# Pharmacybrands

ANNUAL REPORT 2013

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# WHO WE ARE

Pharmacybrands Limited is a listed primary healthcare provider, focused on delivering a broad range of integrated primary healthcare solutions to New Zealanders, to enhance their health, beauty and wellbeing.

Pharmacybrands has two divisions: Pharmacy and Medical.

The core of the pharmacy business has been built on providing merchandising, marketing, operational support and professional services to independent pharmacies operating under our brands Unichem, Amcal, Life, Radius and Care Chemists. In addition we have equity interests in 70 pharmacies.

In total the Company represents more than 300 community pharmacies throughout New Zealand.

The medical business has equity interests in medical centres as well as providing back office and operational services to medical centres. There are currently 23 medical centres within the Radius Medical support structure, with most operating under the Radius Medical or The Doctors brands.

# FINANCIAL SUMMARY

It's time annual reports were written so investors can understand them and make sense of what's happened in the past year and what's the outlook for the future.

We reckon the introduction of International Financial Reporting Standards hasn't done the average investor any favours; in fact they have made the financial statements so complex and such a mystery that you need a degree in accounting to really understand them.

We have decided to do things a little differently. If you are interested in the detailed numbers and all the disclosures which we are required to give you, and which the directors and auditors have signed off on, they are included in this report, but right at the back!

So let's start with a plain English version of the finances.

| | FY13 $'000 | FY12 $'000 |
|---|---|---|
| **We generate revenue from three main sources;** | | |
| Consolidated store sales | 74,677 | 78,537 |
| Medical centre sales | 5,860 | 2,329 |
| Services provided to stores and medical centres | 24,527 | 24,675 |

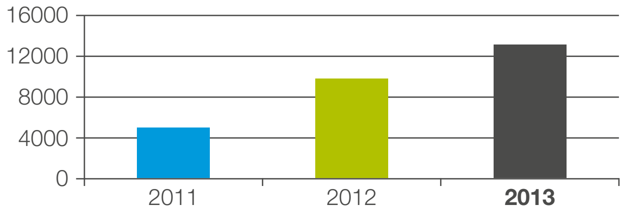
Consolidated store sales are lower primarily due to divestments and a decline in retail and dispensary sales. Medical centre sales are up as a result of acquisitions and full year reporting of our medical division.

| | FY13 $'000 | FY12 $'000 |
|---|---|---|
| **Our costs to operate are primarily;** | | |
| Leases expense | 4,253 | 4,336 |
| Wages and salaries | 26,034 | 24,643 |
| Other costs (marketing, governance, communications etc) | 9,688 | 11,511 |

Wages and salaries are higher because of acquisitions and full year report of our medical division. These increases have been partially offset by divestments. The reduction in other costs is due to cost savings in pharmacy and one off costs that were incurred last year.

| | FY13 $'000 | FY12 $'000 |
|---|---|---|
| **After all income and expenses we earned;** | | |
| Net profit before taxation | 16,479 | 12,462 |
| Taxation expense | (3,224) | (2,523) |
| **Profit after tax for the year** | **13,255** | **9,939** |

## SHAREHOLDERS NET PROFIT AFTER TAX

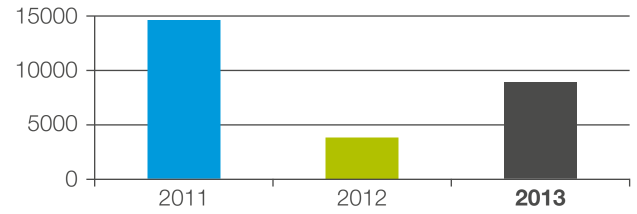



| | FY13 $'000 | FY12 $'000 |
|---|---|---|
| **So what happened to the profit and where did the cash go?** | | |
| We started the year with a cash balance of | 8,717 | 15,654 |
| Our profit after tax (and after adjusting for non-cash items) was | 13,811 | 10,870 |
| We bought various businesses (including Radius FY12) | (8,574) | (35,218) |
| We sold some investments | 479 | 2,668 |
| Our bank borrowings increased by | 1,800 | 3,876 |
| We raised some additional equity | 309 | 9,116 |
| We paid dividends | (2,141) | - |
| Our working capital decreased by | 1,050 | 2,074 |
| Other sundry smaller transactions | (339) | (323) |
| **We ended the year with a cash balance of** | **15,112** | **8,717** |





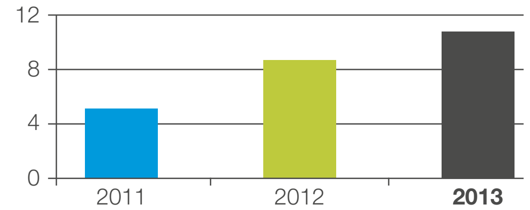
## NET CASH



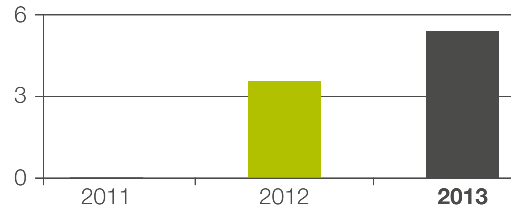

Net cash represents cash and cash equivalents less borrowings.

| | FY13 $'000 | FY12 $'000 |
|---|---|---|
| **So what is the Group worth?** | | |
| We have total assets of | 96,814 | 83,142 |
| We have total liabilities of | (22,790) | (20,716) |
| So our equity is | 74,024 | 62,426 |
| | | |
| Which represents a net asset value for each share of (cents) | 59.4 | 52.0 |
| This compares to a value on the NZX at balance date of (cents) | 122.0 | 75.0 |

## EARNINGS PER SHARE




## DIVIDENDS PER SHARE




| | FY13 $'000 | FY12 $'000 |
|---|---|---|
| **So how big is the total pharmacy Group including franchisees?** | | |
| Partly or fully owned Group stores | 72 | 70 |
| Franchisees | 230 | 235 |
| | | |
| Split across the following brands: | | |
| Amcal | 75 | 78 |
| Care Chemist | 26 | 26 |
| Life | 26 | 28 |
| Radius | 33 | 33 |
| Unichem | 142 | 140 |
| **Total** | **302** | **305** |

# CHAIRMAN'S REPORT

For the year ended 31 March 2013

## RESULTS

We are pleased to present the results for the 2013 year to our shareholders as they represent another step in the growth of Pharmacybrands' business. The Group reported a net profit after tax of $13.2 million attributable to the shareholders for the twelve months to 31 March 2013, an improvement of $3.3 million (33%) on the corresponding period last year (2012: $9.9 million). This was driven by cost savings in pharmacies (including associates), incremental revenues from acquisitions, the elimination of one-off costs incurred last year and lower interest costs.

Net cash inflows from operating activities were $14.9 million (2012: $12.9 million) including $3.5 million (2012: $2.8 million) by way of dividends received from associates. As at balance date the net cash position (net of debt) increased to $8.3 million resulting in the net interest income being $0.9m up on last year.

The profit was achieved on consolidated operating revenues of $105.1 million (2012: $105.5 million). The reported revenue of $105.1 million does not include associate revenue of $173.2 million (2012: $147.0 million). Including the associates, the total revenue is $278.3 million, an increase of $25.8 million as a result of acquisitions and full year reporting of the Medical Division.

On a same store basis (which includes associates, revenue for which is not included in the consolidated Group revenue) pharmacy store revenues declined by 2.3%. This is driven by lower revenues for both dispensary and retail. The dispensary decline is driven by a change in the remuneration model for dispensary services which does not impact earnings. Retail activity was challenging in the period under review. Nevertheless we have recorded modest signs of improvement in retail revenues since the balance date.

There has been discussion about the new remuneration model for dispensary services, and our annual report last year covered the detail of the changes. Fundamentally it is a great opportunity for pharmacy, and therefore Pharmacybrands, to participate to a greater degree in primary healthcare services. We view this as strategically and fiscally positive for our Group.

# PERFORMANCE

As foreshadowed in last year's annual report, the Group is focused on expanding its primary healthcare offering. We have taken significant steps towards achieving this in the 2013 financial year through the expansion of our Medical Division, while still maintaining a first class Pharmacy Division.

In the Pharmacy Division, decisions have been made to rationalise the brands and move to a single loyalty programme. New initiatives in the professional services area are ensuring that our pharmacies have a clear point of difference to competitor pharmacies and other healthcare providers, key staff appointments have been made and e-commerce initiatives are well underway.

In the Medical Division we have made several equity acquisitions, and the financial results are very pleasing. We have increased the number of management services agreements by three, and see good potential for growth in this part of the business. The systems and support that we can offer our partners and licencees, such as "dashboard" reporting, are delivering positive benefits.

Our activities in the medical side of the business are providing us with further insight into other areas of primary healthcare. This has encouraged us to broaden our approach to the expansion of the Group's primary healthcare offering beyond the pharmacy door, and indeed the GP surgery, to developing patient centred propositions that will ensure our business' success into the future.

We are seeing genuine growth in this community care approach, and believe that there are real benefits to be realised from integrating our offering with other services that are critical for improving the overall health and well being of the patient. This is an area of health that we have only recently become involved in, but we see it as a very logical next step for our Group and we hope will provide patient benefits and cost savings through a more efficient and less silo based approach.

# GOALS

In last year's report I made comments on four medium term goals. I am pleased to report that we have made good progress on these, as below:

| Goals | Achievements |
|---|---|
| Develop further offerings in primary healthcare | • Focus on the broader primary healthcare market;<br>• Continue to invest in this area e.g. Mole map screening in partnership with dermatologists and pharmacy;<br>• Provide new services for patients e.g. Flu vaccinations in the pharmacy; and<br>• Overall improved health outcome. e.g. Trialling compliance monitoring tools for high risk patients. |
| Improve cost base | • Streamlining of the cost bases of our pharmacies where we have equity stakes. Total costs for comparable stores reduced by $1.7 million, improving performance; and<br>• Review of head office internal operating efficiencies, with investments in IT systems and project management. |
| Grow Medical Division | • Investment in three medical centres;<br>• Three new management service agreements signed; and<br>• Growth providing opportunities beyond pharmacy. |
| Grow Equity Investments | • Acquiring or increasing equity stakes in three pharmacies; and<br>• Acquiring stakes in three medical practices over the last year. |





# DIVIDEND

Your directors resolved on 28 May 2013 to pay a fully imputed final dividend of 3.5 cents per share on 21 June 2013 bringing the total dividend pay-out for the financial year ended 31 March 2013 to 5.5 cents per share fully imputed, representing 52% of net profit after tax. The dividend reinvestment plan was operative for both dividend payments.

# LOOKING FORWARD

We are very excited about the future for our Group. We have opportunities to improve our performance through realising improvements in our internal efficiencies and developing and offering new services for pharmacies. We expect this to result in an increase in demand for our franchise services. On the retail side, our refreshed e-commerce, loyalty, branding and own brand programs will also increase benefits for our franchisees and will deliver an increase in the number of pharmacies we represent. Our Medical Division has scope to grow both at a franchise level and through the Group becoming an equity partner in more GP practices.

The staff's focus on cash generation has been very pleasing, and the Board are very happy that the Group is in a mature enough position to declare regular dividends.

# THANK YOU

We have many hundreds of staff that are involved in primary healthcare delivery via our pharmacy and medical centres throughout the country. Their daily dedication and actions are what create the value in our Group. Our head office staff provide the support services to enable the front line people to deliver a better service than our competitors. The Board would like to thank all our staff for their efforts during the year and for the results achieved. I also express my thanks to the Board for their support and guidance.

Our Chief Executive, Alan Wham, tendered his resignation in April, and we would like to thank him for his decade of service, during which he guided the Group from a profit of under a million dollars, through to where it is today. He oversaw two large mergers that were very successful and we wish him the very best for the future.

**Peter Merton**
Chairman

# BOARD OF DIRECTORS

## PETER MERTON

**Chairman**
Peter Merton, an Otago University Pharmacy graduate, has been involved in the pharmaceutical industry in New Zealand and overseas since the early 1980s. His involvement with the Group goes back to the late 1990s, and he played an active part in the initial industry consolidation when Amcal and Unichem brands merged to form Pharmacybrands Limited approximately 10 years ago.

Following the merger of Life Pharmacy Limited (LPL) with Pharmacybrands Limited in 2009 Peter assumed the role of Chairman of the Group. He is also a significant shareholder in the Company through his interest in Cape Healthcare Limited.

Peter has previously held the roles of Chief Executive of the Propharma/Healthcare Logistics businesses and director of EBOS Group Limited.

## ANDREW BAGNALL

**Non-Executive Director**
Andrew Bagnall holds a Commerce Degree from Otago University and an MBA from Michigan State University. Andrew was a significant investor in Life Pharmacy Limited and following the merger with Pharmacybrands Limited has continued to hold a significant shareholding in the merged entity. In Mr Bagnall's earlier career, he was a leading figure in the New Zealand travel industry establishing and managing Gullivers Travel Group which become the major distributor of wholesale and retail travel services in New Zealand. Gullivers Travel Group was eventually listed on the New Zealand and Australian Stock Exchanges, and subsequently sold to ASX listed S8. Andrew was also involved in co-developing one of New Zealand's first commercial retirement villages. Andrew now runs his own private investment company, "Segoura", which manages investments in various businesses and he maintains a keen interest in sports car racing.





