

Group Financial Statements



DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of CAPS Holdings Ltd (the 'Company') and its subsidiaries (together the 'Group').

The directors of the Group 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 Limited as at 31 December 2010, 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 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 Limited 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.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards. The company's external auditors, Deloitte & Touche have audited the financial statements and their report is set out on page 24 to 25.

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 are in the process of raising funds for the group through equity instruments which might include but not limited to rights issue and private placement in order to retire debt and provide working capital support for the Group, which is subject to approval by the shareholders. The directors have no reason to believe that the Group or any company within the Group will not be going concern 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.

The financial statements for the year ended 31 December 2010, which appear on pages 26 to 75 have been approved by the Board of Directors and are signed on its behalf by:



F. C. MTANDAH
BOARD
CHAIRMAN



G. CHEATER
AUDIT COMMITTEE
CHAIRMAN

Harare
13 May 2011

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CAPS HOLDINGS LIMITED

We have audited the accompanying Group and Company financial statements for Caps Holdings Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2010, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 26 to 75.

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 and the Companies Act (Chapter 24:03) and relevant statutory instruments (SI 33/99 and SI 62/96). This responsibility includes; designing, implementing and maintaining internal controls 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 audit 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 controls 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 controls. 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Caps Holdings Limited as at 31 December 2010, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw your attention to note 26, which along with other matters indicates that the Company is operating in an uncertain economic environment.

INDEPENDENT AUDITORS REPORT (CONTINUED)

Going concern assumption

The operations of the Group and Company, have been significantly affected, and may continue to be affected for the foreseeable future, by the adverse effects of the country's unstable economic environment which has resulted in a significant downturn in economic activity. The ability of the Group and Company to continue operating as a going concern, in such an environment, is subject to continual assessment by management.

Fair value determination for transactions, assets and liabilities

The determination of fair values presented in the financial statements is affected by the prevailing economic environment and may therefore be distorted. This may result in significant variations in fair values, depending on factors and assumptions used in the determination of the fair values. The significant assumptions and the estimation uncertainties have been disclosed in note 2.1 and 2.5 to these financial statements.

Report on other legal and regulatory matters

In our opinion, the financial statements have, in all material respects, been properly prepared in compliance with the disclosure requirements of the Companies Act (Chapter 24:03) and the relevant statutory instruments (SI 33/99 and SI 62/96).

Deloitte & Touche

Deloitte & Touche
Chartered Accountants (Zimbabwe)
Harare, Zimbabwe

21 June 2011

GROUP STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Accounting Policy Note	Notes	31 December 2010 USD	31 December 2009 USD	(Unaudited) 1 January 2009 USD
ASSETS					
Non-current assets					
Property, plant and equipment	2.6.1	4	11 784 708	11 681 191	12 027 651
Intangible assets	2.6.5	5	17 158 281	16 860 079	15 384 937
Investment property	2.6.6	25	200 000	-	-
Financial instruments :					
Non-current financial receivables	2.6.8	24.5	474 618	632 823	992 597
Deferred tax assets	2.6.14	6	98 403	134 418	91 591
Total non-current assets			29 716 010	29 308 511	28 496 776
Current assets					
Inventories	2.6.7	7	4 274 757	4 239 069	4 279 736
Prepayments		8	372 917	438 720	1 848
Financial instruments :					
▪ Trade and other receivables	2.6.8	8	1 511 969	1 461 486	175 632
▪ Financial assets at fair value through profit and loss	2.6.8	9	-	11 472	15 901
▪ Cash and cash equivalents	2.6.9	10	725 394	340 311	157 000
Total current assets			6 885 037	6 491 058	4 630 117
Total assets			36 601 047	35 799 569	33 126 893
SHAREHOLDERS' EQUITY					
Share capital	2.6.10	15.1	113 273	-	-
Treasury shares	2.6.11	9	(4 265)	-	-
Foreign currency translation reserve			2 048 643	1 742 539	-
Non-distributable reserves		15.4	10 857 942	10 971 215	10 971 215
Retained income			2 150 338	4 480 543	5 239 069
Equity attributable to owners of the parent			15 165 931	17 194 297	16 210 284
Non-controlling interests			5 045 287	5 548 255	5 743 722
Total shareholders' equity			20 211 218	22 742 552	21 954 006
LIABILITIES					
Non-current liabilities					
Financial instruments :					
▪ Borrowings	2.6.8	11.2	3 231 308	4 291 537	4 067 187
Finance lease liability	2.6.3	11.3	7 056	13 022	12 930
Deferred tax liabilities	2.6.14	6	4 346 710	5 243 037	5 994 788
Total non-current liabilities			7 585 074	9 547 596	10 074 905
Current liabilities					
Financial instruments :					
▪ Trade and other payables	2.6.8	12	2 479 279	2 001 490	848 960
▪ Borrowings	2.6.8	11.1	5 871 812	1 352 431	198 669
Finance lease liability	2.6.3	11.3	1 884	4 297	3 070
Current tax liabilities	2.6.14		-	31 541	47 283
Provisions		13	451 780	119 662	-
Total current liabilities			8 804 755	3 509 421	1 097 982
Total liabilities			16 389 829	13 057 017	11 172 887
Total equity and liabilities			36 601 047	35 799 569	33 126 893

The financial statements were authorised for issue by the board of Directors on 13 May 2011 and signed on its behalf by



F. C. MTANDAH
BOARD
CHAIRMAN



G. CHEATER
AUDIT COMMITTEE
CHAIRMAN

GROUP STATEMENT OF COMPREHENSIVE INCOME

At 31 December 2010

	Accounting Policy Note	Notes	2010 USD	2009 USD
CONTINUING OPERATIONS				
Revenue	2.6.13	16	12 441 293	10 837 865
Cost of sales	2.6.7	19	(5 648 772)	(5 469 056)
Gross profit			6 792 521	5 368 809
Selling and distribution expenses		19	(67 349)	(49 271)
Administrative expenses		19	(6 670 386)	(3 251 798)
Other operating income	2.6.13	17	107 088	160 370
Other operating expenses		19	(2 664 304)	(3 751 494)
Operating profit			(2 502 430)	(1 523 384)
Fair value adjustments			(7 207)	(4 429)
Gain on investment property	2.6.6	25	150 000	-
Finance income	2.6.8	18.1	516	1 562
Finance costs	2.6.8	18.2	(731 787)	(151 787)
Loss before tax			(3 090 908)	(1 678 038)
Income tax credit	2.6.14	20	257 735	724 045
Loss for the year			(2 833 173)	(953 993)
OTHER COMPREHENSIVE INCOME				
Currency translation differences			306 104	1 742 539
Total comprehensive (loss)/ income			(2 527 069)	788 546
Loss for the year attributable to;				
Equity holders of the parent			(2 330 205)	(758 526)
Non-controlling interests			(502 968)	(195 467)
			(2 833 173)	(953 993)
Total comprehensive (loss)/income attributable to;				
Equity holders of the parent			(2 024 101)	984 013
Non-controlling interests			(502 968)	(195 467)
			(2 527 069)	788 546
EARNINGS PER SHARE				
Basic loss per share (cents)		21	(0.51)	(0.17)

GROUP STATEMENT OF CHANGES IN EQUITY

At 31 December 2010

	Share Capital USD	Treasury Shares USD	Foreign currency translation reserve USD	Non- distributable reserves USD	Retained income USD	Total attributable to equity holders of the parent USD	Non controlling interests USD	Total USD
Balance at 1 January 2009 (unaudited)	-	-	-	10 971 215	5 239 069	16 210 284	5 743 722	21 954 006
Total comprehensive income/ (loss)	-	-	1 742 539	-	(758 526)	984 013	(195 467)	788 546
Loss for the year	-	-	-	-	(758 526)	(758 526)	(195 467)	(953 993)
Other comprehensive income	-	-	1 742 539	-	-	1 742 539	-	1 742 539
Balance at 31 December 2009	-	-	1 742 539	10 971 215	4 480 543	17 194 297	5 548 255	22 742 552
Total comprehensive income / (loss)	-	-	306 104	-	(2 330 205)	(2 024 101)	(502 968)	(2 527 069)
Loss for the year	-	-	-	-	(2 330 205)	(2 330 205)	(502 968)	(2 833 173)
Other comprehensive income	-	-	306 104	-	-	306 104	-	306 104
Treasury shares	-	(4 265)	-	-	-	(4 265)	-	(4 265)
Reclassification from non-distributable reserve	113 273	-	-	(113 273)	-	-	-	-
Balance at 31 December 2010	113 273	(4 265)	2 048 643	10 857 942	2 150 338	15 165 931	5 045 287	20 211 218

#- 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 Zimbabwean dollars on 1 January 2009.

