

CHAIRMAN'S STATEMENT

Preparing for Growth

FINANCIAL SUMMARY

The company recorded a 105% increase in revenue over the comparative period, being the 7 months to August 2009 post US dollarisation and is well placed to meet the growing demand for its core products as the Zimbabwean economy rebuilds. Margins during the period were under pressure, declining to 9% from 11% in reflecting the difficult market as the economy stabilises. A review of costs and implementation of new efficiency measures delivered a 10% reduction in overheads. Interest costs rose 80% in the period due to greater borrowings from parent company LonZim, as working capital loans to Celsys.

OPERATIONS REPORT

The company has continued its strategic review to clearly define its business model for economic recovery. Recovery has been slower than was originally anticipated which has resulted in the Company concentrating on two key divisions being commercial/security printing and the mobile payphone and airtime distribution markets.

The marketing and web design division in addition to the Nokia & HTC cell phone sales divisions have been closed down. The IT Software division is currently undergoing a due diligence exercise with a view to disposal. Further reference is made to this development under the individual business divisional report.

The company printing premises at Southerton are being refurbished and upgraded by the landlord. The Arundel operation will be relocated to Southerton on completion, thus this will consolidate all Celsys operations under one roof.

Celsys Print

The investment made in upgrading the printing presses has started to deliver results as evidenced by the gains in market share in the commercial printing sector. Further investments in additional finishing equipment are ongoing which will consolidate and increase the gains already achieved. The clear objective is for Celsys to provide the best security and commercial printing services to the market.

A new General Manager, Mr Mark van Rooyen, was appointed in July 2009 and following his appointment and with the commissioning of the additional printing presses in December 2009 we have seen growth in print revenues in excess of 300%.

Celsys Print is has completed the implementation of the ISO 9001:2008 quality standard and was certified by the Standards Association of Zimbabwe in February 2010.

Celsys Comms

The airtime distribution business has been slow to recover. As the company ramps up its redeployment of payphones and manages to leverage the payphone channels as a distribution mechanism for airtime, the Comms division is expected to regain critical mass and make meaningful contributions to the bottom line.

Celsys was the market leader in mobile payphones pre-hyperinflation and at that time had over 2 000 active lines in service. Celsys have managed to retain the skill set that were responsible for the management of the payphones previously and this team is now responsible for rebuilding this market. During 2010 they have upgraded Celsys' mobile payphone technologies and placed initial trial phones out in the market as a precursor to Celsys' re-establishing itself again fully in this market.

Celsys IT Hardware

In the period under review, the Hardware division has benefited from capital investment to broaden its service offering. The division has acquired Point of Sale devices for which it has already secured a customer on a transaction based lease model similar to the concept used on Automated Teller Machines. The division has also acquired new ATMs with improved functionality in response to the changing needs of its clients. The first 10 new ATMs have been deployed over the last few months and an additional 10 ATM's have been requested by the Customer. It is now poised to start reaping the rewards of this early stage investment in improved revenues.

Celsys IT Software

The directors have resolved to dispose of the Sophos business. The rationale for this move was that Celsys was too diversified, hindering its ability to fully focus on core business and deliver results. The skills set required to grow this business to its potential is not available in the company and the sector is non core.

The disposal of this division will not have any material impact on the operations of the Company.

OUTLOOK

The company continues to operate under constrained conditions as the Zimbabwean economy recovers. The future potential of the company is dependent upon the continued support of the majority shareholder in positioning the core business divisions to grow. Management forecasts see the company achieving a break even position by the end of 2010 with the start of meaningful returns occurring thereafter.

DIRECTORS

Mr. Geoff Goss resigned as Chief Executive Officer and Director. Mr. Adam Lemon, who was the Chief Operations Officer, has been appointed CEO. We are confident Mr. Lemon will bring the rigour, focus and discipline which the company needs to move forward, complete the restructure and grow on from the existing solid base.

DIVIDEND

No dividend has been declared for the period under review.

