sources of estimation uncertainty
2.6.1	34	IAS 16	Property, plant and equipment
2.6.1	35	IAS 36	Impairment of Property, plant and Equipment
2.6.2	35	IAS 23	Borrowing costs
2.6.3	36	IAS 17	Leases
2.6.4	36	IFRS 3	Business combinations
2.6.5	36	IAS 38	Intangible assets
2.6.7	38	IAS 2	Inventories
2.6.8	38	IAS 32, 39, IFRS 7	Financial instruments
2.6.9	41	IAS 7	Cash and cash equivalents
2.6.10	41	-	Share capital and share premium
2.6.11	41	IFRIC 11, IFRS 2	Treasury shares
2.6.12	41	IAS 19, 26	Employee benefits and retirement benefits
2.6.13	42	IAS 18	Revenue recognition
2.6.14	43	IAS 12	Taxation
2.6.15	44	IAS 37	Provisions
	41	IFRS 2	Share-based payment
2.6.16	44	Future changes in accounting policies	Future changes in accounting policies
3	44	IFRS 8	Operating segments

Notes to the consolidated financial statements

1. CORPORATE INFORMATION

These financial statements are presented in United States dollars.

The company is a limited liability company incorporated and domiciled in Zimbabwe. The address of its registered office is No.2 Manchester Road, Southerton, Harare, Zimbabwe. The Group's principal activities are the manufacture, wholesale distribution and retail of pharmaceutical, consumer and veterinary products as well as general and specialised medical care services.

The Company has its primary listing on the Zimbabwe Stock Exchange.

These financial statements were authorised for issue by the board of directors on 12 April 2010.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), except for non-compliance with International Accounting Standard ('IAS') 1, Presentation of Financial Statements and IAS 21, The Effects of Changes in Exchange Rates, IAS 29, Financial Reporting in Hyperinflationary Economies.

This is a departure from the basis on which the financial statement were prepared in prior years.

As the Zimbabwean economy was previously recognised as being hyperinflationary for financial reporting purposes up to 31 January 2009, the Company was required by IAS 21 to restate its financial statements as at and for the one month ended 31 January 2009 in accordance with IAS 29, before translation the financial statements at the closing exchange rate as at 31 January 2009, and to restate and translate the comparative financial information at the closing rate as at 31 December 2008. The inflationary indices required to prepare inflation adjusted financial statements have not been released by the Central Statistics Office since August 2008 and the existence of market distortions made the measurement of inflation by alternate means difficult. Accordingly the Zimbabwe Stock Exchange (ZSE), Public Accountants and Auditors Board (PAAB) and Zimbabwe Accounting Practices Board (ZAPB), jointly provided guidance to determine a foreign currency opening statement of financial position on the date of change in functional currency from Zimbabwe dollars ('Z\$') to a new functional currency. Only those balances that could either be settled or recovered in foreign currency and could be reasonably converted and represented as an asset or liability have been recorded as take on balances in 1 February 2009.

As at that date balances were taken on in US\$ as follows;

- Property, plant and equipment and intangible assets-opening deemed costs per directors valuation.
- Financial assets at fair value through profit and loss-market value.
- Receivables- actual US\$ amounts receivables from customers.
- Payables-actual US\$ amounts owed to suppliers of goods and services.
- Cash and bank-actual foreign currency cash and bank balances.
- Inventory-actual US\$ cost and current US\$ values.
- Borrowings- actual US\$ amounts owed to financiers

The Z\$ denominated balances were written off to the income statement. However the impact of this was not significant.

The surplus on the restatement of the assets and liabilities was credited to non distributable reserves in equity.

Transactions in January 2009 were mainly denominated in US\$ and have been accounted for accordingly. Transactions denominated in Z\$ have not been accounted for, however the value of these transactions was not significant.

Subsequent to 1 February 2009 all transactions were accounted for in accordance with the accounting policies set out herein.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Instances where the Company has made significant judgements during the year are detailed in note 2.3 to the financial statements.

2.2 Consolidation

The consolidated financial statements comprise the financial statements of CAPS Holdings Limited and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year end as the parent company using consistent accounting policies.

Subsidiary undertakings are those companies in which the company directly has an interest of generally more than one half of the voting rights and is able to exercise control over the operations. All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group transactions that are recognised in assets are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the holding company obtains control, and continue to be consolidated until the date that such control ceases. To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss of a non-current asset, that loss is charged to the income statement.

Non-controlling interests represent the portion of profit or loss and net assets of partially owned subsidiaries not held by the Group, and are presented separately in the consolidated income statement, equity statement and within equity in the consolidated balance sheet.

2.3 Foreign currency translation

Functional and presentation currency

The financial statements are expressed in United States dollars, which is the functional and presentation currency of the Holding company and its subsidiaries operating in Zimbabwe and presentation currency of the Group, while the functional currency is the Pula, Meticash and Rand for the Botswana, Mozambique and South African subsidiaries respectively. The results of these three subsidiaries are converted to United States dollars, the reporting currency.

Change in functional currency

During the year the company changed its functional and presentation currency from the Zimbabwean dollar ("Z\$") to the United States dollar ("US\$") with effect from 1 February 2009 after the presentation and pronouncement of the national budget and monetary policy in January 2009, which legalised the use of foreign currency to measure and settle day to day transactions with effect from 30 January 2009.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. To the extent that transactions occur regularly throughout the year, they are translated at the average rate of exchange for the year since this is deemed to provide a reasonable approximation of the actual exchange rates prevailing at the dates on which those transactions occurred.

Translation differences on non-monetary financial assets such as equities classified as available for sale assets are included in the available-for-sale reserve in equity.

Foreign operations

The results and financial position of all entities that have a functional currency different from the presentation currency of their parent entity are translated into the presentation currency. The basis of the translation is as follows:

- Income and expenditure of foreign operations are translated into the Group's presentation currency at the average exchange rate for the year, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenditure transactions are translated at the rates on the dates of the transactions;

- Assets and liabilities, including fair value adjustments and goodwill arising on acquisition, are translated at the closing rate at year-end;
- Exchange differences arising on translation are recognized as currency translation differences in the foreign currency translation reserve through other comprehensive income.