## JOHN BOLLAND

**Non-Executive Director**
John Bolland is a graduate of Auckland University and is a management consultant who also holds several directorships. He has been a director of the Group since October 2008. John's career includes 14 years at Ernst & Young, where he had partner level responsibility in Corporate Finance and Audit & Business Advisory. Prior to that, he held a senior management role with an international reinsurance broker in London.

## PATRICK DAVIES

**Non-Executive Director**
Patrick Davies has been in executive management roles in the healthcare industry for over twenty years having held senior roles across many industry sectors including pharmacy, primary care, pharmaceutical and consumer products. In January 2006, Patrick was appointed to his current position of Chief Executive Officer of Symbion, a company that has leading positions in various healthcare market segments in Australia with a long heritage in the pharmacy industry in particular.

## KEN ORR

**Independent Director**
Ken Orr has had 25 years as a community pharmacist and is currently a partner in a group of pharmacies in Northland. Mr Orr has been a director of Manaia PHO since formation in 2003 and is currently Vice President of the NZ Pharmacy Guild, which represents the business interests of community pharmacies.

Ken joined the Pharmacybrands Board in September 2009 as an alternate director and was appointed as an Independent Director of the Company in March 2012.

## KEITH RUSHBROOK

**Independent Director**
Keith Rushbrook is a retired partner of the international accounting firm KPMG, having been in public practice with that firm for 27 years. During that time he was Partner in Charge of the Audit Practice, Chairman of the Auckland Office and led the Auckland Consulting Practice prior to its sale to Bearing Point.

Keith is a fellow Member of the New Zealand Institute of Chartered Accountants and has been Chairman of its Audit Committee, Deputy Chairman of the Accounting Research and Standards Board, Chairman of the Working Party that developed the Conceptual Framework for Financial Reporting in New Zealand and Chairman of Advanced Business Education Limited, a subsidiary of the Institute. He was also Manager of the Accounting Standards Review Board during the period of implementation of NZ IFRS.

He is a director of a number of companies including: KC Securities, Howick Baptist Healthcare and Perpetual Trust. He is also chairman of the Advisory Board of Development West Coast.

## IAN SHARP

**Independent Director**
Ian Sharp is a director and shareholder of CHB Apothecary Limited which operates Amcal pharmacy, Waipukurau. Ian has been a qualified pharmacist for 35 years and a pharmacy owner for 31 years, during which time he has seen the amalgamation of two pharmacies into his current business. Ian is a member of the advisory committee for both the Amcal group and the Company, and is also a trustee of the CHB Mayoral Health Taskforce. Ian has been a member of the Group's Board since the merger of Life Pharmacy and Pharmacybrands in 2009 and prior to that, was a member of Pharmacybrands Board from 2004. Ian is also a CHB District Councilor.

## MARK VUKSICH

**Non-Executive Director**
Mark Vuksich has been a registered pharmacist for 51 years and is a Shareholder and Director of the pharmacy company that operates Life Pharmacy St Lukes and Unichem St Lukes. Mark was Chairman of the former Life Pharmacy Limited (LPL) and was a founding member of LPL involved in the creation of the Life Pharmacy brand. Prior to this he was a founding member and General Manager of Unichem Chemists Limited (later renamed Pharmacybrands Limited) and Chairman of the Unichem Board for 12 years.

# MANAGEMENT PROFILES

## VIVEK SINGH

**Chief Financial Officer**

Vivek has over 4 years experience with Pharmacybrands during which there have been significant changes in the Group. He was part of the team responsible for acquisition of Radius Pharmacy and Radius Medical businesses and then their subsequent integration with the existing company businesses. His retail experience includes his time with Repco in New Zealand. He has been CFO of Radius Security Limited and Evergreen Forests Limited, an NZX listed company at the time. His previous experience also includes roles at Affco New Zealand Limited and Enerco New Zealand Limited, both NZX listed companies at the time. Prior to moving into commerce and industry, Vivek was Senior Manager at KPMG in Auckland. His Chartered Accounting experience also includes roles at KPMG, Bahrain and AF Ferguson & Company (now Deloittes), Mumbai, India.

## ADRI ISBISTER

**CEO, Radius Medical Group**

Adri is an award-winning CEO with a strong background in the health and disability sector. Her professional experience includes both public sector and NGO positions as well as owning her own business. In 2007 Adri was awarded an MBA from Massey University. She is currently a director of the primary health organisation Health Hawkes Bay, and also serves on the boards of several practice companies in the Radius Medical Group. Before joining Radius Medical in October 2010, Adri was CEO of LIFE Unlimited, the disability NGO, leading its growth during her 14 year tenure from a regional charity to a national provider holding significant government contracts.





## JUSTIN FOGARTY

**Executive of Acquisitions**

Justin, a commerce graduate of Waikato University, has been involved in the pharmaceutical industry in New Zealand since 1998, beginning his career at Roche Pharmaceuticals. Between 2002-2011 Justin was involved in setting up Radius Pharmacy Group. His roles within the business included General Manager, CFO and various directorships. Following the sale of Radius Pharmacy Justin joined the management of Pharmacybrands initially to assist in the integration of the Radius pharmacy business into the wider group. Justin's current role as Executive of Acquisitions involves identifying suitable Pharmacies and partnerships for investment.

## MARNIE STROMBOM

**Executive Strategy and Projects**

Marnie holds a Masters of Commerce from the University of Canterbury. She has over 15 years experience in IT and Business consulting. Her previous roles include positions at BMW Ltd. and Goldman Sachs in the UK and Clearpoint Ltd in New Zealand. Marnie started with Pharmacybrands in October 2011, during her time with the Group she has lead several major projects including Pharmacybrands online, implementing common category trees across the business and ongoing work on branding and loyalty programs.

## ALISON VAN WYK

**Professional Services Manager**

Alison joined the Pharmacybrands business in October 2010. She has a nursing background and subsequent sales, marketing and country management experience in both the pharmaceutical and medical device market both in New Zealand and internationally. Further to that she has eight years experience in the New Zealand pharmaceutical and medical logistics industry. Alison's focus at Pharmacybrands has been on driving new models of care coupled with medicine reclassification. She has a passion for working with pharmacy and developing systems and services that complement the work they already do and that enhances the customer experience within community pharmacy.

Alison together with Pharma Projects recently won the clinical services of the year award at the 2013 Pharmacy Awards. This winning submission focused on the reclassification of Trimethoprim for the treatment of Urinary Tract Infections where pharmacists are able to provide treatment to women aged 16-65 years without the need for a prescription. This submission also won top honours by achieving the overall supreme award for the event.

## GRANT BAI

**General Manager Pharmacy**

Grant qualified as a Pharmacist in 1988 in Wellington and began a retail career on the Hibiscus Coast. Grant moved to the UK in 1991 where he was employed in the Pharmacy industry and also completed post graduate qualifications. On returning to New Zealand he owned and operated three large retail format pharmacies, a medical centre pharmacy and a photographic store. Having sold these business interests Grant started with Pharmacybrands in 2007 in a business development and acquisition role and this has evolved in to his current role of General Manager Pharmacy.

# CORPORATE GOVERNANCE

For the year ended 31 March 2013

Pharmacybrands Limited (Pharmacybrands) is a New Zealand primary healthcare provider whose shares are listed on the New Zealand Stock Exchange (NZX). The Board of Pharmacybrands is committed to ensuring it employs best practice corporate governance guidelines, consistent with Appendix 16 of the NZX Listing Rules (Corporate Governance Best Practice Code) and the Securities Commission's (predecessor to the Financial Markets Authority) Corporate Governance in New Zealand, Principles and Guidelines. The Board is satisfied that the corporate governance principles adopted or followed by the Group do not materially differ from those provided for in the Corporate Governance Best Practice Code.





## ROLE OF THE BOARD OF DIRECTORS

Pharmacybrands' Board is responsible for the strategic direction and objectives of the Group and sets the policy framework within which Pharmacybrands must operate. The Chief Executive Officer (CEO) is appointed by the Board and has delegated authority for the day-to-day operations of Pharmacybrands.

## BOARD COMPOSITION AND STRUCTURE

The Board comprises four independent directors and four non-executive directors. Two directors have been nominated by LPL Trustee Limited and elected by shareholders (Andrew Bagnall and John Bolland) and two directors have been nominated by Cape Healthcare Limited and elected by shareholders (Peter Merton and Patrick Davies). The independent directors are selected to ensure that the appropriate skills and experience are available. In accordance with the NZX Listing Rules, one third of the Directors are required to retire by rotation every year and may offer themselves for re-election by shareholders.

The Board holds regular scheduled meetings and follows procedures that ensure that all directors have the necessary information to participate in an informed discussion on all agenda items and effectively carry out their duties. The CEO, Chief Financial Officer (CFO) and key senior managers attend appropriate sections of Board meetings.

## BOARD MEETINGS

The following table outlines the number of board meetings attended by Directors during the course of the 2013 financial year.

| Directors | Meetings Held | Meeting Attended |
|---|---|---|
| John (Andrew) Bagnall [1] | 8 | 7 |
| John Bolland | 8 | 8 |
| Andrew Davidson [2] | 2 | 2 |
| Patrick Davies [3] | 6 | 5 |
| Peter Merton | 8 | 8 |
| Kenneth Orr | 8 | 6 |
| Keith Rushbrook | 8 | 7 |
| Ian Sharp | 8 | 7 |
| Mark Vuksich | 8 | 8 |

[1] Mary-Elizabeth Tuck is the alternate to Andrew Bagnall. She has attended 3 board meetings on behalf of Andrew Bagnall.
[2] Andrew Davidson resigned as a director on 11 June 2012.
[3] Patrick Davies was appointed a director on 11 June 2012.

## CODE OF ETHICS

The Company has established a Code of Ethics to govern its conduct. The Code addresses ethical issues, establishes compliance standards and procedures, provides mechanisms to report unethical behaviour and provides for disciplinary actions.

## SHAREHOLDER RELATIONS

The Board will ensure that shareholders are informed of major developments affecting the Company. Information is available through the Annual and Interim Reports, with shareholders able to participate at each Annual Meeting. Any material information affecting the Company during the intervening period is announced to the financial markets via the NZX under the Board's policy for continuous disclosure.

# INSIDER TRADING GUIDELINES

The Board has issued guidelines to prevent insider trading to all directors, deemed directors, officers and other restricted persons of the Company. All directors, deemed directors, officers and other restricted persons of Pharmacybrands must formally apply for consent to trade the Company's securities from the CFO before undertaking any sales or purchases.

The Board reviews all consents granted at each Board meeting. The directors, deemed directors, officers and other restricted persons of Pharmacybrand are obliged to complete and submit disclosure notices to the NZX within five days of any trades being settled.

# BOARD COMMITTEES

The Board has three standing committees described as follows. The Board annually reviews the performance of the standing committees against written charters.

# REMUNERATION AND NOMINATIONS COMMITTEE

This committee comprises two independent directors and two non-executive directors, who meet as required to:

- Review the remuneration of the CEO and approve remuneration of the CEO's direct reports;
- Make recommendations to shareholders for non-executive and independent director remuneration; and
- Recommend director appointments.

Remuneration packages are reviewed annually. Independent external surveys are used as a basis for establishing competitive remuneration.

The composition of the Remuneration and Nominations Committee is Peter Merton (Chairman), Keith Rushbrook, Ian Sharp and John Bolland.

| Directors | Meeting Held | Meetings Attended |
|---|---|---|
| John Bolland | 4 | 4 |
| Peter Merton | 4 | 4 |
| Keith Rushbrook | 4 | 4 |
| Ian Sharp | 4 | 4 |

# AUDIT COMMITTEE

This committee comprises two independent directors and two non-independent directors. One of the directors is appointed Chairman who is not the Chairman of the Board. All other directors are entitled to attend the meetings.

The CEO and the CFO attend as ex-officio members and external auditors by invitation of the Chairman. The Audit Committee also meets privately with the external auditors, that is, without management in attendance. All Audit Committee members must be financially literate, with at least one member having a financial background.



CORPORATE GOVERNANCE

The Committee meets a minimum of four times each year. Its responsibilities include:

- To review the scope and outcome of the external audit;
- To review the annual and half yearly financial statements prior to approval by the Board;
- To approve the public release of financial information;
- To assess the performance of financial management and monitoring of material corporate risk assessments and internal controls;
- To report the proceedings of each meeting to the Board; and
- To make recommendations to the Board on the appointment of the external auditors, their independence and their fees.

The current composition of the committee is; Keith Rushbrook (Chairman), Peter Merton, Ian Sharp and John Bolland.

| Directors | Meeting Held | Meetings Attended |
|---|---|---|
| John Bolland | 11 | 11 |
| Peter Merton | 11 | 10 |
| Keith Rushbrook | 11 | 11 |
| Ian Sharp[1] | 7 | 7 |

[1] Ian Sharp was appointed to the audit committee on 17 August 2012.

# INDEPENDENT DIRECTORS' COMMITTEE

This committee comprises the independent directors. It meets as required to assist the Board in discharging its responsibility primarily in relation to matters that arise where there may be a perception of conflict of interest for those members of the Board or Management who hold a management and or ownership role in one or more of the Group's associated companies.

