



**LITHA**  
HEALTHCARE GROUP LIMITED

(FORMERLY MYRIAD MEDICAL HOLDINGS LIMITED)

## AT THE HEART OF HEALTH

Annual Report for the 7 months  
ended 31 December 2009



## PROFILE

The Litha Group is a diversified healthcare company, with product and service offerings in biotechnology, pharmaceuticals, medical devices, cold chain logistics, as well as medical capital equipment and technical support services.

### Contents

|  |                   |
|--|-------------------|
| Chairman's report                          | 2                 |
| Acting Chief Executive Officer's report    | 4                 |
| Incumbent Chief Executive Officer's report | 8                 |
| Board of Directors                         | 10                |
| Value added statement                      | 11                |
| Corporate governance statement             | 13                |
| Directors' details                         | 61                |
| Share trading statistics                   | 62                |
| Shareholders' diary                        | 63                |
| Notice of annual general meeting           | 64                |
| Corporate information                      | Inside back cover |
| Form of proxy                              | Inserted          |

### Annual Financial Statements

|  |    |
|--|----|
| Directors' responsibilities and approval | 16 |
| Certificate by Company secretary         | 17 |
| Audit Committee report                   | 18 |
| Independent auditor's report             | 19 |
| Directors' report                        | 20 |
| Statements of financial position         | 22 |
| Statements of comprehensive income       | 23 |
| Statements of changes in equity          | 24 |
| Statements of cash flows                 | 25 |
| Accounting policies                      | 26 |
| Notes to the annual financial statements | 36 |
| Shareholders' information                | 60 |



## Annual Report for the 7 months ended 31 December 2009

**Mission:** To actively participate in and contribute to the creation of a healthier society, through the provision of integrated healthcare solutions.

The Litha Healthcare Group is a leading diversified healthcare company which recently moved its listing to the main board of the JSE.

The Group is headed up by CEO Selwyn Kahanovitz and Non-Executive Chairman Andrew Bonamour, together with a group of highly experienced and successful businessmen, executives and an operational management team who are steeped with many years of experience in the healthcare sector.

A diversified  
healthcare group.



## CHAIRMAN'S REPORT

The Group has undergone a number of changes the past few months and has come out as a stronger and more diversified healthcare company.



### **Andrew David Bonamour**

Non-Executive Chairman

#### **Market resilience and agility**

In spite of recessionary pressures, Myriad Medical (renamed Litha Healthcare Group Limited after period end) was able to sustain its growth trajectory during the seven months under review and has benefited from continued demand due to the defensive nature of the healthcare sector.

Myriad's solid results clearly demonstrate the Group's strong operational base and ability to be innovative and agile in responding to the demands of the South African healthcare market.

Focus on competitive product solutions whilst maintaining international benchmarks has proved to be a key element of the Group's success. This combined, with the strengthening of relationships with strategic stakeholders, has ensured sustained growth and profitability. Having successfully entrenched Myriad Medical within the devices and single-use consumables market, the Group

explored other lucrative avenues to consolidate its market presence.

#### **New direction**

In line with the Group's growth strategy, Myriad Medical acquired a 51% interest in Litha Healthcare Holdings, a diversified healthcare Group focusing on biotechnology, pharmaceuticals and consumables with an investment arm holding strategic interests in healthcare businesses.

The acquisition fundamentally changes Myriad's healthcare products and service offering and creates one of the country's leading diversified medical groups offering services and products in vaccines, pharmaceuticals, cold chain distribution and medical devices.

#### **Group structure**

Myriad Medical was built on the effective harnessing of entrepreneurial spirit, with the delivery of world class product and service solutions to the South African healthcare market. This will remain the fundamental cornerstone of the new Group.

With the acquisition, we do however see some consolidation of the Group's support systems and structures that will allow for the continued growth trajectory in not only the local market, but into the Sub-Saharan African region.



The highly experienced and qualified team will be headed up by Selwyn Kahanovitz as CEO and Martin Kahanovitz as the CFO respectively. Dr Morena Makhoana, who is based in Cape Town at the Biovac Institute, a public private partnership with the South African Government in the supply and planned manufacture of Paediatric vaccines, will serve as Deputy CEO of the Group.

The leadership team will be myself as Non-Executive Chairman, William Marshall-Smith and Nkululeko Sowazi as Non-Executive Directors and Mandi Mzimba as an Independent Non-Executive Director. Barry Budler will continue to fulfil a key financial role in the Group including that of company secretary.

### Appreciation

Myriad Medical has undergone a number of changes during the past few months and has come out a stronger and more diversified healthcare company, which I believe will become one of the leading players in the healthcare market in time to come.

Continuity and strong leadership was required during this time, and I would like to extend my gratitude to William Marshall-Smith who assumed the role of acting CEO and who was ably supported and assisted by Barry Budler, the previous Financial Director.

A special note of thanks is also extended to the Myriad Medical divisional directors who ensured that the Group continued to perform and not only meet projected targets, but forged new growth by adding additional agencies that utilised the existing sales and administration infrastructure.

Finally, to our customers, suppliers and shareholders, we would like to thank you for your continued support of Myriad Medical (now Litha Healthcare Holdings Limited).

### Prospects

Although the healthcare market is resilient, we need to remain agile in our efforts to address the anticipated changes to the South African healthcare landscape. The focus of the new Group remains the sourcing of innovative and competitive product solutions, to meet the changing needs of our customers.

I am optimistic that the newly formed Litha Healthcare Group will be suitably placed to benefit from the opportunities that these challenges provide.



**Andrew David Bonamour**  
*Non-Executive Chairman*

# ACTING CHIEF EXECUTIVE OFFICER'S REPORT

For the period 18 November 2009 to 4 May 2010

The Group enjoyed robust growth in spite of tough and variable market conditions.



## William Marshall-Smith

Acting Chief Executive Officer

### Performance

#### Financial overview

Due to the change of the year end to 31 December, these results represent a 7 month period from 1 June 2009 to 31 December 2009. The Group delivered solid results which were achieved despite challenging market conditions and significant once-off costs related to a repurchase of 34 000 000 shares in November 2009.

Turnover showed steady growth as the Group started to benefit fully from the addition of two new agencies in the Filterworks and Earth Medical divisions.

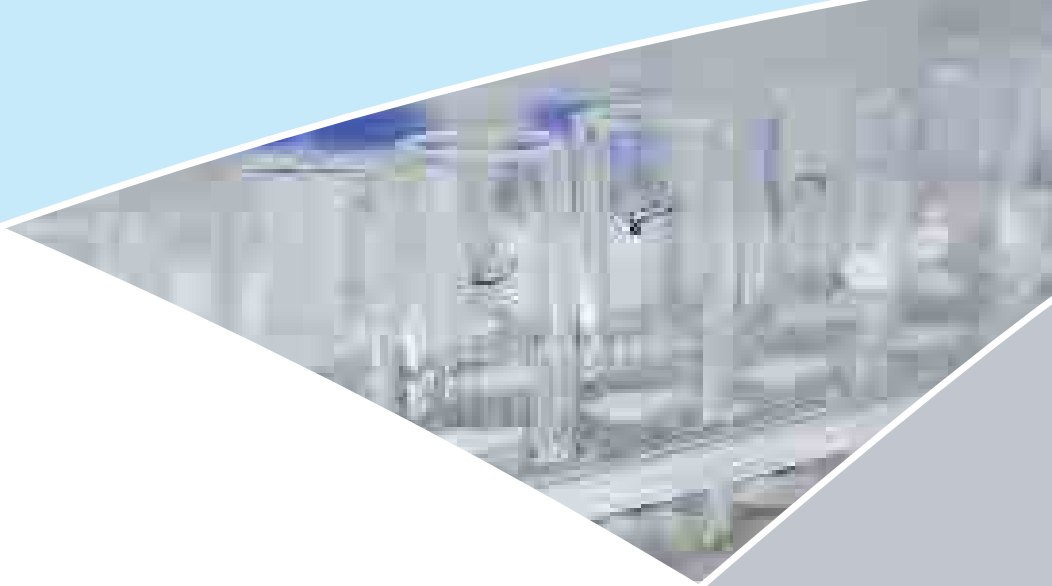
Demand from the Private and Public sectors remained strong throughout the period under review. Gross margin improved to 46% (12 months ended 31 May 2009: 42%) which was aided by the strength of the Rand. Net operating costs as a percentage of Sales increased to 33% (12 months

ended 31 May 2009: 30%). The increase was due to restructuring costs in the Capex and Technical division of R2,2 million and once-off non-tax deductible costs related to the repurchase of 34 000 000 shares from Messrs Jacob Shapiro and Reuben Shapiro at 85 cents per share (R28,9 million). Costs related to this repurchase amounted to R3,5 million.

Property, plant and equipment to the value of R1,6 million was purchased during the period. The period under review saw an improvement in overall working capital management. Inventory days improved to 120 days (annualised) (31 May 2009: 139 days) and Debtors days were maintained at 69 days (annualised) (31 May 2009: 68 days) despite a R7,1 million prepayment made to a supplier towards year end in order to take advantage of discounts. Creditors days, which were indirectly affected by the above prepayment, decreased to 67 days (annualised) (31 May 2009: 85 days). A loan of R34 million was raised to fund the share repurchase and related costs. The loan is repayable in quarterly instalments over four years at a rate of JIBAR plus 5,5%.

Despite this increase in long term debt, the Group has maintained a healthy statement of financial position with a low gearing of 20%. Net asset value per share at 31 December 2009 improved to 91,3 cents per share (31 May 2009: 82,9 cents per share).

Cash generated by operations was R13,3 million for the 7 month period (R18,7 million for the



12 months period ended 31 May 2009). Cash generated by operating activities was utilised to fund the increase in working capital requirements due to increased turnover and also contributed to the 65% increase in the cash and cash equivalents balance in comparison to 31 May 2009.

#### Operational overview

Turnover showed steady growth, as Myriad Medical started to benefit fully from the addition of its two new agencies within the Filterworks and Earth Medical divisions and the Group further enjoyed stronger demand from both the private and public sectors.

#### Summary

The Filterworks, Earth Medical and Manta divisions exceeded their budgets for the 7 month period. The new agencies acquired by Filterworks and Earth Medical have been successfully integrated into their businesses and are complementary to their existing product range. Manta Medical won significant tenders in the Government sector and managed to retain existing formularies in the private sector. Manta Forensic had a slow start to the period under review as the existing SAPS forensic tender came to a close. The division however secured all products in the new forensic tender and fully expects to realise its targets in the next period. ICU Medical performed in line with its budget. The Myriad Medical Capex and Technical division underwent significant restructuring, which contributed towards a loss in the division. However, with new agencies currently under investigation, a strong recovery is anticipated for the division moving forward.

#### Single use medical devices

##### Manta Medical

Manta Medical, the Group's largest division, traded strongly for the 7 months June 2009 to December 2009, with sales turnover exceeding its budget by 20% and with net profit before tax an impressive

45% ahead of budget. This performance was achieved despite an operating environment which was characterised by constraints in pricing and competitive behaviour.

The division secured two public sector tenders worth in excess of R30 million and will now supply needles and syringes, as well as Biogel Gloves, to government hospitals. Additional revenue is anticipated, with the proposed inclusion of the KZN province into the tender contract.

##### ICU Medical SA

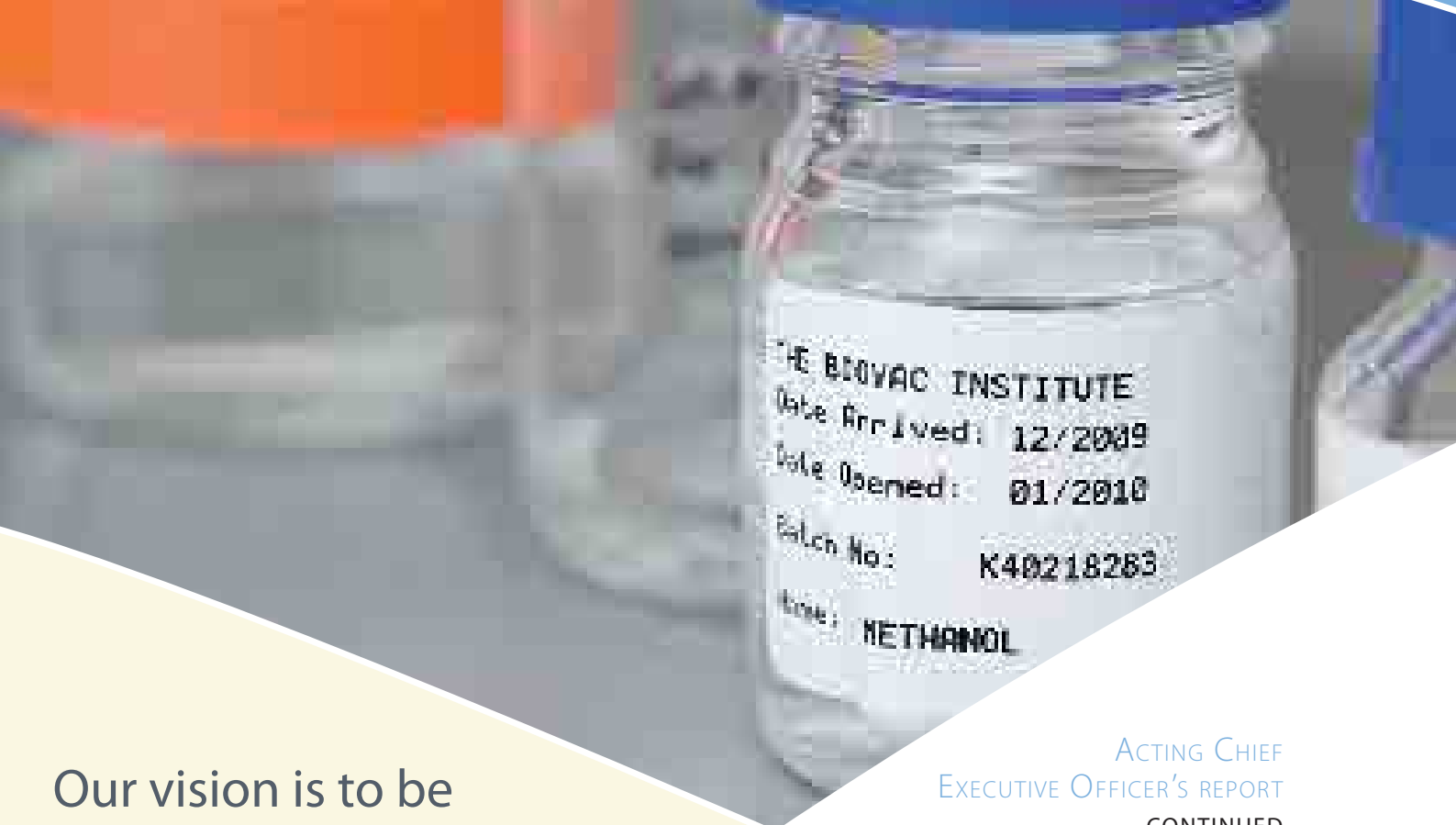
ICU Medical SA maintains a market leader position in the field of needle free IV access and catheter securement devices. Trading conditions during the period saw margins being placed under pressure by competitor activity and tighter hospital procurement policies on consumables.

The division was awarded two public sector contracts during this period, which are expected to contribute to further growth in this division in 2010. Various private sector contracts were also renewed or extended through to 2010.

Part of ICU's long-term strategy is aimed at procuring current products at reduced costs, whilst maintaining their quality.

##### Earth Medical

Although the operating environment during the period was stable, Earth Medical experienced some price pressure from hospital groups. Additionally, initiatives undertaken by medical funders



Our vision is to be  
the benchmark in  
integrated healthcare  
solutions in Africa.

ACTING CHIEF  
EXECUTIVE OFFICER'S REPORT  
CONTINUED

to contain costs, in particular new products, compounded these challenges. Despite this, the division managed to exceed its budget, with most of the growth experienced in the last two quarters.

Earth Medical expects to see continued growth in Sports Medicine and Urology/Women's Health in the next financial year and is optimistic about a tender for the Infection Control products that was secured. Additionally, the division plans to further expand its agencies in the Urology, Orthopaedics and Sterile products areas.

#### ***Filterworks***

As was experienced across all the Myriad Medical divisions, increased shareholder pressure on private hospital groups to drive cost reductions by securing more cost effective products remained a challenge to this company. This, coupled with additional market pressures, meant that Filterworks had to actively review its pricing structures to customers.

The favourable exchange rates combined with the effective control of operational costs, however, allowed the division to exceed its budgeted targets. Strong growth from its new wound drainage agency, as well as its autologous blood reinfusion products is anticipated for the first quarter of 2010.

#### ***Manta Forensics***

Manta Forensics operates in a highly cyclical market and saw limited sales due to the fact that the SAPS's forensic contract came to an end before the new one was awarded.

During the last quarter of 2009, the Forensic Division was awarded a two year SAPS tender for the delivery of twenty different forensic kits, of which fourteen were new products that were not in the previous tender.

The Division now boasts a newly built manufacturing facility, comprising: certified Class 10, Class 100 and Class 1 000 clean rooms as well as state of the art CCTV and Biometric access control. Manta Forensics will also receive specialised training from the SAPS Training Division as part of the forensics contract.



### **Capital Medical Equipment and Technical Services**

#### **Capex and Technical**

Increased pressure on the availability of funding in the healthcare sector affected the purchase of capital intensive medical equipment. As part of Capex's response to the prevailing economic conditions, it was necessary for the division to re-structure its costs and review all products/agencies for profitability and increased efficiencies.

With the retention of its core agencies, the division will now seek growth by focusing on expanding its base with the addition of more profitable and synergistic agencies during 2010.

#### **Long term strategy**

While the Group as a whole fared well during this recessionary period, due to the defensive nature of healthcare and favourable exchange rates, it became increasingly important that for sustained growth and development, Myriad Medical ramp up its efforts to expand its footprint in the South African healthcare market.

The Litha Healthcare Group will be combined into the Myriad Medical Group to form the renamed Litha Healthcare Group Limited.

The transaction will enable diversification into biotechnology (vaccines), pharmaceuticals and devices as well as cold chain distribution channels and expertise. Additionally, the Group will benefit from an expanded footprint into the public sector, which is a key area for the Group.

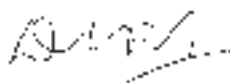
#### **Management changes**

Although Myriad has enjoyed rapid growth and high profitability, it became apparent that in order to derive sustained benefit, diversification of the Group's offering and exposure to the entire healthcare market was needed.

With the creation of the Litha Healthcare Group Limited, it was equally important to find a team that could drive this expansion through strong leadership and ability. Selwyn Kahanovitz and his team are highly regarded in the healthcare industry and bring with them a fresh and innovative energy to the Group. Under his tenure we fully expect the size, value and impact of the new diversified Group to become the benchmark in healthcare product and service provision in South Africa and the region.

#### **Appreciation**

I would like to take this opportunity to thank the entire Myriad Medical team for the support that they have shown me during this interim period. Your immeasurable commitment and understanding has ensured the smooth transition of Myriad Medical to the Litha Healthcare Group. I am confident that the new CEO, Selwyn Kahanovitz will continue to receive your support.



**William Marshall-Smith**  
*Acting Chief Executive Officer*  
18 November 2009 to 4 May 2010

## INCUMBENT CHIEF EXECUTIVE OFFICER'S REPORT

With the Group's substantial footprint in niche markets across the healthcare sector, the Litha Healthcare Group is well placed to build on our existing market presence and take advantage of the changing South African healthcare landscape.



### Selwyn Kahanovitz

Incumbent Chief Executive Officer

The Myriad/Litha transaction, which became effective on 1 May 2010, to form the renamed Litha Healthcare Group Limited, has been a relatively smooth and seamless transaction, culminating in the Group's moving from the AltX to the main board of the JSE. The forging of the two companies' business portfolios will create one of the country's leading diversified healthcare groups.