GROUP STATEMENT OF CASH FLOWS

At 31 December 2010

	Accounting Policy Note	Notes	2010 USD	2009 USD
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash flow utilised in operating activities before working capital changes		14	(2 045 960)	(151 140)
Changes in working capital			789 539	(409 867)
(Increase)/decrease in inventories	2.6.7		(35 688)	40 667
Increase in trade and other receivables	2.6.8		(50 483)	(1 285 854)
Decrease/(increase) in prepayments			65 803	(436 872)
Increase in trade and other payables and provisions	2.6.8		809 907	1 272 192
Cash utilised in operations			(1 256 421)	(561 007)
Net finance costs paid	2.6.8		(731 271)	(150 225)
Income tax paid	2.6.14		(9 357)	(17 400)
Cash used in operating activities			(1 997 049)	(728 632)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property plant and equipment	2.6.1		(1 091 918)	(466 169)
Proceeds on disposal of property plant and equipment	2.6.1		14 898	-
Cash used in investing activities			(1 077 020)	(466 169)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings	2.6.8		6 274 177	1 999 034
Repayment of borrowings	2.6.8		(2 815 025)	(620 922)
Cash generated from financing activities			3 459 152	1 378 112
CASH AND CASH EQUIVALENTS				
Movement in cash and cash equivalents			385 083	183 311
Cash and cash equivalents at the beginning of the year			340 311	157 000
Cash and cash equivalents at the end of the year	2.6.9	10	725 394	340 311

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash-on-hand, cash restricted for use on borrowings, deposits held on call with banks less bank overdrafts.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

Note	Page	IFRS/IAS reference	Content
1	31	IAS 1	Corporate information
2.1	31	IAS 1	Basis of preparation
2.2	32	IAS 27	Basis of consolidation
2.3	33	IAS21	Foreign currency translation
2.4	33	IAS 8	Adoption of new and revised Standards
2.5	34	IAS 1 (R)	Significant assumptions and key sources of estimation uncertainty
2.6.1	36	IAS 16	Property, plant and equipment
2.6.1	37	IAS 36	Impairment of Property, plant and Equipment
2.6.2	38	IAS 23	Borrowing costs
2.6.3	38	IAS 17	Leases
2.6.4	38	IFRS 3	Business combinations and Goodwill
2.6.5	39	IAS 38	Intangible assets
2.6.6	40	IAS 40	Investment property
2.6.7	40	IAS 2	Inventories and Cost of Sales
2.6.8	40	IAS 32, 39, IFRS 7	Financial instruments
2.6.9	43	IAS 7	Cash and cash equivalents
2.6.10	43	-	Share capital and share premium
2.6.11	43	IFRIC 11, IFRS 2	Treasury shares
2.6.12	43	IAS 19	Employee benefits and retirement benefits
2.6.13	45	IAS 18	Revenue recognition
2.6.14	45	IAS 12	Taxation
2.6.15	46	IAS 37	Provisions
2.6.16	46	IAS 8	Future changes in accounting policies
3	48	IFRS 8	Operating segments

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010

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 13 May 2011.

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 Group financial statements have been prepared in accordance with those International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the reporting date, and applicable legislation. The financial statements have been prepared under the historical cost convention, except for assets held as investment property and specific financial instruments as set out in the notes to the financial statements, which are stated at fair value.

TRANSITION TO IFRS

The Group is resuming presentation of IFRS financial statements after early adoption of Revised IFRS 1 First-time Adoption of International Financial Reporting Standards issued on 20 December 2010. The Group failed to present IFRS financial statements for the financial year ended 31 December 2009 due to the effects of severe hyperinflation as defined in Revised IFRS 1.

These amendments provide guidance for entities emerging from severe hyperinflation to resume presenting IFRS financial statements. An entity can elect to measure assets and liabilities at fair value and to use the fair value as the deemed cost in its opening IFRS statement of financial position.

The effect of the application of this amendment is to render the opening statement of financial position, prepared on 1 January 2009 (date of transition to IFRS) IFRS compliant. The opening statement of financial position was reported in the prior year as not being compliant with International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates and IAS29 Financial Reporting in Hyperinflationary Economies. The Group's previous functional currency, the Zimbabwe dollar (ZW\$), was subjected to severe hyperinflation before the date of transition to IFRS because it had both of the following characteristics:

- (a) a reliable general price index was not available to all entities with transactions and balances in the ZW\$; and
- (b) exchangeability between the ZW\$ and a relatively stable foreign currency did not exist. The Group changed its functional and presentation currency from the ZW\$ to the United States dollar (US\$) with effect from 1 January 2009.

DEEMED COST EXEMPTION

The Group elected to measure certain items of property, plant and equipment, intangible assets trade and other receivables, inventories and trade and other payables at fair value and to use the fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

As at 1 January 2009 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 receivable from customers.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

- 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 ZW\$ denominated balances were written off to the statement of comprehensive income. 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 ZW\$ 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.

COMPARATIVE FINANCIAL INFORMATION

The financial statements comprise three statements of financial position, two statements of comprehensive income, a statement of changes in equity and a statement of cash flows as a result of the retrospective application of the Amendments to IFRS1. The comparative statements of comprehensive income; changes in equity and cash flows are for the year ended 31 December 2009.

RECONCILIATION OF PREVIOUSLY PREPARED TO IFRS COMPLIANT FINANCIAL STATEMENTS

In preparing its opening IFRS statement of financial position, the Group has not adjusted amounts previously determined in accordance with the Guidance on Change in Functional Currency 2009, with the exception of amounts disclosed in note 27.

The Group financial statements are prepared on the going concern basis. These accounting policies are applied consistently throughout the Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The preparation of financial statements in conformity with IFRS also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are detailed on note 2.5 to the financial statements.

2.2 BASIS OF 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 profit and loss. All financial results are consolidated with similar items on a line-by-line basis. A listing of the Group's principal subsidiaries is set out in note 39 of the financial statements of CAPS Holdings Limited.

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 statement of comprehensive income, equity statement and within equity in the consolidated statement of financial position. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

2.3 FOREIGN CURRENCY TRANSLATION

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.

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 statement of comprehensive income. 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.

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 ADOPTION OF NEW AND REVISED STANDARDS

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;

Amendments to IFRS 1, (Effective for Financial years beginning on or after 1 July 2011)

Amendments to IFRS 2, Group Cash-Settled Share-Based Payment Transactions (Effective for Financial years beginning on or after 1 January 2010)

The amendment clarifies the accounting for Group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the Group receives the goods or services recognises the transaction as equity settled only if it is settled in its own equity instruments.