# ORGANISATION STRUCTURE AND FINANCIAL CONTROL

The Board has delegated to the executive management team the management responsibilities of the Group. The executive management team consists of the CEO, CFO, CEO Radius Medical Group, Executive of Acquisitions, Executive Strategy and Projects, Professional Services Manager and the General Manager Pharmacy.

The Board is satisfied that adequate external insurance cover is in place as appropriate to the Company's size and risk profile.

# GENDER AND DIVERSITY

The following table set out a quantitative breakdown of the gender balance of the Directors and key management personnel of the Group as at 31 March 2013.

| | Directors | | Key Management Personnel | |
|---|---|---|---|---|
| Female | - | 0% | 3 | 43% |
| Male[1] | 8 | 100% | 4 | 57% |
| **Total** | 8 | | 7 | |

[1] Andrew Bagnall has appointed Mary-Elizabeth Tuck as his alternate director. Ms Tuck attended three board meetings as Mr Bagnall's alternate in the 12 months ended 31 March 2013.

# STATUTORY INFORMATION

For the year ended 31 March 2013

The total annual directors' remuneration approved for each financial year is capped at $380,000, (from 1 April 2012). The Directors holding office during the year and the remuneration paid or payable to the Directors is as follows:

| Director | Appointed | Resigned | Total Fees |
|---|---|---|---|
| John (Andrew) Bagnall [1] | | | 30,000 |
| John Bolland *+ | | | 30,000 |
| Andrew Davidson +¥ | | 11 June 2012 | 10,000 |
| Patrick Davies | 11 June 2012 | | 28,808 |
| Peter Merton *+ | | | 80,000 |
| Kenneth Orr ¥ | | | 35,000 |
| Keith Rushbrook *+¥ | | | 55,000 |
| Ian Sharp *+¥ | | | 35,000 |
| Mark Vuksich | | | 35,000 |
| **Total** | | | **338,808** |

[1] Mary-Elizabeth Tuck was appointed on 5 June 2012 as an alternate to Andrew Bagnall. Ms Tuck is paid a portion of Mr Bagnall's fees in a direct arrangement with Mr Bagnall.

* = Audit Committee member
+ = Remuneration and Nominations Committee member
¥ = Independent Directors' Committee member





## EMPLOYEE REMUNERATION

The number of employees or former employees of the Group, not being Directors of Pharmacybrands Limited, who received remuneration and other benefits in their capacity as employees, the value of which exceeded $100,000 for the year ended 31 March 2013 is set out below:

| | 2013 | 2012 |
|---|---|---|
| **Employee annual remuneration bands:** | | |
| $100,000 - $109,999 | 3 | 3 |
| $110,000 - $119,999 | 4 | 2 |
| $120,000 - $129,999 | 3 | 3 |
| $130,000 - $139,999 | 1 | 1 |
| $140,000 - $149,999 | 2 | 1 |
| $150,000 - $159,999 | 2 | 2 |
| $160,000 - $169,999 | - | 1 |
| $170,000 - $179,999 | 1 | - |
| $180,000 - $189,999 | - | 2 |
| $190,000 - $199,999 | 1 | 1 |
| $200,000 - $209,999 | - | 1 |
| $220,000 - $229,000 | 1 | 1 |
| $240,000 - $249,999 | 2 | 2 |
| $250,000 - $259,999 | - | 1 |
| $260,000 - $269,999 | - | 1 |
| $270,000 - $279,999 | - | 1 |
| $300,000 - $309,999 | 1 | - |
| $310,000 - $319,999 | - | 1 |
| $340,000 - $340,999 | 1 | - |
| $410,000 - $419,999 | - | 1 |
| $440,000 - $449,999 | 2 | - |
| **Former employees included in the above bands:** | 4 | 3 |

# SHAREHOLDER INFORMATION

As at 30 April 2013





## DIRECTORS' SHAREHOLDING AND TRADES

The following table summarises:

(a) The number of shares in the Company held by Directors at 30 April 2013; and
(b) Disclosures made by Directors, in accordance with section 148(2) of the Companies Act 1993, of acquisitions and dispositions of relevant interests in shares in the Company during the year.

| Directors | Holding 1 May 2012 | Cancelled | Issued | Net Trades in the Period | Holding 30 Apr 2013 |
|---|---|---|---|---|---|
| J A Bagnall (i) | 36,546,932 | - | 1,635,465 | 54,329 | 38,236,726 |
| J B Bolland | - | - | - | - | - |
| P Davies (ii) | - | - | 1,635,478 | 54,329 | 38,237,036 |
| P M Merton (iii) | 36,547,229 | - | 1,635,478 | 54,329 | 38,237,036 |
| K R Rushbrook (iv) | 30,000 | - | 1,423 | 5,000 | 36,423 |
| I G S Sharp (v) | 109,457 | - | 4,891 | - | 114,348 |
| M S Vuksich (vi) | 1,153,303 | - | - | - | 1,153,303 |
| K Orr (vii) | 497,395 | - | 8,248 | - | 505,643 |

(i) Holder of beneficial interest of 38,236,726 fully paid ordinary shares in PHB (shares are legally owned by LPL Trustee Limited). Received a beneficial interest in 54,329 fully paid ordinary shares on 30 May 2012 (shares purchased by LPL Trustee Limited for $51,803) to return to percentage of shareholding held of 30.39% prior to the issue of shares to employees. Received beneficial interest in 1,011,752 fully paid ordinary shares (shares acquired by LPL Trustee Limited for $1,226,142) on reinvestment of dividend under the DRP of Pharmacybrands Limited. Received benefical interest in 623,713 fully paid ordinary shares (shares acquired by LPL Trustee Limited for $717,020) on reinvestment of dividend under the DRP of Pharmacybrands Limited.

(ii) P Davies is a director of Cape Healthcare Limited therefore he holds a relevant interest in the 38,237,036 fully paid ordinary shares in PHB owned by Cape Healthcare Limited. Received a relevant interest in 54,329 fully paid ordinary shares in PHB (shares purchased by Cape Healthcare Limited for $51,787) on 29 May 2012 to return to percentage of shareholding held of 30.39% prior to the issue of shares to employees. Received relevant interest in 1,011,760 fully paid ordinary shares (shares acquired by Cape Healthcare Limited for $1,226,152) on reinvestment of dividend under the DRP of Pharmacybrands Limited. Received relevant interest in 623,718 fully paid ordinary shares (shares acquired by Cape Healtcare Limited for $717,026) on reinvestment of dividend under the DRP of Pharmacybrands Limited.

(iii) P M Merton is a director of Cape Healthcare Limited and a trustee of the Pentz Trust which is a 49% shareholder of Cape Healthcare Limited. P M Merton has a relevant Interest in the 38,237,036 fully paid ordinary shares in PHB owned by Cape Healthcare Limited. Received a beneficial interest in 54,329 fully paid ordinary shares in PHB (shares purchased by Cape Healthcare Limited for $51,787) on 29 May 2012 to return to percentage of shareholding held of 30.39% prior to the issue of shares to employees. Received beneficial interest in 1,011,760 fully paid ordinary shares (shares acquired by Cape Healthcare Limited for $1,226,152) on reinvestment of dividend under the DRP of Pharmacybrands Limited. Received benefical interest in 623,718 fully paid ordinary shares (shares acquired by Cape Healtcare Limited for $717,026) on reinvestment of dividend under the DRP of Pharmacybrands Limited.

(iv) Holder of a beneficial interest of 36,423 fully paid ordinary shares in PHB (shares are legally owned by First NZ Custodians Limited). Received beneficial interest in 829 fully paid ordinary shares for $1,005 on reinvestment of dividend under the DRP of Pharmacybrands Limited. Purchased a beneficial interest in 5,000 fully paid ordinary shares for $6,000. Received benefical interest in 594 fully paid ordinary shares for $683 on reinvestment of dividend under the DRP of Pharmacybrands Limited.

(v) Holder of a beneficial interest of 114,348 fully paid ordinary shares in PHB (shares are legally owned by Investment Custodial Services Limited). Received beneficial interest in 3,026 fully paid ordinary shares (shares acquired for $3,667) on reinvestment of dividend under the DRP of Pharmacybrands Limited. Received beneficial interest in 1,865 fully paid ordinary shares (shares acquired for $2,144) on reinvestment of dividend under the DRP of Pharmacybrands Limited.

(vi) Holder of a beneficial interest of 1,153,303 fully paid ordinary shares in PHB (shares are legally owned by Mark Vuksich, Frances Vuksich & Walter Yovich).

(vii) Holder of a beneficial interest of 505,643 fully paid ordinary shares in PHB (shares are legally owned by Orrs Kaipara Pharmacies Limited and Orrs Pharmacies Limited). Received beneficial interest in 3,134 fully paid ordinary shares (shares acquired by Orrs Pharmacy for $3,602) and 5,114 fully paid ordinary shares (shares acquired by Orrs Kaipara Pharmacies Limited for $5,879) on reinvestment of dividend under the DRP of Pharmacybrands Limited.

## DIRECTORS' INSURANCE

Pharmacybrands Limited has insured all its directors against liabilities to other parties that may arise from their positions as directors. The insurance does not cover liabilities arising from criminal actions.

## GENERAL DISCLOSURE OF INTEREST BY DIRECTORS (SECTION 140(2) OF THE COMPANIES ACT 1993)

The Directors and Alternate Director of the Company named below have made a general disclosure of interest by a general notice disclosed to the Board and entered in the Company's interest register. General notices of interest were given by these directors during the financial year ended 31 March 2013:

**Andrew Bagnall** - LPL Trustee Limited (Director and Shareholder), Segoura Limited (sole Shareholder and Director), Plan B Limited (Director and Shareholder), Waiora Investments Limited (Director and Shareholder) - shareholder of Plan B Limited, major shareholder or director of various unlisted or privately controlled companies.

**John Bolland** - Consultant to LPL Trustee Limited, Consultant to Segoura Limited, Plan B Limited (Director), Waiora Investments Limited (Director and Consultant) - shareholder of Plan B Limited, Lighthouse Ventures Limited (Director and Shareholder), shareholder or director of various unlisted or privately controlled companies.

**Patrick Davies** - Chief Executive Officer of Symbion, a Zuellig Group Company, President of Australia's National Pharmaceutical Services Association and a member of the Board of Overseers for the international Partnership for Innovative Healthcare Delivery (an initiative of the World Economic Forum).





**Peter Merton** - Cape Healthcare Limited (Director and Shareholder) and consultant to Allied Medical Limited.

**Kenneth Orr** - Orrs Pharmacies Limited (Director and Shareholder), Orrs Kaipara Pharmacies Limited (Director and Shareholder), Dodds Maungaturoto Pharmacy Limited (Director and Shareholder), Orrs Rust Ave Pharmacy Limited (Director and Shareholder), Orrs Cameron Pharmacy Limited (Director), Orrs Ruakaka Pharmacy Limited (Director), Orrs Tui Pharmacy Limited (Director), Pharmacy Guild of New Zealand (Director), Manaia Health PHO (Director).

**Keith Rushbrook** - KC Securities Limited (Director), Howick Baptist Healthcare Limited (Director), Levante Holdings Limited (Director), 139 on Union Limited (Director).

**Ian Sharp** - CHB Apothecary Limited (Amcal Pharmacy Waipukurau), (Director and Shareholder).

**Mark Vuksich** - St Lukes Pharmacy Holdings Limited (Director and Shareholder).

**Mary-Elizabeth Tuck (alternate Director)** - Holds a senior legal role at Fisher & Paykel Appliances Limited.

## SHARES AND SHAREHOLDING

The Company's ordinary shares are listed on the New Zealand Stock Exchange using the NZX code, PHB. As at 30 April 2013 Pharmacybrands Limited had on issue 125,512,460 securities (as defined by the Securities Markets Act 1988) being 124,645,794 fully paid ordinary shares, and 866,666 redeemable ordinary shares payable to $0.01 and held on trust by Life Pharmacy Trustee Company Limited on behalf of senior executive employees.