#### Moving forward – opportunities in the healthcare industry

The South African healthcare landscape is shaped by the ever increasing demand for cost-effective products and services as our population grows and the burden of disease escalates. This is fuelled by immigration and urbanisation, by an increase in lifestyle and infectious diseases, and by a persistently high incidence of hospitalised trauma cases. Demand has also been lifted by a recent increase in the medically insured population as a result of the Government Employee Medical Scheme (GEMS) introduced three years ago. The private sector is expected to show continuing

solid growth as healthcare delivery in the public sector has been constrained by a shortage of skills and inadequate infrastructure. The Department of Health (DoH) has sought to broaden access to quality healthcare and to improve affordability in the private sector by regulating prices throughout the value chain, resulting in product mix changes and volume growth, particularly in favour of generic medicines.

The government is also evaluating the feasibility in the longer term of a National Health Insurance system (NHI) as a means of providing healthcare for all citizens, funded by contributions from all employed South Africans, and utilising the resources of both public and private sectors. In the short term the DoH has committed to first fix the public health system by upgrading hospitals and hospital management. This anticipated investment in skills, beds and technology bodes well for sustained growth in the medical devices, consumables, equipment and pharmaceutical market sectors.

The existing Medicines Control Council (MCC) regulations governing the registration, manufacture, marketing and sale of medicines are expected to be extended to medical devices. Litha is accordingly well placed to bring value to the Group through its specialised in-house regulatory expertise and resources

In a highly fragmented and competitive market environment the Litha Healthcare Group will continue to synergistically expand and target its product offering to ensure that its broadened customer base is reliably serviced with safe and cost-effective healthcare solutions.



## Litha Healthcare Holdings

### The Biovac Institute (TBI)

The Biovac Institute is a public partnership between the South African Government and the Biovac consortium. Litha Healthcare Holdings (Pty) Limited owns a controlling interest in the Biovac Consortium and therefore manages the day to day activities at TBI.

The Biovac Institute is currently a leading supplier of paediatric vaccines to the government's Expanded Programme on Immunisation (EPI). This programme is aimed at reducing vaccine-preventable diseases by making vaccine accessible to all children. The division has maintained growth in revenue through supplying high quality, safe and effective products.

Revenue has been and will also be boosted by the mass immunisation campaigns rolled out by the DoH as part of its 2010 strategy. These campaigns have included the distribution of the highly publicised H1N1 flu vaccine, as well as measles and polio vaccines.

TBI is in the process of developing an end to end vaccine manufacturing facility that will provide quality and affordable vaccines. Our key milestones for 2010 include; The completion of the Clinical Trial Manufacturing Facility (CTM) upgrade. The completion of this upgrade will allow for an inspection by the Medicines Control Council which if successful will enable TBI to manufacture vaccines on a small scale for clinical trial purposes.

The Commercial Manufacturing Facility Building was completed in 2009 and during 2010 we will see the installation of steam and water utilities as well as the construction of clean rooms. This forms part of the roadmap towards the start of commercial production in 2013.

The lack of skilled individuals and researchers in human vaccines has left a vacuum in the biotechnology industry, which we as the Litha Healthcare Group, through TBI's Skills Development Programme, continue to address. During 2010 TBI will recruit individuals with international experience in vaccine manufacture to share their expertise and knowledge with our existing employees.

TBI continues to create opportunities for skills transfer and training of existing and new staff

through a combination of on-site and external training programmes.

### Litha Pharma

Pharmaceuticals and generics continue to constitute a major market opportunity for Litha going forward. A range of products are currently at the MCC awaiting registration. Litha has also secured the licence for a range of generic pharmaceuticals that would still need to be submitted to the MCC for registration.

With the changes in the operational strategy due to the Litha Healthcare transaction, it has been necessary to review the Litha Pharma strategy and develop a new vision and action plan.

Litha Pharma has identified specific disease categories for market share penetration. Categories identified for future target market penetration are as follows: Oncology; Women's health; Dermatology; Eye and ear preparations; Wound healing agents; Antibiotics/Antivirals; Pain/inflammation; Depression; Anaesthesia Allergy, Wellness and Cardiology.

The Litha Healthcare Group Limited remains committed to provide competitive high quality products and solutions to the healthcare sector.

### Prospects

With the Group's substantial footprint in niche markets across the healthcare sector, Litha Healthcare Group is well placed to build on our existing market presence and take advantage of the changing South African healthcare landscape.

**Please note that the financial statements on pages 20 to 59 do not include any Litha Healthcare Holdings (Pty) Limited or Pharmafrica (Pty) Limited amounts as these acquisitions were only implemented after period end. Refer to note 29 on page 55 for further details on the acquisitions.**

Selwyn Kahanovitz

*Incumbent Chief Executive Officer*

## BOARD OF DIRECTORS

Our focus is on strengthening our internal systems and management team.

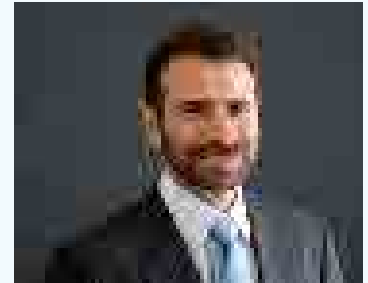
### Executive Directors



**Selwyn Kahanovitz**  
*Chief Executive Officer*

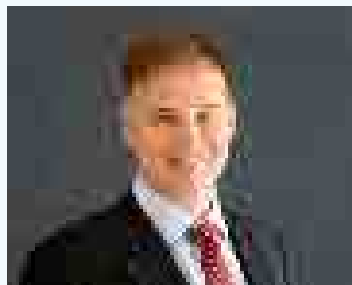


**Morena Francesco Douglas Makhoana**  
*Deputy Chief Executive Officer*



**Martin Michael Kahanovitz**  
*Group Financial Director*

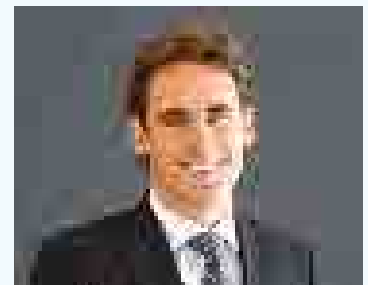
### Non-Executive Directors



**Andrew David Bonamour**  
*Non-Executive Chairman*



**Nkululeko Leonard Sowazi**  
*Non-Executive Director*



**William Marshall-Smith**  
*Non-Executive Director*



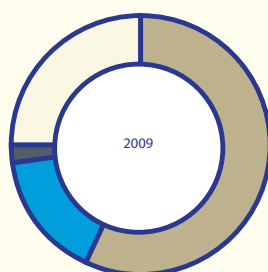
**Mandi Shumikazi Mzimba**  
*Independent Non-Executive Director*

# VALUE ADDED STATEMENT

For the seven months ended 31 December 2009

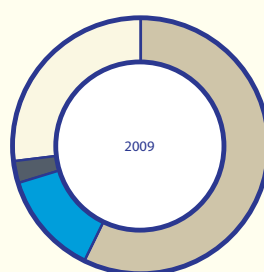
|   | 7 months ended<br>December 2009<br>R'000 |             | Year ended<br>31 May 2009<br>R'000 |             |
|---|--|-------------|------------------------------------|-------------|
| <b>Wealth created</b>                         |  |             |                                    |             |
| Turnover                                      | 176 876                                  |             | 273 614                            |             |
| Net cost of products and services             | 121 465                                  |             | 188 291                            |             |
| Value added                                   | 55 411                                   |             | 85 323                             |             |
| Other non-trading income                      | 258                                      |             | 1 670                              |             |
| Interest received                             | 858                                      |             | 2 586                              |             |
| Net profit on disposal of plant and equipment | 55                                       |             | 30                                 |             |
| <b>Total wealth created</b>                   | <b>56 582</b>                            |             | <b>89 609</b>                      |             |
| Distributed as follows:                       |  |             |                                    |             |
| <b>To employees</b>                           |  |             |                                    |             |
| Salaries, wages and benefits                  | 35 428                                   | 63%         | 51 386                             | 58%         |
| <b>To government</b>                          |  |             |                                    |             |
| Taxation                                      | 4 276                                    | 8%          | 11 807                             | 13%         |
| <b>To providers of capital</b>                |  |             |                                    |             |
| Interest paid                                 | 1 464                                    | 3%          | 2 274                              | 2%          |
| <b>Retained in the Group</b>                  |  |             |                                    |             |
| Depreciation of plant and equipment           | 824                                      | 1%          | 1 460                              | 2%          |
| Total comprehensive income                    | 14 590                                   | 25%         | 22 682                             | 25%         |
| <b>Total wealth distribution</b>              | <b>56 582</b>                            | <b>100%</b> | <b>89 609</b>                      | <b>100%</b> |

December 2009  
Wealth distribution



● To employees
 ● To government

May 2009  
Wealth distribution



● To providers of capital
 ● Retained in the group



We strive to create unassailable  
value in all our healthcare  
products and endeavours.

## CORPORATE GOVERNANCE STATEMENT

### Introduction

The Litha Healthcare Group fully supports the Code of Corporate Practices and Conduct, as set out in the King II Report, and is committed to the principles of openness, integrity and accountability in accordance with the highest standards of corporate practice.

### Board of Directors

The board of Directors consists of four Non-Executive Directors and three Executive Directors. The board as a whole is responsible for setting the criteria for identifying and recommending nominees for board positions. The board reviews the operations and performance of the Group and considers issues such as strategy, business plans, policies, compliance with legislation and other significant matters likely to have a material impact on the Group.

Andrew David Bonamour was appointed Non-Executive Director on 29 October 2009. Selwyn Kahanovitz was appointed Chief Executive Officer, Morena Francesco Douglas Makhoana deputy Chief Executive Officer and Martin Michael Kahanovitz Chief Financial Officer on 4 May 2010. Mandi Shumikazi Mzimba and Nkululeko Leonard Sowazi were appointed Non-Executive Directors on

4 May 2010. Dr Jacob Shapiro and Reuben Shapiro resigned as Chief Executive Officer and Chief Operating Officer respectively on 18 November 2009. Mark Nielsen and Phillip Vallet resigned as Non-Executive Directors on 18 November 2009. Dr Phumla Makaziwe Mandela and Denese Schneider resigned as Non-Executive Directors on 8 December 2009. Barry Charles Budler resigned as an Executive Director and Eric Lucky Senamolele resigned as Non-Executive Director on 4 May 2010.

From 1 June 2009 to the date of issue of these financial statements, meetings of the board were held on 2 July 2009, 29 July 2009, 20 August 2009, 11 September 2009, 7 December 2009, 15 February 2010, 24 March 2010 and 19 May 2010. The attendance at the board meetings is provided in the table on page 15.

### Financial control

Divisional senior executives and Directorate meet on a regular basis to review financial and other performance.

### Share dealings

The Directors are required to obtain clearance from the Chief Executive Officer or Financial Director of the Company for any dealings in shares prior to such dealings. No dealings in shares are allowed



## CORPORATE GOVERNANCE STATEMENT CONTINUED

during periods where Directors are aware of any price sensitive financial information or during closed periods. Any share dealings are reported to the Company Sponsor to effect the necessary SENS announcements.

### Audit Committee

The members of the Audit Committee were as follows:

Philip Vallet (Chair) (Non-Executive Director)  
(Resigned 18 November 2009)  
Denese Schneider (Non-Executive Director)  
(Resigned 8 December 2009)  
Andrew David Bonamour (Non-Executive Director)  
(Appointed 29 October 2009)  
Eric Lucky Senamolele (Non-Executive Director)  
(Appointed 18 November 2009, Resigned 4 May 2010)  
William Marshall Smith (Chair) (Non-Executive Director)  
(Appointed 18 November 2009)

The external auditors, executive management and the Company secretary attend meetings as invitees. Written terms of reference have been

adopted by the committee. The committee meets at least four times per year with external auditors and executive management to review accounting, auditing, financial reporting, corporate governance, risk and internal control matters. From 1 June 2009 to the date of these financial statements, meetings of the audit committee were held on 18 August 2009, 20 October 2009, 15 February 2010, 24 March 2010 and 26 May 2010.

### Auditors

The auditors for the year were Mazars (formerly Mazars Moores Rowland).

### Internal control and risk management

The internal audit function continued to report to the Audit Committee throughout the year. In addition, internal control/audit and risk management issues are constantly under review by the Audit Committee and executive management.

### Remuneration Committee

The members of the committee were:

Dr Phumla Makaziwe Mandela (Chair)  
(Independent Non-Executive Director) (Resigned 8 December 2009)  
Denese Schneider (Non-Executive Director)  
(Resigned 8 December 2009)  
Mandi Shumikazi Mzimba (Chair) (Independent Non-Executive Director) (Appointed 4 May 2010)  
William Marshall Smith (Non-Executive Director)

From 1 June 2009 to the date of these financial statements, a meeting of the Remuneration Committee was held on 17 June 2009.



### Directors' meetings and attendance

| Director                   | Board meetings             |                 | Audit Committee meetings   |                 | Remuneration Committee meetings |                 |
|----------------------------|----------------------------|-----------------|----------------------------|-----------------|---------------------------------|-----------------|
|                            | Number of meetings invited | Number attended | Number of meetings invited | Number attended | Number of meetings invited      | Number attended |
| Dr Phumla Makaziwe Mandela | 5                          | 5               | –                          | –               | 1                               | 1               |
| Philip Vallet              | 4                          | 4               | 2                          | 2               | –                               | –               |
| Denese Schneider           | 5                          | 5               | 2                          | 1               | 1                               | 1               |
| Dr Jacob Shapiro           | 4                          | 4               | –                          | –               | –                               | –               |
| Reuben Shapiro             | 4                          | 4               | –                          | –               | –                               | –               |
| Mark Nielsen               | 4                          | –               | –                          | –               | –                               | –               |
| Eric Lucky Senamolele      | 7                          | 7               | 2                          | 2               | –                               | –               |
| Barry Charles Budler       | 7                          | 7               | –                          | –               | –                               | –               |
| William Marshall-Smith     | 8                          | 6               | –                          | –               | –                               | –               |
| Andrew David Bonamour      | 4                          | 4               | 3                          | 3               | –                               | –               |
| Selwyn Kahanovitz          | 1                          | 1               | –                          | –               | –                               | –               |
| Martin Michael Kahanovitz  | 1                          | 1               | –                          | –               | –                               | –               |
| Morena Francesco           |                            |                 |                            |                 |                                 |                 |
| Douglas Makhoana           | 1                          | 1               | –                          | –               | –                               | –               |
| Mandi Shumikazi Mzimba     | 1                          | 1               | –                          | –               | –                               | –               |
| Nkululeko Leonard Sowazi   | 1                          | 1               | –                          | –               | –                               | –               |

The committee determines on behalf of the shareholders, the Group's policy on executive remuneration and approves the remuneration of executives. It is also responsible for the Company's share incentive scheme. No executive Director is involved in the setting of his own remuneration. The primary objective of the Group's Remuneration Committee is to develop a reward strategy. Responsibilities include:

- Evaluating the performance of Executive Directors;
- Recommending remuneration packages for Executive Directors;
- Recommending policy relating to the Company's share incentive scheme.

### Employee participation and equity

The board conveys the strategy of the Group to employees at all levels on a regular basis. The Group is committed to providing equal opportunities for all its employees.

### Ethics

The board and employees strive to ensure that the Group conducts its business with integrity towards

its shareholders and competitors and every effort is made to create a culture and value system that Directors, employees, business partners and customers are proud to be associated with.

### Integrated Sustainability Reporting

The Directors recognise that social and environmental related matters, where appropriate and relevant to the nature of the Group's activities, are a priority.

### Skills development and training

The Group is committed to the ongoing training and development of employees in order to ensure the continuous growth of the Group's skills base. Employees attend courses relating to their specific job functions on an ongoing basis and receive on the job training.

### Safety and Health

The Group is committed to a safe and healthy working environment and ensures compliance with the South African Occupational Health and Safety Act, 1993 throughout its operations.

# DIRECTORS' RESPONSIBILITIES AND APPROVAL

The Directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and Group annual financial statements and related information included in this report. It is their responsibility to ensure that the annual financial statements and Group annual financial statements present fairly the state of affairs of the Company and the Group as at the end of the financial period and the results of their operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditors are engaged to express an independent opinion on the annual financial statements and Group annual financial statements.

The annual financial statements are prepared in accordance with IFRS, AC 500 statements and in the manner required by the Companies Act of South Africa and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal controls established by the Company and Group and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and Group and all employees are required to maintain the highest ethical standards in ensuring the Company and Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company and Group is on identifying, assessing, managing and monitoring all known forms of risk across the Company and Group. While operating risk cannot be fully eliminated, the Company and Group endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

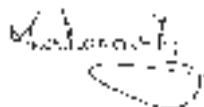
The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements and Group annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the Company's and Group's cash flow forecast for the 7 months ended 31 December 2009 and, in light of this review and the current financial position, they are satisfied that the Company and Group have or have access to adequate resources to continue in operational existence for the foreseeable future. Therefore, the annual financial statements and Group annual financial statements have been prepared on the going concern basis.

The annual financial statements which appear on pages 20 to 59 were approved by the board of Directors on 27 May 2010, and are signed on its behalf by:



**Selwyn Kahanovitz**  
*Chief Executive Officer*



**Martin Michael Kahanovitz**  
*Financial Director*



**Morena Francesco Douglas Makhooana**  
*Deputy Chief Executive Officer*

Johannesburg  
10 June 2010

## CERTIFICATE BY COMPANY SECRETARY

As Company secretary, I hereby confirm, in terms of the Companies Act, that to the best of my knowledge, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and all such returns are true, correct, and up to date.



**Barry Charles Budler**  
*Company secretary*

Johannesburg  
10 June 2010

# AUDIT COMMITTEE REPORT

## Background

The Corporate Laws Amendment Act (the Act) became effective on 14 December 2007, and the committee has commenced and continues with implementation of its requirements.

The committee's operation is guided by a detailed charter that is informed by the Act and is approved by the board as and when it is amended.

## Purpose

The purpose of this committee is:

- To assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control and reporting processes and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- To provide a forum for discussing business risk and control issues and developing recommendations for consideration by the board;
- To oversee the activities of internal and external audit; and
- To perform duties that are attributed to it by the Act.

## Membership

The membership of the committee comprises solely Non-Executive Directors. They are:

- Andrew David Bonamour; and
- William Marshall-Smith.

## External audit

The committee has established through enquiry that the external auditor of Litha Healthcare Group Limited is independent as defined by the Act.

The committee, in consultation with executive management, agreed to a provisional audit fee for the 2009 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at the time. The final fee will be agreed on completion of the audit. Audit fees are disclosed in Note 18 to the financial statements.

There are formal procedures whereby the auditor is considered for non-audit services, and each engagement letter for such work is reviewed by the committee.

Meetings were held with the auditor where management were not present, and no matters of concern were raised.

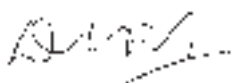
The committee has nominated, for approval at the annual general meeting, Mazars as the external auditor for the 2010 financial year, and Simon Kaye as the designated auditor.

## Capability of Financial Director

The committee is satisfied that the Financial Director has the appropriate expertise and experience to fulfil his function.

## Annual financial statements

The committee has recommended the annual financial statements for approval by the board. The board has subsequently approved the financial statements which will be tabled at the forthcoming annual general meeting.



**William Marshall-Smith**  
*Chairman of the Audit Committee*

Johannesburg  
10 June 2010

# INDEPENDENT AUDITOR'S REPORT

to the members of Litha Healthcare Group Limited

We have audited the Group annual financial statements and annual financial statements of Litha Healthcare Group Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2009, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 20 to 59.

## Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

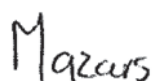
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

An audit involves performing procedures to obtain 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Litha Healthcare Group Limited as at 31 December 2009, and its consolidated and separate financial performance and consolidated and separate cash flows for the period then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

The logo for Mazars, featuring the word "Mazars" in a stylized, handwritten-style font.

Mazars

Partner: Simon Kaye

Registered Auditor

Johannesburg

10 June 2010

# DIRECTORS' REPORT

The Directors have pleasure in presenting the annual financial statements of the Company and the Group for the year ended 31 December 2009 and report as follows:

## 1. Nature of business

The Group offers a diverse range of medical products including the planned manufacture and supplies of vaccines to South Africa and countries comprising the SADC region. The Litha Group will now comprise three medical business lines:

- Biotechnology (Vaccines) – comprising the planned manufacture of vaccines and the import and export of vaccines to the SADC regions;
- Medical devices and consumables – comprising the wholesale distribution, assembly and importation of local and international medical devices and consumables; and
- Pharmaceuticals – comprising the wholesale distribution of pharmaceuticals.

## 2. Trading results

The trading results of the Group for the year are set out in the Statements of Comprehensive Income on page 23.

## 3. Dividends

No dividends were declared or paid during the current and previous financial years.

## 4. Authorised and issued share capital

There were no changes in the authorised share capital of the Company during the year under review. During the period under review, the Company repurchased 34 000 000 shares on 18 November 2009 at 85 cents per share. These shares were subsequently cancelled. In the previous year, the Company issued no new shares.

## 5. Investments in subsidiaries

Details of the Company's subsidiary companies appear in note 4 to the annual financial statements.

## 6. Property, plant and equipment

The Group incurred capital expenditure of R1,6 million (31 May 2009: R1,21 million) during the period under review. There were no changes in the nature of the plant and equipment of the Group or in the policies regarding their use.

## 7. Borrowings

During the period under review, the Company and its subsidiaries had unlimited borrowing powers in terms of their Articles of Association. The Directors of the Company had unlimited borrowing powers in terms of the Articles of Association.

## 8. Directorate and secretary

The name and address of the Company secretary and the names of the current Directors appear on the inside back cover of this annual report.

## 9. Directors' emoluments

In accordance with the requirements of the JSE Limited, a detailed report on Directors' emoluments appears in note 24.

## 10. Directors' interest in contracts

No contracts in which Directors have an interest were entered into during the year.

# DIRECTORS' REPORT CONTINUED

## 11. Directors' interests

At 31 December 2009 the Directors' holdings of shares were as follows:

|                         | Beneficial     |                  |               |
|-------------------------|----------------|------------------|---------------|
|                         | Direct<br>'000 | Indirect<br>'000 | Total<br>'000 |
| <b>31 December 2009</b> |                |                  |               |
| <i>Director</i>         |                |                  |               |
| Andrew David Bonamour   | 30             | –                | 30            |
|                         | <b>30</b>      | <b>–</b>         | <b>30</b>     |
| <b>31 May 2009</b>      |                |                  |               |
| <i>Director</i>         |                |                  |               |
| Dr Jacob Shapiro        | 16 000         | –                | 16 000        |
| Reuben Shapiro          | 9 900          | 7 000            | 16 900        |
| Mark Nielsen            | 1 500          | –                | 1 500         |
| Denese Schneider        | 1 500          | –                | 1 500         |
| Barry Charles Budler    | –              | –                | –             |
|                         | <b>28 900</b>  | <b>7 000</b>     | <b>35 900</b> |

Since 31 December to the date of this report, the following shares have been purchased by or issued to Directors:

|                                   | Beneficial     |                  |               |
|-----------------------------------|----------------|------------------|---------------|
|                                   | Direct<br>'000 | Indirect<br>'000 | Total<br>'000 |
| <i>Director</i>                   |                |                  |               |
| Selwyn Kahanovitz                 | 5 650          | 10 170           | 15 820        |
| Martin Michael Kahanovitz         | –              | 5 650            | 5 650         |
| Morena Francesco Douglas Makhoana | 3 108          | –                | 3 108         |
| Nkululeko Leonard Sowazi          | 3 955          | –                | 3 955         |
| Andrew David Bonamour             | 77             | –                | 77            |
| William Marshall-Smith            | 120            | –                | 120           |
|                                   | <b>12 910</b>  | <b>15 820</b>    | <b>28 730</b> |

## 12. Events after the end of the reporting period

Refer to note 29 for acquisitions after period end. Other than this there have been no facts or circumstances of a material nature that have occurred between the accounting date and date of this report.

## 13. Auditors

Mazars will continue in office in accordance with Section 270(2) of the Companies Act of South Africa.

## 14. Special resolutions

The following special resolutions were passed by Myriad (now Litha Healthcare Group Limited) shareholders:

- 29 October 2009: That the Directors of Myriad Medical Holdings Limited were authorised by way of a specific authority, in terms of section 85(2) of the Companies Act, 1973 (Act 61 of 1973), as amended (the Act), and in terms of the Listings Requirements of the JSE Limited (JSE), to repurchase a total of 34 000 000 ordinary shares in the Company at 85 cents per ordinary share from Jacob Shapiro, Reuben Shapiro, the Berg Trust, Dawn Shapiro and Bertha Shapiro.
- 24 November 2009: The shareholders, in accordance with the provision of sections 85 to 90 of the Companies Act (Act 61 of 1973) (as amended), the Company's Articles of Association, and subject to the Listing Requirements of the JSE Limited, authorised, by way of general authority, the Directors of the Company and/or any of its subsidiary companies to repurchase the ordinary shares issued by the Company. The repurchase of the shares shall be implemented on the open market. Any general repurchase shall not, in aggregate, in any one year exceed 20% of the shares of that class as at the date of passing the special resolution.
- 21 April 2010: The shareholders, in accordance with the provision of sections 44 of the Companies Act (Act 61 of 1973) (as amended), the Company's Articles of Association, and subject to the Listing Requirements of the JSE Limited, authorised that the name of the Company be changed with effect from the date of registration of the Special Resolution by the Companies and Intellectual Property Registration Office (CIPRO) from 'Myriad Medical Holdings Limited' to 'Litha Healthcare Group Limited'.

# STATEMENTS OF FINANCIAL POSITION

at 31 December 2009

|   | Notes | Group                        |                         | Company                      |                         |
|---|-------|------------------------------|-------------------------|------------------------------|-------------------------|
|   |       | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>Assets</b>                                     |       |                              |                         |                              |                         |
| <b>Non-current assets</b>                         |       | 85 190                       | 86 508                  | 108 010                      | 107 949                 |
| Property, plant and equipment                     | 2     | 3 495                        | 2 878                   | –                            | –                       |
| Goodwill  | 3     | 81 468                       | 81 468                  | –                            | –                       |
| Investment in subsidiaries                        | 4     | –                            | –                       | 107 926                      | 107 926                 |
| Deferred taxation asset                           | 5     | 227                          | 2 162                   | 84                           | 23                      |
| <b>Current assets</b>                             |       | 130 165                      | 119 634                 | 3 479                        | 97                      |
| Inventories                                       | 6     | 53 920                       | 60 807                  | –                            | –                       |
| Trade and other receivables                       | 7     | 56 861                       | 50 711                  | 74                           | 74                      |
| Inter-company receivables                         | 13    | –                            | –                       | 3 384                        | –                       |
| Taxation  |       | 4 450                        | 3 015                   | –                            | –                       |
| Cash and cash equivalents                         | 8     | 14 934                       | 5 101                   | 21                           | 23                      |
| <b>Total assets</b>                               |       | 215 355                      | 206 142                 | 111 489                      | 108 046                 |
| <b>Equity and liabilities</b>                     |       |                              |                         |                              |                         |
| <b>Total equity</b>                               |       | 140 803                      | 156 082                 | 66 353                       | 96 412                  |
| Share capital and premium                         | 9     | 64 371                       | 94 271                  | 66 571                       | 96 471                  |
| Reserves  |       | 76 432                       | 61 811                  | (218)                        | (59)                    |
| <b>Non-current liabilities</b>                    |       | 27 798                       | 383                     | 27 378                       | –                       |
| Long term liability                               | 10    | 27 378                       | –                       | 27 378                       | –                       |
| Instalment sale liabilities                       | 11    | 375                          | 383                     | –                            | –                       |
| Deferred taxation liability                       | 5     | 45                           | –                       | –                            | –                       |
| <b>Current liabilities</b>                        |       | 46 754                       | 49 677                  | 17 758                       | 11 634                  |
| Trade and other payables                          | 12    | 28 238                       | 36 481                  | 125                          | 91                      |
| Inter-company payables                            | 13    | –                            | –                       | 4 076                        | 11 540                  |
| Provisions  | 14    | 2 134                        | 808                     | –                            | –                       |
| Other financial liabilities                       | 15    | 1 189                        | 6 531                   | –                            | –                       |
| Taxation  |       | 1 489                        | 5 455                   | –                            | 3                       |
| Short term portion of long term liability         | 10    | 6 986                        | –                       | 6 986                        | –                       |
| Short term portion of instalment sale liabilities | 11    | 147                          | 402                     | –                            | –                       |
| Bank overdraft                                    | 8     | 6 571                        | –                       | 6 571                        | –                       |
| <b>Total equity and liabilities</b>               |       | 215 355                      | 206 142                 | 111 489                      | 108 046                 |



# STATEMENTS OF COMPREHENSIVE INCOME

for the 7 months ended 31 December 2009

|   |       | Group   |  | Company   |  |
|---|-------|---|--|---|--|
|   |       | 7 months<br>ended<br>31 December<br>2009<br>R'000 | Year<br>ended<br>31 May<br>2009<br>R'000 | 7 months<br>ended<br>31 December<br>2009<br>R'000 | Year<br>ended<br>31 May<br>2009<br>R'000 |
|   | Notes |   |  |   |  |
| Revenue   | 16    | 178 047   | 277 899                                  | 1 209   | 1 764                                    |
| Turnover  | 16    | 176 876   | 273 614                                  | 740   | 650                                      |
| Cost of sales   | 17    | (96 294)  | (159 418)                                | –   | –  |
| <b>Gross profit</b>                                     |       | <b>80 582</b>                                     | <b>114 196</b>                           | <b>740</b>  | <b>650</b>                               |
| Operating expenses                                      |       | (59 443)  | (84 668)                                 | (443)   | (654)                                    |
| Other income  |       | 313   | 1 700                                    | –   | –  |
| <b>Operating profit/(loss)</b>                          | 18    | <b>21 452</b>                                     | <b>31 228</b>                            | <b>297</b>  | <b>(4)</b>                               |
| Interest received                                       | 19    | 858   | 2 586                                    | 469   | 1 114                                    |
| Interest paid   | 19    | (1 464)   | (2 274)                                  | (986)   | (1 100)                                  |
| <b>Profit/(loss) before taxation</b>                    |       | <b>20 846</b>                                     | <b>31 540</b>                            | <b>(220)</b>                                      | <b>10</b>                                |
| Taxation  | 20    | (6 256)   | (8 858)                                  | 61  | (3)                                      |
| Profit/(loss) for the period                            |       | 14 590  | 22 682                                   | (159)   | 7  |
| <b>Total comprehensive income/(loss) for the period</b> |       | <b>14 590</b>                                     | <b>22 682</b>                            | <b>(159)</b>                                      | <b>7</b>                                 |
| Earnings per share (cents)                              | 22    | 8,1   | 12,0                                     |   |  |
| Diluted earnings per share (cents)                      | 22    | 7,8   | 11,5                                     |   |  |

# STATEMENTS OF CHANGES IN EQUITY

|                                       | Notes | Share capital<br>R'000 | Share premium<br>R'000 | Share-based payment<br>reserve<br>R'000 | Accumulated profit/<br>(loss)<br>R'000 | Total<br>R'000 |
|---------------------------------------|-------|------------------------|------------------------|---|--|----------------|
| <b>Group</b>                          |       |                        |                        |   |  |                |
| <b>Balance as at 31 May 2008</b>      |       | 191                    | 95 718                 | 578                                     | 38 456                                 | 134 943        |
| Share repurchase                      | 9     | (3)                    | (1 635)                | –                                       | –                                      | (1 638)        |
| Total comprehensive income            |       | –                      | –                      | –                                       | 22 682                                 | 22 682         |
| Share-based payment reserve           | 18    | –                      | –                      | 95                                      | –                                      | 95             |
| <b>Balance as at 31 May 2009</b>      |       | <b>188</b>             | <b>94 083</b>          | <b>673</b>                              | <b>61 138</b>                          | <b>156 082</b> |
| Share repurchase and cancellation     | 9     | (34)                   | (29 866)               | –                                       | –                                      | 29 900         |
| Total comprehensive income            |       | –                      | –                      | –                                       | 14 590                                 | 14 590         |
| Share-based payment reserve           | 18    | –                      | –                      | 31                                      | –                                      | 31             |
| <b>Balance as at 31 December 2009</b> |       | <b>154</b>             | <b>64 217</b>          | <b>704</b>                              | <b>75 728</b>                          | <b>140 803</b> |
| <b>Company</b>                        |       |                        |                        |   |  |                |
| <b>Balance as at 31 May 2008</b>      |       | 192                    | 96 279                 | –                                       | (66)                                   | 96 405         |
| Total comprehensive income            |       | –                      | –                      | –                                       | 7                                      | 7              |
| <b>Balance as at 31 May 2009</b>      |       | <b>192</b>             | <b>96 279</b>          | <b>–</b>                                | <b>(59)</b>                            | <b>96 412</b>  |
| Total comprehensive loss              |       | –                      | –                      | –                                       | (159)                                  | (159)          |
| Share repurchase and cancellation     | 9     | (34)                   | (29 866)               | –                                       | –                                      | (29 900)       |
| <b>Balance as at 31 December 2009</b> |       | <b>158</b>             | <b>66 413</b>          | <b>–</b>                                | <b>(218)</b>                           | <b>66 353</b>  |

# STATEMENTS OF CASH FLOWS

for the 7 months ended 31 December 2009

|   | Notes | Group  |                                       | Company  |                                       |
|---|-------|--|---------------------------------------|--|---------------------------------------|
|   |       | 7 months ended<br>31 December<br>2009<br>R'000 | Year ended<br>31 May<br>2009<br>R'000 | 7 months ended<br>31 December<br>2009<br>R'000 | Year ended<br>31 May<br>2009<br>R'000 |
| <b>Cash flows from operating activities</b>                 |       | <b>2 785</b>                                   | <b>6 614</b>                          | <b>(189)</b>                                   | <b>(97)</b>                           |
| Cash receipts from customers                                |       | 170 726  | 267 120                               | 740  | 650                                   |
| Cash paid to suppliers and employees                        |       | (157 408)                                      | (248 371)                             | (409)  | (761)                                 |
| Cash generated from/(utilised by) operating activities      | 21.1  | 13 318   | 18 749                                | 331  | (111)                                 |
| Interest received   |       | 608  | 1 424                                 | 469  | 1 114                                 |
| Interest paid   |       | (1 464)  | (2 274)                               | (986)  | (1 100)                               |
| Taxation paid   | 21.2  | (9 677)  | (11 285)                              | (3)  | –                                     |
| <b>Cash flows from investing activities</b>                 |       | <b>(1 386)</b>                                 | <b>(1 022)</b>                        | <b>–</b>                                       | <b>–</b>                              |
| Purchase of property, plant and equipment                   |       | (1 629)  | (1 212)                               | –  | –                                     |
| Proceeds on disposals of property, plant and equipment      |       | 243  | 190                                   | –  | –                                     |
| <b>Cash flows from financing activities</b>                 |       | <b>1 863</b>                                   | <b>(2 135)</b>                        | <b>(6 384)</b>                                 | <b>–</b>                              |
| Loans raised/(repaid)                                       |       | 34 101   | (497)                                 | 34 364   | –                                     |
| Share repurchase  | 9     | (29 900)                                       | (1 638)                               | (29 900)                                       | –                                     |
| Costs related to share repurchase                           |       | (2 338)  | –                                     | –  | –                                     |
| Inter-company loans repaid                                  |       | –  | –                                     | (10 848)                                       | –                                     |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | <b>3 262</b>                                   | <b>3 457</b>                          | <b>(6 573)</b>                                 | <b>(97)</b>                           |
| <b>Cash and cash equivalents at beginning of the year</b>   |       | <b>5 101</b>                                   | <b>1 644</b>                          | <b>23</b>                                      | <b>120</b>                            |
| <b>Cash and cash equivalents at end of the year</b>         | 8     | <b>8 363</b>                                   | <b>5 101</b>                          | <b>(6 550)</b>                                 | <b>23</b>                             |

# ACCOUNTING POLICIES

as at 31 December 2009

## 1. Presentation of annual financial statements

Litha Healthcare Group Limited (the Company) is a company domiciled in South Africa. The consolidated financial statements at 31 December 2009 comprise the Company and its subsidiaries (together referred to as the Group). The principal accounting policies adopted in the preparation of the financial statements are set out below.

### 1.1 Statement of compliance

The Company and Group's annual financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of the Companies Act of South Africa.

### 1.2 Basis of preparation

The Company and Group's annual financial statements are prepared using a combination of the historical cost and fair value basis of accounting. Those categories to which the fair value basis of accounting has been applied are indicated in the individual accounting policies noted below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Refer to note 1.19 for further discussion of critical accounting estimates and assumptions. The financial statements are presented in Rands, which is the Company's functional currency, and all values are rounded to the nearest thousand Rand except when otherwise indicated.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

#### *Application of new and revised standards*

The following new or revised IFRSs and interpretations are applied in these Annual Financial Statements.

IAS1: Presentation of Financial Statements

IFRS 8: Operating Segments

The above have resulted in changes in disclosure of these financial statements, but have no effect on the amounts disclosed.

### 1.3 Basis of consolidation

#### *Subsidiaries*

The Group annual financial statements comprise the consolidated annual financial statements of the Company and its subsidiaries. The annual financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control, so as to obtain benefits from their activities. In assessing control, potential voting rights that are presently exercisable are taken into account. Where an investment in a subsidiary was acquired or disposed of during the financial year, its results are included

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.3 Basis of consolidation (continued)

### *Subsidiaries (continued)*

from, or to, the date control commences or ceases. New acquisitions are included in the Group's financial statements using the purchase method whereby the assets and liabilities are measured at their fair value. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed on the dates of acquisition.

All intra-Group transactions and balances arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

Where the business combination agreement to acquire a subsidiary provides for an adjustment to the cost of the acquisition of that subsidiary that is contingent on future events, the initial accounting for the cost of the combination is adjusted at acquisition if the adjustment is probable and can be measured reliably.

The cost of the business combination is the total of the fair values of all assets given, liabilities incurred and equity instruments issued to acquire the business, including directly attributable costs.

### *Company annual financial statements*

Investments in subsidiaries are initially recognised at cost. The cost of an investment in a subsidiary is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued and the direct costs attributable to the acquisition of the subsidiary.

Investments in subsidiaries are subsequently measured at cost less any accumulated impairment.