In all other cases, the transaction is accounted for as cash settled. There is no impact on the Group's financial statements.

Amendments to IAS 32, Classification of Rights Issued (Effective for financial years beginning on or after 1 February 2010).

The amendment clarifies the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. The amendment states that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. There is no impact on the Group's financial statements.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Group is often required to make estimates and assumptions regarding the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates will, by definition, rarely equal the actual results achieved. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities are discussed below. Estimates and judgements are continually re-assessed and are based on historical experience as well as other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

DEPRECIATION AND AMORTISATION RATES AND RESIDUAL VALUES

The Group depreciates or amortises its assets over their estimated useful lives, as more fully described in the accounting policies for property, plant and equipment and intangible assets. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

Significant judgement is applied by management when determining the residual values for intangible assets and property, plant and equipment. In the event of contractual obligations in terms of which a termination consideration is payable to the Group, management will apply a residual value to the intangible asset. When determining the residual value for property, plant and equipment the following factors are taken into account:

- External residual value information (if available); and
- internal technical assessments for complex plant and machinery.

Refer to notes 4 and 5 of the Group financial statements and note 28 of the Company financial statements.

INDEFINITE USEFUL LIFE INTANGIBLE ASSETS

Judgement is applied when assessing whether an intangible asset has a finite or an indefinite useful life. Significant judgement is needed by management when determining the classification of intangible assets as indefinite useful life assets. The following factors are taken into account when this classification is made:

- the ability to use the asset efficiently. Historical product sales, volume and profitability trends as well as the expected uses for the asset further evident from budgets, future growth and plans to invest in each of the assets over the long term are taken into account when this is being assessed;
- estimates of useful lives of similar assets – historical trends, market sentiment and/or the impact of any competitive activity will be taken into account;
- the strategy [2011 budget, specific marketing plans, specific enhancement plans and the identification of new markets] for obtaining maximum economic benefit from the asset;
- rates of technical, technological or commercial obsolescence in the industry are very slow and evident in the fact that most of the reinvestment in technology is mainly expansion rather than replacement due to obsolescence; the stability of the industry and economy in which the asset will be deployed;
- expected actions by competitors and potential competitors;
- the willingness and ability of the entity to commit resources to maintain the performance of the asset;
- the period of the entity's control over the asset and any legal or other restriction on its ability to use the asset;
- redundancy of a similar medication/device due to changes in market preferences; and
- development of new drugs treating the same disease.

Refer to note 5 of the Group financial statements.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

IMPAIRMENT OF ASSETS

Property, plant and equipment and intangible assets are assessed for impairment at least annually, as more fully described in the accounting policy in respect of impairment. The future cash flows are assessed, taking into account forecast market conditions and the expected lives of these assets. The present value of these cash flows is compared to the current net asset value.

Refer to notes 4 and 5 of the Group financial statements.

ALLOWANCE ACCOUNT FOR LOSSES

The Group insures debts due by private market customers where possible and provision is made for the uninsured balance of long-outstanding debtors where it considers the recoverability to be doubtful. A significant degree of judgement is applied by management when considering whether a debtor is recoverable or not.

The following factors are taken into account when considering whether a debtor is impaired:

- default of payments;
- history of the specific customer with the Group;
- indications of financial difficulties of the specific customer;
- credit terms specific to the customer; and
- general economic conditions.

Refer to note 8 of the Group financial statements.

RECOGNITION OF DEFERRED TAX ASSETS IN RESPECT OF ASSESSED LOSSES

Deferred tax assets have been recognised for the carry forward amount of unused tax losses relating to the Group's operations where, among other things, tax losses can be carried forward indefinitely and there is evidence that it is probable that sufficient taxable profits will be available in the future to utilise all tax losses carried forward. Deferred tax assets are not recognised for carry-forward of unused tax losses when it cannot be demonstrated that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

The likelihood of a deferred tax asset being recognised is based on the future profitability of the underlying business. In determining whether a business will have future taxable profits to utilise against assessed losses, management will take into account budgets as well as updated forecasts for future periods.

Refer to note 6 of the Group financial statements and note 28 of the Company financial statements.

DETERMINATION OF NET REALISABLE VALUE OF INVENTORIES

Net realisable value is the estimate of the selling price of inventories in the ordinary course of business, less the costs of completion and applicable variable selling expenses. Management is required to exercise considerable judgement in the determination of this estimate, specifically relating to the forecasting of demand.

Management is also required to exercise significant judgement in estimating the provision for obsolete stock. Such judgement would take into account the following:

- change in technology;
- regulatory requirements; and
- stock nearing expiry dates.

Refer to note 7 of the Group financial statements.

DETERMINATION OF CONTINGENT CONSIDERATION IN RESPECT OF DEFERRED-PAYABLES AND DEFERRED-RECEIVABLES

This relates to amounts that are only to be settled in the future based on the underlying contractual obligations.

Management is required to exercise considerable judgement in determining the estimate of the amount payable or receivable, specifically relating to the forecasting of future financial information as well as determining an appropriate discount rate.

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DETERMINATION OF AVERAGE TRANSLATION RATES

Income and expenditure transactions of foreign entities are translated using the average rate of exchange for the year. Management considers the average rate to approximate the actual rates prevailing on the dates on which these transactions occur.

FAIR VALUE DETERMINATION

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

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 is 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 is measured at cost.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income in the period in which they are incurred.

PPE is subsequently measured at its revalued amount, 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:

Freehold premises	'- Open market value
Plant and equipment	'- Open market value
Office equipment and furniture	'- Open market value
Motor vehicles	'- Open market value

Any revaluation increase arising on the revaluation of PPE is credited to the non-distributable 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 expensed.

A decrease in the carrying amount arising on the revaluation of PPE is charged to the statement of comprehensive income to the extent that it exceeds the balance, if any held in the non-distributable reserve relating to a previous revaluation of that 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. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads. Costs capitalised for work-in-progress in respect of activities to develop, expand or enhance items of PPE are classified as part of assets under capital work-in-progress.

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Interest costs on borrowings to finance the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

When the construction is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare that part for its intended use are completed. All other borrowing costs are expensed.

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 PPE is depreciated on a straight-line basis, or in the case of certain foreign subsidiaries, on a reducing balance basis to allocate their cost or valuation amounts to their residual values at rates deemed appropriate having regard to the following estimated useful lives:

- Freehold premises	50	years
- Plant and equipment	10 - 20	years
- Motor Vehicles	4 - 5	years
- Office equipment and furniture	3 - 10	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 non distributable reserve is transferred directly to retained earnings. No transfer is made from the non-distributable 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 value in use of assets, expected future cash flows are discounted to their present values using risk-adjusted pre-tax discount rates, and taking into account 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.

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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 assets costs. 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

FINANCE LEASE

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. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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 LEASES

Leases where a significant portion of risks and rewards of ownership is retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Contingent rent is expensed as incurred.

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.

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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 statement of comprehensive income.

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 twenty 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 statement of comprehensive income. The amounts that are initially 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 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.

IMPAIRMENT OF OTHER 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.

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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 statement of comprehensive income 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 statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.6.6 INVESTMENT PROPERTY

Investment properties are properties held to earn rentals and / or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the period which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or losses arising on the derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the period in which the property is derecognised.

2.6.7 INVENTORIES AND COST OF SALES

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.

COST OF SALES

Cost of sales is calculated as the cost of goods sold, including all costs of purchase, costs of conversion, and other costs, including promotional costs incurred in bringing inventories to their present location and condition. Costs of purchase include purchase price, import duties and other taxes and transport costs. Inventory write-downs are included in cost of sales when recognised.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

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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 on a trade date basis.