2.4 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows: The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

- IAS1 - Presentation of Financial Statements (Revised) (effective 1 January 2009)
The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS7 'Financial instruments-Disclosures' (amendment) (effective 1 January 2009).
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.
- IAS 23, Borrowing Costs (Revised) The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. The Group is currently capitalising borrowing costs on all qualifying assets.
- IFRS 8, Operating Segments and the amendment to IFRS 8 included in improvements to IFRSs (April 2009) IFRS 8 replaces IAS 14, Segment reporting, and aligns segment reporting with the requirements of the United States standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The impact of this statement on the segmental analysis is minor and limited to changes to reported segments to be consistent with the internal reporting provided to the chief operating decision maker. The adoption of IFRS 8 has had no impact on goodwill allocation or impairment testing.

2.5 Significant accounting judgments, estimates and assumptions

Estimates and Assumptions

The key assumptions concerning the future and estimates thereof made that might result in material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of property, plant and equipment and intangible assets

On 1 February 2009, a directors' valuation was performed on property, plant and equipment and intangible assets. The determination of the values of assets was based on estimates that took account of the general market conditions and the performance of the assets. In the opinion of the directors there is no significant change in value determined as take-on balance at 1 February 2009 and at year end.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Assets that are subject to amortisation are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present values of those cash flows.

Reassessment of useful lives and residual values

As on 1 January 2009, the Group reassessed the useful lives and residual values of its property, plant and equipment. In accordance with IAS 16, the useful lives and residual values of property, plant and equipment have to be reviewed every year in determining the depreciable value of an asset. Residual value is the amount (less estimated disposal costs) that an asset would be sold at currently assuming that the asset was already at the end of its useful life.

2.6 Summary of significant accounting policies

2.6.1 Property, plant and equipment

Property, plant and equipment (PPE) are tangible assets that (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and (b) are expected to be used for more than one period.

Recognition

PPE are recognised as an asset when (a) it is probable that future economic benefits associated with the item will flow to the entity, and (b) the cost of the item can be reliably measured.

Measurement

On initial recognition, PPE are measured at cost.

PPE are subsequently measured at their revalued amounts, being fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity so that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Revaluations are performed on the following bases:

Buildings	· Open market value
Plant and equipment	· Open market value
Computer equipment and furniture	· Open market value
Motor vehicles	· Open market value

Any revaluation increase arising on the revaluation of PPE is credited to the revaluation reserve through other Comprehensive income except to the extent that it reverses a revaluation decrease for the same asset previously recognised in statement of comprehensive income, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged.

A decrease in the carrying amount arising on the revaluation of property, plant and equipment is charged to the statement of comprehensive income to the extent that it exceeds the balance, if any held in the revaluation reserve relating to a previous revaluation of the asset.

Assets in the course of construction for production or for other purposes not yet determined are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

Depreciation

Depreciation is charged so as to write off the value of assets over their estimated useful lives, using the straight line method.

Depreciation is not provided on freehold land. Other property, plant and equipment are depreciated on a straight-line basis, or in the case of certain foreign subsidiaries, on a reducing balance basis to allocate their cost or revaluation amounts to their residual values at rates deemed appropriate having regard to the following estimated useful lives:

- Buildings	50	years
- Plant and equipment	10 - 20	years
- Vehicles	4 - 5	years
- Furniture and office equipment	3 - 4	years

The estimated useful lives of the assets are reviewed at each financial year end and, if expectations differ from expectations at the end of the previous financial year, the changes are accounted for as a change in accounting estimate according to IAS 8.

The method of depreciation of the assets is reviewed at each financial year end and, if a different method gives rise to a more accurate depreciation charge, the changes resulting from the change in method are accounted for as a change in accounting estimate according to IAS 8. Depreciation is charged to statement of comprehensive income.

Derecognition of PPE

PPE is derecognised when (a) the asset is disposed of or retired from use, or (b) when no future economic benefits are expected from its use.

The gain or loss arising on derecognition of PPE is the difference between the net disposal proceeds, if any, and the carrying value of the asset. The gain or loss is included in statement of comprehensive income at the time the item is derecognised.

On the disposal or retirement of revalued PPE, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Impairment of PPE

The carrying values of PPE are reassessed each year taking into account age, usage and obsolescence. The carrying amount is compared to its estimated recoverable amount.

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use. In determining the recoverable amount of assets, expected cash flows are discounted to their present values using risk-adjusted pre-tax discount rates, and taking account of all relevant known factors.

Value in use is estimated taking account of all relevant factors, particularly reasonable and supportable cash flow projections under prevailing economic conditions; most recent management budgets/forecasts up to 5 years forward; estimated asset useful lives and residual values; and other related and relevant factors.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. This write-down is an impairment loss. An impairment loss is recognised immediately in the statement of comprehensive income.

2.6.2 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the qualifying assets on all qualifying assets with commencement dates on or after 1 January 2009.

A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs may include interest expense (calculated using the effective interest method), finance charges and exchange differences (to the extent such differences are adjustments to interest costs).

Borrowing costs are capitalised from the commencement date; commencement date is when expense is incurred on the asset, and borrowing costs are incurred, and activities have commenced on the acquisition or construction of the qualifying asset.

Capitalisation of borrowing costs is stopped when activity is suspended or stops on the qualifying asset.

If the carrying amount or ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable asset, then the carrying amount is impaired accordingly.

2.6.3 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are split between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset, or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Rent payable for occupation of leased property is recognised on a systematic basis representative of the benefits accruing and charged to the income statement accordingly.

2.6.4 Business combinations and Goodwill

Goodwill acquired in a business combination is initially measured at cost, that is, at the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill forms part of cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operating unit when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.6.5 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is included in other operating expenses on the income statement.

Intellectual property

Expenditure on acquired patents, trademarks, dossiers, licences and know-how is capitalised. Expenditure incurred to extend the term of the patents or trademarks is capitalised. All other expenditure is charged to the statement of comprehensive income when incurred.

Intellectual property is recognised at cost and amortised on a straight-line basis over their estimated remaining useful lives of nineteen years. Estimated useful lives are reviewed annually. In addition, some intangible assets included in this category are classified as indefinite life intangible assets. Indefinite life intangible assets are not amortised, but are tested annually for impairment.

Research and development

Research expenditure is charged to the statement of comprehensive income when incurred.

Development costs directly attributable to the production of new or substantially improved products or processes controlled by the Group are capitalised if the costs can be measured reliably, the products and processes are technically feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. All the remaining development costs are charged to the income statement. The amounts that are recognised as intangible assets consist of all direct costs relating to the intellectual property and also include the cost of intellectual property development employees and an approximate portion of relevant overheads. Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs are capitalised until the date of commercial production and are amortised from the commencement of the commercial sale of the product to which they relate, being the date at which all regulatory requirements necessary to commercialise the product are met, on a straight-line basis over the remaining useful lives, which range from three to twelve years.