## 1.4 Property, plant and equipment

Property, plant and equipment is initially recognised at cost. The cost of property, plant and equipment includes amounts incurred initially to acquire an item of property, plant and equipment and amounts incurred subsequently to add or replace part of the asset. Included in the cost are any amounts relating to the cost of labour and transport to bring a particular item to a usable condition.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment is depreciated over its estimated useful lives, on a straight-line basis to estimated residual value as follows:

| Item                            | Average useful life |
|---------------------------------|---------------------|
| Computer equipment and software | 3 – 4 years         |
| Motor vehicles                  | 4 – 5 years         |
| Furniture and fittings          | 4 – 5 years         |
| Tooling                         | 4 – 5 years         |
| Office equipment                | 4 – 5 years         |
| Demonstration equipment         | 4 – 5 years         |
| Leasehold improvements          | 4 – 5 years         |
| Plant and machinery             | 5 – 6 years         |

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.4 Property, plant and equipment (continued)

Where a part of an item of property, plant and equipment is significant in relation to the cost of the item, that part is depreciated separately where appropriate. The depreciation charge is recognised as an expense in the Statement of Comprehensive Income. The residual values, useful lives and depreciation methods applied to property, plant and equipment are reviewed, and adjusted if necessary, at each financial year end. These changes are accounted for as a change in estimate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the Statement of Comprehensive Income and is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the item at the date of derecognition.

When a decision is made to sell an item of property, plant and equipment during the year and it meets the requirements of IFRS 5, the asset is carried at the lower of its carrying amount or fair value less costs to sell, and depreciation on that asset ceases until it is sold. Any impairment is recognised directly in profit and loss.

## 1.5 Goodwill

Goodwill arises from business combinations and is initially measured at cost. Cost represents the excess of the purchase consideration over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Subsequently goodwill is carried at cost less any accumulated impairment.

In calculating the value of the goodwill, cognisance is taken of any potential change to the purchase price that may arise as a result of profit warranty agreements with the Company and vendor.

At the acquisition date, goodwill is allocated to each of the cash-generating units expected to benefit from a business combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates. The recoverable amount is determined as the value in use of each cash-generating unit by estimating the expected future cash flows in each unit and using a suitable discount rate in order to calculate the present value of those cash flows.

Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, an impairment loss is recognised in the Statement of Comprehensive Income beginning with the write-off of the goodwill allocated to such cash-generating unit. Where the goodwill is insufficient to cover the amount of the impairment adjustment, the remaining assets in the cash-generating unit are impaired on a pro rata basis.

An impairment loss recognised for goodwill is not subsequently reversed.

## 1.6 Impairment of assets

The Company and Group assesses at the end of each reporting period whether there is any indication that an asset or cash-generating unit may be impaired. Impairment indicators include product obsolescence, changes in medical science and length of time before an item needs to be replaced. If any such indication exists, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is determined by calculating the present value of projected cash flows covering the remaining useful lives of the assets. Impairment losses are then recognised when the asset's carrying value exceeds its estimated recoverable amount.

Irrespective of whether there is any indication of impairment, the Company and Group also tests goodwill acquired in a business combination for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at year end.

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.6 Impairment of assets (continued)

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. Any subsequent reversal of an impairment loss is recognised in the Statement of Comprehensive Income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal rate.

## 1.7 Financial instruments

### *Initial recognition*

Financial instruments are initially recognised when the Group becomes party to the contractual terms of the instrument. They are initially measured at fair value including transaction costs unless they are classified at fair value through profit and loss. Subsequent to initial recognition, these instruments are measured as set out below.

### *Classification*

Financial assets are classified as 'loans and receivables' and financial liabilities are classified as 'financial liabilities held at amortised cost', except for other financial assets and other financial liabilities which are classified at fair value through profit and loss. Currently the Company and Group have not classified any of its financial assets as held to-maturity and available-for-sale. Should these categories be utilised in the future, the appropriate accounting treatment as specified by IAS 39: Financial Instruments: Recognition and Measurement, will be applied.

### *Effective interest rate method*

The effective interest rate method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees on points 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/liability, or, where appropriate, a shorter period. The interest income/expense is recognised on an effective interest basis for all financial instruments, other than those financial assets designated as fair value through profit and loss.

### *Financial assets*

Statement of Financial Position items include trade and other receivables, cash and cash equivalents and other financial assets. Loans and receivables that bear interest with determinable terms of repayment longer than 12 months are included in non-current assets. Interest is accrued at an interest rate linked to bank prime rate. All interest charges are recognised in the Statement of Comprehensive Income as finance income. Interest income is recognised by applying the effective interest rate.

### *Trade and other receivables*

Trade and other receivables are subsequently measured at amortised cost, using the effective interest rate method. An allowance for estimated irrecoverable amounts is recognised in the Statement of Comprehensive Income when there is objective evidence that the asset is impaired. The process for estimating impairment considers all credit exposures and is estimated on the basis of historical loss experience, adjusted on the basis of current data, to reflect the effects of current conditions. Amounts are written off directly when it becomes reasonably certain that the account will not be paid. 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. Any subsequent reversal of an impairment loss is recognised in the profit and loss, to the extent the carrying value of the receivable does not exceed its cost at the reversal date. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.7 Financial instruments (continued)

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. These are subsequently measured at amortised cost.

For purposes of the statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above as well as the bank overdraft.

### *Other financial assets and liabilities*

Other financial assets and liabilities comprise foreign currency contracts and are used by the Group to hedge its risks associated with currency fluctuations.

Other financial assets and liabilities are held for trading and carried at fair value through profit and loss.

The fair value of foreign currency contracts is calculated through reference to current forward exchange rates with similar maturity profiles. Any gains or losses arising from the change in fair value, calculated as the difference between the instrument's forward value and the forward value of a current instrument with a similar maturity profile, are taken directly to the Statement of Comprehensive Income. These financial assets/liabilities do not meet the definition of a hedge in terms of IAS 39.

### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are tested for impairment where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loan or receivable have been impacted.

Objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Default in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial reorganisation.

If there is any indication that a financial asset may be impaired, the recoverable amount is estimated. Where the carrying amount exceeds the recoverable amount, the financial asset is then impaired to its estimated recoverable amount, and the impairment loss is expensed through the Statement of Comprehensive Income.

The carrying amount of the financial asset is reduced by the impairment loss, directly only when all legal steps have been exhausted and there is no possibility of any additional recovery, otherwise an allowance account is used. 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 through profit or loss to the extent that the carrying amount of the loan or receivable at the date the impairment is reversed, does not exceed what the amortised cost would have been, had the impairment not been recognised.

### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition, the difference between the carrying amount of the financial asset and proceeds received, is included in the Statement of Comprehensive Income for the period.



# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.7 Financial instruments (continued)

### *Financial liabilities*

Financial liabilities incurred by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The subsequent measurement for specific financial liabilities is set out below. Statement of Financial Position items include interest-bearing debt and bank overdraft, trade payables, vendor liabilities, other financial liabilities and intercompany payables.

### *Borrowings*

Interest-bearing borrowings, including instalment sale obligations and bank overdraft, are subsequently measured at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest rate basis.

### *Trade and inter-company payables*

Payables are subsequently measured at amortised cost, using the effective interest rate method.

### *Derecognition of financial liabilities*

The Group derecognises financial liabilities, when the Company or Group's obligations are discharged, cancelled or they expire. On derecognition, the difference between the carrying amount of the financial liability and the amount paid for it are included in the Statement of Comprehensive Income for the period.

### *Offsetting of financial assets and liabilities*

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

### *Fair value methods and assumptions*

The fair value of financial instruments traded in an organised financial market is measured at the applicable quoted prices.

The fair value of financial instruments not traded in an organised financial market is determined using a variety of methods and assumptions that are based on market conditions and risk existing at Statement of Financial Position date, including independent appraisals and discounted cash flow methods.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates on the last day of the reporting period for similar instruments.

## 1.8 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting its liabilities.

### *Ordinary shares*

Ordinary share capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### *Treasury shares*

Shares purchased by subsidiary companies are treated as treasury shares and deducted from the share capital at cost in the Group financial statements.

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.9 Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined on the weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount, or any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 1.10 Tax

### *Tax expenses*

Current taxes are recognised as income or expense and included in the Statement of Comprehensive Income. The current tax payable is based on taxable profit. Taxable profit differs from profit reported in the Statement of Comprehensive Income where there are items of income or expense that are taxable or deductible in other years and it also excludes items that are not taxable or deductible under existing legislation.

### *Current tax assets and liabilities*

Current tax for current and prior periods is, to the extent unpaid, recognised as a tax payable in the Statement of Financial Position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as a tax receivable in the Statement of Financial Position. Current tax liabilities and current tax assets are measured at the amount expected to be paid to/(recovered from) the tax authorities, using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

### *Deferred tax assets and liabilities*

Deferred taxation is accounted for using the Statement of Financial Position liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting bases. Deferred tax is not provided on the initial recognition of goodwill or initial recognition of assets or liabilities which is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be recognised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recognised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amounts of its assets and liabilities at the end of the reporting period.

## 1.11 Leases

Leases of assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. When an arrangement is or contains a lease, that lease is recognised in terms of the policies below.

### *Finance leases – lessee*

Finance leases are recognised as assets and liabilities in the Statements of Financial Position at amounts equal to the fair value of the leased asset or, if lower, the present value on the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the incremental borrowing rate of interest.

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.11 Leases (continued)

### *Finance leases – lessee (continued)*

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the lease.

### *Operating leases – lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted.

## 1.12 Share-based payments

Share-based payments consist of the Group's equity settled share incentive scheme which is made available to incentivise employees and ensure continuity of employees.

Where the share-based payments granted do not vest until the employee completes a specified period of service or achieves specified performance conditions, the Group accounts for those services as they are rendered by the employee during the vesting period on a straight-line basis. The fair value that is accounted for over the vesting period on a straight-line basis is determined on the grant date of the share-based payment. The cumulative expense that is recognised at the end of each reporting period reflects the extent to which the vesting period has expired and the Group's best estimate of the number of share options that will ultimately vest.

Fair value is measured using the Black-Scholes-Merton pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

## 1.13 Employee benefits

### *Short-term employee benefits*

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

The expected cost of accrued leave is recognised as an expense as the employees render service that increase their entitlement or, in the case of non-accumulating leave, when the absence occurs. Accrued leave is measured as the amount that the Group expects to pay as a result of unused entitlement that has accumulated to the employee at the end of the reporting period.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

## 1.14 Provisions and contingencies

Provisions are recognised when the Company and Group have a present obligation as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.14 Provisions and contingencies (continued)

The amount of a provision is the present value of the best estimate of the expenditure required to settle the obligation. The amount of the provision is discounted using a pretax discount rate when the effect of the expected future cash outflow related to the provision is not expected to occur soon after the end of the reporting period and the effect of discounting is material. Provisions are reviewed bi-annually to reflect current best estimates of the expenditure required to settle the obligation.

Contingent assets and contingent liabilities are not recognised in the financial statements, but are disclosed in the notes to the financial statements.

## 1.15 Revenue

Revenue is derived from; *inter alia*, the sale of single-use medical devices and machines, technical services and consulting services.

The timing of revenue recognition is as follows.

Revenue from:

- The sale of products is recognised when the significant risks and rewards of ownership are transferred to the buyer;
- Services rendered is recognised when the service has been rendered and is billable; and
- Interest received is recognised on a time proportion basis using the effective interest rate method.

Revenue is measured at the fair value of the consideration received or receivable, excluding value-added tax and discounts.

## 1.16 Borrowing costs

Borrowing costs arise on the borrowing of funds and are recognised as an expense in the Statement of Comprehensive Income, in the finance costs line item, in the period in which they are incurred as there are no qualifying assets for which borrowing costs would need to be capitalised.

## 1.17 Translation of foreign currencies

Foreign currency transactions are recorded, on initial recognition, in Rands by applying to the foreign currency amount the spot exchange rate between the Rand and the foreign currency at the date of the transaction. On the last day of the financial reporting period, foreign currency monetary items (such as trade receivables and trade payables) are translated using the spot exchange rate on the last day of the reporting period (closing rate).

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period, or in previous financial statements, are recognised in the Statement of Comprehensive Income in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

## 1.18 Segmental reporting

The basis of segment reporting is representative of the internal structure for management reporting based on product differentiation. A segment is classified as a component of an entity that engages in business activities from which it may earn revenues and incur expenses: whose IFRS compliant operating results are regularly reviewed by the Group's senior management to make decisions about resources to be allocated to the segment and assess its performance: and for which discrete financial information is available.

# ACCOUNTING POLICIES CONTINUED

as at 31 December 2009

## 1.19 Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### *Provision for obsolete inventory*

Provision for obsolete stock is based on past experience. Specific provision is made for obsolete stock. Stock that had not moved for the past six months has been scrutinised and management's best judgment has been used to determine whether stock could still be used or needs to be written off.

### *Provision for doubtful debts*

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor; probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments, are considered indicators that the trade receivables are impaired.

### *Depreciation of property, plant and equipment*

Depreciation on assets is calculated using the straight-line method to allocate their cost to residual values over the period management expects to use the asset.

### *Share-based payments*

The Group is required to charge the consolidated Statement of Comprehensive Income with the fair value of the options issued. This calculated charge amount is not based on historical cost, but is derived based on assumptions input into an option pricing model. The model requires that management make several assumptions as to future events, including: an estimate of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value which the holder of the option could receive in an arm's length transaction, given there is no market for the options and they are not transferable. The value derived from the option pricing model is highly subjective and dependent entirely upon the input assumptions made.

### *Goodwill*

Goodwill consists of know-how, intellectual property and agency agreements relating to distribution, assembly, installation and technical support of medical devices and medical capital equipment. Their fair value could not be measured accurately as they could not be individually separated from the businesses to which they relate.

Impairment tests are conducted on an annual basis using a discounted cash flow valuation model on each cash-generating unit. The valuation model assumes a discount rate, which equates to the risk profile of the business unit, with a terminal value based on the acquisition price earnings ratio.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

as at 31 December 2009

## 2. Property, plant and equipment

| Group only                         | 31 December 2009 |                                      |                            | 31 May 2009   |                                      |                            |
|------------------------------------|------------------|--------------------------------------|----------------------------|---------------|--------------------------------------|----------------------------|
|                                    | Cost<br>R'000    | Accumulated<br>depreciation<br>R'000 | Carrying<br>value<br>R'000 | Cost<br>R'000 | Accumulated<br>depreciation<br>R'000 | Carrying<br>value<br>R'000 |
| Plant and machinery                | 239              | (175)                                | 64                         | 247           | (135)                                | 112                        |
| Furniture and fittings             | 891              | (458)                                | 433                        | 531           | (315)                                | 216                        |
| Motor vehicles                     | 2 249            | (1 299)                              | 950                        | 2 233         | (1 086)                              | 1 147                      |
| Office equipment                   | 455              | (217)                                | 238                        | 434           | (151)                                | 283                        |
| Computer equipment<br>and software | 2 129            | (1 366)                              | 763                        | 2 114         | (1 038)                              | 1 076                      |
| Tooling                            | 9                | (4)                                  | 5                          | 9             | (3)                                  | 6                          |
| Leasehold improvements             | 60               | (26)                                 | 34                         | 57            | (19)                                 | 38                         |
| Demonstration equipment            | 1 034            | (26)                                 | 1 008                      | –             | –                                    | –                          |
|                                    | 7 066            | (3 571)                              | 3 495                      | 5 625         | (2 747)                              | 2 878                      |

The carrying amount of property, plant and equipment can be reconciled as follows:

| December 2009: Group only          | Carrying<br>value at the<br>beginning<br>of the period<br>R'000 | Current<br>additions<br>R'000 | Disposals<br>R'000 | Depreciation<br>R'000 | Carrying<br>value at<br>the end<br>of the period<br>R'000 |
|------------------------------------|---|-------------------------------|--------------------|-----------------------|---|
| Plant and machinery                | 112   | 21                            | (29)               | (40)                  | 64  |
| Furniture and fittings             | 216   | 360                           | –                  | (143)                 | 433   |
| Motor vehicles                     | 1 147   | 88                            | (72)               | (213)                 | 950   |
| Office equipment                   | 283   | 21                            | –                  | (66)                  | 238   |
| Computer equipment<br>and software | 1 076   | 102                           | (87)               | (328)                 | 763   |
| Tooling                            | 6   | –                             | –                  | (1)                   | 5   |
| Leasehold improvements             | 38  | 3                             | –                  | (7)                   | 34  |
| Demonstration equipment            | –   | 1 034                         | –                  | (26)                  | 1 008   |
|                                    | 2 878   | 1 629                         | (188)              | (824)                 | 3 495   |

Motor vehicles, plant and machinery and computer equipment disposed of during the year were replaced with new vehicles, plant and machinery and computer equipment.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 2. Property, plant and equipment (continued)

|                                    | Carrying<br>value at the<br>beginning<br>of the year<br>R'000 | Current<br>additions<br>R'000 | Disposals<br>R'000 | Depreciation<br>R'000 | Carrying<br>value at<br>the end<br>of the year<br>R'000 |
|------------------------------------|---|-------------------------------|--------------------|-----------------------|---|
| <b>May 2009: Group only</b>        |   |                               |                    |                       |   |
| Plant and machinery                | 139   | 8                             | –                  | (35)                  | 112   |
| Furniture and fittings             | 318   | 43                            | –                  | (145)                 | 216   |
| Motor vehicles                     | 1 728   | 121                           | (80)               | (622)                 | 1 147   |
| Office equipment                   | 263   | 29                            | –                  | (9)                   | 238   |
| Computer equipment<br>and software | 793   | 996                           | (76)               | (637)                 | 1 076   |
| Tooling                            | 1   | 6                             | –                  | (1)                   | 6   |
| Leasehold improvements             | 44  | 9                             | (4)                | (11)                  | 38  |
|                                    | 3 286   | 1 212                         | (160)              | (1 460)               | 2 878   |

Assets subject to instalment sale agreement (Net carrying value):

|                | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
|----------------|------------------------------|-------------------------|
| <b>Group</b>   |                              |                         |
| Motor vehicles | 629                          | 892                     |

Myriad Medical (Pty) Limited and Filterworks (Pty) Limited have a notarial bond registered over their property, plant and equipment, excluding motor vehicles as part of security taken for the overdraft and loan facility held in the Company. Refer to notes 8 and 10.

Motor vehicles and computer equipment disposed of during the year ended 31 May 2009 were replaced with new vehicles and computer equipment.

## 3. Goodwill

|  | 31 December 2009 |                     |                            | 31 May 2009   |                     |                            |
|--|------------------|---------------------|----------------------------|---------------|---------------------|----------------------------|
|  | Cost<br>R'000    | Reductions<br>R'000 | Carrying<br>value<br>R'000 | Cost<br>R'000 | Reductions<br>R'000 | Carrying<br>value<br>R'000 |
| <b>Group only</b>                            |                  |                     |                            |               |                     |                            |
| Goodwill arising on<br>business combinations | 81 468           | –                   | 81 468                     | 85 902        | (4 434)             | 81 468                     |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 3. Goodwill (continued)

Carrying amounts of goodwill can be reconciled as follows:

|   | Carrying<br>value at the<br>beginning<br>of the year<br>R'000 | Additions<br>R'000 | Reduction<br>R'000 | Impairment<br>R'000 | Carrying<br>value at<br>the end<br>of the year<br>R'000 |
|---|---|--------------------|--------------------|---------------------|---|
| <b>31 December 2009: Group only</b>       |   |                    |                    |                     |   |
| Goodwill arising on business combinations | 81 468  | –                  | –                  | –                   | 81 468  |
| <b>31 May 2009: Group only</b>            |   |                    |                    |                     |   |
| Goodwill arising on business combinations | 81 298  | 4 420              | (4 250)            | –                   | 81 468  |

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired on the acquisition of the businesses and subsidiaries. Impairment tests are conducted on an annual basis using a discounted cash flow valuation model. The valuation model assumes a discount rate ranging from 20% to 25%, which equates to the risk profile of the cash-generating unit, with a terminal value based on the acquisition price earnings ratio. Where funds are held in escrow for release on delivery of warranted profits, these amounts are taken into account when determining any impairment. Turnover growth of 10%, which is management's best estimate of projected growth in turnover, has been assumed in the cash flow model calculation.

