

CORPORATE GOVERNANCE

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 (2009 - five), and two executive directors (2009 - two). 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 Group.

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 Mtandah	3/ 4	-	-	1/1	-	4
Graham Cheater *	3/ 4	5/6	2/3	-	-	10
Michael Mutanda	3/ 4	5/6	2/3	-	-	10
Jealous Nderere	3/ 4	4/6	3/3	-	-	10
Bhekinkosi Nkomo	4/4	5/6	3/3	1/1	-	13
Yvonne Nxumalo	2/4	2/6	-	-	-	4
Mark Vickery *	4/4	6/6	-	-	-	10

* Independent Non-Executive Director

The names of and brief curriculum vitae of each director are set out on page 4 of the annual report.

In line with CAPS Holdings' Articles of Association, Articles 89 and 91, Messrs F. Mtandah, J. Nderere and B. Nkomo will retire by rotation at the upcoming annual general meeting and, being eligible, offer themselves for re-election. The Board has evaluated their individual performances and has recommended their 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 up to the age of 68.

Executive directors retire as members of management at the age of 60 unless the Board has agreed to a later retirement age in the interest of the Company. Such extensions will only be agreed to in very exceptional circumstances and will not be for long periods of time. Unless otherwise agreed to by the Board, termination of employment with the Company results in the automatic termination of a director's tenure as director.

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

The position of chairman is undertaken by a non-executive director, Mr. F Mtandah, whose role is separate and clearly defined from that of the chief executive officer (CEO), Mr J Nderere. There is a clear division of responsibilities between the Chairman and the CEO with both providing leadership and guidance to the company's board, encouraging deliberation on all matters requiring the board's attention, and obtaining optimum input from the other directors. The Chief Executive Officer is responsible for implementing strategy and operational decisions in respect of the day-to-day operations of the Group.

The Deputy Chairman (Mr M Vickey), 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.

To assist the Board in discharging its collective responsibilities, certain Board tasks have been delegated to the Audit Committee, Investment Committee, Remuneration Committee and 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.

The composition of the Board of Directors and the sub-Committees are reflected on page 5 and below:

AUDIT COMMITTEE

The Audit Committee comprises three non-executive directors and an executive director. A candidate is being sought to fill the position of Group Internal Audit Manager. The Committee meets quarterly with the Group's external auditors to discuss accounting, auditing, internal control, risk 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. 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.

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. Six (6) meetings were held during the year and attendance at meetings is set out in the table on page 14.

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 monitoring, the internal control procedures including accounting policies, legislative compliance, regulatory matters and governance;
- Recommending the appointment of external 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.
- Assessing and measuring the level of Group risk.

REMUNERATION COMMITTEE

The Committee is composed of three non-executive directors 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 14.

The Remuneration Committee is responsible for ensuring that the Group'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 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.

NOMINATION COMMITTEE

The primary purpose is to assist the Board in connection with Board nomination matters and corporate governance practices.

The committee comprises of two non executive directors and two executive directors, each of whom has been determined by the Board to meet the committee requirements. Mr. F. Mtandah currently chairs the committee. The members and the chairman of the committee serve at the pleasure of the Board until their successors shall be duly elected and qualified or until their earlier resignation or removal by the Board.

INVESTMENT COMMITTEE

The Committee is comprised of three non-executive directors and one executive director. The Committee meets quarterly to appraise capital projects and the Group's investment policy. Mr. M. Vickery 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 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 the 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 Nomination Committee meeting and report backs are given to the Board at the subsequent meetings after the Nomination Committee meetings.

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".

DIRECTORS' REMUNERATION AND SHAREHOLDINGS

The remuneration paid to directors during the current year is disclosed in note 19 to the Group financial statements. Information relating to the direct and indirect holdings of the directors at 31 December 2010 are disclosed in the table below:

Name	Number of Shares	% Shareholding
Mr. F. Mtandah (Chairman of the Main Board)		
a) Mtandah Frederick Charles	7,345,719	1.62%
b) FCM Investments (Pvt) Ltd	67,018,098	14.79%
c) Fredex Financial Services	194,618,442	42.95%
	268,982,259	59.37%
Mr. J. Nderere (Group CEO)	23,013	0.01%

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 Committee, the 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 J.B Nderere – Group Chief Executive Officer. 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.