The 20 largest registered holders of quoted equity securities as at 30 April 2013 were as follows:

| Name | Holding | % |
|---|---|---|
| Cape Healthcare Limited | 38,237,036 | 30.46 |
| LPL Trustee Limited | 38,236,726 | 30.46 |
| Massey Pharmacy Limited | 3,040,000 | 2.42 |
| M J Fleet & MRI Christchurch Trustees Limited | 2,431,048 | 1.94 |
| New Zealand Permanent Trustees Limited | 2,244,000 | 1.79 |
| M L Dunn & Fortune Manning Trustee Company Limited | 1,977,145 | 1.58 |
| Ganet Investments Limited | 1,640,607 | 1.31 |
| A H McAulay | 1,037,770 | 0.83 |
| B A Fordyce, F Dragicevich & C L Hutton | 1,026,263 | 0.82 |
| Custodial Services Limited Account #3 | 1,022,325 | 0.81 |
| T Lai, C P Lai & K Yee | 994,985 | 0.79 |
| M S Vuksich, F A Vuksich & W M G Yovich | 984,027 | 0.78 |
| G K Ritson | 905,495 | 0.72 |
| Watt Land Company Limited | 818,808 | 0.65 |
| E A McAulay | 687,022 | 0.55 |
| K C Wilkinson & M E Wilkinson | 664,985 | 0.53 |
| P J Guthrie | 631,873 | 0.50 |
| Custodial Services Limited Account #18 | 604,999 | 0.48 |
| F B H Walker, E A Walker & N J Comerford | 590,396 | 0.47 |
| Forsyth Barr Custodians Limited | 556,943 | 0.44 |

## SUBSTANTIAL SECURITY HOLDERS

The following persons are deemed to be substantial security holders in accordance with section 21 of the Securities Markets Act 1988:

| Name | Holding | % |
|---|---|---|
| Cape Healthcare Limited | 38,237,036 | 30.46 |
| LPL Trustee Limited | 38,236,726 | 30.46 |

## SHAREHOLDING SPREAD

Pharmacybrands Limited's shareholding spread as at 30 April 2013 is as follows:

| Size of Holding | Holders | % | Securities | % |
|---|---|---|---|---|
| 1-999 | 118 | 11.8 | 64,589 | 0.05 |
| 1,000 - 9,999 | 491 | 49.3 | 1,394,011 | 1.12 |
| 10,000 - 99,999 | 303 | 30.4 | 10,788,901 | 8.66 |
| 100,000 - 499,999 | 64 | 6.4 | 13,515,311 | 10.84 |
| 500,000 - 999,999 | 11 | 1.1 | 7,990,062 | 6.41 |
| 1,000,000 and over | 10 | 1.0 | 90,892,920 | 72.92 |
| **Total** | **997** | **100.0** | **124,645,794** | **100.00** |

## DISCLOSURE FOR DIVIDEND RE-INVESTMENT PLAN

At the Company's 2012 Annual Meeting, shareholders approved the allotment of ordinary shares under the Company's dividend re-investment plan ("DRP") during the period from 3 August 2012 to 31 December 2017. A copy of the terms of the DRP can be obtained from the registered office of the Company at Level 2, Building C, 600 Great South Road, Greenlane, Auckland.

The Takeovers Panel granted the Company an exemption from the Takeovers Code in respect of the notice of the meeting to approve the allotment of ordinary shares to Cape Healthcare Limited ("CHL") and LPL Trustee Limited ("LPL") (each, a "Specified Shareholder") under the DRP. The disclosures below are required by the Takeovers Code (Pharmacybrands Limited) Exemption Notice 2012.
As at 31 March 2013 ("Calculation Date"):

1. Under the DRP, 1,635,478 ordinary shares were allotted to CHL during the year, bringing its total shareholding in the Company to 38,237,036 or 30.68%. This percentage also represents the total shareholding of CHL and its associates.
2. Under the DRP, 1,635,465 ordinary shares were allotted to LPL during the year, bringing its total shareholding in the Company to 38,236,726 or 30.68%. This percentage also represents the total shareholding of LPL and its associates.





Disclosure for dividend re-investment plan (continued)

3. On completion of all allotments that could yet be made under the DRP ("Specified Transaction") during the period from 1 April 2013 to 31 December 2017 ("Specified Period"):
   (a) The maximum percentage of all ordinary shares on issue that could be held or controlled by CHL is 35.08%. This percentage also represents the maximum percentage of all ordinary shares on issue that could be held or controlled by CHL and its associates; and
   (b) The maximum percentage of all ordinary shares on issue that could be held or controlled by LPL is 35.08%. This percentage also represents the maximum percentage of all ordinary shares on issue that could be held or controlled by LPL and its associates.
4. The assumptions on which the particulars referred to in paragraph 3 above are based are as follows:
   (a) That the number of ordinary shares is the number of ordinary shares on issue on the Calculation Date and there have been no other share issuances or changes in capital structure such as share splits, consolidations or buybacks of shares;
   (b) That there is no change in the total number of ordinary shares on issue between the Calculation Date and the end of the Specified Period, other than as a result of the Specified Transaction;
   (c) That the Specified Shareholder elects full participation under the Specified Transaction in respect of each dividend during the Specified Period to which the Specified Transaction applies and is allotted the number of ordinary shares under the Specified Transaction corresponding to its full participation;
   (d) That the Specified Shareholder does not have any associates that hold or control ordinary shares in the Company (CHL and LPL have each advised the Board that it has no such associates at the Calculation Date);
   (e) That each Specified Shareholder (and any of the Specified Shareholder's associates) do not increase their voting control of the Company other than under the Specified Transaction;
   (f) That the issue prices of ordinary shares under the Specified Transaction determined in accordance with the price formula will be $1.35 in each year of the Specified Period;
   (g) That the net cash dividend payable by the Company in each year of the Specified Period will be $0.055 per share; and
   (h) That no shareholder of the Company elects to participate in the Specified Transaction, other than the Specified Shareholder.

# GROUP ENTITIES

The current Pharmacybrands Limited Group structure comprises 88 companies. The Group entities are as follows:

| Legal Parent | Holding | Activity |
|---|---|---|
| **Pharmacybrands Limited** | | **Franchisor & Investment** |
| **Controlled Entities** | | |
| A H McAulay Limited | 100.0% | Non-trading |
| Amcal Chemists (NZ) Limited | 100.0% | Non-trading |
| Bayfair Pharmacy Limited | 100.0% | Non-trading |
| Care Chemist Limited | 100.0% | Franchisor |
| Dispensaryfirst Limited | 100.0% | Non-trading |
| Hastings Pharmacy (2013) Limited | 100.0% | Non-trading |
| Life Holdings Botany Limited | 100.0% | Non-trading |
| Life Pharmacy Limited | 100.0% | Non-trading |
| Life Pharmacy Trustee Company | 100.0% | Non-trading |
| LPL Investments Limited | 100.0% | Non-trading |
| Onehunga Medical 2012 Limited | 100.0% | Medical centre |
| Pharmacy Management Limited | 100.0% | Investment |
| Pharmacy Store Holdings Limited | 100.0% | Investment |
| Porirua Pharmacy 2006 Limited | 100.0% | Non-trading |
| Radius Medical Limited | 100.0% | Investment |
| Radius Medical Solutions Limited | 100.0% | Services to medical centre |
| Radius Pharmacy Limited | 100.0% | Franchisor & Investment |
| Radius Ti Rakau Limited | 100.0% | Medical centre |
| Smart Pharmacy Limited | 100.0% | Non-trading |
| Unichem Chemists (NZ) Limited | 100.0% | Non-trading |

| | Holding | Activity |
|---|---|---|
| **Joint Venture Entities** | | |
| Pharmacies Instore Limited | 50.0% | Retail |
| **Pharmacy Entities and Medical Centres** | | |
| 280 Queen Street (2005) Limited | 43.9% | Pharmacy |
| Albany Pharmacy Limited | 49.0% | Pharmacy |
| Alexandra Pharmacy (2013) Limited | 49.0% | Pharmacy |
| Bay of Plenty Pharmacies Limited | 49.0% | Pharmacy |
| Bayfair Pharmacy (2010) Limited | 49.0% | Pharmacy |
| Birkenhead Pharmacy (2011) Limited | 48.8% | Pharmacy |
| Botany Downs Pharmacy Limited | 25.0% | Pharmacy |
| Care Chemist Pakuranga (2008) Limited | 49.0% | Pharmacy |
| Centre City Pharmacy (2004) Limited | 43.9% | Pharmacy |
| Chemist Express Limited | 49.0% | Pharmacy |
| Davies Corner Pharmacy Limited | 25.0% | Pharmacy |
| Glenfield Mall Pharmacy Limited | 48.5% | Pharmacy |
| Guppy's Dispensary Limited | 25.0% | Pharmacy |
| Guthries Pharmacy Limited | 49.0% | Pharmacy |
| Harbour City Pharmacy (2011) Ltd | 48.5% | Pharmacy |
| Hawkes Bay Pharmacies Limited | 49.0% | Pharmacy |
| Helensville Pharmacy (2008) Limited | 48.5% | Pharmacy |
| Highland Park Pharmacy (2009) Limited | 48.5% | Pharmacy |
| Hurstmere Pharmacy (2008) Limited | 48.5% | Pharmacy |
| J-Mall Pharmacy Limited | 49.0% | Pharmacy |
| Knox Pharmacy 2010 Limited | 48.5% | Pharmacy |
| Lake Taupo Pharmacy (2008) Limited | 48.5% | Pharmacy |
| Levin Pharmacy (2005) Limited | 49.0% | Pharmacy |
| Life Pharmacy Albany Limited | 48.5% | Pharmacy |
| Life Pharmacy Centre Place (2009) Limited | 48.5% | Pharmacy |
| Life Pharmacy Sylvia Park Limited | 49.0% | Pharmacy |
| Life Pharmacy Wall Street Dunedin Limited | 49.1% | Pharmacy |
| Manawatu Pharmacies Limited | 49.0% | Pharmacy |
| Manukau Pharmacy (2011) Limited | 49.1% | Pharmacy |
| Moorhouse Pharmacy 2003 Limited | 25.0% | Pharmacy |
| Neil Webber Pharmacy Limited | 49.0% | Non-trading |
| Northlands Pharmacy (2003) Limited | 49.0% | Pharmacy |
| Pharmacy 277 Limited | 49.1% | Pharmacy |
| Radius Medical Whakatane Properties Limited | 50.0% | Medical Centre |
| Radius Pharmacy Greenmeadows Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Lower Hutt Limited | 48.5% | Pharmacy |





| | Holding | Activity |
|---|---|---|
| **Pharmacy Entities and Medical Centres** | | |
| Radius Pharmacy Napier Limited | 48.8% | Pharmacy |
| Radius Pharmacy Riccarton Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Te Rapa Limited | 48.8% | Pharmacy |
| Radius Pharmacy Upper Hutt Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Waikanae Ltd | 25.0% | Pharmacy |
| Radius Pharmacy Wanganui Ltd | 49.0% | Pharmacy |
| Riccarton Mall Pharmacy 2000 Limited | 49.0% | Pharmacy |
| RPG Medicine Management Limited | 25.0% | Pharmacy |
| Shirley Pharmacy Limited | 49.0% | Pharmacy |
| Shore City Pharmacy (2010) Limited | 48.5% | Pharmacy |
| Shore City Pharmacy Limited | 49.0% | Non-trading |
| Silversteam Health Centre Limited | 10.0% | Medical Centre |
| Sinel-Francis Pharmacy Limited | 49.0% | Pharmacy |
| Sinel-Francis Pharmacy Tauranga Limited | 49.0% | Pharmacy |
| St Lukes Pharmacy Holdings Limited | 49.0% | Pharmacy |
| Stokes Valley Pharmacy (2009) Limited | 48.5% | Pharmacy |
| Tauranga Pharmacy (2012) Limited | 48.6% | Pharmacy |
| Team Medical At Kapiti Limited | 48.8% | Medical Centre |
| The Doctors (Hastings) Limited | 34.2% | Medical Centre |
| The Doctors (Mangere) Limited | 25.1% | Medical Centre |
| The Doctors (New Lynn) Limited | 30.8% | Medical Centre |
| Timaru Pharmacy (2013) Limited | 48.1% | Non-trading |
| Total Health Doctors Limited | 42.3% | Medical Centre |
| Tower Junction Pharmacy Limited | 48.5% | Pharmacy |
| Upper Hutt Health Centre Pharmacy Limited | 25.0% | Pharmacy |
| Upper Riccarton Pharmacy Limited | 25.0% | Pharmacy |
| Waiuku Medical Pharmacy (2010) Limited | 48.5% | Pharmacy |
| Waiuku Pharmacy (2005) Limited | 46.6% | Pharmacy |
| Walls & Roche Royal Oak Pharmacy Limited | 25.1% | Pharmacy |
| West City Pharmacy (2010) Limited | 48.5% | Pharmacy |
| Willis Street Pharmacy Limited | 25.0% | Pharmacy |

# DIRECTORS' DECLARATION

For the year ended 31 March 2013

In the opinion of the directors of Pharmacybrands Limited, the financial statements and notes, on pages 37 to 63:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Group as at 31 March 2013 and the results of their operations and cash flows for the year ended on that date; and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The directors are pleased to present the financial statements of Pharmacybrands Limited for the year ended 31 March 2013.

For and on behalf of the Board of Directors:

**Peter Merton**
Chairman
28 May 2013

**Keith Rushbrook**
Director
28 May 2013

# INDEPENDENT AUDITOR'S REPORT





## TO THE SHAREHOLDERS OF PHARMACYBRANDS LIMITED

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pharmacybrands Limited and its subsidiaries ("the Group") on pages 37 to 63. The financial statements comprise the consolidated statement of financial position as at 31 March 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors are responsible for the preparation of consolidated financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

**Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view of the matters to which they relate 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

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

Our firm has also provided other services to the Group in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

**Opinion**

In our opinion the consolidated financial statements on pages 37 to 63:

- Comply with generally accepted accounting practice in New Zealand;
- Comply with International Financial Reporting Standards; and
- Give a true and fair view of the consolidated financial position of the Group as at 31 March 2013 and of the consolidated financial performance and consolidated cash flows of the Group for the year then ended.

### Report on other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required; and
- In our opinion, proper accounting records have been kept by Pharmacybrands Limited as far as appears from our examination of those records.