David Lenigas
Chairman

26 May 2010

Statement of Comprehensive Income For the six months ended 28 February 2010

	Feb-10
Sales of goods	1,281,117
Rendering of services	38,357
Revenue	<u>1,319,474</u>
Cost of Sales	(1,203,244)
Gross Profit	<u>116,230</u>
Other operating income	40,008
Administrative expenses	(707,740)
Other operating expenses	(45,361)
Operating loss	<u>(596,863)</u>
Finance costs	(44,168)
Loss before tax	<u>(641,031)</u>
Income tax expense	159,244
Loss for the period	<u>(481,787)</u>
Other comprehensive income	
Exchange loss	(15,334)
Income tax relating to other comprehensive income for the year	4,738
Other comprehensive income for the year	<u>(10,596)</u>
Total comprehensive income for the year after tax	<u>(492,383)</u>
Basic Loss Per Share (cents)	(0.031)
Diluted Loss Per Share (cents)	(0.031)
Basic Loss Per Share for continuing operations (cents)	(0.032)
Diluted Loss Per Share for continuing operations (cents)	(0.032)
Number of shares in issue	<u>1,599,645,849</u>

Statement of Comprehensive Cashflows For the six months ended 28 February 2010

	Feb-10
Profit before tax	(656,365)
Adjusted for:	
Depreciation	72,303
Profit on disposal of fixed assets	(39,343)
Exchange loss	15,334
Interest expense	44,168
Operating cash flow before working capital changes	<u>(563,903)</u>
Working capital changes	264,352
Increase in stock	(118,327)
Increase in accounts receivable	(11,265)
Increase in accounts payable	393,943
Operating cash flow	<u>(299,551)</u>
Cash from investing activities	
Proceeds on disposal of PP&E	49,270
Purchase of PP&E	(262,821)
Cash from financing activities	
Interest paid	(44,168)
Non-current loans raised	512,531
Net cash generated during period	<u>(44,739)</u>
Cash at beginning of period	40,613
Cash at end of period	<u>(4,126)</u>
Made up as follows:	
Bank balances and cash	40,868
Bank overdraft	<u>(44,994)</u>
	<u>(4,126)</u>

Statement of Financial Position As at 28 February 2010

	Feb-10	Aug-09
Assets		
Non-current assets		
Property, plant & Equipment	851,307	686,590
Deferred tax asset	<u>288,825</u>	<u>124,843</u>
	<u>1,140,132</u>	<u>811,433</u>
Current assets		
Inventories	183,297	64,970
Trade and other receivables	95,311	84,046
Cash and short-term deposits	40,868	40,613
Assets classified as held for sale	-	32,500
	<u>319,475</u>	<u>222,129</u>
Total assets	<u>1,459,607</u>	<u>1,033,562</u>
Equity and liabilities		
Equity		
Issued capital	-	-
Share premium	-	-
Retained earnings	(1,021,007)	(528,624)
NDR (Currency conversion reserve)	519,844	519,844
Revaluation reserve	<u>136,094</u>	<u>169,134</u>
	<u>(365,069)</u>	<u>160,354</u>
Non-current liabilities		
Interest bearing loans and borrowings	<u>1,106,474</u>	<u>593,943</u>
Current liabilities		
Trade and other payables	673,208	279,265
Overdraft	<u>44,994</u>	<u>-</u>
	<u>718,202</u>	<u>279,265</u>
Total equity and liabilities	<u>1,459,607</u>	<u>1,033,562</u>

Statement of Changes in Equity For the six months ended 28 February 2010

	Share Capital	Share Premium	Currency Translation	Revaluation Reserve	Retained Earnings	Total
Balance as at 30 June 2008	-	-	-	-	-	-
Arising on change in functional currency	-	-	519,844	-	-	519,844
Revaluation surplus	-	-	-	244,767	-	244,767
Deferred tax on revaluation surplus	-	-	-	(75,633)	-	(75,633)
Loss for the period	-	-	-	-	(528,624)	(528,624)
Balance as at 31 August 2009	-	-	519,844	169,134	(528,624)	160,354
Revaluation surplus realised	-	-	-	(33,040)	-	(33,040)
Loss for the period	-	-	-	-	(492,383)	(492,383)
Balance as at 28 February 2010	-	-	519,844	136,094	(1,021,007)	(365,069)

Notes

1. Accounting Policies

The accounting policies and bases of accounting used are consistent with those applied in the preparation of the financial statements for the previous financial year end.

2. Comparatives

In line with the guidance issued jointly by the Public Accountants and Auditors Board, the Zimbabwe Stock Exchange and the Zimbabwe Accounting Practices Board, the disclosure of comparative figures has been limited to the statement of financial position as at 31 August 2009

3. Supplementary Information

	Feb 10
Depreciation	72,303
Capital Expenditure	262,821
Capital Expenditure authorised but not contracted	366,000