Product participation and other contractual rights

Rights acquired to co-market or manufacture certain third party products are capitalised to intangible assets and the corresponding liabilities are recognised as deferred payables where applicable. The cost of the product participation rights is determined as equating to the gross values of the corresponding liabilities, discounted to their present values using an appropriate discount rate on initial measurement. These rights are subsequently carried at amortised cost and are amortised as appropriate on either the reverse sum of digits or straight-line basis over the periods of the agreements. The amortisation method is chosen to reflect the pattern in which the benefits relating to the rights are expected to flow to the Group.

Drug master files

Drug master files include technical know-how relating to the drug master files acquired in business combinations and are carried at cost less accumulated amortisation and accumulated impairment losses. Drug master files are amortised over their expected remaining useful lives, which are estimated to be between five and six years.

Impairment of intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate.

2.6.6 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment.

At the end of each financial year, the Group assesses if there is an indication that an asset may be impaired. If such an indication exists, the Group makes an estimate of an asset's recoverable amount. Where the asset's carrying amount exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An assessment is also made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in the prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised.

Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test for goodwill as at 31 December.

2.6.7 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis. The carrying values of finished goods and work-in-progress include raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but exclude borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

2.6.8 Financial instruments

Financial instruments comprise financial assets and financial liabilities

Financial assets

Financial assets within the scope of IAS 39 are classified as:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held to maturity investments;
- and available for sale financial assets.

The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group's financial assets include cash and short term deposits, trade and other receivables, loans and quoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as set out below.

Financial assets at fair value through profit or loss (FVTPL)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the group has the positive intention to hold it to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method, less impairment. Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any dividend or interest earned on financial assets.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those assets designated as at FVTPL.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans are measured at amortised cost using the effective interest rate method less any impairment.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less the allowance account for losses. No fair value adjustment is made for the effect of time value of money where trade receivables have a short-term profile, if the impact is not considered significant. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or late payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount of the asset, being the present value of the estimated future cash flow discounted at the original effective interest rate. This provision is recognised through the use of an allowance account. The amount of the loss is included in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for losses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying amount value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the income statement.

In relation to receivables, a provision is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

The Group's holding in financial liabilities is in financial liabilities at amortised costs. Financial liabilities are derecognised when extinguished.

Financial liabilities for which the fair value option is applied are recognised in the statement of financial position as "Financial liabilities designated at fair value". Fair value changes relating to financial liabilities designated at fair value through the statement of comprehensive income are recognised in net gains on financial instruments designated at fair value through the statement of comprehensive income.

Offsetting in financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset recognised amounts when there is an intention to settle on the net basis or realise the assets or settle the liability simultaneously.

Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing debts are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowing using the effective interest method.

2.6.9 Cash and cash equivalents

Cash and cash equivalents are initially measured at fair value and subsequently carried at amortised cost. For the purposes of the statement of financial position, cash and cash equivalents comprise cash on-hand and deposits held on call with banks.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash-on-hand, deposits held on call with banks, less bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.6.10 Share capital and share premium

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are deducted from share premium.

2.6.11 Treasuries shares

Own equity instruments which are re-acquired (treasury shares) are deducted from equity. No gain or losses is recognised in the income statement on the purchase, sale, issue or cancellation of Groups own equity instruments.

2.6.12 Employee benefits

Employee benefits include:

- a) Short term benefits such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing, bonuses and non-monetary benefits (such as medical care, housing, cars) for current employees.
- b) Post employment benefits such as pensions.
- c) Other long term benefits including long service leave and other long service benefits.
- d) Termination benefits.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in trade and other payables when the entity is contractually obliged or where there is a past practice that has created a constructive obligation to settle the liability and at least one of the following conditions is met:

- there is a formal plan and amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing of the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Share-based payments

Equity-settled transactions

The cost of equity settled transactions to employees is measured by reference to the fair value at the date on which they are granted. An external valuer determines the fair value. The cost of equity settled transactions is recognized together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

Cash settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in the income statement.

Retirement benefits

It is the Group's policy to provide retirement benefits for its employees. All eligible employees are members of the following pension funds:

CAPS Pension Fund

The CAPS Pension Fund is a fully funded Defined Contribution Scheme which is administered independently. The contribution rate under the scheme is 17 % (10 % by the employer and 7 % by the employee).

National Social Security Authority

This social security scheme was promulgated under the National Social Security Authority Act 1989. Contributions by the Group amount to 8 % (employer- 4% and employee -4%) of pensionable monthly emoluments per employee up to a maximum as stipulated by the Authority from time to time.

Contributions to retirement benefit plans are charged to the statement of comprehensive income in the year they become payable. Retirement benefits are provided for employees through an independently-administered defined contribution fund and the statutory National Social Security Authority (NSSA).

A defined contribution plan is a provident fund under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to publicly or privately held pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations. The payments made to provident funds are expensed as incurred and are included in employee costs.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after yearend are discounted to present value.

2.6 .13 Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of discounts, rebates, and value added tax. In the determination of revenue, all intra-group transactions are excluded. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods-wholesale

The Group manufactures and sells a range of pharmaceutical and cosmetic products in the wholesale market. Sale of goods are recognised when a Group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products and there is no unfulfilled obligation that could affect the wholesalers acceptance of the product. Delivery does not occur until the products have been shipped to the specific location, the risks of obsolescence have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sale of goods-retail

The Group operates a chain of retail outlets for selling pharmaceutical and other healthcare products. Sale of goods are recognised when a Group entity sells a product to a customer. Retail sales are usually in cash or in credit.

Rendering of services

Revenue from the rendering of services with respect to the hospital is brought into account after the services have been rendered and the respective patients have been invoiced.

Interest income

Revenue is recognised as interest accrues using the effective interest rate method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

2.6.14 Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognized directly in the equity is recognized in equity and not the income statement.

Deferred taxation

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint venture, deferred income tax assets are recognised only to the extent that that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on purchase of assets or services is not recoverable from the taxation authority, in which case it is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable; a receivables and payables that are stated with the amount of value added tax included.

- The net amount of value added taxation recoverable from, or payable to, the taxation authority is included as part of the receivables and payables in the statement of financial position.