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. An allowance 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 allowance is the difference between the carrying amount and the recoverable

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amount of the asset, being the present value of the estimated future cash flow discounted at the original effective interest rate. This allowance is recognised through the use of an allowance account. The amount of the loss is included in the profit/loss 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 statement of comprehensive income.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. This impairment test does not apply to financial assets designated as FVTPL.

ASSETS CARRIED AT AMORTISED COST

If there is objective evidence that an impairment loss on assets carried at amortised cost has 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 statement of comprehensive income.

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 statement of comprehensive income.

In relation to receivables, an allowance 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 and 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.

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FINANCIAL LIABILITIES

The Group's financial liabilities are carried at amortised costs. Financial liabilities are derecognised when extinguished.

TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost using the effective interest rate method.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported on the statement of financial position 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment against the loan for liquidity services and amortised over the period of the facility to which it relates.

The entity presents separately current and non-current borrowings on the face of the statement of financial position. A liability is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

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, restricted cash 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.

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 TREASURY 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. Liabilities for these items expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.
- b) Post employment benefits such as pensions.
- c) Other long term benefits including long service leave and other long service benefits.
- d) Termination benefits.

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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 statement of comprehensive income.

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. 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. The Group pays contributions to 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 staff costs. 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 a maximum of \$6 per employee (employer- \$3 and employee -\$3) 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 benefit scheme however the Groups obligations are limited to specific contributions legislated from time to time.

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 year end are discounted to present value.

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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 recognized:

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 TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

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 recognised directly in the equity is recognised in equity and not the statement of comprehensive income.

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 or loss 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:

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

- 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 or loss 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 reporting 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 substantively enacted by the reporting date.

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

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; as receivables and payables that are stated with the amount of value added taxation included;

The net amount of value added tax 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

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are not recognised for future operating losses.

2.6.16 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards and interpretations issued but not yet effective.

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 2010.

- Amendment to IAS 24, Related Party Disclosures (For financial years beginning on or after 1 January 2011)
This amendment provides partial relief from the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party. There will be no impact on the Group's financial statements.

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For the year ended 31 December 2010

- Amendment to IAS 32, classification of rights issues (For financial years beginning on or after 1 February 2010)
This amendment addresses the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- IFRS 9, Financial Instruments (Revised). (For financial years beginning on or after 1 January 2013)
This amendment provides partial relief from the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party . There will be no impact on the Group's financial statements. The Group will apply this revised standard to all financial instruments for financial years on or after 1 January 2013.
- Amendment to IFRS 1, Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters (For financial years beginning on or after 1 July 2010).

The amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. There will be no impact on the Group's financial statements.

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (For financial years beginning on or after 1 July 2010).

This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. There will be no impact on the Group's financial statements.

- IFRIC 14 (Amendment), The limit on a defined benefit asset, minimum funding requirements and their interaction (Financial years beginning on or after 1 January 2011)

This amendment will have a limited impact as it applies to companies that are required to make minimum funding requirement contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. There will be no impact on the Group's financial statements.

IMPROVEMENTS TO IFRS

This is a collection of amendments to IFRSs. These amendments are the result of conclusions the International Accounting Standards Board reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs. Some amendments involve consequential amendments to other IFRSs. Unless otherwise specified the amendments are effective for annual periods beginning on or after 1 January 2010.

The following standards were amended:

- > IAS 1, Presentation of Financial Statements;
- > IAS 7, Statement of Cash Flows;
- > IAS 17, Leases;
- > IAS 18, Revenue;
- > IAS 36, Impairment of Assets.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

This segment is involved in the importation and wholesale distribution of pharmaceutical, consumer and veterinary products. This segment comprises of three strategic business units in Botswana, Republic of South Africa and Zimbabwe, and distributes pharmaceutical products in these territories.

HOSPITAL

A strategic business unit that operates an upmarket hospital.

RETAIL

This segment operates a chain of retail pharmacy shops in Zimbabwe and a retail pharmacy shop operating in Mozambique.

SERVICES

This segment comprises of three companies that provide accounting 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.

SEGMENT ANALYSIS

For the year ended 31 December 2010

	2010 USD	% of Total	2009 USD	% of Total	% Change
REVENUE					
Manufacturing	4 839 667	34%	3 839 777	33%	26%
Distribution	2 130 383	15%	2 823 322	24%	(25%)
Hospital	4 230 226	29%	3 132 522	27%	35%
Retail	3 144 221	22%	1 842 749	16%	71%
Services	-	-	-	-	-
Total gross revenue	14 344 497	100%	11 638 370	100%	107%
Adjustments	(1 903 204)	(15%)	(800 505)	-7%	
Total revenue	12 441 293	85%	10 837 865	93%	107%
OPERATING PROFIT/ (LOSS) BEFORE AMORTISATION, DEPRECIATION AND DISPOSALS					
Manufacturing	(612 246)	43%	520 923	62%	(218%)
Operating loss	(1 289 441)		(242 260)		
Amortisation	271 761		271 761		
Depreciation	405 434		491 422		
Distribution	(648 958)	46%	110 543	13%	(687%)
Operating loss	(957 206)		(143 406)		
Amortisation	183 237		183 237		
Depreciation	125 011		70 712		
Hospital	(54 382)	4%	362 512	43%	(115%)
Operating (loss)/profit	(224 253)		188 767		
Depreciation	169 871		173 745		
Retail	64 857	(5%)	(88 476)	(11%)	173%
Operating profit/ (loss)	52 623		(146 534)		
Depreciation	12 234		58 058		
Services	(171 943)	12%	(62 985)	(7%)	(173%)
Operating loss	(279 640)		(74 597)		
Depreciation	107 697		11 612		
	(1 422 672)	100%	842 517	100%	(269%)
OTHER INFORMATION					
Segment assets					
Manufacturing	21 819 106	49%	22 644 530	54%	(4%)
Distribution	10 121 152	23%	9 896 424	24%	2%
Hospital	2 473 569	6%	2 503 529	6%	(1%)
Retail	1 055 384	2%	914 603	2%	15%
Services	9 240 199	20%	6 021 345	14%	54%
Total gross assets	44 709 410	100%	41 980 431	100%	66%
Adjustments	(8 108 363)	(22%)	(6 180 862)	(17%)	
Total assets	36 601 047	78%	35 799 569	83%	66%
Segment liabilities					
Manufacturing	(10 668 142)	46%	(9 360 591)	49%	14%
Distribution	(757 005)	3%	(1 862 907)	10%	(59%)
Hospital	(1 486 097)	6%	(1 330 132)	7%	12%
Retail	(1 018 543)	4%	(964 869)	4%	6%
Services	(9 236 324)	41%	(5 769 270)	30%	60%
Total gross liabilities	(23 166 111)	100%	(19 287 769)	100%	33%
Adjustments	6 776 282	(41%)	6 230 752	(48%)	
Total liabilities	(16 389 829)	59%	(13 057 017)	52%	33%

A geographical segment report has not been prepared, as in excess of 90% of the revenue is generated within Zimbabwe.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