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.

ECONOMIC INDICATORS

Since listing on the 26th of July 1969, CAPS Holdings Limited has been able to deliver economic returns to its stakeholders,

not with standing the working capital challenges that the Group has faced over the last few years, which are being addressed. The economic value generated by the Group supports the economic sustainability of CAPS's investors. Moreover, CAPS's has managed to provide secure employment to over 500 permanent and temporary employees and to supply high quality, affordable medicines to patients across the globe. Ongoing optimisation of growth opportunities is driven through commercially astute business decisions which are based on an effective balance of responsible investment and sound risk management.

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 Reporting Standards ("IFRS"). Their audit also includes an assessment of 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 internal control system within the Group has occurred.



F. C. MTANDAH
BOARD CHAIRMAN

Harare

13 May 2011

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 2010.

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 (Pvt) Ltd located in Zimbabwe, is a leading manufacturer of generic pharmaceutical products and produces over 200 products, in solids, liquids, injectables and creams. CAPS Pharmaceuticals manufactures a wide range of products for both foreign-based and domestic pharmaceutical companies. There is a penicillin plant and a general plant facility. The general facility manufactures liquids, creams and ointments and solid dosage forms.

Another subsidiary, Autosterile, produces small 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 a wholesaler and distributor of pharmaceutical and personal care products in Zimbabwe, representing almost all local suppliers and a number of international companies. Geddes operates upmarket warehouse facilities at two locations in Zimbabwe.

QV Pharmacies (Private) Limited ["QV Pharmacies"] 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 7 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 are set out on pages 26 to 63 and of the Company on pages 65 to 75 of this report. The segmental analysis is included in note 3 on page 48 to 49.

The consolidated loss attributable to ordinary shareholders of CAPS Holdings Limited for the year ended 31 December 2010, amounted to \$ 2 330 205 (2009- \$ 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 2010 comprised 453 092 169 ordinary shares. The authorised share capital was redenominated from ZWD200 000 000 comprising of 800 000 000 ordinary shares of ZWD 0.00025 to USD 200 000 comprising of 800 000 000 ordinary shares of 0.025 United States cents each.

DIRECTORS' REPORT (CONTINUED)

The issued share capital was redenominated to USD 113 273.04 divided into 453,092,169 ordinary shares of 0.025 United States cents each. The Memorandum and Articles of Association of the company were amended for the above changes.

SHAREHOLDERS' FUNDS

Shareholders' funds decreased by \$2 024 101 (2009 - increase by \$984 013) 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:

- Frederick Charles Mtandah, the former Executive Chairman became a Non-Executive Chairman on 6 December 2010.
- Jealous Batsirai Nderere a former non-executive director was appointed the Group Chief Executive Officer of CAPS Holdings Limited and its subsidiaries on 6 December 2010.

The names of the directors in office at the date of this report are set out on page 4. The name and address of the Company Secretary is set out on page 1.

DIRECTORS' INTEREST

As at 31 December 2010, the Directors directly or indirectly held CAPS Holdings shares as shown on page 17 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 2010.

POST-YEAR-END EVENT

No event which is material to the understanding of this report has occurred between the year-end and the date of this report.

AUDITORS

Members will be asked to approve the remuneration of the auditors for the financial year ended 31 December 2010 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 \$8 386 666 including short term loan of \$5 871 812 (2009: \$5 320 976 including the short term loan of \$1 352 431). 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 11 to the Group financial statements.

DIVIDEND

No dividend has been declared in respect of the year ended 31 December 2010.

For and on behalf of the Board



F. C. MTANDAH
BOARD CHAIRMAN

Harare

13 May 2011

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 2010, 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 (MS)
BOARD SECRETARY

Harare

13 May 2011