2.6.15 Provisions

Provisions are recognised when the Company and/ or its subsidiaries has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.6.16 Future changes in accounting policies

Standards and interpretations issued but not yet applied

The Group has not early adopted the following standards and amendments to existing standards which have been published but are not mandatory for the Group's accounting period beginning on 1 January 2009.

- IFRS 3, Business Combinations (revised) The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed.
- IAS 27, (revised) Consolidated and separate financial statements (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the statement of comprehensive income. The group will apply IAS 27 (revised) prospectively to transaction with non controlling interest from 1 January 2010.
- IFRIC 17, Distribution of non cash assets to owners (effective on or after 1 July 2009).
- IAS38, (amendment) intangible assets.
- IFRS 5, (amendment) Measurement of non current assets (or disposal groups) classified as held for sale.
- IFRS 2, (amendments) Group cash-settled and share-based payment transactions

3. SEGMENT INFORMATION

The Group has the following operating segments that comprise the structure used by the chief operating decision-maker to make key operating decisions and assess performance. The Group's reportable segments are operating segments that are differentiated by business type (with each segment having different market dynamics and market strategies as described below).

Manufacturing

The manufacturing segment comprises of two strategic business units which are involved in the manufacture, marketing and sales of pharmaceutical, consumer and veterinary products.

Distribution Local

This segment is involved in the importation and wholesale distribution of pharmaceutical, consumer and veterinary products.

Distribution Foreign

This segment comprises of two strategic business units in Botswana and the Republic of South Africa, and distributes pharmaceutical products in these territories.

Hospital

A strategic business unit that operates an upmarket hospital.

Retail Local

This segment operates a chain of retail pharmacy shops in Zimbabwe.

Retail Foreign

This segment is made up of retail pharmacy shops operating in Mozambique.

Services

This segment comprises of three companies that provide accounting, internal auditing and administration services to the Group.

The Group evaluates the performance of its reportable segments based on profit or loss before amortisation, depreciation and tax . The Group accounts for inter-segment sales and transfers as if the sales and the transfers were entered into under the same terms and conditions as would have been entered into in a market related transaction.

The financial information of the Group's reportable segments is reported to the chief operating decision-maker for purposes of allocating resources to the segment and assessing its performance.

3.1 Operating Segments

The following tables present revenue and profit and certain asset and liability information, regarding the Group's operating segments for the year ended 31 December 2009.

	MANUFACTURING	DISTRIBUTION LOCAL	DISTRIBUTION FOREIGN	HOSPITAL	SUB-TOTAL
	31 December 2009 USD	31 December 2009 USD	31 December 2009 USD	31 December 2009 USD	31 December 2009 USD
REVENUE					
External sales	3 039 273	1 174 983	1 648 339	3 132 522	8 995 117
Inter-segment sales	800 504	-	-	-	800 504
Total revenue	3 839 777	1 174 983	1 648 339	3,132,522	9 795 621
RESULT					
(Loss)/profit before amortisation, depreciation and tax	(242 260)	(41 001)	(102 405)	188 767	(196 899)
Depreciation and amortisation	(763 183)	(74 078)	(179 331)	(173 745)	(1 190 337)
Loss or profit before tax	(1 005 443)	(115 079)	(281 736)	15 022	(1 387 236)
OTHER INFORMATION					
Segment assets	22 644 530	1 941 927	7 954 497	2 503 529	35 044 484
Segment liabilities	(9 360 591)	(1 273 671)	(589 236)	(1 330 132)	(12 553 629)
Property, plant and equipment additions	35 850	850	736	114 021	151 457
	RETAIL-LOCAL	RETAIL- FOREIGN	SERVICES	ELIMINATIONS	GROUP TOTAL
	31 December 2009 USD	31 December 2009 USD	31 December 2009 USD	31 December 2009 USD	31 December 2009 USD
REVENUE					
External sales	1 639 047	203 702	-	-	418 030
Inter-segment sales	-	-	-	800 504	-
Total revenue	1 639 047	203 702	-	(800 504)	10 837 865
RESULT					
(Loss)/profit before amortisation, depreciation and tax	(124 103)	(22 431)	(74 597)	-	(418 030)
Depreciation and amortisation	(53 546)	(4 512)	(11 612)	-	(1 260 007)
Loss or profit before tax	(177 649)	(26 943)	(86 209)	-	(1 678 037)
OTHER INFORMATION					
Segment assets	882 221	32 382	6 021 345	(6 180 863)	35 799 569
Segment liabilities	(909 923)	(54 946)	(5 769 270)	6 230 752	(13 057 018)
Property, plant and equipment additions	182 346	-	132 366	-	466 169

3.2 Geographical Information

The following table presents revenue and profit and certain asset and liability information, regarding the Group's geographical locations for the year ended 31 December 2009.

	ZIMBABWE	SOUTH AFRICA	BOTSWANA	MOZAMBIQUE	ELIMINATIONS	SUB TOTAL
	2009	2009	2009	2009	2009	2009
	USD	USD	USD	USD	USD	USD
REVENUE						
External sales	8 985 824	1 135 780	512 559	203 702	-	10 837 865
Inter-segment sales	800 504				(800 504)	-
Total revenue	9 786 328	1 135 780	512 559	203 702	(800 504)	10 837 865
RESULT						
(Loss)/profit before amortisation, depreciation and tax	(293 194)	(163 434)	61 029	(22 431)	-	(418 030)
Depreciation and amortisation	(1 076 164)	(179 331)	-	(4 512)	-	(1 260 007)
Loss or profit before tax	(1 369 358)	(342 765)	61 029	(26 943)	-	(1 678 037)
OTHER INFORMATION						
Assets	33 993 553	7 517 804	436 693	32 382	(6 180 863)	35 799 569
Liabilities	(18 643 587)	(522 257)	(66,978)	(54 946)	6 230 752	(13 709 398)
Property, plant and equipment additions	466 169	-	-	-	-	466 169

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold Property	Plant and Equipment	Furniture and Fittings	Vehicles	Total
	USD	USD	USD	USD	USD
Cost / Valuation	6 053 997	3 463 005	1 658 777	3 280 791	12 797 793
Accumulated depreciation	(107 738)	(277 538)	(223 835)	(272 412)	(881 523)
Net carrying value at 31 December 2009	5 946 260	3 185 467	1 434 942	1 114 522	11 681 191
Movement in property, plant and equipment					
Cost / Valuation	-	-	15 804	54 523	70 327
Deemed cost*	6 053 997	3 428 355	1 481 121	993 851	11 957 324
Additions-replacement	-	34 650	135 639	295 880	466 169
Depreciation	(107 738)	(277 538)	(199 480)	(235 080)	(819 837)
Effects of translation of foreign subsidiaries			1 859	5 348	7 207
Net carrying value at 31 December 2009	5 946 260	3 185 467	1 434 942	1 114 522	11 681 191

* Deemed cost refers to an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset at the given date and that its cost was equal to deemed cost.