	Freehold premises USD	Plant and equipment USD	Office equipment and furniture USD	Motor Vehicles USD	Total USD
4 PROPERTY, PLANT AND EQUIPMENT					
2010					
Cost / valuation	6 053 997	3 463 005	1 658 778	1 386 934	12 562 714
Accumulated depreciation	(107 738)	(277 538)	(223 835)	(272 412)	(881 523)
Net book value at beginning of year	5 946 259	3 185 467	1 434 943	1 114 522	11 681 191
Current year movements					
Net book value at the beginning of the year	5 946 259	3 185 467	1 434 943	1 114 522	11 681 191
Additions	330 867	655 418	48 883	56 750	1 091 918
Transfer to investment property	(50 000)	-	-	-	(50 000)
Disposals	-	-	(1 194)	(32 712)	(33 906)
Depreciation	(158 245)	(451 199)	(49 715)	(298 357)	(957 516)
Currency translations	-	-	13 874	39 147	53 021
Net book value at end of year	6 068 881	3 389 686	1 446 791	879 350	11 784 708
2009					
Cost / valuation	6 053 997	3 428 355	1 521 280	1 085 706	12 089 338
Accumulated depreciation	-	-	(24 355)	(37 332)	(61 687)
Net book value at beginning of year (unaudited)	6 053 997	3 428 355	1 496 925	1 048 374	12 027 651
Current year movements					
Net book value at the beginning of the year	6 053 997	3 428 355	1 496 925	1 048 374	12 027 651
Additions	-	34 650	135 639	295 880	466 169
Depreciation	(107 738)	(277 538)	(199 480)	(235 080)	(819 836)
Currency translations	-	-	1 859	5 348	7 207
Net book value at end of year	5 946 259	3 185 467	1 434 943	1 114 522	11 681 191

IMPAIRMENT TESTING

The manufacturing plant and hospital facilities in Zimbabwe capacity utilisation showing an increase on a month on month basis. Initiatives are in place to increase the use of these facilities, by raising funding. The expected future cash flows to be generated indicated that no impairment was necessary. The discount rate used to determine the value-in-use was 10% (refer to note 5).

RESIDUAL VALUES AND USEFUL LIFE

The Group has reviewed the residual values and useful lives of the assets. No material adjustment resulted from such review in the current year. The estimation of useful lives of property, plant and equipment is based on historical performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. The depreciation rates in note 2.6.1 to the financial statements represent directors current best estimate of the useful lives of these assets.

CAPITAL COMMITMENTS

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

	2010 USD	2009 USD
Authorised and contracted for	131 800	10 000
Authorised but not yet contracted for	783, 393	18 377

FUNDING

Capital expenditure will be financed out of normal business operations, existing borrowing facilities and specific project financing as well as equity funding where appropriate.

SECURITY

Bank borrowings are secured on freehold premises. Refer to note 11.1.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

	Drug master file USD	Participating rights USD	Intellectual property USD	Total USD
5 INTANGIBLE ASSETS				
2010				
Cost / valuation	1 765 235	9 829 041	6 329 690	17 923 966
Accumulated amortisation	(115 616)	(464 160)	(484 111)	(1 063 887)
Net book value at beginning of year	1 649 619	9 364 881	5 845 579	16 860 079
Current year movements				
Net book value at the beginning of the year	1 649 619	9 364 881	5 845 579	16 860 079
Amortisation	(60 273)	(296 377)	(98 348)	(454 998)
Currency translations	65 006	187 291	500 903	753 200
Net book value at end of year	1 654 352	9 255 795	6 248 134	17 158 281
2009				
Cost / valuation	1 675 597	8 561 331	5 771 726	16 008 654
Accumulated amortisation	(58 057)	(176 007)	(389 653)	(623 717)
Net book value at beginning of year (unaudited)	1 617 540	8 385 324	5 382 073	15 384 937
Current year movements				
Cost / Valuation	1 617 540	8 385 324	5 382 073	15 384 937
Amortisation	(57 559)	(288 153)	(94 458)	(440 170)
Currency translations	89 638	1 267 710	557 964	1 915 312
Net book value at end of year	1 649 619	9 364 881	5 845 579	16 860 079

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The useful lives of certain of the above intangibles have been assessed as being indefinite as the economic benefits from these intangibles will not cease, while others have finite lifetimes. When the useful life of the intangible is regarded as finite, the asset is amortised and when indefinite, the asset is not amortised but subjected to an annual impairment test.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Carrying amount of intangibles with finite useful life	11 699 355	11 318 282	10 143 951
Carrying amount of intangibles with indefinite useful life	5 458 926	5 541 797	5 240 986
Total	17 158 281	16 860 079	15 384 937

The recoverable amount of the intangible assets has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period as management believes that products have a value in use of more than five years and believes that these projections, based on past experience, are reliable.

The pre-tax discount rate applied to cash flow projections is 10% (2009: 10%).

The cash flows beyond the five-year period are extrapolated using an 8% growth rate (2009: 10%).

Key assumptions used in value in use calculations:

The calculation of value in use is sensitive to the following assumptions:

- gross margin;
- discount rates;
- raw materials price inflation;
- market share during the budget period; and
- growth rate used to extrapolate cash flows beyond the budget period.

GROSS MARGIN

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are changed over the budget period for anticipated efficiency improvements, and estimated changes to cost of production, raw material costs and selling prices.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

The growth in inflows is assumed to be an average 8% on an annual basis. Low volumes in the past have been a result of low output from the factory which in turn affected turnover. This has been resolved by the removal of bottlenecks in the factory through refurbishment and retooling the factory. The market for the CAPS products is huge.

DISCOUNT RATES

Discount rates reflect management's estimate of the risks. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to the yield on five-year financial instruments within the region at the beginning of the budgeted period. The estimated discount rate of 10% was used to discount the future cash flows.

RAW MATERIALS PRICE INFLATION

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of the future price movements.

MARKET SHARE ASSUMPTIONS

These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the market to be relatively stable over the budget period. The market share of the Group has been affected by working capital constraints, the directors have proposed sourcing of equity funding. This is expected to boost market share as the Group's product will be consistently available in the market.

GROWTH RATE ESTIMATES

The growth rate used beyond the next five-year period is management's best estimate taking market conditions into account.

JUSTIFICATION OF THE ESTIMATED USEFUL LIFE

The dossiers for these products can be updated to accommodate any market changes giving the dossier an infinite life. The life of the participation rights for a certain dossier follows that of the dossier itself. e.g. if the dossier has an infinite useful life it follows that the life of the participation rights is also infinite. The life of the intangibles is in excess of 19 years and most of them have an infinite lifespan. Therefore the use of 5 years to forecast cash flows and 19 years for useful life is conservative. With regard to the assessment of value in use, management believes that no reasonably foreseeable change in any of the above key assumptions would cause the carrying value of the intangibles to materially exceed their recoverable amounts.

6 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 25.75%.

Deferred tax liability- beginning of year
Deferred tax asset- beginning of year
Statement of comprehensive income movement
Arising from currency translations

Balance at end of year
Disclosed as follows:
Deferred tax assets
Deferred tax liabilities

31 December 31 December
2010 2009
USD USD

5 243 037	5 994 788
(134 418)	(91 591)
(267 467)	(794 578)
(592 845)	-
4 248 307	5 108 619
(98 403)	(134 418)
4 346 710	5 243 037

7 INVENTORIES

Raw materials
Work-in-progress
Finished goods
Consumables
Total inventories

31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
2 144 299	2 105 341	3 825 434
460 470	544 591	-
1 635 346	1 579 337	454 302
34 642	9 800	-
4 274 757	4 239 069	4 279 736

Management is required to use significant judgement in estimating the provision for impairment of inventories. Refer to Note 2.6.7 for more detail.