In the previous financial period, one of the Group's divisions did not achieve its warranted profit target in terms of the sale agreement between the vendors and the Company. The resultant effect was a R4,2 million reduction in goodwill, being the amount that was held in escrow.

## 4. Investment in subsidiaries

| Name   | Number of<br>shares held | Issued share capital         |                         | Cost of shareholding         |                         |
|--|--------------------------|------------------------------|-------------------------|------------------------------|-------------------------|
|  |                          | Proportion<br>held directly  | 31 May<br>2009          | 31 December<br>2009          | 31 May<br>2009          |
|  |                          |                              |                         |                              |                         |
|  |                          | 31 December<br>2009<br>%     |                         | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| Myriad Medical (Proprietary) Limited                         | 1                        | 100                          | 100                     | 90 290                       | 90 290                  |
| Filterworks (Proprietary) Limited                            | 120                      | 100                          | 100                     | 17 636                       | 17 636                  |
|  |                          |                              |                         | 107 926                      | 107 926                 |
|  |                          |                              |                         |                              |                         |
|  |                          | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |                              |                         |
| The holding company share of subsidiaries' profits after tax |                          | 15 755                       | 22 675                  |                              |                         |

The fair value of the investment in subsidiaries exceeds their cost. There is a pledge and cession of 100% of the share capital of Myriad Medical (Pty) Limited and Filterworks (Pty) Limited, which are both 100% held subsidiaries of the Company for the long term loan and overdraft facilities held in Litha Healthcare Group Limited. See note 10.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>5. Deferred taxation assets/(liabilities)</b>   |                              |                         |                              |                         |
| Deferred taxation assets   | 227                          | 2 162                   | 84                           | 23                      |
| Deferred taxation liabilities  | (45)                         | –                       | –                            | –                       |
| Net position   | 182                          | 2 162                   | 84                           | 23                      |
| At the end of the reporting period, the Company had unused tax losses of R302 907 (May 2009: R82 445) for offset against future profits. |                              |                         |                              |                         |
| Deferred tax assets/(liabilities) are made up as follows:  |                              |                         |                              |                         |
| Temporary differences  |                              |                         |                              |                         |
| – Tax losses   | 84                           | 17                      | 84                           | 23                      |
| – Property, plant and equipment  | 245                          | 245                     | –                            | –                       |
| – Provisions   | 1 674                        | 427                     | –                            | –                       |
| – Prepayments  | (2 027)                      | (88)                    | –                            | –                       |
| – Other tax allowances   | 206                          | 1 561                   | –                            | –                       |
| Balance at year end  | 182                          | 2 162                   | 84                           | 23                      |
| <b>6. Inventories</b>  |                              |                         |                              |                         |
| The amounts attributable to the different categories are as follows:   |                              |                         |                              |                         |
| Raw materials  | 1 326                        | 293                     | –                            | –                       |
| Goods in transit   | 9 187                        | 8 739                   | –                            | –                       |
| Finished goods   | 44 888                       | 53 839                  | –                            | –                       |
| Less: Provision for obsolescence   | (1 481)                      | (2 064)                 | –                            | –                       |
|  | 53 920                       | 60 807                  | –                            | –                       |
| Inventories have been ceded to Investec Bank Limited for the overdraft facilities and long term loan. Refer notes 8 and 10               |                              |                         |                              |                         |
| <b>7. Trade and other receivables</b>  |                              |                         |                              |                         |
| Trade receivables  | 45 900                       | 45 784                  | –                            | –                       |
| Less: Allowance for doubtful debts   | (3 861)                      | (824)                   | –                            | –                       |
| Net trade receivables  | 42 039                       | 44 960                  | –                            | –                       |
| Interest receivable  | 1 253                        | 1 005                   | –                            | –                       |
| Loans receivable   | 5 471                        | 4 250                   | –                            | –                       |
| Deposits and sundry receivables  | 642                          | 74                      | –                            | –                       |
| Loans and receivables  | 49 405                       | 50 289                  | –                            | –                       |
| VAT  | 172                          | 141                     | 74                           | 74                      |
| Prepayments  | 7 284                        | 281                     | –                            | –                       |
|  | 56 861                       | 50 711                  | 74                           | 74                      |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 7. Trade and other receivables (continued)

|                              | Carrying<br>value at the<br>beginning<br>of the year<br>R'000 | Additional<br>allowance<br>raised<br>R'000 | Utilised<br>during<br>the year<br>R'000 | Carrying<br>value at<br>the end<br>of the year<br>R'000 |
|------------------------------|---|--|---|---|
| Allowance for doubtful debts |   |  |   |   |
| <b>31 December 2009</b>      | <b>824</b>  | <b>3 366</b>                               | <b>(329)</b>                            | <b>3 861</b>  |
| 31 May 2009                  | 393   | 481  | (50)                                    | 824   |

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| At 31 December the age analysis of trade receivables was as follows: |                              |                         |                              |                         |
| Not past due and not impaired  | 30 075                       | 33 393                  | –                            | –                       |
| Past due but not impaired  |                              |                         |                              |                         |
| 30 – 60 days   | 2 076                        | 3 253                   | –                            | –                       |
| 90 days  | 2 064                        | 2 724                   | –                            | –                       |
| 90 – 120 days  | 6 310                        | 2 136                   | –                            | –                       |
| >120 days  | 1 514                        | 3 454                   | –                            | –                       |
|  | <b>42 039</b>                | <b>44 960</b>           | <b>–</b>                     | <b>–</b>                |

The average debtors days outstanding are 69 days (31 May 2009: 61 days). Normal terms for trade receivables range between 30 to 60 days. Before accepting a new customer, the Group runs through credit and background checks to determine the potential customer's credit quality and credit limits. The credit quality of debtors neither past due nor impaired is considered to be acceptable. Credit limits are reviewed at least once a year. None of the trade receivables that are neither past due nor impaired have exceeded the credit limits at year end. Due to the nature of the medical industry and the limited customer base, certain customers exceed 5% of the total balance of trade receivables, however, these customers are reputable companies and organisations and thus the concentration of credit risk is limited. The concentration is due to the limited number of private hospital groups and government customers.

The Group assesses impairment on the individual receivables and has provided fully for all receivables that are considered irrecoverable. The Group does not hold collateral over these balances.

Trade receivables have been ceded to Investec Bank Limited for the Company's overdraft facilities and long term loan. Refer notes 8 and 10.

Due to the short term nature of trade receivables, the carrying amount is considered to approximate the fair value.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>8. Cash and cash equivalents</b>  |                              |                         |                              |                         |
| Bank balances  | 14 901                       | 5 065                   | 21                           | 23                      |
| Cash on hand   | 33                           | 36                      | –                            | –                       |
|  | 14 934                       | 5 101                   | 21                           | 23                      |
| Bank overdraft   | (6 571)                      | –                       | (6 571)                      | –                       |
|  | 8 363                        | 5 101                   | (6 550)                      | 23                      |
| <p>The Company has an overdraft facility of R10 000 000 and long term loan (refer to note 10) secured by a cession of trade receivables, inventories and a notarial bond over its property, plant and equipment.</p> <p>Due to the short term nature of cash and cash equivalents, their carrying amounts reflect their fair values.</p> |                              |                         |                              |                         |
| <b>9. Share capital and premium</b>  |                              |                         |                              |                         |
| Authorised<br>500 000 000 ordinary shares of 0,1 cent each   | 500                          | 500                     | 500                          | 500                     |
| Issued<br>157 917 767 (31 May 2009: 191 917 767) ordinary shares of 0,1 cent each  | 154                          | 188                     | 158                          | 192                     |
| Share premium  | 64 217                       | 94 083                  | 66 413                       | 96 279                  |
|  | 64 371                       | 94 271                  | 66 571                       | 96 471                  |
| <b>Reconciliation of issued shares of 0,1 cent each</b>  |                              |                         |                              |                         |
| Beginning of the year ('000)   | 188 230                      | 191 047                 | 191 917                      | 191 917                 |
| Share buyback (Treasury shares) ('000)   | –                            | (2 817)                 | (34 000)                     | –                       |
| Share repurchase ('000)  | (34 000)                     | –                       | –                            | –                       |
| As at year end ('000)  | 154 230                      | 188 230                 | 157 917                      | 191 917                 |

The unissued ordinary shares are under the control of the Directors in terms of a resolution of members passed at a general meeting on 24 November 2009. This authority remains in force until the next annual general meeting.

In the year ended 31 May 2009, Myriad Medical (Proprietary) Limited bought shares in the Company to the value of R1,63 million. A total of 3,68 million shares have been bought back, and is a reconciling item between Group and Company share capital and premium total.

During the 7 months ended 31 December 2009, 34 000 000 shares were repurchased from founding shareholders Jacob Shapiro and Reuben Shapiro and subsequently cancelled.

## Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 9. Share capital and premium (continued)

The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions. To maintain or adjust the share capital structure the Group may return capital to shareholders, buy back its own shares or issue new shares.

The Group's capital consists of its equity and the non-current loans from subsidiaries for capital management purposes.

Management believes it has met its capital management objectives for the year under review.

|   | Group                        |                         | Company                      |                         |
|---|------------------------------|-------------------------|------------------------------|-------------------------|
|   | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>10. Long term liability</b>  |                              |                         |                              |                         |
| Short term portion of long term liability   | 6 986                        | –                       | 6 986                        | –                       |
| Payable from 1 to 5 years   | 27 378                       | –                       | 27 378                       | –                       |
| Total   | 34 364                       | –                       | 34 364                       | –                       |
| <p>The long term loan was raised at an interest rate of JIBAR plus 5,5% to finance the repurchase of shares from founding shareholders Jacob and Reuben Shapiro. The Loan is repayable quarterly over a four-year period. The Loan is secured by a general notarial bond over all moveable assets and inventory in the Group, and a cession of debtors and bank accounts of the Company and its subsidiaries. In addition there is a pledge and cession of 100% of the share capital of Myriad Medical (Pty) Limited and Filterworks (Pty) Limited, which are both 100% held subsidiaries of the Company.</p> |                              |                         |                              |                         |
| <b>11. Instalment sale liabilities</b>  |                              |                         |                              |                         |
| Secured   |                              |                         |                              |                         |
| Present value of minimum lease payments due   |                              |                         |                              |                         |
| – within one year   | 147                          | 402                     | –                            | –                       |
| – in second to fifth year   | 375                          | 383                     | –                            | –                       |
|   | 522                          | 785                     | –                            | –                       |

The instalment sale agreements are for motor vehicles and are repayable in monthly instalments in aggregate of R35 807 (May 2009: R48 952) and bear interest at varying rates between prime and prime plus 1% per annum. These are secured by motor vehicles with a net book value of R628 901 (May 2009: R891 805). (See note 2.) The Directors believe that the carrying amount of instalment sale liabilities approximates their fair value as the difference between market related and effective interest rates have an immaterial impact on their fair value.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>12. Trade and other payables</b>  |                              |                         |                              |                         |
| Trade payables   | 21 834                       | 26 024                  | –                            | –                       |
| Accrual for Filterworks  | –                            | 4 295                   |                              |                         |
| Other payables   | 4 745                        | 4 250                   | –                            | –                       |
| Financial liabilities at amortised cost  | 26 579                       | 34 569                  | 125                          | –                       |
| VAT  | 1 659                        | 1 912                   | –                            | 91                      |
|  | <b>28 238</b>                | <b>36 481</b>           | <b>125</b>                   | <b>91</b>               |
| Trade payables consist of purchases from suppliers at terms of 30 to 90 days from statement date.                      |                              |                         |                              |                         |
| Due to the short term nature of the Group's trade and other payables, the carrying amount approximates its fair value. |                              |                         |                              |                         |
| <b>13. Inter-Company receivables/(payables)</b>  |                              |                         |                              |                         |
| Myriad Medical (Proprietary) Limited   | –                            | –                       | 3 384                        | (7 464)                 |
| Filterworks (Proprietary) Limited  | –                            | –                       | (4 076)                      | (4 076)                 |
|  | –                            | –                       | <b>(692)</b>                 | <b>(11 540)</b>         |

Myriad Medical (Proprietary) Limited and Filterworks (Proprietary) Limited are both 100% held subsidiaries of Litha Healthcare Group Limited. These amounts are current amounts which are expected to be paid off within the next 12 months and do not bear interest. The maximum amount outstanding during the period was R7,464 million (Myriad Medical (Proprietary) Limited) and R4,076 million (Filterworks (Proprietary) Limited). The liabilities were raised on an ad hoc basis throughout the current financial year. The Directors are of the opinion that due to the short term nature of inter-company payables, the carrying amount approximates their fair value.

## 14. Provisions

|                                  | Carrying<br>value at the<br>beginning<br>of the year<br>R'000 | Additional<br>provisions<br>R'000 | Utilised<br>during<br>the year<br>R'000 | Carrying<br>value at<br>the end<br>of the year<br>R'000 |
|----------------------------------|---|-----------------------------------|---|---|
| <b>December 2009: Group only</b> |   |                                   |   |   |
| Provision for leave pay          | 808   | –                                 | (291)                                   | 517   |
| Provision for bonus              | –   | 1 617                             | –                                       | 1 617   |
|                                  | <b>808</b>  | <b>1 617</b>                      | <b>(291)</b>                            | <b>2 134</b>  |
| <b>May 2009: Group only</b>      |   |                                   |   |   |
| Provision for leave pay          | 667   | 291                               | (150)                                   | 808   |

Leave pay benefits relate to the leave pay entitlements accrued to the employees of the Group at period end. Bonus benefits relate to the bonus entitlements accrued to employees of the Group at period end.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>15. Other financial liabilities</b> |                              |                         |                              |                         |
| Forward exchange contracts             | 1 189                        | (6 531)                 | –                            | –                       |

At year end, the Group had the following outstanding forward exchange contracts.

| 31 December 2009 | Contracts<br>outstanding | FEC Rate/Rand  | Maturity dates                        |
|------------------|--------------------------|----------------|---------------------------------------|
| USD ('000)       | 3 188                    | 7,48 to 8,60   | 28 January 2010 to<br>29 October 2010 |
| Euro ('000)      | 186                      | 10,90 to 11,79 |                                       |
| GBP ('000)       | 500                      | 13,08 to 13,15 |                                       |
| <b>May 2009</b>  |                          |                |                                       |
| USD ('000)       | 3 448                    | 8,24 to 10,32  | 19 June 2009 to<br>31 December 2009   |
| Euro ('000)      | 196                      | 11,68 to 13,68 |                                       |
| GBP ('000)       | 575                      | 13,46 to 15,82 |                                       |

The carrying amount of these financial liabilities approximate their fair value as they are valued at the transaction amount that would be agreed upon between a willing buyer and willing seller.

|   | Group                        |                         | Company                      |                         |
|---|------------------------------|-------------------------|------------------------------|-------------------------|
|   | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>16. Revenue</b>  |                              |                         |                              |                         |
| Sales of goods  | 174 372                      | 264 342                 | –                            | –                       |
| Technical services  | 2 504                        | 9 271                   |                              |                         |
| Other services  | –                            | –                       | 740                          | 650                     |
| Other income  | 313                          | 1 700                   |                              |                         |
| Interest income   | 858                          | 2 586                   | 469                          | 1 114                   |
|   | <b>178 047</b>               | <b>277 899</b>          | <b>1 209</b>                 | <b>1 764</b>            |
| Revenue consists of all items of revenue including the sale of goods, interest income and other income. |                              |                         |                              |                         |
| <b>Turnover</b>   |                              |                         |                              |                         |
| Sale of goods   | 174 372                      | 264 342                 | –                            | –                       |
| Technical services  | 2 504                        | 9 272                   | –                            | –                       |
| Other services  |                              | –                       | 740                          | 650                     |
|   | <b>176 876</b>               | <b>273 614</b>          | <b>740</b>                   | <b>650</b>              |

Turnover consists of the sales of goods and inter-company management fees.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>17. Cost of sales</b>   |                              |                         |                              |                         |
| Opening inventory  | 60 807                       | 45 693                  | –                            | –                       |
| Purchases  | 89 990                       | 173 276                 | –                            | –                       |
| Movement in inventory obsolescence                                 | (583)                        | 1 256                   | –                            | –                       |
| Closing inventory  | (53 920)                     | (60 807)                | –                            | –                       |
| Cost of sales  | 96 294                       | 159 418                 | –                            | –                       |
| Cost of sales consists only of inventory expensed during the year. |                              |                         |                              |                         |
| <b>18. Operating profit/(loss)</b>                                 |                              |                         |                              |                         |
| Operating profit is stated after:                                  |                              |                         |                              |                         |
| <b>Income:</b>   |                              |                         |                              |                         |
| Profit on the disposal of property, plant and equipment            | 55                           | 30                      |                              | –                       |
| Foreign exchange gains/(loss)                                      | 339                          | (3 324)                 |                              | –                       |
| <b>Expenditure:</b>  |                              |                         |                              |                         |
| Auditor's fees   |                              |                         |                              |                         |
| – Audit fees – current year  | 969                          | 642                     |                              | –                       |
| Depreciation on property, plant and equipment (see note 2)         | 824                          | 1 460                   |                              | –                       |
| Employee costs (excluding share-based payments)                    | 35 182                       | 51 054                  | 575                          | 622                     |
| Post-employment benefit costs                                      | 215                          | 237                     |                              | –                       |
| Share-based payments   | 31                           | 95                      |                              | –                       |
| Operating lease charges  | 3 233                        | 5 670                   |                              | –                       |
| – Equipment  | 497                          | 980                     |                              |                         |
| – Premises   | 2 736                        | 4 690                   |                              | –                       |
| Remuneration other than to employees for:                          | 283                          | 273                     | 18                           | 32                      |
| – Secretarial services   | 72                           | 66                      | –                            | –                       |
| – Technical services   | 211                          | 207                     | 18                           | 32                      |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>19. Net interest received</b>                                   |                              |                         |                              |                         |
| Interest received – bank   | 608                          | 1 581                   | 469                          | 1 114                   |
| Interest on amounts held in escrow                                 | 250                          | 1 005                   | –                            | –                       |
|  | 858                          | 2 586                   | 469                          | 1 114                   |
| <b>Interest paid</b>   |                              |                         |                              |                         |
| Interest paid – bank and instalment sales                          | (1 464)                      | (2 274)                 | (986)                        | (1 100)                 |
| <b>20. Taxation</b>  |                              |                         |                              |                         |
| <b>20.1 South African normal tax</b>                               |                              |                         |                              |                         |
| Current tax  | (4 276)                      | (11 807)                | –                            | –                       |
| Deferred tax – Current year  | (1 980)                      | 2 949                   | 61                           | 3                       |
| Tax for the year   | (6 256)                      | (8 858)                 | 61                           | 3                       |
|  | %                            | %                       | %                            | %                       |
| <b>20.2 Reconciliation of tax charge</b>                           |                              |                         |                              |                         |
| South African normal tax rate                                      | 28,0                         | 28,00                   | 28,0                         | 28,00                   |
| Adjusted for:  |                              |                         |                              |                         |
| – Disallowable expenditure   | 2,01                         | 0,08                    | –                            | –                       |
| Effective rate   | 30,01                        | 28,08                   | 28,0                         | 28,00                   |
| <b>21. Notes to the statement of cash flows</b>                    |                              |                         |                              |                         |
| <b>21.1 Cash generated from/(utilised by) operating activities</b> |                              |                         |                              |                         |
| Profit/(loss) before taxation                                      | 20 846                       | 31 540                  | (220)                        | 10                      |
| Adjustments for:   |                              |                         |                              |                         |
| Other non cash items   | –                            | (198)                   | –                            | –                       |
| Depreciation   | 824                          | 1 460                   | –                            | –                       |
| Expense recognised in respect of share-based payments              | 31                           | 95                      | –                            | –                       |
| Interest received  | (858)                        | (2 586)                 | (469)                        | (1 114)                 |
| Interest paid  | 1 464                        | 2 274                   | 986                          | 1 100                   |
| Profit on sale of property, plant and equipment                    | (55)                         | (30)                    | –                            | –                       |
| Impairment of goodwill   | –                            | –                       | –                            | –                       |
| Share buyback costs  | 2 340                        | –                       | –                            | –                       |
| Escrow interest  | 250                          | –                       | –                            | –                       |
| Increase in provisions   | 3 780                        | 1 828                   | –                            | –                       |
|  | 28 622                       | 32 383                  | 297                          | (4)                     |
| Changes in working capital:  |                              |                         |                              |                         |
| Increase/(decrease) in inventories                                 | 16 702                       | (16 370)                | –                            | –                       |
| Increase in trade and other receivables                            | (9 187)                      | (6 759)                 | –                            | (183)                   |
| (Increase)/decrease in trade and other payables                    | (17 477)                     | 124                     | –                            | 76                      |
| (Increase)/decrease in forward exchange contracts                  | (5 342)                      | 7 371                   | 34                           | –                       |
|  | 13 318                       | 18 749                  | 331                          | (111)                   |