KPMG

28 May 2013

Auckland

# GROUP FINANCIAL STATEMENTS





# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Operating revenue** | | | |
| Revenue | 8 | 105,064 | 105,541 |
| Cost of sales | | 53,117 | 55,578 |
| | | **51,947** | **49,963** |
| Share of associate's net earnings | 19 | 4,432 | 3,803 |
| **Operating expenditure** | | | |
| Governance and accountability | 9 | 864 | 794 |
| Depreciation and amortisation | 16,17 | 1,323 | 1,871 |
| Employee benefit expense | | 26,034 | 24,643 |
| Other expenditure | 10 | 11,754 | 13,182 |
| | | **39,975** | **40,490** |
| **Operating profit before interest and tax** | | **16,404** | **13,276** |
| Interest income | | 576 | 367 |
| Interest expense | | (501) | (1,181) |
| **Net interest income/(expense)** | | **75** | **(814)** |
| **Profit before tax** | | 16,479 | 12,462 |
| Tax expense | 11 | (3,224) | (2,523) |
| **Profit after tax for the year** | | **13,255** | **9,939** |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year** | | **13,255** | **9,939** |
| **Attributable to:** | | | |
| **Shareholders of the parent** | | **13,188** | **9,939** |
| Non-controlling interest | | 67 | - |
| **Attribution of profit and comprehensive income to shareholders and non-controlling interest** | | **13,255** | **9,939** |
| **Earnings per share:** | | | |
| Basic earnings per share (cents) | 12 | 10.80 | 8.76 |
| Diluted earnings per share (cents) | 12 | 10.71 | 8.72 |

The accompanying Notes to the Financial Statements on pages 41 to 63 form part of the Financial Statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2013

| | Note | Share capital $'000 | Retained earnings $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 April 2011 | | 42,066 | 1,260 | - | 43,326 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | | | 9,939 | - | 9,939 |
| **Total other comprehensive income** | | | - | - | - |
| **Total comprehensive income for the year** | | | **9,939** | **-** | **9,939** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of shares | | 9,116 | | | 9,116 |
| Dividends to shareholders | 13 | | - | | - |
| Share scheme amortisation | 9 | 45 | | | 45 |
| **Balance at 31 March 2012** | | **51,227** | **11,199** | **-** | **62,426** |
| Balance at 1 April 2012 | | 51,227 | 11,199 | - | 62,426 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | | | 13,188 | 67 | 13,255 |
| **Total other comprehensive income** | | | - | - | - |
| **Total comprehensive income for the year** | | | **13,188** | **67** | **13,255** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of shares | | 4,849 | | | 4,849 |
| Dividends to shareholders | 13 | | (6,681) | | (6,681) |
| Distribution to minority interests | | | | (9) | (9) |
| Share scheme amortisation | 9 | 106 | | | 106 |
| Sale of non-controlling share of subsidiary | | | | 78 | 78 |
| **Balance at 31 March 2013** | | **56,182** | **17,706** | **136** | **74,024** |

The accompanying Notes to the Financial Statements on pages 41 to 63 form part of the Financial Statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | | 56,182 | 51,227 |
| Retained earnings | | 17,706 | 11,199 |
| Total equity attributable to shareholders of the parent | | 73,888 | 62,426 |
| Non-controlling interest | | 136 | - |
| **Total equity** | | **74,024** | **62,426** |
| **Current assets** | | | |
| Cash and cash equivalents | | 15,112 | 8,717 |
| Trade and other receivables | 14 | 7,404 | 8,563 |
| Inventories | | 6,421 | 6,508 |
| Advances to equity accounted investments | 15 | 467 | 1,002 |
| **Total current assets** | | **29,404** | **24,790** |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 2,320 | 2,617 |
| Intangible assets | 17 | 25,157 | 21,283 |
| Deferred tax asset | 18 | 1,515 | 1,548 |
| Advances to equity accounted investments | 15 | 927 | 823 |
| Equity accounted group investments | 19 | 37,491 | 32,081 |
| **Total non-current assets** | | **67,410** | **58,352** |
| **Total assets** | | **96,814** | **83,142** |
| **Current liabilities** | | | |
| Payables and accruals | 20 | 15,047 | 14,605 |
| Income taxes payable | 20 | 920 | 1,053 |
| Borrowings | 21 | 400 | - |
| **Total current liabilities** | | **16,367** | **15,658** |
| **Non-current liabilities** | | | |
| Unamortised future income | | 23 | 58 |
| Borrowings | 21 | 6,400 | 5,000 |
| **Total non-current liabilities** | | **6,423** | **5,058** |
| **Total liabilities** | | **22,790** | **20,716** |
| **Net assets** | | **74,024** | **62,426** |

The accompanying Notes to the Financial Statements on pages 41 to 63 form part of the Financial Statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Equity accounted investee dividend received | | 3,501 | 2,846 |
| Receipts from customers | | 106,223 | 105,268 |
| Interest received | | 490 | 367 |
| Payments to suppliers and employees | | (91,528) | (92,189) |
| Interest paid | | (501) | (1,181) |
| Income taxes paid | | (3,324) | (2,167) |
| **Net cash inflow from operating activities** | 22 | **14,861** | **12,944** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant, equipment and software intangibles | | (992) | (567) |
| Acquisition of subsidiaries, cash | | - | 3,541 |
| Acquisition of subsidiaries, debt acquired | | - | (18,000) |
| Acquisition of interests in equity accounted investments | | (4,574) | (2,399) |
| Proceeds from sale of interests in equity accounted investments | | 95 | 2,668 |
| Acquisition of subsidiaries | | (4,000) | (18,360) |
| Proceeds from sale of shares in subsidiary | | 384 | - |
| Proceeds from sale of property, plant, equipment and software intangibles | | 137 | - |
| Decrease in advances to equity accounted investments | | 516 | 244 |
| **Net cash outflow from investing activities** | | **(8,434)** | **(32,873)** |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings | | 2,000 | 24,326 |
| Repayment of borrowings | | (200) | (20,450) |
| Shares issued for cash | | 309 | 9,116 |
| Dividends paid | | (2,141) | - |
| **Net cash (outflow)/inflow from financing activities** | | **(32)** | **12,992** |
| **Net increase in cash and cash equivalents** | | **6,395** | **(6,937)** |
| **Add opening cash and cash equivalents** | | **8,717** | **15,654** |
| **Closing cash and cash equivalents** | | **15,112** | **8,717** |
| *Reconciliation of closing cash and cash equivalents to the Consolidated Statement of Financial Position:* | | | |
| Cash and cash equivalents | | 15,112 | 8,717 |
| **Closing cash and cash equivalents** | | **15,112** | **8,717** |

The accompanying Notes to the Financial Statements on pages 41 to 63 form part of the Financial Statements.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

## 1. Reporting entity

Pharmacybrands Limited (the "Parent") is a New Zealand company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Parent is an Issuer in terms of the Financial Reporting Act 1993 and a profit oriented entity.

The consolidated financial statements of Pharmacybrands Limited comprise the Parent, its subsidiaries, and its interest in associates and jointly controlled entities (together referred to as the "Group").

The Group operates the Life Pharmacy, Unichem, Amcal, Care Chemist, Radius Pharmacy and Radius Medical franchise brands comprising 302 pharmacy stores and eight Medical Centres within New Zealand.

## 2. Basis of preparation

**Statement of compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards.

These are Group Financial Statements. Separate Financial Statements for the Parent Company (Pharmacybrands Limited) have been prepared in accordance with the Companies Act 1993 and Financial Reporting Act 1993 and are separately available.

The financial statements were approved by the Board of Directors on 28 May 2013.

**Basis of measurement**

The financial statements of the Group are prepared under the historical cost basis unless otherwise noted within the specific accounting policies below.

**Functional and presentation currency**

These financial statements are presented in New Zealand dollars ($), which is the Group's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

**Significant estimates and judgments**

The preparation of financial statements in conformity with NZ IFRS's requires the directors to make judgments, estimates and assumptions that affect the application of 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 for making judgments about carrying values of some assets and liabilities. Actual results may differ from these estimates.

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 revision and future periods if the revision affects both current and future periods. Information about the significant areas of judgment exercised or estimation in applying accounting policies that have had a significant impact on the amounts recognised in the financial statements are described as follows:

**(i) Classification of investments**

Classifying investments as either subsidiaries, associates or joint ventures requires the directors to assess the degree of influence which the Group holds over the investee. In arriving at a conclusion management take into account the constitutional structure of the investee, governance arrangements, current and future representation on the board of directors, and all other arrangements which might allow influence over the operating and financial policies of the investee.

**(ii) Valuation of goodwill**

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. This assessment requires the directors to estimate future cash flows to be generated by cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgments including the expected rate of growth of revenues and expenses, margins and market shares to be achieved, and the appropriate discount rate to apply when discounting future cash flows. Note 6 of these financial statements provides more information on the assumptions directors have made in this area and the carrying values of goodwill. As the outcomes in the next financial period may be different to the assumptions made, it is impracticable to predict the impact that could result in a material adjustment to the carrying amount.

**Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

## 3. Basis of recognition of components of the financial statements

**Revenue recognition**

All revenue is recognised in the income statement when the significant risks and rewards have transferred to the buyer.

The Group's main activity is providing healthcare services through consolidated pharmacies and medical centres, equity accounted partnership arrangements and franchises operating under a number of banner brands. These include the Life, Unichem, Amcal, Care Chemist, and Radius pharmacy brands, and the Radius and The Doctors medical centre brands. For consolidated pharmacies, revenue is recognised at the point of sale, and for consolidated medical centres when goods or services are provided to patients. Revenue relating to services provided to equity accounted pharmacies and medical centres, and franchisees, is recognised in accordance with the terms of the relevant franchise, marketing or other service support agreements.

**Expenses**

All expenditure is recognised in the income statement when an obligation arises on an accruals basis.

**Finance income and expense**

Interest income and expense is recognised as it accrues using the effective interest rate.

## 4. Basis of preparing group financial statements

**Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Goodwill arising on acquisition of subsidiaries is included in the carrying value of the cash generating units which are expected to benefit from the acquisition.

**Associates and joint ventures (equity accounted investees)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the earnings of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investees.

Goodwill arising on acquisition is included in the carrying amount of the associates and is not separately recognised. After application of the equity method in accounting for associates, the carrying amount of the investment in associates is subject to impairment testing by comparing the recoverable amount with the carrying amount of the investment in associates. The goodwill included in the carrying amount of the investment in associates is allocated





to the relevant cash generating units and tested for impairment. The impairment testing is completed annually, or earlier at any interim reporting dates if there are indicators of impairment.

The accounting policies adopted by the associates are generally consistent with those of the Parent. Adjustments are made to align the accounting policies where needed – including adjustments to adopt NZ IFRS. The associates are qualifying reporting entities under the framework for differential reporting and the financial statements for the associates are prepared on the basis of the permitted differential reporting concessions. Adjustments are made to recognise deferred taxation in the associates.

**Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Goodwill**

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess purchase consideration over the fair value of the net identifiable tangible and intangible assets at the time of acquisition.

Goodwill is allocated to the relevant cash generating units expected to benefit from the acquisition and tested for impairment. The impairment testing is completed annually, or earlier at any interim reporting dates if there are indicators of impairment.

If the recoverable amount is less than the carrying amount of the cash generating unit then an impairment loss is recognised in the income statement and the carrying amount of the asset is written down.

The relative value of the goodwill allocated to the relevant cash generating unit is included in the determination of any gain or loss on disposal.

## 5. Specific accounting policies

**Share capital**

Incremental costs directly attributable to the issue of ordinary shares, share options and share capital are recognised as a deduction from equity.

Share options issued by the Parent entitle some employees to subscribe for share capital of the Parent. The fair value of the option at grant date is recognised in the profit or loss in the statement of comprehensive income and the balance sheet over the period in which the options vest with the employee.

**Property, plant and equipment**

Property, plant and equipment owned by the Group is stated at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment acquired in stages is not depreciated until the fixed asset is ready for its intended use.

Depreciation is provided on a straight-line basis on all property, plant and equipment components to allocate the cost of the asset (less any residual value) over its useful life or if it relates to assets in a leased premises, the life of the lease if shorter. The residual values and remaining useful lives of fixed asset components are reviewed at least annually.

Estimated useful lives of the asset classes are:

- Fixtures, fitting and office equipment 2 - 10 years; and
- Motor Vehicles - 5 years.

Subsequent expenditure that extends or expands the useful life of property, plant and equipment or its service potential is capitalised. All other costs are recognised in the Consolidated Statement of Comprehensive Income statement as expenditure when incurred.

Any resulting gain or loss on disposal of property, plant and equipment is recognised in the Consolidated Statement of Comprehensive Income in the period in which the property, plant and equipment is disposed of.

**Intangible assets**
Intangible assets recognised by the Group are stated at cost less amortisation and any impairment losses with the exception of goodwill (refer to goodwill accounting policy).

Intangible assets acquired in stages are not amortised until the asset is ready for its intended use.

Amortisation is provided on a straight-line basis on all intangible asset components to allocate the cost of the asset (less any residual value) over its useful life. The residual values and remaining useful lives of intangible asset components are reviewed at least annually.

Estimated useful lives of the asset classes are:

- Software and Trademarks 3 - 5 years.

Subsequent expenditure that extends or expands the useful life of an intangible asset or its service potential is capitalised. All other costs are recognised in the income statement as expenditure when incurred.

Any resulting gain or loss on disposal of an intangible asset is recognised in the income statement in the period in which the intangible asset is disposed of.

Intangible assets disclosed in the financial statements relate to computer software and trademarks. Trademarks with indefinite lives are tested annually for impairment.