Capital commitments

Capital commitments, excluding potential capitalised borrowing costs, include all projects for which specific Board approval has been obtained up to the reporting date, Projects still under investigation for which specific Board Approval have not yet been obtained are excluded from the following:

Authorised and contracted for	10 000
Authorised but not yet contracted for	18 377

Funding

Capital expenditure will be financed from funds generated out of normal business operations and specific project finance facilities.

Security

Bank borrowings are secured on freehold property for the value of US\$5 946 260. Refer to note 7.4.

5. INTANGIBLE ASSETS

	Drug master file	Participating rights	Intellectual property	Total Intangible Assets
	USD	USD	USD	USD
Cost / Valuation	1 711 705	8 927 398	5 959 522	16 598 625
Accumulated amortisation	(115 636)	(464 140)	(484 111)	(1 063 888)
Currency translations	53 550	901 624	370 168	1 325 342
Net carrying value at 31 December 2009	1 649 619	9 364 882	5 845 578	16 860 079
Movement in intangibles assets				
Cost / Valuation	629 119	1 824 161	4 231 431	6 654 711
Deemed cost	1 024 509	6 927 250	1 388 438	9 290 196
Amortisation charge	(57 559)	(288 153)	(94 458)	(440 170)
Currency translations	53 550	901 624	370 168	1 325 342
Net carrying value at 31 December 2009	1 649 619	9 364 882	5 845 578	16 860 079

* Refer to note 4

		2009
		USD
6	INVENTORIES	
	Raw materials	2 105 340
	Work in progress	544 591
	Finished stocks	1 579 337
	Consumables stores	9 800
	Total inventories	4 239 069
	Inventory consumed in cost of sales was \$1 628 893	
7	FINANCIAL INSTRUMENTS	
	a) <i>FINANCIAL ASSETS</i>	
7.1	TRADE AND OTHER RECEIVABLES	
	Financial instruments	
	Trade receivables	1 016 465
	Provision for impairment	(18 147)
	Trade receivables net	998 318
	Other receivables	463 168
	Total trade and other receivables	1 461 486
	Non financial instruments	
	Prepayments	438 720
	Total non- financial instruments	438 720
	Net trade receivables as a percentage of revenue	7%
	Age analysis of trade and other receivables	
	Fully performing	363 282
	Past due by 1 to 60 days	307 993
	Past due by 61 to 90 days	327 043
	Past due by 91 to 120 days	-
	Past due by more than 120 days	-
		998 318
	The average credit period on sale of goods is 60 days. No interest is charged on trade receivables for the first 30 days from the date of invoice. Thereafter, interest is charged at the minimum bank lending rate ruling at the end of that month. Trade and other receivables which are fully performing relate to customers that have a good track record with the Group in terms of recoverability. Before accepting any new individual customer, the group conducts trade reference checks to establish the credit history of the applicant. The Group also conducts enquiries with credit bureaus specifically on individuals, companies and their directors. As at 31 December 2009 trade receivables of US\$635 036 were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The credit quality of debtors is considered to be sound.	
	Reconciliation of provisions for impairment	
	Balance at the beginning of the year	-
	Raised during the year	(18 147)
	Balance at the end of the year	(18 147)
	Collateral and security	
	The Group has no collateral over any trade and other receivables	
	Currency analysis of trade and other receivables	
	United States Dollar	1 099 468
	Botswana Pula	88 228
	South African Rand	259 903

	2009
	USD
7.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	
Deemed cost as at 1 February 2009	15 901
Fair value loss recognised in the income statement	(4 429)
Balance at the end of the year	11 472
The balance consists of shares purchased for companies quoted on the Zimbabwe Stock Exchange	
7.3 CASH AND CASH EQUIVALENTS	
Bank balances	264 606
Cash on hand	75 705
Total cash and cash equivalents	340 311
Cash and cash equivalents are placed with high quality financial institutions refer below for analysis of cash and cash equivalents by currency	
United States Dollars	122 180
Botswana Pula	25 627
South African Rand	192 504
Balance at the end of the year	340 311
b) <i>FINANCIAL LIABILITIES</i>	
7.4 BORROWINGS	
7.4.1 Current	
Total bank loans	1 352 431
The loans are from FBC (\$650 000), Standard Chartered (\$100 000), Renaissance (\$250 000) and Stanbic (\$352 431) banks and are denominated in United States dollars. The loans will be repaid within 12 months from the date of this reporting date and are secured against land and buildings at CAPS Pharmaceutical located at 2 Manchester Road Southerton, Harare and Geddes Limited situated between 6th and Leopold Takawira Street in Bulawayo.	
7.4.2 Non-current	
Total shareholders loans	4 291 537
The loan is from Fredex Financial Services (Private) Limited ; a shareholder, and is denominated in United States Dollars and has no fixed terms of repayment. The loans will not be repaid within 12 months from the date of this reporting date. The loan is unsecured and interest fee.	
7.4.3 Finance lease	
Due not later than 1 year	4 297
Due later than 1 year but not later than 5 years	13 022
Total	17 319
It is the Group's policy to lease certain motor vehicles under finance leases. The lease term is 5years and the effective borrowing rate was 8%. Interest rates are linked to prime at the contract date. The finance liability is repayable in 16 monthly instalments of US\$471 each. The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.	
7.4.4 Borrowing powers	
In terms of the company's Articles of Association, the amount at any one time owing in respect of monies borrowed or secured by the directors, taken together with the aggregate of all similar borrowings of its subsidiary companies (but excluding inter-company borrowings) shall not without the sanction of the company in General Meeting, by ordinary resolution, exceed an amount equal to twice the Group's consolidated shareholders' equity. The borrowings available for utilisation are as follows:	
Authorised borrowings per Articles of Association	34 388 594
Utilised during the year	5 661 287
Available for utilisation	28 727 307

7.5 LOANS INFORMATION

Bank loans:

Gross US\$ term loan
Capital raising fee
Net US \$ term loan

Total	With In	1-5 years	Interest rate %	Average effective
USD	1 year	USD	(fixed rate)	interest rate (%)
	USD			
1 550 000	1 550 000	-	12% - 44%	36%
(197 569)	(197 569)	-	-	-
1 352 431	1 352 431	-	-	-

Finance leases

17 319	4 297	11 668	12%	8%
--------	-------	--------	-----	----

Shareholder's loans

4 291 537	-	4 291 537	-	-
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Finance lease liability-minimum
lease payments

Not later than 1 year
Later than 1 year but not later than 5 years
Total
Future finance charges on finance leases
Present value of finance lease liabilities

5 652	5 652	-	12%	8%
13 453	-	13 453	12%	8%
19 104	5 652	13 453	-	-
(1 785)	(1 355)	(1 785)	-	-
17 319	4 297	11 668	-	-

7.6 TRADE AND OTHER PAYABLES

Financial instruments

Trade payables
Accrued expenses
Other payables
Total financial instruments

1 372 573
186 333
442 548
2 001 490

Net trade payables as a percentage
of purchases

44%

Currency analysis of trade and other
payables

United States Dollar
Botswana Pula
South African Rand
Mozambique Meticash
Balance at the end of the year

1 865 225
24 625
84 415
27 225
2 001 490

7.7 OTHER LIABILITIES

At the beginning of the year
Arising during the year
Balance at the end of the year
This is in respect of leave pay accrued

-
119 662
119 662

7.8 CURRENT TAX LIABILITY

Total

31 542

8 CASH USED IN OPERATIONS

Loss before tax
Adjustment for non-cash flow items:
• Amortisation of intangible assets
• Depreciation
• Write-off of other receivables
• Investment income
• Other non-cash items
Cash used in operations

(1 678 037)
440 170
819 837
359 774
4 429
(97 070)
(150 897)

	2009
	USD
9 DEFERRED TAXATION	
Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 25.75%.	
Deferred tax balance	
Deferred tax liabilities-opening balance	1 109 658
Deferred tax asset-opening balance	(91 591)
Arising from deemed costs attributed to changes in functional currency at 1 February 2009	4 885 130
Income statement charge	(794 579)
Balance at the end of the year	5 108 619
Balance split as follows:	
Deferred tax liabilities	5 243 037
Deferred tax asset	(134 418)
Balance at the end of the year	5 108 619
10 SHARE CAPITAL	
10.1 Authorised	
800,000,000 Ordinary shares	-
Issued and fully paid *	
453,092,169 Ordinary shares	-
Number of shares in issue at the beginning of the year before deducting treasury shares	453 092 169
Treasury shares	(609 186)
Number of shares in issue at the end of the year after deducting treasury shares	452 482 983
In terms of the Articles of Association but subject to the provisions of Section 183 (l)(a) of the Companies Act (Chapter 24:03) and the Zimbabwe Stock Exchange regulations, the unissued shares are under the control of the directors for an indefinite period.	
The company's shares have a nominal value in Zimbabwe dollars. However the Zimbabwean dollar was demonitised in 2009 and no pronouncement had been made by the year end by the authorities as to the nominal value of shares in the new currency adapted by the companies as their functional currencies. As such the share capital of the company has been presented as nil in US\$.	
Subsequent to year end a pronouncement, effective 17 February 2010, has been made by the authorities requiring the value of a share to be determined by the company. The impact of this pronouncement on the financial statements is still being assessed by the company.	
10.2 Treasury shares	
Balance at the beginning and end of the year (number of shares)	609 186
11 REVENUES AND EXPENSES	
11.1 Revenue	
Sale of goods	
Zimbabwe	5 833 262
Exports from Zimbabwe	1 648 379
International	223 702
Rendering of services	
Zimbabwe	3 132 522
Total	10 837 865
11.2 LOSS ON INVESTMENTS	
Fair value loss on financial assets at fair value through profit and loss	(4 429)
Total	(4 429)

	2009
	USD
11.3 OTHER OPERATING INCOME	
Rent received	70 896
Gate takings	20 967
Exchange gain	61 870
Sundry income	6 637
Total	160 370
11.4 FINANCE INCOME	
Bank interest receivable	1 562
Total finance income	1 562
11.5 FINANCE COSTS	
Interest paid to banks	(151 787)
Total finance cost	(151 787)
Net finance cost	(150 225)
11.6 EXPENSE BY NATURE	
Audit fees	36 750
Depreciation	819 836
Amortisation of intangibles	440 170
Write-off of other receivables	359 774
Repairs and maintenance	308 399
Employee benefits expense	2 539 435
Directors emoluments	
• Fees	22 221
• Other	60 000
Manufacturing overheads	3 921 517
Inventory consumed	1 628 893
Advertising and marketing expenses	262 561
Property maintenance costs	458 473
Utilities	330 772
Motor vehicle expense	337 727
Postage and telephone	202 746
Other	792 059
Total	12 521 313
<i>Classified as:</i>	
Cost of sales	5 469 056
Selling and distribution expenses	49 271
Administrative expenses	3 251 798
Other operating expenses	3 751 493
Total	12 521 313
Total number of employees	575
12 TAXATION	
Analysis of tax credit:	
Current income tax charge	70 535
Deferred income tax credit	(794 579)
Net tax credit	(724 044)
Reconciliation of income tax rate:	%
Effective tax rate	(43,0)
Disallowable expenses	
-Non-deductible amortisation of intangibles	26,2
-Non-deductible depreciation of assets	48,9
-Other disallowable expenses	15,7
Withholding tax on interest and dividends	1,4
Tax losses in current year	(25,0)
Effect of changes in tax rate	5,2
Other reconciling items	1,5
Tax at the statutory rate	30,9

13 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to shareholders of the parent by the weighted average shares in issue during the year, excluding ordinary shares purchased by a subsidiary of CAPS Holdings and held as treasury shares.