Other disclosures
No inventories were carried to net realisable value.
No inventories were encumbered during the year.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

FINANCIAL ASSETS	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
8 TRADE AND OTHER RECEIVABLES			
Financial instruments:			
Trade receivables	1 348 825	1 016 465	172 847
Less: allowance for doubtful debts	(18 969)	(18 147)	-
Trade receivables- net	1 329 856	998 318	172 847
Other receivables	182 113	463 168	2 785
Total trade and other receivables	1 511 969	1 461 486	175 632
Non-financial instruments:			
Prepayments	372 917	438 720	1 848
Total non financial instruments	372 917	438 720	1 848
The maximum exposure to credit risk in relation to trade and other receivables	1 884 886	1 900 206	177 480
Net trade receivables as a percentage of revenue	11%	9%	N/A

Details in respect of the Group's credit risk management policies are set out in note 22. The Directors consider that the carrying amount of the trade and other receivables approximates their fair value. 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. The Group also conducts enquiries specifically on individuals, companies and their directors. As at 31 December 2010 trade receivables of \$885 379 (2009-\$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.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Reconciliation of allowance for doubtful debts			
Balance at the beginning of the year	18 147	-	-
Raised during the year	18 969	18 147	-
Utilised during the year	(18 147)	-	-
Balance at the end of the year	18 969	18 147	-
Collateral and security			
The Group has no collateral over trade and other receivables.			
Currency analysis of trade and other receivables (financial instruments only):			
United States Dollar	1 305 432	1 113 355	175 632
South African Rand	95 338	259 903	-
Botswana Pula	111 199	88 228	-
Balance at the end of the year	1 511 969	1 461 486	175 632

At 31 December 2010 the age analysis of trade receivables is as follows:

Neither past due nor impaired	444 447	363 282	172 847
<30 days			
Past due by 31 - 60 days	420 052	307 993	-
Past due by 61 - 90 days	229 089	327 043	-
Past due by 91 - 120 days	141 867	-	-
Past due by more than 120 days	94 401	-	-
Total	1 329 856	998 318	172 847

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Balance at the beginning of the year	11 472	15 901
Fair value loss recognised in the statement of comprehensive income	(7 207)	(4 429)
Reclassified to treasury shares	(4 265)	-
Balance at the end of the year	-	11 472

The balance consists of shares purchased in companies quoted on the Zimbabwe Stock Exchange

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
10 CASH AND CASH EQUIVALENTS			
Bank balances	286 681	264 606	52 715
Restricted cash	432 873	-	-
Cash on hand	5 840	75 705	104 285
	725 394	340 311	157 000

Cash and cash equivalents are placed with sound financial institutions. Cash at banks earns interest at floating rates based on daily bank deposit rates.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Currency analysis of cash and cash equivalents			
United States Dollars	609 356	122 180	104 285
Botswana Pula	15 639	25 627	23 812
South African Rand	100 399	192 504	28 903
Balance at the end of the year	725 394	340 311	157 000

11 BORROWINGS

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
11.1 CURRENT			
Bank loans	5 871 812	1 352 431	198 669

The loans are from First Bank Corporation Limited (\$900,000), Standard Chartered Bank (Zimbabwe) Limited (\$100,000), Premier Banking Corporation (\$344,681) Stanbic Limited (\$527,131) and CBZ Bank Limited (\$4,000,000) and are denominated in United States dollars. The loan facilities are for a 12 month period from the date issue 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 Streets in Bulawayo. The weighted average effective interest on the loans range from 20%- 30% per annum. The loan covenants have been not been breached in the current year.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
11.2 NON CURRENT			
Shareholders loans	3 231 308	4 291 537	4 067 187

The loan is from Fredex Financial Services (Private) limited, a related party, and is denominated in United States Dollars and has no fixed terms of repayment. Any repayments of the loan will be dependent on availability of funds and it is unlikely that the loan will be repaid within 12 months from this reporting date. The loan is unsecured and interest free.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
11.3 FINANCE LEASE			
Due not later than 1 year	1 884	4 297	3 070
Due later than 1 year but not later than 5 years	7 056	13 022	12 930
	8 940	17 319	16 000

It is the Group's policy to lease certain motor vehicles under finance leases. The lease term is 5 years and the effective borrowing rate was 8%. Interest rates are linked to prime at the contract date. The finance liability is repayable in 4 monthly installments of US\$471 each. The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

11.4 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 a General Meeting, by ordinary resolution, exceed an amount equal to twice the Group consolidated shareholders' equity. The borrowings available for utilisation are as follows:

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Authorised borrowings per Articles of Association	30 331 862	34 388 594	32 420 568
Utilised	(9 112 060)	(5 661 287)	(4 265 856)
Available for utilisation	21 219 802	28 727 307	28 154 712

12 TRADE AND OTHER PAYABLES

Trade accounts payable
Other payables

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Trade accounts payable	1 907 570	1 372 573	813 392
Other payables	571 709	628 917	35 568
	2 479 279	2 001 490	848 960

The directors consider the carrying amount of the trade and other payables to approximate their fair value. Trade accounts payables are non-interest bearing and are normally settled on average 30 day terms.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Currency analysis of trade and other payables			
United States Dollars	2 127 368	1 865 225	653 991
Botswana Pula	214 463	24 625	25 026
South African Rand	117 339	84 415	115 888
Meticash	20 109	27 225	54 055
Balance at the end of the year	2 479 279	2 001 490	848 960

13 PROVISIONS

13.1 LEAVE PAY

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
LEAVE PAY	451 780	119 662	-

13.2 LEAVE PAY PROVISION

In terms of the Group policy, employees are entitled to accumulated leave benefits not taken within a leave cycle, up to a maximum of three times the employee's annual leave allocation. The obligation is reviewed annually.

14 NOTES TO THE STATEMENT OF CASH FLOWS

CASH USED IN OPERATIONS

	31 December 2010 USD	31 December 2009 USD
Loss before tax	(3 090 908)	(1 678 038)
Adjusted for:		
– amortisation of intangibles	454 998	440 170
– depreciation	957 516	819 836
– write-off of other receivables	158 205	359 774
– loss on disposal of property plant and equipment	19 007	-
– net finance costs	731 271	150 225
– fair value gain on investment property	(150 000)	-
– fair value adjustments	7 207	4 429
– write off of prior year tax over provision	(31 916)	52 476
– currency translations	(1 101 340)	(195 060)
Cash used in operations before working capital changes	(2 045 960)	(151 140)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

15	SHARE CAPITAL	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
15.1	AUTHORISED (1) Ordinary share capital 800 000 000 ordinary shares of 0.025 United States cents each Issued 453 092 169 Ordinary shares of 0.025 United States cents each	200 000 113 273	- -	- -
15.2	ISSUED (2)	31 December 2010	31 December 2009	
	Ordinary share capital			
	Number of shares in issue at the beginning of the year	453 092 169	453 092 169	
	Treasury shares	(609 186)	(609 186)	
		452 482 983	452 482 983	
15.3	TREASURY SHARES (3)			
	Balance at the beginning and end of the year	609 186	609 186	
	<p>(1) Authorised share capital The Zimbabwean dollar was demonetised in 2009. A pronouncement, effective 17 February 2010 requiring the value of a share to be determined by the company was issued.</p> <p>The introduction of multi-currency system in February 2009 made it necessary for the company to redenominate the authorised and issued share capital of the company to its new functional currency of United States dollar. The following were the resolutions</p> <p>(i) The authorised share capital of the Company was redenominated from ZWD200,000,000 comprising of 800,000,000 ordinary shares of ZWD 0.25 to USD 200,000 comprising of 800,000,000 ordinary shares of 0.025 United States cents each</p> <p>(ii) 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</p> <p>(ii) The directors were authorised to transfer from non-distributable reserves an equivalent value to fund the above redenomination of the issued shares.</p> <p>(ii) The Memorandum and Articles of Association of the company were amended to include the above changes.</p> <p>(2) Unissued shares 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 in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit for an indefinite period.</p> <p>(3) Treasury shares As required by IFRS, all ordinary shares bought back by the Holding company have been accounted for as Treasury shares.</p>			
15.4	NON-DISTRIBUTABLE RESERVE			USD
	Balance at 1 January 2009 (unaudited):			10 971 215
	Movement during the year net of tax			-
	Balance at 31 December 2009			10 971 215
	Movement during the year net of tax			-
	Reclassification to issued share capital (refer to note 15.1 above)			(113 273)
	Balance at 31 December 2010			10 857 942
16	REVENUE	31 December 2010 USD	31 December 2009 USD	
	Sale of goods			
	■ Zimbabwe	7 425 747	5 833 262	
	■ Exports from Zimbabwe	100 525	1 648 379	
	■ International	684 795	223 702	
	Rendering of hospital services	4 230 226	3 132 522	
		12 441 293	10 837 865	
17	OTHER OPERATING INCOME			
	Rental income	49 592	70 896	
	Exchange gain	7 786	61 870	
	Sundry income	49 710	27 604	
		107 088	160 370	