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|   | Group                        |                         | Company                      |                         |
|---|------------------------------|-------------------------|------------------------------|-------------------------|
|   | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| <b>21. Notes to the statement of cash flows (continued)</b>   |                              |                         |                              |                         |
| <b>21.2 Reconciliation of taxation paid during year</b>   |                              |                         |                              |                         |
| Current tax for the period recognised in Statement of Comprehensive Income  | (6 256)                      | (8 858)                 | 61                           | (3)                     |
| Movement in deferred tax  | 1 980                        | (2 949)                 | (61)                         | 3                       |
| Movement in taxation balance  | (5 401)                      | 522                     | (3)                          | –                       |
| Payments made   | (9 677)                      | (11 285)                | (3)                          | –                       |
| <b>22. Earnings per share</b>   |                              |                         |                              |                         |
| <b>Basic earnings per share</b>   |                              |                         |                              |                         |
| The calculation of earnings per share at year end is based on the profit attributable to ordinary shareholders of R14,59 million (31 May 2009: R22,68 million) and a weighted average number of ordinary shares in issue of 180 445 317 (31 May 2009: 189 316 410):   |                              |                         |                              |                         |
| Profit attributable to ordinary shareholders (R'000)  |                              |                         | 14 590                       | 22 682                  |
| Basic earnings per share (cents)  |                              |                         | 8,1                          | 12,0                    |
| <b>Diluted earnings per share</b>   |                              |                         |                              |                         |
| The calculation of diluted earnings per share at year end is based on the profit attributable to ordinary shareholders of R14,59 million (31 May 2009: R22,68 million) and a weighted average number of ordinary shares in issue after adjustments for the effects of dilutive potential ordinary shares of 186 503 542 (31 May 2009: 197 224 365):                     |                              |                         |                              |                         |
| Profit attributable to ordinary shareholders (R'000)  |                              |                         | 14 590                       | 22 682                  |
| Diluted earnings per share (cents)  |                              |                         | 7,8                          | 11,5                    |
| <b>Headline earnings per share</b>  |                              |                         |                              |                         |
| The calculation of headline earnings per share at year end is based on the headline earnings attributable to ordinary shareholders of R14,55 million (31 May 2009: R22,66 million) and a weighted average number of ordinary shares in issue of 180 445 317 (31 May 2009: 189 316 410):   |                              |                         |                              |                         |
| <b>Reconciliation of headline earnings:</b>   |                              |                         |                              |                         |
| Profit attributable to ordinary shareholders  |                              |                         | 14 590                       | 22 682                  |
| Adjusted for gain on disposals of property, plant and equipment   |                              |                         | (55)                         | (30)                    |
| Tax effect of gain on disposal of property, plant and equipment   |                              |                         | 15                           | 8                       |
| Headline earnings (R'000)   |                              |                         | 14 550                       | 22 660                  |
| Headline earnings per share (cents)   |                              |                         | 8,1                          | 12,0                    |
| <b>Diluted headline earnings per share</b>  |                              |                         |                              |                         |
| The calculation of diluted headline earnings per share at year end is based on the headline earnings attributable to ordinary shareholders of R14,55 million (31 May 2009: R22,66 million) and a weighted average number of ordinary shares in issue after adjustments for the effects of dilutive potential ordinary shares of 180 445 317 (31 May 2009: 189 316 410): |                              |                         |                              |                         |
| Headline earnings attributable to ordinary shareholders (R'000)   |                              |                         | 14 550                       | 22 660                  |
| Diluted headline earnings per share (cents)   |                              |                         | 7,8                          | 11,5                    |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

|   | 31 December<br>2009 | 31 May<br>2009 |
|---|---------------------|----------------|
| <b>22. Earnings per share (continued)</b>   |                     |                |
| <b>Net asset value per ordinary share (cents)</b>   |                     |                |
| The calculation of net asset value per ordinary share at year end is based on net assets of R140,80 million (31 May 2009: R156,08 million) and number of ordinary shares in issue to outside shareholders at year end of 154 230 364 (31 May 2009: 188 230 364):  |                     |                |
| Net asset value (R'000)   | 140 803             | 156 082        |
| Net asset value per ordinary share (cents)  | 91,3                | 82,9           |
| <b>Net tangible asset value per ordinary share (cents)</b>  |                     |                |
| The calculation of net tangible asset value per ordinary share at year end is based on net assets of R156,08 million (31 May 2009: R156,08 million) less goodwill of R81,47 million (31 May 2009: R81,47 million) and number of ordinary shares in issue to outside shareholders at year end of 154 230 364 (31 May 2009: 188 230 364): |                     |                |
| Net tangible asset value (R'000)  | 59 335              | 74 614         |
| Net tangible asset value per ordinary share (cents)   | 38,5                | 39,6           |

## 23. Commitments

### Investec facility

The Company and Myriad Medical (Proprietary) Limited have provided cross-guarantees to Investec Bank Limited equal to the amount of any outstanding facility granted by Investec Bank Limited to either the Company or Myriad Medical (Proprietary) Limited. The Company had an overdraft with Investec of R6,571 million at year end.

### Deferred settlement of Earth Medical acquisition consideration

Set out below are the amounts due in terms of the acquisition agreement entered into between the vendors of Earth Medical division of Myriad Medical (Proprietary) Limited and the Group. These payments are payable on the achievement of Profit After Tax (PAT) amounts. Should these Profit After Tax amounts not be achieved the payment will be reduced proportionately.

| Payments due on achievement of warranted PAT     | Earth Medical              |
|--|----------------------------|
| Cash component                                   | R5 500 000                 |
| Share component: Number of shares in the Company | 3 061 224                  |
| PAT 31 March 2010                                | R12 800 000 to R13 300 000 |

### Letter of credit

Myriad Medical (Proprietary) Limited has issued a letter of credit of USD180 000 to Becton Dickinson (Proprietary) Limited BV.

### Disallowance of input VAT

The South African Receiver of Revenue has disallowed certain input VAT claimed by the Company. The Directors have objected to this and expect the result to be favourable to the Company.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 24. Directors' emoluments

|                         | Group         |                |                   |                                     |                                  |                                      |                              |
|-------------------------|---------------|----------------|-------------------|-------------------------------------|----------------------------------|--------------------------------------|------------------------------|
| Directors' name         | Fees<br>R'000 | Bonus<br>R'000 | Salaries<br>R'000 | Short-<br>term<br>benefits<br>R'000 | Termination<br>payments<br>R'000 | Share-<br>based<br>payments<br>R'000 | Total<br>emoluments<br>R'000 |
| 31 December 2009        |               |                |                   |                                     |                                  |                                      |                              |
| <i>Non-Executive</i>    |               |                |                   |                                     |                                  |                                      |                              |
| Dr Phumla Makaziwe      |               |                |                   |                                     |                                  |                                      |                              |
| Mandela                 | 135           | –              | –                 | 135                                 | –                                | –                                    | 135                          |
| Denese Schneider        | 54            | –              | –                 | 54                                  | –                                | –                                    | 54                           |
| Philip Vallet           | 69            | –              | –                 | 69                                  | –                                | –                                    | 69                           |
| Eric Lucky Senamolele   | 54            | –              | –                 | 54                                  | –                                | –                                    | 54                           |
| Mark Nielsen            | 89            | –              | –                 | 89                                  | –                                | –                                    | 89                           |
| William Marshall-Smith* | 81            | –              | –                 | 81                                  | –                                | –                                    | 81                           |
| Andrew David Bonamour*  | 24            | –              | –                 | 24                                  | –                                | –                                    | 24                           |
|                         | 506           | –              | –                 | 506                                 | –                                | –                                    | 506                          |
| <i>Executive</i>        |               |                |                   |                                     |                                  |                                      |                              |
| William Marshall-Smith* | 69            | –              | –                 | 69                                  | –                                | –                                    | 69                           |
| Dr Jacob Shapiro        | –             | –              | 783               | 783                                 | –                                | –                                    | 783                          |
| Reuben Shapiro          | –             | –              | 724               | 724                                 | –                                | –                                    | 724                          |
| Barry Charles Budler    | –             | 800            | 496               | 1 296                               | –                                | –                                    | 1 296                        |
|                         | 69            | 800            | 2003              | 2 872                               | –                                | –                                    | 2 872                        |
|                         | 575           | 800            | 2003              | 3 378                               | –                                | –                                    | 3 378                        |
| Paid by Company         | 506           |                |                   |                                     |                                  |                                      |                              |
| Paid by subsidiaries    | 2 872         |                |                   |                                     |                                  |                                      |                              |
|                         | 3 378         |                |                   |                                     |                                  |                                      |                              |

\*These fees were paid to Blackstar

| Directors' name            | Fees<br>R'000 | Salaries<br>R'000 | Group                               |                                  |                                      | Total<br>emoluments<br>R'000 |
|----------------------------|---------------|-------------------|-------------------------------------|----------------------------------|--------------------------------------|------------------------------|
|                            |               |                   | Short-<br>term<br>benefits<br>R'000 | Termination<br>payments<br>R'000 | Share-<br>based<br>payments<br>R'000 |                              |
| <b>31 May 2009</b>         |               |                   |                                     |                                  |                                      |                              |
| <i>Non-Executive</i>       |               |                   |                                     |                                  |                                      |                              |
| Dr Phumla Makaziwe Mandela | 250           | –                 | 250                                 | –                                | –                                    | 250                          |
| Denese Schneider           | 100           | –                 | 100                                 | –                                | –                                    | 100                          |
| Philip Vallet              | 100           | –                 | 100                                 | –                                | –                                    | 100                          |
| Eric Lucky Senamolele      | 100           | –                 | 100                                 | –                                | –                                    | 100                          |
| Mark Nielsen               | 72            | –                 | 72                                  | –                                | –                                    | 72                           |
| William Marshall-Smith     | 41            | –                 | 41                                  | –                                | –                                    | 41                           |
|                            | 663           | –                 | 663                                 | –                                | –                                    | 663                          |
| <i>Executive</i>           |               |                   |                                     |                                  |                                      |                              |
| Dr Jacob Shapiro           | –             | 1 350             | 1 350                               | –                                | 10                                   | 1 360                        |
| Reuben Shapiro             | –             | 1 260             | 1 260                               | –                                | 10                                   | 1 270                        |
| Mark Nielsen               | –             | 1 195             | 1 195                               | –                                | –                                    | 1 195                        |
| Barry Charles Budler       | –             | 526               | 526                                 | –                                | 5                                    | 531                          |
|                            | 663           | 4 331             | 4 994                               | –                                | 25                                   | 5 019                        |
| Paid by Company            | 663           |                   |                                     |                                  |                                      |                              |
| Paid by subsidiaries       | 4 356         |                   |                                     |                                  |                                      |                              |
|                            | 5 019         |                   |                                     |                                  |                                      |                              |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 25. Financial instruments

### Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

### Foreign exchange risk

A large portion of the Group's suppliers are international and the Group is thus exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar, British Pound and European Union Euro. Entities in the Group use forward foreign exchange contracts to reduce their exposure to foreign currency risk in connection with the functional currency. Refer to Note 15 for detail on exposures to this risk. The Group's objective for managing this risk is to limit its exposure to foreign currency fluctuations. No changes were made to the objectives, policies or processes during the year.

The following table represents the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's Profit After Tax due to changes in the fair value of forward exchange contracts.

|                              | Appreciation/<br>(depreciation)<br>of ZAR<br>R | Group<br>Change in PAT<br>Increase/(decrease)<br>R'000 | Company<br>Change in PAT<br>Increase/(decrease)<br>R'000 |
|------------------------------|--|--|--|
| <b>31 December 2009</b>      |  |  |  |
| – Pound Sterling             | 1  | 360  | –  |
| (31 December: £1:R11,97)     | (1)  | (360)  | –  |
| – US Dollar                  | 1  | 1 076  | –  |
| (31 December 2009:\$1:R7,45) | (1)  | (1 076)  | –  |
| – Euro                       | 1  | 482  | –  |
| (31 May 2009:€1:R10,70)      | (1)  | (482)  | –  |
| <b>31 May 2009</b>           |  |  |  |
| – Pound Sterling             | 1  | 550  | –  |
| (31 May 2009: £1:R12,91)     | (1)  | (540)  | –  |
| – US Dollar                  | 1  | 2 420  | –  |
| (31 May 2009: \$1: R8,01)    | (1)  | (2 421)  | –  |
| – Euro                       | 1  | 220  | –  |
| (31 May 2009: €1: R11,29)    | (1)  | (200)  | –  |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 25. Financial instruments (continued)

### *Interest rate risk*

The Group's income and operating cash flows are exposed to changes in market interest rates. Cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks. The effect of reasonably expected changes in interest rates on instalment sale liabilities, is expected to be immaterial, however a sensitivity analysis on the long term loan is disclosed below. Inter-company payables do not bear interest.

There have been no changes to the objectives, policies and processes for managing this risk from that of the prior year.

The following table represents the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's Profit After Tax (for the seven months ended 31 December 2009) due to changes in the interest expense related to the long term loan.

| Group            | Increase/<br>(decrease)<br>of interest<br>rate | Group<br>Change in PAT<br>increase/<br>(decrease)<br>R'000 | Company<br>Change in PAT<br>increase/<br>(decrease)<br>R'000 |
|------------------|--|--|--|
| 31 December 2009 |  |  |  |
|                  | 2%   | (85)   | (85)   |
|                  | (2%)   | 85   | 85   |

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk.

| 31 December 2009            | Total<br>R'000 | Within 1 year<br>R'000 | 1 to 2 years<br>R'000 | 2 to 3 years<br>R'000 |
|-----------------------------|----------------|------------------------|-----------------------|-----------------------|
| Variable rate               |                |                        |                       |                       |
| Long term loan              | (36 364)       | (8 591)                | (8 591)               | (17 182)              |
| Instalment sale liabilities | (522)          | (287)                  | (180)                 | (55)                  |
| Cash and cash equivalents   | 14 934         | –                      | –                     | –                     |
| Bank overdrafts             | (6 571)        | –                      | –                     | –                     |
| 31 May 2009                 |                |                        |                       |                       |
| Variable rate               |                |                        |                       |                       |
| Instalment sale liabilities | (785)          | (402)                  | (299)                 | (84)                  |
| Cash and cash equivalents   | 5 101          | –                      | –                     | –                     |

### *Credit risk*

The Group has concentrations of credit risk, due to its limited spread of customers. Due to the nature of the industry, this cannot be avoided. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Refer to Note 7 (accounts receivable) and Note 8 (cash and cash equivalents) for further details regarding the Group's exposure to credit risk and its management thereof.

There have been no changes to the objectives, policies and processes for managing this risk from that of the prior year.

### *Liquidity risk*

The Group manages liquidity risk through the management of working capital and cash flows. The cash flows from trade receivables and trade payables are reasonably well matched in that payments are made to suppliers on similar terms and conditions given to customers. It is anticipated that the year end position will be settled within a 40 to 60-day timeframe.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 25. Financial instruments (continued)

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted payments.

| Group                        | Total<br>R'000 | On<br>demand<br>R'000 | Less than<br>3 months<br>R'000 | 3 to 12<br>months<br>R'000 | 1 to 5<br>years<br>R'000 |
|------------------------------|----------------|-----------------------|--------------------------------|----------------------------|--------------------------|
| <b>31 December 2009</b>      |                |                       |                                |                            |                          |
| Long term loan               | 43 253         | –                     | 2 550                          | 7 651                      | 33 052                   |
| Bank overdraft               | 6 571          | 6 571                 | –                              | –                          | –                        |
| Instalment sales liabilities | 678            | –                     | 93                             | 280                        | 305                      |
| Trade and other payables     | 26 579         | –                     | 26 579                         | –                          | –                        |
| Inter-company payables       | 7 263          | 7 263                 | –                              | –                          | –                        |
| <b>31 May 2009</b>           |                |                       |                                |                            |                          |
| Instalment sales             | 1 014          | –                     | 146                            | 440                        | 428                      |
| Trade and other payables     | 34 569         | –                     | 34 569                         | –                          | –                        |
| Inter-company payables       | 11 540         | 11 540                | –                              | –                          | –                        |

There have been no changes to the objectives, policies and processes for managing this risk from that of the prior year.

## 26. Segmental reporting

Segment information is presented in respect of the Group's business segments. The primary format of the business segments is based on the nature of the product. Geographical (secondary) segments have not been presented as the Group operates mainly in South Africa.

Segment results, net assets, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

All segments are continuing operations.

### Business segments

The Group comprises the following main business segments:

- Single-use or consumable medical devices;
- Capital medical equipment; and
- Technical services.

There were no transactions between the reportable segments.