Loss attributable to equity holders of the parent company	(758 526)
Weighted average number of shares in issue	452 482 983
Basic loss per share (cents)	(0.17)

Diluted earnings per share

Diluted earnings per share is calculated by dividing the loss attributable to shareholders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the average number of ordinary shares that would have been issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Loss attributable to equity holders of the parent company	(758 526)
Weighted average number of shares in issue	452 482 983
Diluted loss per share (cents)	(0.17)

14. INVESTMENT IN SUBSIDIARIES

Deemed cost as at 1 February 2009

732 108

Caps Holdings Limited subsidiaries are listed in the table below:

Name	Country of incorporation	% equity interest 2009
Biomed (Pvt) Ltd	Zimbabwe	100
Caps Botswana Trading (Pty) Ltd	Botswana	100
Caps Management Services (Pvt) Ltd	Zimbabwe	100
Caps Pharmaceuticals (SA) (Pty) Ltd	South Africa	100
Caps Rallis (Pvt) Ltd t/a Caps Pharmaceuticals	Zimbabwe	60
Geddes Ltd	Zimbabwe	100
Hermes Laboratories (Pvt) Ltd t/a Autosterile	Zimbabwe	100
St Anne's Hospital Ltd	Zimbabwe	80
QV Pharmacies (Pvt) Ltd	Zimbabwe	100

Caps Holdings Limited is the ultimate parent entity.

During the year, certain companies in the Group entered into arm's length transactions with other companies in the Group. These intra-group transactions have been eliminated on consolidation.

15. RELATED PARTY TRANSACTION

15.1 Loans from shareholders

As at the year end 31 December 2009, the Group owed \$4,291,537 to Fredex Financial Services (Private) Limited, a major shareholder (refer to note 7.4.2). The loan amount was used to finance capital expenditure for the refurbishment of the factory completed in prior years.

15.2 Loans to key management personnel

At the beginning of the year
Charged to the income statement
Balance at the end of the year

	2009
	USD
	922 597
	(359 774)
	<u>632 823</u>
	<u>623 230</u>

The amount is receivable from executives who were beneficiaries of the executive housing scheme. The loans are interest free and are written-off over a period of 5years.

15.3 Compensation of key management personnel

Total

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk for changes in market rates relates primarily to the Group's short and long term debt obligations with a floating interest rate. Management monitors the Group's debts and makes efforts to reduce the interest rate exposure. However, during the year the Group's borrowings were either interest-free or at fixed rates.

Foreign currency risk

The Group's transactions are concluded in the respective functional currencies of the individual operations. However, the Group's operations utilise various foreign currencies (i.e. currencies other than the operations' functional currencies) in respect of sales, purchases and borrowings and consequently the Group is exposed to exchange rate fluctuations that have an impact on cash flows. The translation of foreign operations to the presentation currency of the Group (translation risk), as well as economic risk, is not taken into account in considerations foreign currency risk.

Economic risk refers to the effect of exchange rate movements on the international competitiveness of the company. Economic risk is a strategic matter managed directly by the CAPS Holdings Limited Board of Directors. Foreign currency risks are managed through the Group's financing policies. Groups treasury constantly monitors exposures to foreign currency on a weekly basis.

As at 31 December 2009 if the currency had weakened / strengthened by 10 % against the other currencies with all other variables held constant, post tax loss for the year would have been \$22 570 higher / lower, mainly as a result of foreign exchange gains or losses on the translation of South African Rand denominated trade payables and receivables.

As at 31 December 2009 if the currency had weakened / strengthened by 5% against the other currencies with all other variables held constant, post tax loss for the year would have been \$11 285 higher / lower.

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of trade receivable, bank and cash balances. The Group's bank balances are placed with high credit quality institutions. Trade receivables are presented net of the allowance for doubtful debts. Credit risk in respect of trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different geographical areas. Accordingly, the Group has no significant concentration of credit risk.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the Group's treasury department. The Group's treasury department monitors rolling focus of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient head room on its undrawn borrowing facilities at all times so that the group does not breach borrowing limits on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing funds, compliance with internal balance sheet ratio targets and, if applicable externally regulatory or legal requirements.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above mentioned forecast.

The table below analysis the groups financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	USD	USD	USD	USD
As at 31 December 2009				
Financial assets				
Non-current financial receivables	158 206	158 206	316 412	-
Trade and other receivables	1 461 486	-	-	-
Cash and cash equivalents	340 311	-	-	-
Total financial assets	1 960 003	158 206	316 412	-
Financial liabilities				
Borrowings (ex finance lease liabilities)	1 352 431	4 291 537	-	-
Finance lease liabilities	4 297	13 022	-	-
Trade and other payables	2 001 490	-	-	-
Total financial liabilities	3 358 218	4 304 559	-	-
Net financial liabilities/ (assets)	1 398 215	4 146 353	(316 412)	-

The Group will cover the liquidity gap through production and sales of inventory on hand at year end. In addition payment terms of the shareholders loans will be deferred as necessary.

Capital risk disclosure

The Group's objectives when managing capital are to safe guard the Group's ability to continue as a going concern in order to provide sustainable returns for shareholders, benefits for other stake holders and to maintain an optimum capital structure to reduce the cost of capital.

The capital structure of the Group consists of borrowings, more specifically non-current and current borrowings and equity attributable to holders of the parent, comprising share capital, share premium, non-distributable reserves and retained income.

The boards policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of business. The board reviews the capital structure on a quarterly basis. As part of the review, the board considers the cost of capital and risks associated with each class of capital. Based on recommendations of the board, the Group will balance overall capital structure through payments of dividends (including capital distributions and capitalisation shares), new shares issued as well as the issue of new borrowings or the redemption of existing borrowings.

There were no changes in the Group's approach to capital management during the year. The gearing ratio has improved since beginning of the year.

17. EVENTS AFTER THE REPORTING DATE

In November 2009, the company was directed by the Medicines Controls Authority of Zimbabwe (M.C.A.Z) to stop manufacturing at its new plant and to recall some of its products , pending commissioning and re-inspection of the refurbished plant. To this effect products with a sales value of \$555,000 were recalled from the market.

This is the standard procedure in the pharmaceutical industry and it is highly expected that these goods will be returned to the same customers subject to the re-inspection and approval of the new facility by the Medicines Control Authority of Zimbabwe.

In March 2010, our manufacturing entity Caps Pharmaceuticals was authorised by the Medicines Controls Authority of Zimbabwe to resume production and between April and May the company was authorised to resell their products that were recalled from the market in November 2009 .

18. COMPARATIVES

The Directors have not presented comparative financial information . Due to the prevailing economic environment in the previous year, characterised by high inflation figures, unreliable foreign exchange rates and absence of inflation indices, it is not possible to convert the 2008 financial statements into United States dollars in a manner consistent with IAS 21 and IAS 29.

19. LOSS ATTRIBUTABLE TO THE COMPANY

A loss of \$31 051 attributable to the company has been accounted for in the Group's accounts.