**Borrowings and advances**
Borrowings and advances are initially recognised at fair value, including directly attributable transaction costs. Subsequent to initial recognition, borrowings and advances are measured at amortised cost using the effective interest method, less any impairment losses on advances.

**Taxation**
Income tax expense is charged in profit or loss and comprises current tax and deferred tax, unless it relates to an item recognised in other comprehensive income or equity in which case it is recognised in other comprehensive income or equity.

Current tax is the estimated tax payable on the current period's taxable income using current tax rates, adjusted for any under or over accrual in respect of prior periods.

Deferred tax is recognised using the balance sheet liability method, allowing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the carrying amounts for tax purposes. A deferred tax asset is recognised to the extent that it is probable that the future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

**Leases**
The Group is party to operating leases as a lessee. The lessors retain substantially all of the risks and rewards of ownership of the leased fixed assets. Operating lease payments are recognised and included in the income statement in the period in which they are incurred.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense over the life of the lease, with any unamortised incentive recognised as a liability in the balance sheet.

**Employee entitlements**
Employee entitlements for salaries, bonuses, long service and annual leave are provided for and recognised as a liability when benefits are earned by employees but not paid at the reporting date.





**Financial instruments**
The Group is party to financial instruments as part of its day-to-day operations. Financial instruments include cash and cash equivalents, borrowings, trade and other receivables and trade and other payables.

Financial instruments are initially recognised at their fair value less transaction costs, and subsequently measured at their amortised cost. A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

**Share based payments**
Options to acquire or issue equity interests are recognised at fair value, except when the fair value cannot be reliably measured and are then held at cost. The fair value of share options is measured using the Black-Scholes formula.

**Goods and services tax (GST)**
The Consolidated Statement of Comprehensive Income has been stated so that all components are exclusive of GST. All items in the Consolidated Statement of Financial Position are stated net of GST with the exception of receivables and payables, which include GST invoiced.

**Statement of cash flows**
The statement of cash flows has been prepared using the direct method subject to the netting of certain cash flows.

Cash flows in respect of investments and borrowings that have been rolled-over under arranged banking facilities have been netted in order to provide meaningful disclosures.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Operating activities include all cash received from all revenue sources and all cash disbursed for all expenditure sources including taxation refund or payments and other transactions that are not classified as investing or financing activities.

Investing activities reflect the acquisition and disposal of fixed assets, loans to associates, and investments in associates, subsidiaries and joint ventures.

Financing activities reflect changes in borrowings and equity.

**Segment reporting**
The Group has two reportable segments: Pharmacy Retail Services and Medical Services.

The Group's main operations are in the pharmacy industry providing pharmacy retail services through consolidated stores, equity accounted partnership stores and franchise stores. The medical services segment includes fully owned and equity accounted partnership medical centres, and support services provided to these medical centers, as well as medical centres outside the Group.

The board monitors these various revenue streams within each reportable segment separately however, they do not meet the criteria for separate disclosure due to the following:

- Aggregation of the operating segments within each reportable segment is consistent with the core principal of NZ IFRS 8, i.e. aggregating will not distort the interpretation of the financial statements for the users;
- The operating segments within each reportable segment share the same economic characteristics; and
- The nature of the products and services, and the nature of the regulatory environment are the same for the operating segments.

**Operating segments**

Information about reportable segments

| | Pharmacy retail services | | Medical services | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| External revenues | 96,813 | 100,771 | 8,251 | 4,770 | 105,064 | 105,541 |
| Intersegment revenues | - | - | - | - | - | - |
| Total revenue | 96,813 | 100,771 | 8,251 | 4,770 | 105,064 | 105,541 |
| Interest income | 528 | 340 | 48 | 27 | 576 | 367 |
| Interest expense | (431) | (1,178) | (70) | (3) | (501) | (1,181) |
| Depreciation and amortisation | (1,228) | (1,816) | (95) | (55) | (1,323) | (1,871) |
| Reportable segment profit before income tax | 14,821 | 11,763 | 1,658 | 699 | 16,479 | 12,462 |
| Tax expense | (2,922) | (2,354) | (302) | (169) | (3,224) | (2,523) |
| Profit after tax | 11,899 | 9,409 | 1,356 | 530 | 13,255 | 9,939 |
| Share of profit of equity method investees | 3,962 | 3,601 | 470 | 202 | 4,432 | 3,803 |
| Reportable segment assets | 88,267 | 80,305 | 8,547 | 2,837 | 96,814 | 83,142 |
| Investment in associates | 35,540 | 31,055 | 1,951 | 1,026 | 37,491 | 32,081 |
| Capital expenditure | 842 | 523 | 150 | 44 | 992 | 567 |
| Reportable segment liabilities | 19,831 | 19,618 | 2,959 | 1,098 | 22,790 | 20,716 |

**Inventory**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

**Comparatives**

Certain comparative information has been reclassified in order to provide a more consistent basis for comparison.

**New standards and interpretations issued and not yet effective**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application.

- NZ IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:
  (i) The nature of, and risks associated with, an entity's interests in other entities; and
  (ii) The effects of those interests on the entity's financial position, financial performance and cash flows.
  The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IFRS 13 replaces the fair value measurement guidance contained in individual NZ IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other NZ IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.





- NZ IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.
  An investor controls an investee when:
  (i) It is exposed or has rights to variable returns from its involvement with that Investee;
  (ii) It has the ability to affect those returns through its power over that investee; and
  (iii) There is a link between power and returns.
  Control is reassessed as facts and circumstances change. NZ IFRS 10 supersedes NZ IAS 27 (2008) and NZ SIC-12 Consolidation—Special Purpose Entities. The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IAS 28 (2011) supersedes NZ IAS 28 (2008). NZ IAS 28 (2011) makes the following amendments:
  (i) NZ IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
  (ii) On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.
  The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IFRS 9 Financial Instruments (2010) is the standard issued as part of a wider project to replace NZ IAS 39. NZ IFRS 9 (2009) retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

  NZ IFRS 9 (2010) retained the requirements with respect to the classification and measurement of financial liabilities with the exception of fair value option and certain derivatives linked to unquoted equity instruments. Additionally, NZ IFRS 9 (2010) also retained the recognition requirements of NZ IAS 39.

  The guidance in NZ IAS 39 on impairment of financial assets and hedge accounting continues to apply. Application of transitional provisions depends on an entity's adoption date of NZ IFRS 9 (2009) and NZ IFRS 9 (2010).

  Prior periods need not be restated if an entity adopts the standards for reporting periods beginning before 1 January 2012. The revised standard becomes mandatory for the Group's 31 March 2016 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.

## 6. Accounting estimates and judgments

In authorising the financial statements for the year ended 31 March 2013, the Directors have ensured that the specific accounting policies necessary for the proper understanding of the financial statements have been disclosed, and that all accounting policies adopted are appropriate for the Group's circumstances and have been consistently applied throughout the year for all Group entities for the purposes of preparing the consolidated financial statements.

Inherent in the application of certain accounting policies, judgements and estimates are required and the Directors, through the Audit Committee note that the actual results may differ from the judgements and estimates made.

**Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.
The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Radius Pharmacy | 18,392 | 18,392 |
| Radius Medical | 5,476 | 1,694 |
| | 23,868 | 20,086 |

Each Cash-Generating Unit (CGU) has been tested for impairment on the basis of its value-in-use applying a Discounted Cash Flow (DCF) model.

The DCF model is based on three year forecast cash flow projections. The board approved budget for the year ending 31 March 2014 is the basis for the first year's projections and projections for the two subsequent periods have been based on expected inflation and growth rates specific to Pharmacybrands' activities. Terminal cash flows are projected to grow in-line with the long-term inflation rate.

The discount rate applied is 9.75% (2012: 9.75%) on the unleveraged post-tax nominal cash flows (equivalent pre-tax discount rate is 13.5% (2012: 13.5%)). An inflation assumption of 2.5% (2012: 2.5%) has been used, with a terminal growth rate assumption of 2.5% (2012: 2.5%).

None of the units tested for impairment were found to be impaired.

**Sensitivities**

No impairment was identified for any CGU tested as a result of this review, nor under any reasonably possible change in any of the key assumptions described above.

**Impairment testing of the carrying amount of investments in associates**

The investment in associates is recognised in the Group's financial statements using the equity method and comprises the share of net assets acquired and goodwill on acquisition. The investment carrying value is tested for impairment annually using a value in use discounted cash flow model.

For the purposes of impairment testing each associate was first checked to ascertain if a trigger for impairment existed.

The following triggers were identified:

- Loss making associates or associates that are behind budget;
- Associates whose market value is below the carrying value; and
- Adverse economic conditions that may affect the associate.

The associates identified that presented a trigger for impairment were tested for impairment using a value-in-use DCF model.







The DCF model is based on three year forecast cash flow projections. The board approved budget for the year ending 31 March 2014 is the basis for the first year's projections and projections for the two subsequent periods have been based on expected inflation and growth rates specific to Pharmacybrands' activities. Terminal cash flows are projected to grow in-line with the long-term inflation rate.

The discount rate applied is 9.75% (2012: 9.75%) on the unleveraged post-tax nominal cash flows (equivalent pre-tax discount rate is 13.5% (2012: 13.5%)). An inflation assumption of 2.5% (2012: 2.5%) has been used, with a terminal growth rate assumption of 2.5% (2012: 2.5%).

The budget information used as the base for the cash flow forecast is drawn from the budgets approved by each associate company for the year ending 31 March 2014. The Parent has peer reviewed each individual budget and aggregate sales and expenses to ensure the reliability of the information prior to the Parent board adopting the budget for the year ending 31 March 2014.

No impairment was considered to be required for any of the associates tested as a result of this review.

**Sensitivities**

No impairment was identified for any of the associates tested as a result of this review, nor under any reasonable possible change in any of the key assumptions described above.

## 7. Business combination

No material business combinations occurred during the year ended 31 March 2013.

## 8. Revenue

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Store sales | 74,677 | 78,537 |
| Medical centre sales | 5,860 | 2,329 |
| Services provided to stores and medical centres | 24,527 | 24,675 |
| | 105,064 | 105,541 |

Revenue from services provided to stores includes revenue from associates $2,884,000 (2012: $2,193,000) pursuant to commercial franchise agreements.

## 9. Governance and accountability

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Audit fees | 148 | 148 |
| Directors' fees in respect of the parent company | 330 | 310 |
| Directors' fees in respect of the subsidiary companies | 125 | 155 |
| Senior executives' share option expense | 106 | 45 |
| Reporting related expense | 21 | 32 |
| Secretarial and board expenses | 55 | 40 |
| Stock exchange and registry fees | 79 | 64 |
| | **864** | **794** |
| *Auditor's remuneration to KPMG comprises:* | | |
| Annual audit of financial statements | 125 | 125 |
| Audit of subsidiaries | 23 | 23 |
| | 148 | 148 |
| Other services: | | |
| Taxation services | 34 | 80 |
| | 34 | 80 |

## 10. Other expenditure

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Leases expense | 4,253 | 4,336 |
| Amortisation of lease incentive | (35) | (35) |
| Bad debts written off and movement in doubtful debt provision | 132 | 863 |
| Other operating costs | 7,404 | 8,018 |
| | **11,754** | **13,182** |

## 11. Income tax expense

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current tax expense** | | |
| Current tax | (3,252) | (2,714) |
| Prior year adjustment | 61 | (27) |
| | **(3,191)** | **(2,741)** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 24 | 167 |
| Prior year adjustment | (57) | 51 |
| | (33) | 218 |
| **Total income tax expense** | **(3,224)** | **(2,523)** |

**Imputation credit account:**

Available for use in subsequent periods $7,725,000 (2012: $5,835,000).

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Numerical reconciliation between tax expense & pre-tax accounting profit** | | |
| Profit before tax | 16,479 | 12,462 |
| Income tax expense at 28% | (4,614) | (3,489) |
| **(Add)/deduct the tax effect of adjustments:** | | |
| Non-assessable revenue | 1,463 | 1,157 |
| Non-deductible expenses | (93) | (215) |
| Prior year adjustments | 20 | 24 |
| | (3,224) | (2,523) |





## 12. Earnings per share

The earnings per share, net assets per share and dividend per share is calculated using the Group's result divided by the weighted average number of shares for the listed entity, Pharmacybrands Limited.

| **Basic earnings per share comprises:** | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit for the year attributable to equity holders of the Parent | 13,188 | 9,939 |
| Opening number of shares (000's) | 120,165 | 99,907 |
| Add/(deduct) the effect of: | | |
| Shares issued (July 2011) | | 12,046 |
| Shares issued (August 2011) | | 1,545 |
| Shares issued (April 2012) | 19 | |
| Shares issued (May 2012) | 152 | |
| Shares issued (September 2012) | 1,335 | |
| Shares issued (December 2012) | 402 | |
| Weighted average number of shares | **122,073** | **113,498** |
| **Basic earnings per share (cents)** | 10.80 | 8.76 |

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Parent and a weighted average number of ordinary shares issued during the year of 122,073,000 (2012: 113,498,000).

| | 2013 | 2012 |
|---|---|---|
| **Diluted earnings per share (cents)** | 10.71 | 8.72 |

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Parent and a weighted average number of ordinary shares issued during the year after the adjustment for the effects of all dilutive ordinary shares of 123,149,000 (2012: 113,998,000).

| | 2013 | 2012 |
|---|---|---|
| **Dividend per share (cents)** | 5.50 | - |

On 5 September 2012 Pharmacybrands Limited paid a dividend of 3.5 cents per qualifying ordinary share to shareholders fully imputed to 30%.