Due to the fact that there are a limited number of hospital groups in South Africa, the single-use medical devices segment customers each contribute to more than 10% of the Group's revenue.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 26. Segmental reporting (continued)

|                                       | Single use<br>medical<br>devices<br>R'000 | Capital<br>medical<br>equipment<br>R'000 | Technical<br>services<br>R'000 | Group<br>R'000 |
|---------------------------------------|---|--|--------------------------------|----------------|
| <b>December 2009</b>                  |   |  |                                |                |
| Turnover from external sources        | 169 434                                   | 4 938                                    | 2 504                          | 176 876        |
| Operating profit                      | 29 459                                    | (8 109)                                  | 102                            | 21 452         |
| Interest received                     |   |  |                                | 858            |
| Interest paid                         |   |  |                                | (1 464)        |
| Profit before tax                     |   |  |                                | 20 846         |
| Income tax expense                    |   |  |                                | (6 256)        |
| Net profit                            |   |  |                                | 14 590         |
| <b>Segment assets and liabilities</b> |   |  |                                |                |
| <i>Segment assets</i>                 | 194 516                                   | 11 092                                   | 4 363                          | 209 971        |
| Unallocated assets                    |   |  |                                | 5 384          |
| Total assets                          |   |  |                                | 215 355        |
| <i>Segment liabilities</i>            | 72 332                                    | 735                                      | 315                            | 73 382         |
| Unallocated liabilities               |   |  |                                | 1 170          |
| Total liabilities                     |   |  |                                | 74 552         |
| <i>Other segment items</i>            |   |  |                                |                |
| Capital expenditure                   | 1 608                                     | 14                                       | 7                              | 1 629          |
| Depreciation                          | 794                                       | 27                                       | 3                              | 824            |
| <b>May 2009</b>                       |   |  |                                |                |
| Turnover from external sources        | 242 709                                   | 21 633                                   | 9 272                          | 273 614        |
| Operating profit                      | 30 355                                    | 533                                      | 340                            | 31 228         |
| Interest received                     |   |  |                                | 2 586          |
| Interest paid                         |   |  |                                | (2 274)        |
| Profit before tax                     |   |  |                                | 31 540         |
| Income tax expense                    |   |  |                                | (8 858)        |
| Net profit                            |   |  |                                | 22 682         |
| <b>Segment assets and liabilities</b> |   |  |                                |                |
| <i>Segment assets</i>                 | 184 114                                   | 11 849                                   | 5 078                          | 201 041        |
| Unallocated assets                    |   |  |                                | 5 101          |
| Total assets                          |   |  |                                | 206 142        |
| <i>Segment liabilities</i>            | 45 464                                    | 2 667                                    | 1 144                          | 49 275         |
| Unallocated liabilities               |   |  |                                | 785            |
| Total liabilities                     |   |  |                                | 50 060         |
| <i>Other segment items</i>            |   |  |                                |                |
| Capital expenditure                   | 1 159                                     | 37                                       | 16                             | 1 212          |
| Depreciation                          | 1 389                                     | 50                                       | 21                             | 1 460          |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 27. Share-based payments

Staff and Directors qualify for the Myriad Medical Holdings Share Incentive Scheme, qualify at the discretion of the Directors. Each option entitles the option holder to acquire one ordinary share in the Company. Options are granted by the Directors or by the Remuneration Committee if the option is granted to a Director of the Company. The scheme provides for an exercise price equal to the share price at which the relevant share is trading at grant date. The vesting period is five years, with 25% of the share options vesting two years from offer date and a further 25% on each subsequent anniversary thereof. If the option remains unexercised after a period of seven years from the date of grant, the option expires. Furthermore, options are forfeited if the employee leaves the Group before the options vest. The average fair value of the options was 12 cents (31 May 2009: 10 cents) each.

|  | Group<br>31 December 2009 |  | Group<br>31 May 2009 |  |
|--|---------------------------|--|----------------------|--|
|  | Number<br>of options      | Weighted<br>average<br>exercise<br>price per share<br>(in Rands) | Number<br>of options | Weighted<br>average<br>exercise<br>price per share<br>(in Rands) |
| Outstanding at the beginning of the period | 5 347 000                 | 83   | 5 311 000            | 86   |
| Granted during the period                  | 150 000                   | 62   | 395 000              | 53   |
| Forfeited or cancelled during the period   | (2 500 000)               | 86   | (359 000)            | 68   |
| Outstanding at the end of the period       | 2 997 000                 | 79   | 5 347 000            | 83   |

The options outstanding at the end of the period have a weighted average exercise price of 79 cents (31 May 2009: 83 cents), a range of exercise prices of 50 cents to 91 cents and a weighted average remaining contractual life of five years (31 May 2009: two years). These options will be settled through cash payments by the option holder. The number of share options exercisable at the end of the period was 2 477 000 (31 May 2009: 1 228 000).

The inputs into the Black-Scholes-Merton model for the various options issued are as follows:

|   | 31 December 2009 | May 2009 |
|---|------------------|----------|
| Number of options granted during the period           | 150 000          | 395 000  |
| Average weighted share price at date of issue (cents) | 62               | 53       |
| Weighted average option price (cents)                 | 62               | 53       |
| Expected volatility expressed as a percentage         | 33%              | 35%      |
| Expected life in years                                | 1,5              | 2        |
| Risk-free rate of return                              | 7%               | 9%       |
| Average dividend yield                                | 1%               | 1%       |
| Value per option in Rands                             | 12c              | 10c      |

Due to the Group being relatively newly listed and its competitors' share price volatility being in no way similar to that of the Company's share price, the share price volatility, modified for any available information that would indicate that the future is reasonably expected to differ from the past, has been used in determining the expected volatility. The Government Bond Rate on the grant date has been used as the risk-free rate. The option does not entitle its holder to distributions. The dividend yield has been calculated by taking the distribution for the period that the option was granted for as a percentage of the option price at grant date.

The Group recognised total expenses of R95 392 (2008: R577 588) related to share-based payments for the year.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 28. Related party transactions

There were no trading transactions between related parties with the exception of administration and management fees paid by Myriad Medical (Proprietary) Limited to the Company. Refer to note 4 for subsidiary companies and related party balances.

### Compensation of key management personnel

The Group considers its Directors and Barry Charles Budler as key management personnel. Refer to note 24 for further information on Directors' emoluments.

## 29. Acquisition of Litha Healthcare Holdings (Pty) Limited and Pharmafrica (Pty) Limited after period end

### Litha Healthcare Holdings (Pty) Limited

The Group acquired 51% of the issued share capital of Litha Healthcare Holdings (Pty) Limited (Litha Holdings). The effective date of the transaction for accounting purposes was 1 May 2010. Litha Holdings is a diversified group focusing on biotechnology, pharmaceuticals and consumables with an investment arm holding strategic interests in healthcare companies. The Group paid R114,2 million for the 51% share with an option for the acquisition of the balance of the shares after two years at a price equivalent to 49% of the average profit after tax earned by Litha Holdings for the two years preceding the date on which the option is exercised.

The transaction has diversified the Group's healthcare offering into three business lines – biotechnology (vaccines), pharmaceuticals and devices, with high barriers to entry in the vaccines and pharmaceutical businesses. Litha Holdings' executives also provide the Group with strong operational and industry experience.

Qualitative factors that make up goodwill include: Experience and regard for Litha Holdings' executive management team, the high barriers to entry to their vaccine and pharmaceutical businesses, the strong relationships that they have with the public and private healthcare sector, the scale that Litha Holdings will bring to the Group and the potential to unlock savings by centralising certain functions where operationally and commercially justifiable.

A purchase price allocation exercise has not been completed at the date that this Annual Report was signed off, thus separate intangible assets and fair values of assets of Litha Holdings have not yet been determined.

The following information has been taken from Litha Holding's draft annual financial statements for the year ended 31 December 2009.

|                               | R'000   |                                | R'000   |
|-------------------------------|---------|--------------------------------|---------|
| <b>Assets</b>                 |         | <b>Liabilities</b>             |         |
| <b>Non-current assets</b>     |         | <b>Non-current liabilities</b> |         |
| Property, plant and equipment | 64 881  | Loans from group companies     | 49 821  |
| Goodwill                      | 14 318  | Loans from shareholders        | 11 618  |
| Intangible assets             | 14 044  | Other financial liabilities    | 13 177  |
| Investments in subsidiaries   | 1       | Finance lease obligation       | 658     |
| Other investments             | 615     | Deferred tax                   | 660     |
| Investments in associates     | 53 451  | Preference shares              | 25 001  |
| Deferred tax                  | 5 433   |                                |         |
|                               | 152 743 |                                | 100 935 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 29. Acquisition after period end (continued)

|  | R'000          |                             | R'000          |
|--|----------------|-----------------------------|----------------|
| <b>Current assets</b>                                    |                | <b>Current liabilities</b>  |                |
| Inventories  | 170 534        | Other financial liabilities | 859            |
| Loans to employees                                       | 9 504          | Current tax payable         | 3 921          |
| Current tax receivable                                   | 917            | Finance lease obligation    | 872            |
| Trade and other receivables                              | 182 073        | Operating lease liability   | 421            |
| Projects   | 3 037          | Trade and other payables    | 374 359        |
| Cash and cash equivalents                                | 97 305         | Provisions                  | 2 568          |
|  |                | Projects                    | 5 791          |
|  |                | Bank overdraft              | 2 731          |
|  | <b>463 370</b> |                             | <b>391 522</b> |
| <b>Total assets</b>                                      | <b>616 113</b> | <b>Total liabilities</b>    | <b>492 457</b> |
| <b>Revenue</b>   | <b>778 278</b> |                             |                |
| <b>Total comprehensive income attributable to owners</b> | <b>27 007</b>  |                             |                |

### Details of Litha Holdings debtors:

|                   |         |
|-------------------|---------|
| Trade receivables | 180 934 |
|-------------------|---------|

The average days outstanding are 78 days. The major debtor relates to the South African Government in regard to the procurement of vaccines. Litha Holdings assesses impairment on the individual receivables, there are no receivables currently considered irrecoverable. Litha Holdings has ceded the debtors to Nedbank Limited for a facility granted.

### Pharmafrica (Pty) Limited

The Group and its 51% held subsidiary Litha Holdings (described above) acquired the 74% of Pharmafrica (Pty) Limited (Pharmafrica) not already owned by Litha Holdings

Pharmafrica markets and sells branded pharmaceutical and over the counter pharmaceutical products. Litha Holdings acquired a 26% interest in Pharmafrica with effect from March 2006 and the acquisition is in line with the Group's strategy to grow its Pharmaceutical division.

In terms of the acquisition Litha Holdings will acquire 44% of Pharmafrica, increasing its shareholding to 70%, and the Company will directly acquire the remaining 30%.

Qualitative factors that make up goodwill include: The high barriers to entry to the pharmaceutical business, the high regard that the market has for Pharmafrica's products and the brand strength of the products.

The Pharmafrica shares are being acquired from the vendors with an effective date of 1 March 2010 for a total purchase consideration of R58 925 676 which will be paid as follows:

- R37 500 000 on the date on which the acquisition is implemented;
- R8 712 838 on 4 June 2011 (together with interest thereon at the prime rate calculated from the effective date);
- R8 712 838 on 4 June 2012 (together with interest thereon at the prime rate calculated from the effective date); and

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 29. Acquisition after period end (continued)

### Pharmafrica (Pty) Limited (continued)

R4 000 000 on 30 September 2010 (together with interest thereon at the prime rate calculated from the effective date.

A purchase price allocation exercise has not been completed at the date that this Annual Report was signed off, thus separate intangible assets and fair values of assets of Pharmafrica have not yet been determined.

The following information has been taken from Pharmafrica's draft annual financial statements for the year ended 28 February 2010.

|  | R'000         |                                | R'000         |
|--|---------------|--------------------------------|---------------|
| <b>Assets</b>  |               | <b>Liabilities</b>             |               |
| <b>Non-current assets</b>                                |               | <b>Non-current liabilities</b> |               |
| Property, plant and equipment                            | 1 154         | Interest bearing borrowings    | 450           |
| Intangible assets  | 119           |                                |               |
|  | 1 273         |                                | 450           |
| <b>Current assets</b>                                    |               | <b>Current Liabilities</b>     |               |
| Inventories  | 11 910        | Shareholders for dividends     | 13 000        |
| Trade and other receivables                              | 11 401        | Trade and other payables       | 2 052         |
| Taxation   | 1 178         | Taxation                       | 3 600         |
| Cash and cash equivalents                                | 5 788         |                                |               |
|  | 30 277        |                                | 18 652        |
| <b>Total Assets</b>                                      | <b>31 550</b> | <b>Total liabilities</b>       | <b>19 102</b> |
| <b>Revenue</b>   | <b>63 191</b> |                                |               |
| <b>Total comprehensive income attributable to owners</b> | <b>7 959</b>  |                                |               |
| <b>Details of Pharmafrica debtors:</b>                   |               |                                |               |
| Trade receivables  | 11 401        |                                |               |

Pharmafrica assesses impairment on the individual receivables, there are no receivables currently considered irrecoverable.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 30. New accounting pronouncements

### Standards and interpretations issued and not yet effective

At the date of authorisation of the annual financial statements, the following Standards and Interpretations applicable to the Group and Company were in issue but not yet effective:

| Standard or Interpretation* |  |  |  |               |
|-----------------------------|--|--|--|---------------|
| Number                      | Name   | Details of amendment   | Effective date *<br>Annual periods<br>beginning on<br>or after | Date issued   |
| IAS 27<br>(AC 132)          | Consolidated and<br>Separate Financial<br>Statements               | Consequential amendments from changes<br>to Business Combinations  | 1 July 2009  | January 2008  |
| IAS 28<br>(AC 110)          | Investments in Associates  | Consequential amendments from changes<br>to Business Combinations  | 1 July 2009  | May 2008      |
| IAS 31<br>(AC 119)          | Interests in Joint Ventures  | Consequential amendments from changes<br>to Business Combinations  | 1 July 2009  | May 2008      |
| IFRIC 19                    | Extinguishing Financial Liabilities with Equity Instruments        |  | 1 July 2010  | November 2009 |
| Standard or Interpretation* |  |  |  |               |
| Number                      | Name   | Details of amendment   | Effective date *<br>Annual periods<br>beginning on<br>or after |               |
| IFRS 2                      | Share-based Payments   | Amendments relating to group cash-settled share-based<br>payment transactions – clarity of the definition of the term<br>“Group” and where in a group share based payments must be<br>accounted for                                    | 1 January 2010   |               |
| IFRS 5                      | Non-current Assets Held<br>for Sale and Discontinued<br>Operations | Disclosures of non-current assets (or disposal groups) classified<br>as held for sale or discontinued operations   | 1 January 2010   |               |
| IFRS 8                      | Operating Segments   | Disclosure of information about segment assets   | 1 January 2010   |               |
| IAS 1                       | Presentation of Financial<br>Statements                            | Current/non-current classification of convertible instruments  | 1 January 2010   |               |
| IAS 7                       | Statement of Cash Flows  | Classification of expenditures on unrecognised assets  | 1 January 2010   |               |
| IAS 17                      | Leases   | Classification of leases of land and buildings   | 1 January 2010   |               |
| IAS 36                      | Impairment of Assets   | Unit of accounting for goodwill impairment test  | 1 January 2010   |               |
| IAS 38                      | Intangible Assets  | Additional consequential amendments arising from revised IFRS 3<br>Measuring the fair value of an intangible asset acquired in a<br>business combination   | 1 July 2009<br><br>1 July 2009                                 |               |
| IAS 39                      | Financial Instruments:<br>Recognition and<br>Measurement           | <ul style="list-style-type: none"> <li>• Treating loan prepayment penalties as closely related<br/>embedded derivatives</li> <li>• Scope exemption for business combination contracts</li> <li>• Cash flow hedge accounting</li> </ul> | 1 January 2010   |               |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

as at 31 December 2009

## 31. Lease commitments

| Address of premises   | Commencement of leases | Termination of lease | Monthly rental (R) | Escalation |
|---|------------------------|----------------------|--------------------|------------|
| Suite F5 First Floor<br>Sixth Avenue<br>Shopping Centre<br>Walmer, Port Elizabeth                               | 1 June 2009            | 31 May 2011          | 3 885              | 8%         |
| One the Boulevard<br>Ground Floor<br>Unit 11, 12 & 21<br>Westway Office Park<br>Spine Road<br>Westville, Durban | 1 June 2009            | 31 May 2012          | 27 263             | 10%        |
| Manta Place<br>Turnberry Office Park<br>48 Grosvenor Road<br>Bryanston  | 1 June 2009            | 31 May 2012          | 147 916            | 10%        |
| 59 10th Avenue,<br>Parkhurst, Johannesburg  | 1 October 2006         | Month to month       | 16 000             | None       |
| Unit H8, Centurion<br>Business Park, Milnerton  | 1 June 2009            | 31 May 2012          | 20 002             | 10%        |
| Unit 8 Pentagon Park<br>Capital Hill Business Estate<br>Le Roux Road, Midrand                                   | 1 March 2007           | 28 February 2010     | 16 538             | 10%        |
| Stand No 355/356<br>Angus Crescent<br>Northlands Business Park<br>Northriding                                   | 1 July 2009            | 30 September 2010    | 83 850             | 8%         |
| Unit 4, Tuscan Place<br>138 Dytchley Road<br>Barbeque Downs, Kyalami  | 1 December 2009        | 30 November 2012     | 19 440             | n/a        |
| Unit B Sunrise Circle<br>Ndabeni, Cape Town   | 1 October 2008         | 30 September 2010    | 15 941             | 10%        |
| Stand 1203<br>Meadowbrook Business<br>Park<br>Jacaranda Avenue<br>Olivedale                                     | 1 March 2009           | 28 February 2012     | 40 000             | 10%        |

Total future minimum lease payments under non-cancellable operating leases:

|  | Group                        |                         | Company                      |                         |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
|  | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 | 31 December<br>2009<br>R'000 | 31 May<br>2009<br>R'000 |
| Not later than 1 year                        | 4 676                        | 4 331                   | –                            | –                       |
| Later than 1 year but not later than 5 years | 6 186                        | 6 976                   | –                            | –                       |
| Later than 5 years                           | –                            | –                       |                              |                         |
|  | 10 862                       | 11 307                  | –                            | –                       |

# SHAREHOLDERS' INFORMATION

at 31 December 2009

| Shareholder spread         | Number of<br>shareholders | %      | Number of<br>shares | %      |
|----------------------------|---------------------------|--------|---------------------|--------|
| 1 – 1 000 shares           | 37                        | 7,65   | 24 265              | 0,01   |
| 1 001 – 10 000 shares      | 147                       | 30,37  | 833 920             | 0,53   |
| 10 001 – 100 000 shares    | 221                       | 45,66  | 8 243 946           | 5,22   |
| 100 001 – 1 000 000 shares | 61                        | 12,60  | 20 399 776          | 12,92  |
| 1 000 001 shares and over  | 18                        | 3,72   | 128 415 860         | 81,32  |
|                            | 484                       | 100,00 | 157 917 767         | 100,00 |

| Distribution of shareholders | Number of<br>shareholders | %      | Number of<br>shares | %      |
|------------------------------|---------------------------|--------|---------------------|--------|
| Banks                        | 3                         | 0,62   | 2 301 500           | 1,46   |
| Close corporations           | 18                        | 3,72   | 5 874 884           | 3,72   |
| Empowerment                  | 1                         | 0,21   | 47 778 824          | 30,26  |
| Endowment funds              | 1                         | 0,21   | 50 000              | 0,03   |
| Hedge fund                   | 6                         | 1,24   | 2 983 607           | 1,89   |
| Individuals                  | 361                       | 74,59  | 23 343 964          | 14,78  |
| Insurance companies          | 2                         | 0,42   | 2 750 000           | 1,74   |
| Investment companies         | 6                         | 1,23   | 32 687 967          | 20,70  |
| Mutual funds                 | 11                        | 2,27   | 29 005 921          | 18,37  |
| Nominees and trusts          | 39                        | 8,05   | 2 232 262           | 1,41   |
| Other corporations           | 10                        | 2,07   | 498 056             | 0,32   |
| Private companies            | 21                        | 4,34   | 2 422 549           | 1,52   |
| Public companies             | 3                         | 0,61   | 2 020 000           | 1,28   |
| Retirement funds             | 1                         | 0,21   | 280 830             | 0,18   |
| Treasury stock               | 1                         | 0,21   | 3 687 403           | 2,34   |
|                              | 484                       | 100,00 | 157 917 767         | 100,00 |

| Public/non-public shareholders          | Number of<br>shareholders | %      | Number of<br>shares | %      |
|---|---------------------------|--------|---------------------|--------|
| <b>Non-public shareholders</b>          | 5                         | 1,04   | 90 715 246          | 57,44  |
| Treasury stock                          | 1                         | 0,20   | 3 687 403           | 2,34   |
| Empowerment                             | 1                         | 0,21   | 47 778 824          | 30,26  |
| Strategic holdings (more than 10%)      | 1                         | 0,21   | 30 045 958          | 19,02  |
| Directors and associates of the Company | 2                         | 0,42   | 9 203 061           | 5,82   |
| <b>Public shareholders</b>              | 479                       | 98,96  | 67 202 521          | 42,56  |
| Total shares                            | 484                       | 100,00 | 157 917 767         | 100,00 |

| Beneficial shareholders' holdings<br>OF 5% OR MORE | Number of<br>shares | %     |
|--|---------------------|-------|
| Firefly Investments 107 (Pty) Limited              | 47 778 824          | 30,26 |
| Blackstar Investors Plc                            | 30 045 958          | 19,03 |
| Golden Hind Fund                                   | 13 178 289          | 8,35  |
|  | 91 003 071          | 57,64 |

# DIRECTORS' DETAILS

## Non-Executive Directors

### **Andrew David Bonamour** (Non-Executive Chairman)

Andrew was the founder and CEO of Blackstar Group Plc. Blackstar has invested in excess of £75 million into 11 investments in South Africa. Andrew previously worked at Brait SA Limited where he held positions in Investment Banking, principal investments division and Corporate Finance. At Brait, Andrew originated and played a leading role in a variety of transactions ranging from leveraged buy-outs, mergers and acquisitions, capital replacements and restructurings. Andrew has an in-depth knowledge of and experience in corporate finance, private equity and investment banking. Andrew is a director of several companies, both listed and unlisted.