20. OPERATING ENVIRONMENT

The Groups operates in uncertain and challenging macro economic environment in Zimbabwe. The directors have assessed the ability of the Group to continue as going concern as at 31 December 2009 and believe that the preparation of these financial statements on a going concern basis is still appropriate. However, the directors believe that under the current economic environment a continuous assessment of the ability of the Group to continue to operate as a going concern will need to be performed.

**December 31 2009
Classification**

	Number of Shareholders	Number of Shares	% Shareholding
Corporate holders	97	193 693 425	42.75%
Investments, trusts, property	43	69 829 481	15.41%
Insurance companies	9	92 726 593	20.47%
Banks and nominees	60	69 560 731	15.35%
Resident Individuals, trusts	799	21 537 114	4.75%
Employees	99	1 488 783	0.33%
Pension funds	10	3 688 817	0.81%
Non-resident individuals	41	247 823	0.05%
Government	1	1 000	0.00%
Deceased estates	5	5 724	0.00%
Fund Managers	3	312 678	0.07%
Total	1 167	453 092 169	100%

**December 31 2008
Classification**

	Number of Shareholders	Number of Shares	% Shareholding
Corporate holders	59	198 159 432	43.73%
Investments, trusts, property	53	72 390 943	15.98%
Insurance companies	6	87 913 315	19.40%
Banks and nominees	46	64 399 513	14.21%
Resident Individuals, trusts	612	19 891 237	4.39%
Employees	131	2 442 668	0.54%
Pension funds	12	5 356 989	1.18%
Non-resident individuals	43	290 903	0.06%
Government	2	1 750 492	0.39%
Deceased estates	5	11 044	0.00%
Fund Managers	2	485 633	0.11%
Total	971	453 092 169	100%

**December 31 2009
Top 10 Shareholders**

	Number of Shares	% Shareholding
Fredex Financial Services (Private) Limited	187 855 863	41.46%
Old Mutual Life Assurance Limited	86 366 668	19.06%
FCM Investments (Pvt) Ltd	67 018 098	14.79%
Equivest Asset Managers (Private) Limited	43 755 625	9.66%
New Africa Nominees	11 559 630	2.55%
Mtandah Frederick Charles	7 345 719	1.62%
RM Insurance Company (Private) Limited	2 735 264	0.60%
Local Authorities Pension Fund	2 500 000	0.55%
ReNaissance Securities Nominees	1 929 696	0.43%
	1 774 292	0.39%
Total	412 840 855	91.12%

FORM OF PROXY

FORTY-FIRST ANNUAL GENERAL MEETING

Please complete in block letters

I/We of _____

being a member of CAPS Holdings Limited hereby appoint

_____ Or failing him

_____ Or failing him

the Chairman of the meeting as my / our proxy to vote for me / us on my / our behalf at the forty-first Annual General Meeting of the Company to be held on 30 June 2010 at 2:30 p.m and at any adjournment thereof.

Signed this _____ Day of _____ 2010

Signature of member _____

NOTE:

- In terms of Section 129 of the Companies Act (Chapter 24:03) members are entitled to appoint one or more proxies to act in the alternative and to attend and vote and speak in their place at the meeting. A proxy need not be a member of the company.
- Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initiated by the signatory/signatories.
- Regulation 75 of the Company's Articles of Association provides that the instrument appointing a proxy shall be deposited at the office of the Company not less than 48 hours before the time appointed for holding the meeting.

FOR OFFICIAL USE

Number of shares held

CHANGE OF ADDRESS

The attention of shareholders is drawn to the necessity to keeping the transfer secretaries advised of any change in name and / or address.

Shareholder's name in full (Block letters)

New Address (Block Letters)

Shareholder's signature

NOTICE TO SHAREHOLDERS

Notice is hereby given that the forty-first Annual General Meeting of the members of CAPS Holdings Limited will be held in the CAPS Holdings Training Room, No. 2 Manchester Road, Southern, Harare, on Wednesday, the 30th of June 2010 at 2:30pm for the purpose of transacting the following business:

- ORDINARY BUSINESS**
- Financial Statements**
To receive, consider and adopt the financial statements for the year ended 31 December 2009, together with the reports of the Directors and Auditors thereon.
- Election of Directors**
 - To note the resignations of Messer R. Nyarwananga and Mrs. S. Jordan.
 - Messrs G. Cheater and M. Mulanda, and Mrs. Y. Nxumalo who were appointed by directors during the course of the year, retire in terms of Article 93 of the Company's Articles of Association and being eligible, offer themselves for re-election.
 - In accordance with Articles 89 and 91 of the Company's Articles of Association, Mr. M. Vicky retires by rotation from the Board of Directors, and being eligible, offers himself for re-election.
- Directors' Remuneration**
To approve the directors' remuneration for the year ended 31 December 2009.
- Auditors**
To approve the remuneration of the auditors for the financial year ended 31 December 2009 and consider the re-appointment of Messrs PricewaterhouseCoopers as auditors for the ensuing year.
- Dividend**
No dividend has been declared in respect of the year ended 31 December 2009.
- SPECIAL BUSINESS**
The introduction of the multi-currency system in February 2009 has made it necessary to re-denominate the authorised and issued share capital of the Company to its new functional currency of United States Dollars (USD). Members are requested, if deemed fit, to pass with or without modification, the following resolutions:-
 - That the authorised share capital of the Company be and is hereby re-denominated from ZWD 200,000,000 comprising of 800,000,000 ordinary shares of ZWD 0.25 to USD 200,000,000 comprising of 800,000,000 of USD 0.00025 each*.
 - That the issued share capital be and is hereby re-denominated to USD 113,273,04 divided into 453,092,169 ordinary shares of USD 0.00025 each*.
 - That the directors be authorised to transfer from non-distributable reserves an equivalent of the nominal value to fund the above re-denomination of the issued shares*.
 - That the Memorandum and Articles of Association of the Company be amended to take consideration of the above*.
- Any Other Business**
To transact any such business as may be carried out at the Annual General Meeting.

PROXIES

Members are entitled to appoint one or more proxies to attend, vote and speak in their place. The proxies need not be members of the Company. Forms of proxy must be lodged at the Company's registered office not less than forty-eight hours before the meeting.

Place
Stamp
here

Place
Stamp
here

The Company Secretary
CAPS Holdings Limited
C/O First Transfer Secretaries
4th Floor Goldbridge, Eastgate.
P.O. Box 11
Harare, Zimbabwe

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CAPS HOLDINGS LIMITED
Registered Office
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Southerton, Harare
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