On 21 December 2012 Pharmacybrands Limited paid a dividend of 2.0 cents per qualifying shares to shareholders, of which 1.7 cents per share was fully imputed to 30% and the balance fully imputed to 28%.

| | 2013 | 2012 |
|---|---|---|
| **Net tangible assets per share (cents)** | 38.3 | 33.2 |

The calculation of net tangible assets per share is based on net assets less deferred tax and goodwill (refer note 17) and the closing number of ordinary shares at the end of the year.

## 13. Distribution to owners comprises

On 5 September 2012 Pharmacybrands Limited paid a dividend of 3.5 cents per qualifying ordinary share to shareholders fully imputed to 30%.

On 21 December 2012 Pharmacybrands Limited paid a dividend of 2.0 cents per qualifying shares to shareholders, of which 1.7 cents per share was fully imputed to 30% and the balance fully imputed to 28%.

## 14. Trade and other receivables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade receivables | 3,053 | 2,208 |
| Accrued income | 1,944 | 4,337 |
| Other receivables | 744 | 618 |
| Prepayments | 267 | 435 |
| Provision for doubtful debts | (266) | (134) |
| Receivables from associates | 1,662 | 1,099 |
| | **7,404** | **8,563** |

## 15. Advances

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Loans to associates | 467 | 1,002 |
| Advances (current) | **467** | **1,002** |
| | | |
| Loans to associates | 461 | 352 |
| Loans to other parties | 466 | 471 |
| Advances (non-current) | **927** | **823** |

The loans to associates are advanced under a revolving debt facility (refer note 21 for loan terms and security details) with interest charged on a floating basis at 5.89% (2012: 5.89%). These advances are repayable on demand.

The loans to other parties are providing vendor financing to the purchasers of pharmacies sold by the Group. The loans are for a term of three years from the date of purchase with interest capitalised annually and payable on maturity of the loans.

## 16. Property, plant and equipment, fixtures, fittings and office equipment

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Property, plant and equipment** | | |
| Opening cost | 15,358 | 1,235 |
| Acquisitions through business combinations | 200 | 13,904 |
| Additions | 579 | 518 |
| Disposals | (1,395) | (299) |
| **Closing cost** | **14,742** | **15,358** |
| | | |
| Opening accumulated depreciation | 12,848 | 941 |
| Depreciation for the period | 1,091 | 1,644 |
| Disposals | (1,259) | (220) |
| Acquisitions through business combinations | - | 10,483 |
| **Closing accumulated depreciation** | **12,680** | **12,848** |





16. Property, plant and equipment, fixtures, fittings and office equipment (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Motor vehicles** | | |
| Opening cost | 64 | - |
| Acquisitions through business combinations | - | 64 |
| Disposals | (23) | - |
| **Closing cost** | **41** | **64** |
| | | |
| Opening accumulated depreciation | 42 | - |
| Depreciation for the period | 7 | 9 |
| Disposals | (14) | - |
| Acquisitions through business combinations | - | 33 |
| **Closing accumulated depreciation** | **35** | **42** |
| | | |
| Closing book value | 2,068 | 2,532 |
| Work in progress | 252 | 85 |
| **Total property, plant and equipment, fixtures, fittings and office equipment** | **2,320** | **2,617** |

Work in progress relates to capital projects not yet complete.

## 17. Intangible assets

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Software** | | |
| Opening cost | 2,006 | 1,341 |
| Acquisitions through business combinations | - | 564 |
| Additions | 327 | 103 |
| Disposals | (167) | (2) |
| **Closing cost** | **2,166** | **2,006** |
| | | |
| Opening accumulated amortisation | 1,714 | 1,100 |
| Amortisation for the period | 225 | 218 |
| Disposals | (157) | (2) |
| Acquisitions through business combinations | - | 398 |
| **Closing accumulated amortisation** | **1,782** | **1,714** |
| | | |
| **Trademarks** | | |
| Opening cost | 27 | 27 |
| **Trademarks at cost** | **27** | **27** |
| | | |
| Opening accumulated amortisation | 14 | 14 |
| **Closing accumulated amortisation** | **14** | **14** |

17. Intangible assets (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Goodwill** | | |
| Opening cost | 20,978 | 892 |
| Additions **(a)** | 3,782 | 20,086 |
| **Closing cost** | **24,760** | **20,978** |
| | | |
| **Total intangible assets** | **25,157** | **21,283** |
| | | |
| **a)** Goodwill recognised as a result of the acquisition of: | | |
| Radius Pharmacy Limited | - | 18,102 |
| Radius Medical Limited and Radius Medical Solutions Limited | - | 1,694 |
| Other acquisitions | 3,782 | 290 |
| | **3,782** | **20,086** |

The goodwill recognised in the current year relates to the acquisition of trade and assets in the medical segment.

## 18. Deferred tax asset

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance | 1,548 | 216 |
| Recognised in income statement | (33) | 218 |
| Recognised on acquisition | - | 1,114 |
| | **1,515** | **1,548** |

**The movement in deferred tax asset during the year is made up of the following:**

| | Opening $'000 | Recognised in the profit or loss $'000 | Recognised on acquisition $'000 | Closing $'000 |
|---|---|---|---|---|
| **31 March 2013** | | | | |
| Property, plant and equipment | 964 | (107) | - | 857 |
| Provisions | 584 | (16) | - | 568 |
| Tax losses | - | 90 | - | 90 |
| | **1,548** | **(33)** | **-** | **1,515** |
| | | | | |
| **31 March 2012** | | | | |
| Property, plant and equipment | (17) | 104 | 877 | 964 |
| Provisions | 233 | 114 | 237 | 584 |
| | **216** | **218** | **1,114** | **1,548** |





## 19. Group investments

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| The movement in equity accounted associates comprises: | | |
| Opening carrying amount | 32,081 | 25,069 |
| Investment in associates | 4,574 | 2,399 |
| Associates acquired | - | 5,686 |
| Disposal of associates | (95) | (2,669) |
| Share of net earnings | 4,432 | 3,803 |
| Dividend | (3,501) | (2,207) |
| | **37,491** | **32,081** |
| | | |
| **Equity accounted associates include goodwill as follows:** | | |
| Opening balance of goodwill included in the carrying amount of associates | 23,906 | 18,638 |
| Associates acquired **(a)** | 2,208 | 6,581 |
| Disposal of associates | (135) | (1,313) |
| Closing goodwill included in carrying amount of associates | **25,979** | **23,906** |

**(a) Equity accounted associates acquired**
The Group acquired an interest in Walls & Roche Royal Oak Pharmacy Limited on 1 April 2012, and Alexandra Pharmacy on 8 March 2013. The Group also acquired an interest in Hastings Medical Centre on 2 April 2012 and Mangere Medical centre on 18 April 2012.

**Summary associate financial information**
The aggregate results of the associates' financial position and current year's profit are as follows:

| | Assets $'000 | Liabilities $'000 | Revenue $'000 | Net profit after tax $'000 |
|---|---|---|---|---|
| As at and for the year ended 31 March 2013 | 62,179 | 28,400 | 173,152 | 8,499 |
| As at and for the year ended 31 March 2012 | 58,422 | 28,107 | 147,002 | 7,282 |

Under the shareholders' agreement executed with each associate, dividend distributions are capped at the current year's profit after tax subject to each associate company complying with any applicable banking covenants and being solvent in accordance with the solvency test requirements under the Companies Act 1993.

**Reporting dates**
The controlled entities and all associates have a 31 March reporting date.

## 20. Trade and other payables and income taxes payable

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade payables | 7,321 | 8,158 |
| Payable to associates | 55 | 134 |
| Accruals | 6,503 | 5,060 |
| Employee entitlements | 1,168 | 1,253 |
| | 15,047 | 14,605 |
| Income tax payable | 920 | 1,053 |
| | 15,967 | 15,658 |

## 21. Borrowings

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current | 400 | - |
| Non-current | 6,400 | 5,000 |
| | **6,800** | **5,000** |

In September 2012 $2 million was borrowed from Westpac Banking Corporation to fund the purchase of a subsidiary. $200,000 had been repaid by 31 March 2013.

In October 2011 bank borrowings were restructured to a 5 year revolving term loan of $8 million and a flexible working capital facility of $4 million. Of this $5 million was drawn down at 31 March 2012.

The associate advances and borrowings (refer note 15) are secured pursuant to back-to-back general security agreements over the assets of Pharmacybrands Limited and each associate.

The security provided by the associates is several. Pharmacybrands Limited has provided guarantees in favour of ANZ Bank New Zealand Limited (ANZNB), with back-to-back guarantees received from each pharmacist shareholding limiting the Group's ultimate exposure to commensurate with Pharmacybrands Limited's shareholding in each associate.

Pharmacybrands Limited and its subsidiaries have signed a General Security Agreement with ANZNB and have given cross guarantees for each other.

## 22. Operating cash flows reconciliation

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit for the year | 13,255 | 9,939 |
| **Add/(deduct) non-cash items:** | | |
| Equity accounted profits | (931) | (1,595) |
| Depreciation & asset write-off | 1,337 | 1,871 |
| Amortisation of lease incentive | (35) | (35) |
| Bad and doubtful debts | 132 | 863 |
| Deferred tax | 33 | (218) |
| Share/option scheme costs | 106 | 45 |
| Interest capitalised to associate loans | (86) | - |
| **Add/(deduct) changes in working capital items:** | | |
| Receivables and accruals | (1,027) | 365 |
| Inventory | 107 | (465) |
| Payables and accruals | (84) | 2,174 |
| **Net cash inflow from operating activities** | **14,861** | **12,944** |





## 23. Shares on issue

| | 2013 '000 | 2012 '000 |
|---|---|---|
| **Shares authorised and on issue** | | |
| Opening number of shares | 120,759 | 100,501 |
| Shares cancelled - partly paid **(a)** | (67) | - |
| Shares issued - fully paid **(a)** | 4,020 | 20,258 |
| Shares issued - partly paid **(a)** | 800 | - |
| | **125,512** | **120,759** |
| Shares held as treasury stock **(b)** | (960) | (594) |
| | **124,552** | **120,165** |

All ordinary shares carry equal rights in terms of voting, dividend payments and distribution upon winding up.

**(a)** (i) On 24 April 2012 Pharmacybrands Limited issued 20,000 ordinary shares at $0.75 per share under the Employee Share Ownership Plan. On 24 April 2012 Pharmacybrands Limited issued 800,000 redeemable ordinary shares to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of senior management under the Employee Share Ownership Plan. The shares were issued at $0.70 per share, initially paid up to $0.01 per share. On 22 May 2012 Pharmacybrands Limited allotted 178,800 fully paid ordinary shares at $0.75 per share to staff. On 24 July 2012 166,666 redeemable ordinary shares were converted into 166,666 ordinary shares at $0.39 per share. On 5 September 2012 Pharmacybrands Limited allotted 2,353,639 fully paid ordinary shares at $1.2119 per share on reinvestment of dividend under the Dividend Reinvestment Plan. On 26 November 2012 166,666 redeemable ordinary shares were converted into 166,666 ordinary shares at $0.39 per share. On 21 December 2012 Pharmacybrands Limited allotted 1,467,853 fully paid ordinary shares at $1.1496 per share on reinvestment of dividend under the Dividend Reinvestment Plan. On 28 March 2013 33,334 redeemable ordinary shares were converted into 33,334 ordinary shares at 0.69 cents per share. On 28 March 2013 66,666 redeemable ordinary shares held by the Life Pharmacy Trust company Limited as trustee were cancelled.

(ii) On 25 July 2011 Pharmacybrands Limited allotted 8,888,889 fully paid ordinary shares at $0.45 per share to Cape Healthcare Limited and 8,888,889 fully paid ordinary shares at $0.45 per share to LPL Trustee Limited (17,777,778 ordinary shares in aggregate).

(iii) On 16 August 2011 Pharmacybrands Limited issued 2,480,035 fully paid ordinary shares at $0.45 per share to shareholders under the Company's Share Purchase Plan.

**Treasury stock**

**(b)** The redeemable ordinary shares held by Life Pharmacy Trustee Company Limited to satisfy the Senior Management incentive schemes have not been included in the calculation of the total number of shares issued by the Group as these shares have not been issued externally by the Group.

## 24. Financial instruments

The Group is party to financial instruments as part of its normal operations. Financial instruments include cash and cash equivalents, borrowings, trade and other receivables and trade and other payables.

Risk management policies are used to mitigate the Group's exposures to credit risk, liquidity risk and market risk that arise in the normal course of operations.

**Credit risk**

The Group's maximum credit risk resulting from a third party defaulting on its obligations to the Group is represented by the carrying amount of each financial asset on the balance sheet. The Group is not exposed to any material concentrations of credit risk other than its exposure within the retail pharmacy sector and banking facilities. The Group monitors credit limits on a monthly basis. All credit facilities to external parties are provided on normal trade terms (unsecured, to a maximum of 50 days). At any one time, the Group generally has amounts owed to and amounts owed by the same counterparty, although no legal right of set-off exists. The Parent company holds direct debit authorities for all amounts payable under the contractual terms of its franchise agreements. The Parent regularly monitors the credit ratings issued, and any qualifications to those ratings, to the financial institutions (and those of the ultimate parent financial institution) used by the Group.