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

18	FINANCE INCOME AND FINANCE COSTS	31 December 2010 USD	31 December 2009 USD
18.1	FINANCE INCOME		
	Bank interest	516	1 562
18.2	FINANCE COSTS		
	Interest on borrowings	(731 787)	(151 787)
19	LOSS BEFORE TAX		
19.1	LOSS BEFORE TAX HAS BEEN ARRIVED AT AFTER CHARGING THE FOLLOWING:		
	(Expenses) income		
	External auditors' remuneration	(75 000)	(36 750)
	Amortisation of intangibles	(454 998)	(440 170)
	Depreciation	(957 516)	(819 836)
	Employee benefit expense	(4 525 738)	(2 539 435)
	Directors remuneration		
	– Fees	(22 950)	(22 221)
	– Other services	(63 100)	(60 000)
	Manufacturing overheads	(4 050 170)	(3 921 517)
	Inventory consumed	(2 721 837)	(1 628 893)
	Write off of other receivables	(158 205)	(359 774)
	Loss on disposal of property, plant and equipment	(19 007)	-
	Other	(2 002 290)	(2 693 023)
		(15 050 811)	(12 521 619)
	Classified as:		
	Cost of sales	(5 648 772)	(5 469 056)
	Selling and distribution expenses	(67 349)	(49 271)
	Administrative expenses	(6 670 386)	(3 251 798)
	Other operating expenses	(2 664 304)	(3 751 494)
		(15 050 811)	(12 521 619)
	Total number of employees	609	578
19.2	DIRECTORS' EMOLUMENTS		
	Non-executive directors	(22 950)	(22 221)
	Executive directors		
	–Salaries	(50 500)	(48 000)
	–Retirement, medical and other benefits	(12 600)	(12 000)
		(86 050)	(82 221)
19.3	KEY MANAGEMENT		
	Salaries	(274 200)	(211 590)
	Retirement, medical and other benefits	(42 336)	(31 746)
		(316 536)	(243 336)
20	INCOME TAX CREDIT		
	Normal tax		
	– current year	(5 432)	(54 133)
	Deferred tax		
	– current year	267 467	794 578
	Withholding tax	(4 300)	(16 400)
		257 735	724 045
	Reconciliation of the taxation rate:	%	%
	Effective rate	(8.3%)	(43.0%)
	Adjusted for:		
	Exempt income/allowances		
	Non-deductible amortisation of intangibles	14.7%	26.2%
	Non-deductible depreciation of assets	31.0%	48.9%
	Other non-deductible expenses	5.8%	15.7%
	Utilisation of tax losses in prior year	(21.2%)	(25.0%)
	Withholding tax on interest and dividends	1.7%	1.4%
	Effects of changes in tax rate	0.0%	5.2%
	Other	2.1%	1.5%
	Tax at the statutory rate	25.75%	30.9%

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

21 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 shares in issue during the year, excluding ordinary shares purchased by a subsidiary of CAPS Holdings Limited and held as treasury shares.

	31 December 2010 USD	31 December 2009 USD
Loss attributable to equity holders of the parent company (united states dollars)	(2 330 205)	(758 526)
Number of shares in issue	452 482 983	452 482 983
Basic loss per share (United States cents)	(0.51)	(0.17)

22 FINANCIAL INSTRUMENTS

Fair value hierarchy

The Group used the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices for similar instruments

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

The Group held the following financial instruments measured at fair value:

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Assets measured at fair value			
Financial assets at fair value through profit and loss (Level 1) - treasury shares	4 265	11 472	15 901

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables and cash which arise directly from its operations.

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

INTEREST RATE RISK

The Group's exposure to the risk of 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, a significant portion of the Groups' borrowings were either interest-free or at fixed rates.

No financial instruments are entered into to mitigate the risk of interest rates.

INTEREST RATE RISK TABLE

The following table demonstrates the sensitivity to change in interest rates, with all other variables held constant, of the Group's loss before taxation.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

FINANCIAL INSTRUMENTS (CONTINUED)

	Change in rate %	Increase/ (decrease) in loss before tax \$	Increase/ (decrease) in equity \$
2010			
Rate	(-) 5%	(24 466)	(24 466)
	(+) 5%	24 466	24 466
Rate	(-) 10%	(48 932)	(48 932)
	(+) 10%	48 932	48 932
2009			
Rate	(-) 5%	(11 285)	(11 285)
	(+) 5%	11 285	11 285
Rate	(-) 10%	(22 570)	(22 570)
	(+) 10%	22 570	22 570

No sensitivity analyses are performed on the Zimbabwean loans as:

- (i) some have fixed rates and are thus not sensitive to the movement in the interest rate; and
- (ii) the interest on the variable rate loans would be insignificant.

CREDIT RISK

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of trade receivables and bank balances. The Group's bank balances are placed with high credit quality institutions. Trade receivables are presented net of the allowance for doubtful debts.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the corporate office. There is no significant concentration of credit risk within the Group arising from the financial assets of the Group.

Substantially all debtors are non-interest bearing and repayable within 30 – 60 days. Debtors are disclosed net of an 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 borrowings 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 external regulatory or legal requirements.

The Group manages its risk to a shortage of funds using planning mechanisms. This considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

FINANCIAL INSTRUMENTS (CONTINUED)

The maturity profile of the Group's long-term financial liabilities at 31 December 2010, based on contractual undiscounted payments, is shown in below

2010

FINANCIAL ASSETS

Non current -financial receivables
Trade and other receivables
Cash restricted for use
Cash and cash equivalents
Total financial assets

LESS THAN 1 BETWEEN 1 BETWEEN 2
YEAR AND 2 YEARS AND 5 YEARS OVER 5 YEARS

	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
Non current -financial receivables	158 206	158 206	158 206	-
Trade and other receivables	1 511 969	-	-	-
Cash restricted for use	432 873	-	-	-
Cash and cash equivalents	292 521	-	-	-
Total financial assets	2 395 569	158 206	158 206	-
FINANCIAL LIABILITIES				
Borrowings (excl. finance lease liabilities)	5 871 812	3 231 308	-	-
Finance lease liabilities	1 884	1 884	5 172	-
Trade and other payables	2 479 279	-	-	-
Total financial liabilities	8 352 975	3 233 192	5 172	-
Net financial liabilities / (assets)	5 957 406	3 074 986	(153 034)	-

FINANCIAL LIABILITIES

Borrowings (excl. finance lease liabilities)
Finance lease liabilities
Trade and other payables
Total financial liabilities

Net financial liabilities / (assets)

LESS THAN 1 BETWEEN 1 BETWEEN 2
YEAR AND 2 YEARS AND 5 YEARS OVER 5 YEARS

2009

FINANCIAL ASSETS

Non current -financial receivables
Trade and other receivables
Cash and cash equivalents
Total financial assets

	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
Non current -financial receivables	158 206	158 206	316 411	-
Trade and other receivables	1 461 486	-	-	-
Cash and cash equivalents	340 311	-	-	-
Total financial assets	1 960 003	158 206	316 411	-

FINANCIAL LIABILITIES

Borrowings (excl. finance lease liabilities)
Finance lease liabilities
Trade and other payables
Total financial liabilities

Borrowings (excl. 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)

Net financial liabilities / (assets)	1 398 215	4 146 353	(316 411)	-
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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. Efforts are underway to raise equity funding.