### **William Marshall-Smith** (Non-Executive Director)

William has over seven years' experience in corporate finance and public private investing in South Africa. He is currently a director of Blackstar Group (Proprietary) Limited (Blackstar Group). Blackstar Group is an investment advisor to Blackstar Investors Plc and has invested in excess of £75 million into 11 investments in South Africa. Since the inception of Blackstar, William has been intricately involved in these investments. He also worked for Deloitte in their financial services division in New York USA, Cape Town, South Africa and the Isle of Man, United Kingdom.

### **Nkululeko Leonard Sowazi** (Non-Executive Director)

Nkululeko is the executive chairman of the Tiso Group, an investment holding company with interests in the infrastructure, power, natural resources and investment banking sectors. He is currently a director of JSE listed Aveng Group, Exxaro Resources Limited and Emira Property Fund. He is also director at Trident Steel Holdings (Pty) Limited and African Explosives Limited. Nkululeko is Chairman of Eris Development Agency, The Home Loan Guarantee Company and the Financial Markets Trust.

### **Mandi Shumikazi Mzimba** (Independent Non-Executive Director)

Mandi has served in numerous senior positions: Deputy Director: District Health Systems where she was primarily responsible for the development of district health systems; Deputy Director (Deputy CEO): Support Services for the Council of Geoscience; Senior Science and Technology Representative to Europe, Brussels for the Department of Science and Technology; and as Deputy General Manager: Policy and Regulatory Affairs for Discovery Health (Pty) Limited. She was awarded a Mellon Foundation Research Fellowship at the University of the Witwatersrand.

## Executive Directors

### **Selwyn Kahanovitz** (Chief Executive Officer)

Selwyn is the founder of Litha Healthcare and has served as its CEO since its inception. Selwyn began his career at Sabax in 1981 where he gained experience in pharmaceutical fluid plant production. With 28 years' experience in the pharmaceutical and medical industry, he has been instrumental in raising Litha Healthcare's profile. Under his leadership Litha Healthcare concluded strategic partnerships with the Department of Health and Sanofi-Aventis, ultimately becoming the major supplier of vaccines to the South African Department of Health for 15 consecutive years. Selwyn is a director of Litha Healthcare, a major subsidiary of the Company.

### **Morena Francesco Douglas Makhoana** (Deputy Chief Executive Officer)

Morena began his career with The Biovac Institute and Litha Healthcare Group as the Medical Affairs Manager at Biovac SA (now Litha Vaccines) in 2004. His significant contribution and commitment to the organisation's major deals led to his appointment as Deputy MD of Biovac SA in 2006 and he has subsequently assumed the role as Deputy CEO of The Biovac Institute. He is also a sought advisor on medical issues affecting the biotechnology industry. His knowledge and skills were a key asset to the specialist team that was instrumental in assisting the South African Government in sourcing emergency vaccines for the H1N1 outbreak.

### **Martin Michael Kahanovitz** (Chief Financial Officer)

Martin is a CA (SA). After completing his studies he joined Fisher Hoffman Sithole where he completed his articles. He has served as Litha Healthcare's Group Financial Director for the past 13 years. Martin was instrumental in growing Litha Healthcare from a R40 million to a R1 billion business. Martin has 15 years' specialised financial experience in the pharmaceutical industry. Martin is a director of Litha Healthcare, a major subsidiary of the Company.

## SHARE TRADING STATISTICS

| Date                       | High (c) | Low (c) | Close (c)  | Volume (c) | Value     | Average price<br>(c) |
|----------------------------|----------|---------|------------|------------|-----------|----------------------|
| 2009/06/30                 | 64       | 56      | 60         | 771 400    | 478 700   | 62                   |
| 2009/07/31                 | 65       | 54      | 62         | 4 432 308  | 2 586 400 | 58                   |
| 2009/08/29                 | 90       | 59      | 62         | 4 527 810  | 2 964 887 | 65                   |
| 2009/09/30                 | 68       | 56      | 68         | 2 026 972  | 1 275 406 | 63                   |
| 2009/10/31                 | 80       | 70      | 78         | 3 551 163  | 2 644 897 | 74                   |
| 2009/11/28                 | 84       | 73      | 80         | 2 953 697  | 2 309 059 | 78                   |
| 2009/12/31                 | 101      | 79      | 98         | 3 549 948  | 3 187 299 | 90                   |
| Low                        |          |         | 54         |            |           |                      |
| High                       |          |         | 101        |            |           |                      |
| Year end                   |          |         | 98         |            |           |                      |
| Volume of shares traded    |          |         | 21 813 298 |            |           |                      |
| Earning yield at year end  |          |         | 82,65      |            |           |                      |
| Price earnings at year end |          |         | 12,10      |            |           |                      |



# SHAREHOLDERS' DIARY

|                          |                  |
|--------------------------|------------------|
| Annual general meeting   | 24 June 2010     |
| Interim reporting period | 30 June 2009     |
| Interim report           | August 2010      |
| Financial year end       | 31 December 2010 |

# NOTICE OF ANNUAL GENERAL MEETING

## Litha Healthcare Group Limited

(the Company)

(Registration number 2007/006371/06);

Share code: LHG ISIN: ZAE000144671

Notice is hereby given that the annual general meeting of Litha Healthcare Group Limited will be held in the boardroom, Manta Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston on 21 July 2010 at 14h00 for the following purposes:

1. To receive and adopt the audited financial statements for the year ended 31 December 2009.
2. To approve the Non-Executive and Executive Directors' remuneration for the year ended 31 December 2009.
3. To confirm the remuneration and appointment of Mazars as auditors for the ensuing year.
4. To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolutions:
5. **Ordinary resolution number 1**  
Resolved that the following Director, William Marshall-Smith, retiring in terms of the Company's articles of association and offering him/herself for re-election, be re-elected.
6. **Ordinary resolution number 2**  
Resolved that the following Director, Andrew David Bonamour, retiring in terms of the Company's articles of association and offering him/herself for re-election, be re-elected.
7. **Ordinary resolution number 3**  
Resolved that the following Director, Martin Michael Kahanovitz, retiring in terms of the Company's articles of association and offering him/herself for re-election, be re-elected.

Details of the Directors standing for re-election appear on pages 61 of the annual report.

8. **Ordinary resolution number 4**  
To place the unissued ordinary shares of the Company under the control of the Directors in terms of Section 221 of the Companies Act, (Act 61 of 1973) (as amended) and to renew the authority of the Directors, subject to the provisions of Section 221 and 222 of the Companies Act (Act 61 of 1973)(as amended), and the Listing Requirements of the JSE Limited, to allot and issue any of the shares of the Company to such person or persons on such terms and conditions as they may deem fit. Such authority shall expire at the next annual general meeting of the Company.
9. **Ordinary resolution number 5**  
To authorise the Directors of the Company by way of general authority, to allot and issue unissued shares of the Company for cash on such terms and conditions as they may deem fit, subject to no less than 75% of the shareholders present in person or by proxy and entitled to vote at the annual general meeting at which this ordinary resolution is to be considered, voting in favour thereof, subject to the following limitations:
  - The shares must be of a class already in issue;
  - The shares must be issued to public shareholders and not to related parties;
  - The number of shares for cash in any one financial year may not exceed 15% of the Company's issued shares of that class;

# NOTICE OF ANNUAL GENERAL MEETING CONTINUED

- The maximum discount at which shares may be issued is 10% of the weighted average traded price of those shares over the 30 business days prior to the date that the price of the issue is determined or agreed by the Directors of the Company;
- That an announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one year, 5% or more of the number of shares of that class in issue prior to the issues; and
- This general authority shall only be valid until the earlier of the Company's next annual general meeting or the variation or revocation of this general authority by ordinary resolution at any general meeting of the Company prior to such annual general meeting; provided that it shall not extend beyond fifteen months from the date of the passing of this ordinary resolution.

10. To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

## **Special Resolution number 1**

"That the Directors of the Company and/or any of its subsidiary companies be and are hereby authorised, by way of a general authority, to repurchase ordinary shares issued by the Company as provided for in Sections 85 to 90 of the Companies Act (Act 61 of 1973) (as amended), in terms of the Company's articles of association, and subject to the Listing Requirements of the JSE Limited (JSE) being that:

- Any such repurchase of shares shall be implemented on the open market through the order book of the JSE;
- This general authority shall only be valid until the earlier of the Company's next annual general meeting or the variation or revocation of this general authority by special resolution at any general meeting of the Company prior to such annual general meeting; provided that it shall not extend beyond fifteen months from the date of the passing of this special resolution;
- Any general repurchase by the Company of its own shares shall not, in aggregate, in any one financial year exceed 20% of the Company's issued shares of that class as at the date of the passing of this special resolution number 1;
- The Company may at any point in time only appoint one agent to effect any repurchase(s) on its behalf;
- In determining the price at which the shares issued by the Company are repurchased by it in terms of this general authority, the maximum price at which such shares may be repurchased will be 10% above the weighted average of the market value of such shares for the five business days immediately preceding the date of repurchase of such shares.
- The Company or its subsidiary may not repurchase shares during a prohibited period as defined in paragraph 3.67 of the Listings Requirements of the JSE unless there is a repurchase programme in place and the dates and quantities of shares to be repurchased during the prohibited period are fixed and full details thereof have been disclosed in an announcement over SENS prior to commencement of the prohibited period; and
- The Company's sponsor has confirmed the adequacy of the Company's working capital, for the purposes of undertaking share repurchases, in writing to the JSE prior to the repurchase of any shares."

The board has considered the impact of a repurchase of 20% of the Company's shares, being the maximum permissible under a general authority in terms of the Listings Requirements, and is of the opinion that:

- The Company and the Group in the ordinary course of business will be able to pay its debts for a period of 12 months after the date of this notice of annual general meeting;
- The assets of the Company and the Group exceed the liabilities of the Company for a period of 12 months after the date of this notice of annual general meeting, calculated in accordance with International Financial Reporting Standards used in the Group audited financial statements for the period ended 31 December 2009;
- The ordinary capital and reserves of the Company and the Group for a period of 12 months after the date of the notice of annual general meeting will be adequate; and
- The working capital of the Company and the Group for a period of 12 months after the date of this notice of annual general meeting will be adequate.

# NOTICE OF ANNUAL GENERAL MEETING CONTINUED

After the Company has cumulatively repurchased 3% of the initial number (the number of that class of shares in issue at the time that the general authority from shareholders is granted) of the relevant class of shares, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made in terms of the Listings Requirements of the JSE.

## **Reason and effect**

The reason and effect of special resolution number 1 is to grant the Company a general approval in terms of the Companies Act (Act 61 of 1973) as amended (the Act), for the repurchase of shares of the Company. Such general authority will provide the board with flexibility, subject to the requirements of the Act and the JSE, to repurchase shares should it be in the interest of the Company at any time while the general authority exists. This general approval shall be valid until the earlier of the next annual general meeting of the Company, or its variation or revocation of such general authority by special resolution by a subsequent general meeting of the Company, provided that the general authority shall not be extended beyond 15 months from the date of passing of this special resolution.

## **Information required in terms of the JSE listing requirements**

Information required in terms of the JSE listing requirements in regard to this general authority for the Company or any of its subsidiaries, appears in the annual financial statement to which this notice of annual general meeting is annexed as indicated below:

- Directors and management of this Company, inside back cover
- Major shareholders, page 60
- Director's interest in securities, page 21
- Share capital of the Company, page 41
- Litigation statement below, page 66

## **6. Material change**

There have been no material changes in the affairs or financial position of Litha and its subsidiaries since the date of signature of the audit report and the date of this notice.

## **7. Directors' responsibility statement**

The Directors whose names are given on the inside back cover of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 1 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all such information.

## **8. Litigation statement**

The Group has engaged in legal proceedings against the vendors of one of the Group's divisions to retrieve monies owing to the Group. In addition, the Group has sought legal counsel to retrieve an amount held in escrow pertaining to warranted profit targets that the vendors did not achieve.

In terms of section 11.26 of the Listing Requirements of the JSE, the Directors, whose names are given on the inside back cover of the annual report of which this notice forms part, are not aware, other than stated above, of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

## **VOTING AND PROXIES**

A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and speak and, on a poll, vote in his stead. Such proxy need not be a member of the Company. A proxy form is included in this report and may also be obtained from the transfer secretaries.

# NOTICE OF ANNUAL GENERAL MEETING CONTINUED

The attached form of proxy is only to be completed by those shareholders who are:

- Holding Litha Healthcare Group Limited ordinary shares in certificated form; or
- Are recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker. Shareholders are reminded that the onus is on them to communicate with the CSDP.

Proxy forms must be lodged with the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than 14h00 on Friday, 18 July 2010.

By order of the board



**Barry Charles Budler**  
*Company secretary*

Johannesburg  
10 June 2010

## NOTES

[illegible]

# FORM OF PROXY



**Litha Healthcare Group Limited**  
(Incorporated in the Republic of South Africa)  
(Registration number 2007/006371/06)  
JSE code: LHG & ISIN:ZAE 000144 671  
(Litha or the Company)

For use by shareholders that hold shares in certificated form (certificated shareholders) or shareholders who have dematerialised their shares (dematerialised shareholders) and registered with "own name" registration only, at the annual general meeting of shareholders of the Company to be held at Manta Place, Turnberry Office Park, 48 Grosvenor Road, Bryanston at 14h00 on 21 July 2010.

Dematerialised shareholders holding shares other than with "own name" registration, must inform their CSDP or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the necessary Letter of Representation to attend the annual general meeting in person and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting in person. These shareholders must not use this form of proxy.

I/We \_\_\_\_\_ (name/s in block letters)

of \_\_\_\_\_

Being the holders of \_\_\_\_\_ shares in the capital of the Company, do hereby appoint (see note):

1. \_\_\_\_\_ or failing him/her
2. \_\_\_\_\_ or failing him/her
3. \_\_\_\_\_

As my/our proxy to act for me/us at the annual general meeting for purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof; and to abstain from voting for and/or against the resolutions in respect of the shares registered in my/our name in accordance with the following instructions:

|     |  | Number of shares |         |        |
|-----|--|------------------|---------|--------|
|     |  | For              | Against | Action |
| 1.  | To receive, consider and adopt the annual financial statements of the Company for the financial year ended 31 December 2009. |                  |         |        |
| 2.  | To approve the Non-Executive and Executive Directors' remuneration for the year ended 31 December 2009.                      |                  |         |        |
| 3.  | To confirm the remuneration and appointment of Mazars as auditors for the ensuing year.                                      |                  |         |        |
| 4.  | To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolutions:                   |                  |         |        |
| 4.1 | Ordinary resolution number 1: Subsequent to the last annual general meeting.   |                  |         |        |
|     | To elect as a Director, William Marshall-Smith in terms of the Articles of Association.                                      |                  |         |        |
| 4.2 | Ordinary resolution number 2   |                  |         |        |
|     | To elect as a Director, Andrew David Bonamour in terms of the Articles of Association.                                       |                  |         |        |
| 4.3 | Ordinary resolution number 3   |                  |         |        |
|     | To elect as a Director, Martin Michael Kahanovitz in terms of the Articles of Association.                                   |                  |         |        |
| 4.4 | Ordinary resolution number 4 – control of authorised but unissued shares   |                  |         |        |
| 4.5 | Ordinary resolution number 5 – approval to issue shares for cash   |                  |         |        |
| 5.  | Special resolution number 1 – approval to repurchase shares  |                  |         |        |

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2010

Signature \_\_\_\_\_

Assisted by (where applicable) \_\_\_\_\_

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the Company) to attend, speak and vote in place of that shareholder at the annual general meeting.

# NOTES

1. Each member is entitled to appoint one or more proxies (who need not be a member of the Company) to attend, speak and, on a poll, vote in place of that member at the annual general meeting.

This form of proxy is to be completed only by those members who are:

- Holding shares in certified form; or
- Recorded in the sub-register in electronic form in their "own name".

2. A member may insert the name of a proxy, or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the chairman of the annual general meeting". A person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names follow.
3. A member's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that member in the appropriate box(es) provided. Failure to comply with the above will be deemed to authorise the chairman of the annual general meeting, if he is the authorised proxy, to vote in favour of the resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the annual general meeting as he deems fit, in respect of all the member's votes exercisable thereat.
4. A member or his proxy is not obliged to vote in respect of all the ordinary shares held or represented by him, but the total number of votes for or against the resolutions and in respect of which any abstention is recorded, may not exceed the total number of votes to which the member or his proxy is entitled.
5. Forms of proxy must be lodged with or posted to Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received by no later than 48 hours prior to the annual general meeting.
6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such member wish to do so.
7. Any alteration or corrections to this form of proxy must be initialled by the signatory(ies).
8. This proxy form must be signed by all joint members. If more than one of those members is present at the annual general meeting either in person or by proxy, the person whose name stands first in the register shall alone be entitled to vote.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company's transfer office or waived by the chairman of the annual general meeting.
10. The chairman of the annual general meeting may reject or accept any proxy form which has been completed and/or received other than in accordance with these instructions, provided that he is satisfied as to the manner in which a member wishes to vote.



# CORPORATE INFORMATION

## Executive Directors

Selwyn Kahanovitz (Chief Executive Officer)  
Morena Francesco Douglas Makhoana  
(Deputy Chief Executive Officer)  
Martin Michael Kahanovitz (Financial Director)

## Registered offices

Manta Place  
Turnberry Office Park  
48 Grosvenor Road  
Bryanston, 2021  
Sandton  
(PO Box 68837, Bryanston, 2021)

## Company secretary

Barry Charles Budler  
Manta Place  
Turnberry Office Park  
48 Grosvenor Road  
Bryanston, 2021  
Sandton  
(PO Box 68837, Bryanston, 2021)

## Transfer secretaries

Computershare Investor Services  
(Proprietary) Limited  
(Registration number 2004/003647/07)  
Ground Floor  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)

## Legal advisers and attorneys

Fluxmans Inc  
11 Biermann Avenue  
Rosebank, 2196  
Johannesburg  
(PO Box X41, Saxonwold, 2132)

## Non-Executive Directors

Andrew David Bonamour (Non-Executive Chairman)  
William Marshall-Smith (Non-Executive Director)  
Mandi Shumikazi Mzimba (Non-Executive Director)\*  
Nkululeko Leonard Sowazi (Non-Executive Director)

\* Independent Non-Executive Director

## Corporate sponsor

Java Capital (Proprietary) Limited  
(Registration number 2002/031862/07)  
2 Arnold Road  
Rosebank  
(PO Box 2087, Parklands, 2121)

## Auditors

Mazars  
Second Floor  
Mazars Moores Rowland House  
5 St Davids Place  
Parktown, 2193  
Johannesburg  
(PO Box 6697, Johannesburg, 2000)

## Commercial banker

Nedbank Limited  
Fifth Floor  
Nedbank House  
12 Fredman Drive  
Sandown, 2196  
Sandton  
(PO Box 784088, Sandton, 2146)

## Date of incorporation

3 March 2006

## Place of incorporation

Johannesburg



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HOSPITALITY  
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[www.myriadmed.com](http://www.myriadmed.com)