FOREIGN CURRENCY RISK

The Groups' transactions are concluded in the respective functional currencies of the individual operations. However, the Groups' 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 currency to the presentation currency of the Group (translation risk), as well as economic risk is not taken into account in considerations of 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 Groups' financing policies. Group treasury constantly monitors exposures to foreign currency regularly.

FOREIGN OPERATIONS

In converting the foreign operations at 31 December 2010, the following exchange rates were used:

	Income/expenses Average (US\$)	Assets/liabilities Spot (US\$)
South Africa	6.985	6.632
Botswana	6.65	6.459
Mozambique	33.41	32.75

CAPITAL MANAGEMENT

The Groups' objectives when managing capital are to safeguard the Groups' ability to continue as a going concern in order to provide sustainable returns for shareholders, benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

FINANCIAL INSTRUMENTS (CONTINUED)

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 Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future developments 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 known changes in the Group's approach to capital management during the year.

The Group monitors its capital using gearing and interest cover ratios. The primary methods of measurement used are interest bearing debt to total equity and annualised EBITDA, and interest cover. The Group is currently well within acceptable industry norms.

	31 December 2010 USD	31 December 2009 USD	Unaudited 1 January 2009 USD
Interest bearing borrowings	5 871 812	1 352 431	198 669
Less: Cash and short-term deposits	(725 394)	(340 311)	(157 000)
Net borrowings	5 146 418	1 012 120	41 669
Equity	20 211 218	22 742 552	21 954 006
Gearing ratio (%)	25%	5%	0.002%

23 CONTINGENT LIABILITIES

There were no known contingent liabilities.

24 RELATED PARTIES

Related party transactions exist between the Company and fellow subsidiaries and the holding company.

24.1 SHAREHOLDERS

An analysis of the principal shareholders of the company is provided in the Shareholdings section of the annual report. For details of directors' interests refer to page 17.

24.2 INTRA-GROUP TRANSACTIONS

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. Refer to note 39 for a detailed list of subsidiaries.

None of the balances are secured.

24.3 TRANSACTIONS AND BALANCES WITH DIRECTORS

All directors have given general declarations of interest in terms of section 187 of the Companies Act, 1973. These declarations indicate that various members of the Board hold various other directorships in Zimbabwean entities with whom transactions are conducted by the Group in terms of a customer/supplier relationship. These transactions have been concluded on terms and conditions that are no more favourable than those entered into with third parties in arm's-length transactions, and are all unsecured.

The following interests have been declared by directors:

Frederick Charles Mtandah (Fred), a non-executive director of CAPS Holdings Limited, holds an executive position with Fredex Financial Services (Private) Ltd. At year-end, the Group owed \$3,231,308 (2009 : \$4,291,537) to Fredex Financial Services (Private) Limited. He also holds an executive position with FCM Motors (Private) Ltd, a supplier of products and services to the Group.

All transactions between the Group, Fredex Financial Services (Private) Limited and FCM Motors (Private) Ltd are done on an arms-length basis and Fred has not had any direct dealings in these transactions.

Michael Mutanda (Michael), a non-executive director of CAPS Holdings Limited, holds an executive position with Fredex Financial Services (Private) Ltd. At year-end, the Group owed \$3,231,308 (2009 : \$4,291,537) to Fredex Financial Services (Private) Limited. He also holds an executive position with FCM Motors (Private) Ltd. A supplier of products and services to the Group.

All transactions between the Group, Fredex Financial Services (Private) Ltd and FCM Motors (Private) Limited are done on an arms-length basis and Michael has had direct dealings in these transactions.

Yvonne Nxumalo (Yvonne), a non-executive director of CAPS Holdings Limited, holds an executive position with Fredex Financial Services (Private) Ltd. At year-end, the Group owed \$3,231,308 (2009 : \$4,291,537) to Fredex Financial Services (Private) Limited.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

RELATED PARTIES (CONTINUED)

All transactions between the Group and Fredex Financial Services (Private) Ltd are done on an arms-length basis, and Yvonne has not had any direct dealings in these transactions.

Graham Cheater (Graham), a non-executive director of CAPS Holdings Limited, is a part-time consultant for PricewaterhouseCoopers Chartered Accountants (PwC), who were our reporting accountants for the period ended 31 December 2009 and held office up-to 30 June 2010. Graham also works for W Consulting which also offers consulting services to the Group. All transactions between the Group, PwC and W Consulting are done on an arms-length basis.

Mark Vickery (Mark), a non-executive director of CAPS Holdings Limited, holds an executive position with Meikles Africa Ltd, which has business transactions with our subsidiaries. All transactions between the Group and TM Supermarkets are done on an arms-length basis, and Mark has not had any direct dealings in these transactions.

24.4 LOANS FROM SHAREHOLDERS

As at the year end 31 December 2010, the Group owed \$3 231 308 (2009 : \$4 291 537) to Fredex Financial Services (Private) Limited, a major shareholder (refer to note 11.2). The loan amount was used to finance capital expenditure.

Payments to directors and key management are disclosed in notes 19.2 and 19.3.

24.5 LOANS TO KEY MANAGEMENT

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

31 December 2010 USD	31 December 2009 USD
632 823	992 597
(158 205)	(359 774)
474 618	632 823

The loans are interest free and written-off over the contractual period.

25 INVESTMENT PROPERTY

Balance at the beginning of the year
Transfer from property plant and equipment
Gains from fair value adjustments

Balance at the end of the year

31 December 2010 USD	31 December 2009 USD
-	-
50 000	-
150 000	-
200 000	-

Investment properties comprises of Land situated in the district of Salisbury measuring 266,5573 hectares held under Deed of Transfer No. 2100/ 87 dated 7 April 1987 (Glenview). The property is intended to be sold to staff members in the near future. The fair value of the investment property as disclosed in the financials was based on a valuation obtained from an independent professional valuer. property being valued.

The fair value of the investment property was determined based on current prices in an active market for similar property in the same location and condition.

26 OPERATING ENVIRONMENT

The Group operates in a challenging macro-economic environment in Zimbabwe which is characterised by a persistent liquidity crunch coupled with high interest rates among other things. The Directors have assessed the ability of the Group to continue as a going concern as at 31 December 2010 and believe that the preparation of these financial statements on a going concern basis is still appropriate. The ability of the Group to continue to carry on as a going concern is done by the directors frequently.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

27 PRIOR PERIOD ADJUSTMENT

On 1 January 2009, the FCTR (Functional Currency Translation Reserve) was incorrectly determined. The opening balance of the FCTR beginning of 2009 was adjusted and as a result the 2009 movement in other comprehensive income (currency translation differences) relating to FCTR was also restated. The effect of these adjustments is as follows:

	<u>2009 USD</u>
STATEMENT OF FINANCIAL POSITION	
Reported FCTR at 1 January 2009	559 970
Decrease in FCTR	(559 970)
Restated FCTR at 1 January 2009	<u>-</u>
STATEMENT OF COMPREHENSIVE INCOME	
Reported currency translation differences for the year ended 31 December 2009	1 182 569
Increase currency translation differences	559 970
Restated currency translation differences for the year ended 31 December 2009	<u>1 742 539</u>