The status of trade receivables at reporting date is as follows:

| | Gross receivable 2013 $'000 | Impairment 2013 $'000 | Gross receivable 2012 $'000 | Impairment 2012 $'000 |
|---|---|---|---|---|
| Trade and other receivables | | | | |
| Not past due | 6,461 | - | 7,778 | - |
| Past due 0-30 days | 903 | - | 658 | - |
| Past due 31-120 days | 112 | (72) | 127 | - |
| Past due more than 120 days | 194 | (194) | 134 | (134) |
| **Total** | **7,670** | **(266)** | **8,697** | **(134)** |

In addition to trade and other receivables the Group also has credit risk exposure to advances to associates as detailed in note 15.

**Liquidity risk**

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. The following table sets out the contractual cash flows for financial liabilities that are settled on a gross cash flow basis:

**2013**

| | Balance Sheet $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
|---|---|---|---|---|---|---|
| Bank loan | 6,800 | 8,162 | 373 | 367 | 721 | 6,701 |
| Trade and other payables | 15,047 | 15,047 | 15,047 | - | - | - |
| **Total non-derivative liabilities** | **21,847** | **23,209** | **15,420** | **367** | **721** | **6,701** |

**2012**

| | Balance Sheet $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
|---|---|---|---|---|---|---|
| Bank loan | 5,000 | 6,640 | 205 | 205 | 410 | 5,820 |
| Trade and other payables | 14,605 | 14,605 | 14,605 | - | - | - |
| **Total non-derivative liabilities** | **19,605** | **21,245** | **14,810** | **205** | **410** | **5,820** |

**Market risk**

As interest rates change, the fair value of financial instruments may change. Refer to notes 15 and 21 for details of the interest rates and re-pricing for the Group advances and borrowings, which are the most significant financial instruments.

**Interest rate swaps - cash flow hedges**

Interest bearing loans of the Group bear variable interest rates. In order to protect against interest rate volatility, the Group entered into interest rate swap contracts under which it has the right to receive interest at variable rates and pay interest at fixed rates. Swaps in place cover 100% (2012: 100%) of the principal outstanding. The fixed interest rates range between 4.43% and 4.73%.





At 31 March 2013, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

| | Maturity date | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| NZD Swap 4.43% | 31 March 2015 | 1,000 | 1,000 |
| NZD Swap 4.73% | 31 March 2016 | 4,000 | 4,000 |

As at 31 March 2013, the mark-to-market value of these swaps was a loss of $223,102 (2012: 213,011).

**Capital management**

The Group's capital includes share capital and retained earnings. The Group is not subject to any externally imposed capital requirements.

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by the optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the period.

**Classification and fair values**

The carrying amount of the Group's on-balance sheet financial instruments closely approximate their fair values as at 31 March 2013 and 31 March 2012. The fair value of all of the following financial instruments is determined using their transactional value.

**2013**

| | Note | Loans and receivables $'000 | Other amortised cost $'000 | Total carrying amount $'000 | Fair value $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trade and other receivables | 14 | - | - | - | - |
| Advances to equity accounted investments | 15 | 927 | - | 927 | 927 |
| **Total non-current assets** | | **927** | **-** | **927** | **927** |
| Trade and other receivables | 14 | 7,404 | - | 7,404 | 7,404 |
| Cash and cash equivalents | | 15,112 | - | 15,112 | 15,112 |
| Advances to equity accounted investments | 15 | 467 | - | 467 | 467 |
| **Total current assets** | | **22,983** | **-** | **22,983** | **22,983** |
| **Total assets** | | **23,910** | **-** | **23,910** | **23,910** |
| **Liabilities** | | | | | |
| Loans and borrowings | 21 | - | 6,400 | 6,400 | 6,400 |
| **Total non-current liabilities** | | **-** | **6,400** | **6,400** | **6,400** |
| Loans and borrowings | 21 | - | 400 | 400 | 400 |
| Trade payables | 20 | - | 15,967 | 15,967 | 15,967 |
| **Total current liabilities** | | **-** | **16,367** | **16,367** | **16,367** |
| **Total liabilities** | | **-** | **22,767** | **22,767** | **22,767** |

| | | 2012 | | | |
|---|---|---|---|---|---|
| | | Loans and receivables | Other amortised cost | Total carrying amount | Fair value |
| | Note | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | |
| Advances to equity accounted investments | 15 | 823 | - | 823 | 823 |
| **Total non-current assets** | | **823** | **-** | **823** | **823** |
| Trade and other receivables | 14 | 8,563 | - | 8,563 | 8,563 |
| Cash and cash equivalents | | 8,717 | - | 8,717 | 8,717 |
| Advances to equity accounted investments | 15 | 1,002 | - | 1,002 | 1,002 |
| **Total current assets** | | **18,282** | **-** | **18,282** | **18,282** |
| **Total assets** | | **19,105** | **-** | **19,105** | **19,105** |
| **Liabilities** | | | | | |
| Loans and borrowings | 21 | - | 5,000 | 5,000 | 5,000 |
| **Total non-current liabilities** | | **-** | **5,000** | **5,000** | **5,000** |
| Loans and borrowings | 21 | - | - | - | - |
| Trade payables | 20 | - | 15,658 | 15,658 | 15,658 |
| **Total current liabilities** | | **-** | **15,658** | **15,658** | **15,658** |
| **Total liabilities** | | **-** | **20,658** | **20,658** | **20,658** |

## 25. Related parties

The Parent has an interest in 67 associate entities, 1 joint venture retail outlet and 20 companies (including pharmacies) where we hold 100% of the economic interest and pharmacy investment, franchise and management operations and non-trading companies.

During the period, there has been one director who has had shareholdings in various associate companies and shareholdings in the Parent company, and three independent directors.

The Group has commercial franchise agreements with all associate companies and other franchisee stores relating to marketing levies and franchise fees. The Group also enters into transactions on behalf of the stores which are on-charged. These transactions comprise items such as training courses, supplier agreements, central advertising campaigns, loyalty card costs, and IT related costs. The Parent has leased some equipment which is on-leased to associate companies. The Parent performs accounting services, based on commercial fees, for some of the stores.

The associate companies occasionally transfer stock and services between each other, which are charged on an arm's length basis and on normal commercial terms.

Pharmacybrands Limited has arranged bank borrowings from the ANZNB under a Group borrowing facility and offers the funds to Life branded associate companies.

The Parent has shareholder agreements with the other shareholders of the associates. The agreements set out the return on investment/profit sharing arrangements relating to these investments.

During the year the Parent wrote off nil (2012: $841,000) for debts owed by associates.





Related party transactions for the Group:

| | Transaction value | | Balance outstanding | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Dividends | 3,501 | 2,207 | - | - |
| Marketing levies and franchise fees | 2,884 | 2,777 | 75 | 71 |
| On-charged costs | 1,787 | 1,755 | 350 | 291 |
| Receivable from associates | | | 1,661 | 1,153 |
| Loans to associates | | | 1,394 | 1,825 |
| Total owing from associates | | | 3,480 | 3,340 |
| Receivable from other related parties | | | 432 | 344 |
| Payable to associates | | | 512 | 227 |

During the year the Parent issued, acquired and cancelled shares with associates, see note 19 for details. The Parent contributed capital and shareholder loans of $4,574,191 (2012: $2,399,000) to associates during the year, see note 19. The Parent guarantees the associate leases and banking facilities commensurate with its shareholding in each associate or as otherwise agreed.

**Key management personnel remuneration**

The Group provides compensation to key management personnel which comprises the directors and executive officers. The CEO and other senior executives also participate in the share option scheme. Key management personnel compensation comprised:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Short-term employee benefits | 2,494 | 2,541 |
| Share vesting costs | 106 | 45 |
| | **2,600** | **2,586** |

## 26. Non-cancellable operating leases

| | 2013 | 2012 |
|---|---|---|
| Due within one year | 3,938 | 3,279 |
| Due between one and five years | 8,143 | 8,007 |
| Due after five years | 2,035 | 2,752 |
| | **14,116** | **14,038** |

The future lease payments comprise leased office equipment, vehicles and premises.

Office space has been leased for a term of 10 years commencing 1 January 2006, with one right of renewal for a further 5 years. The rental is reviewable every 2 years and upon renewal.

## 27. Share based payments

Pharmacybrands Limited issued 500,000 redeemable ordinary shares (ROS) on 1 March 2010 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of the Chief Executive Officer. The shares were issued at $0.40 per share, initially paid up to $0.01 per share. Until such time as the CEO Redeemable Ordinary Shares are redeemed and transferred to the CEO the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 40th). The CEO has exercised his options redeeming 333,334 Redeemable Ordinary Shares. An amount of $8,479 (2012: $44,522) has been charged to the income statement reflecting the amortisation of the fair value of entitlements under this scheme.

On 24 April 2012 Pharmacybrands issued 800,000 redeemable ordinary shares to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of senior managers under the Employee Share Ownership Plan. The shares were issued at $0.70 per share, initially paid up to $0.01 per share. An amount of $97,441 has been charged to the income statement reflecting the amortisation of the fair value of entitlements under this scheme.

The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares.

| Grant date/employees entitled | Number of shares '000 | Vesting conditions and period |
|---|---|---|
| ROS granted to Life Pharmacy Trustee Company Ltd on 1 March 2010 | 500 | Redeemable in three equal proportions in 2011, 2012 and 2013 provided the CEO remains with the Group at these dates. The option expires on 1 October 2015. |
| ROS granted to Life Pharmacy Trustee Company Ltd on 24 April 2012 | 800 | Redeemable in three equal proportions in 2013, 2014 and 2015 provided the senior managers remain with the Group at these dates. The option expires on 1 October 2017. |
| 24 July 2012 ROS were converted to ordinary shares | (167) | The CEO exercised the first option under his share option scheme (value at the date of exercise $1.16). |
| 26 November 2012 ROS were converted to ordinary shares | (167) | The CEO exercised the second option under his share option scheme (value at the date of exercise $1.15). |
| 28 March 2013 ROS were converted to ordinary shares | (33) | A senior manager exercised the first option under his share option scheme (value at the date of exercise $1.22). |
| 28 March 2013 ROS were cancelled | (67) | Cancellation of ROS following a senior manager leaving the Group. |
| **Total ROS** | **866** | |

The weighted average exercise price is $0.64 (2012: $0.40).

**CEO redeemable ordinary share scheme (granted 1 October 2009)**
The fair value of the options under the CEO Redeemable Ordinary Share scheme was determined by an external valuer to be $138,167. This cost was being amortised over the relevant period for each tranche of shares. The fair value of the ROS at grant date was determined using the Black-Scholes formula. The model inputs were: the share price of $0.52, the exercise price of $0.40, expected volatility of 60%, expected dividends of 0%, a term of 3 years for tranche 1, 4 years for tranche 2, 5 years for tranche 3, and a risk-free interest rate of 4.8%.

**Senior managers redeemable ordinary share scheme (granted 24 April 2012)**
The fair value of the options under the senior managers Redeemable Ordinary Share scheme was determined by an external valuer to be $270,400. This cost was being amortised over the relevant period for each tranche of shares. The fair value of the ROS at grant date was determined using the Black-Scholes formula. The model inputs were: the share price of $0.70, the exercise price of $0.70, expected volatility of 60%, expected dividends of 0%, a term of 2 years for tranche 1, 3 years for tranche 2, 4 years for tranche 3, and a risk-free interest rate of 2.6%.





## 28. Commitments and contingencies

The Group has exposure to bank facilities and lease commitments of it's associates as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Lease commitments | 11,896 | 5,573 |
| Lease bonds | 1,857 | 1,790 |
| Lease guarantees | 615 | 708 |
| Loan guarantees | 4,452 | 6,314 |
| | **18,820** | **14,385** |

Lease commitments are for the rental of certain of the pharmacy premises used by associate companies and are covered by back-to-back lease agreements with the associate companies.

The Parent has provided guarantees for all obligations under bank facilities provided to certain of its associates.

The bank also holds personal guarantees from the other shareholders of these associate companies for these facilities.

Lease guarantees have been given by the Parent for two associate companies where the lease is with the associate company and a lease bond has not been provided.

## 29. Subsequent events

On 28 May 2013 Pharmacybrands Limited declared dividends of 3.5 cents per qualifying ordinary share, which will be fully imputed to 28%.

No adjustments are required to these financial statements in respect to this event.

# COMPANY DIRECTORY

## Registered office

**Pharmacybrands Ltd**
Level 2, Building C
600 Great South Road
Greenlane
Auckland
**Telephone: +64 9 571 9080**

## Board

**P M Merton**
Chairman

**P Davies**
Non-Executive Director

**J A Bagnall**
Non-Executive Director

**J B Bolland**
Non-Executive Director

**M S Vuksich**
Non-Executive Director

**I G S Sharp**
Independent Director

**K R Rushbrook**
Independent Director

**K Orr**
Independent Director

## Board secretary

**J H Greenwood BCom, FCA**
Pharmacybrands Ltd
Private Bag 11 906
Ellerslie
Auckland

## Auditor

**KPMG**
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

## Websites

www.pharmacybrands.co.nz
www.lifepharmacy.co.nz
www.unichem.co.nz
www.amcal.co.nz
www.carechemist.co.nz
www.radiuspharmacy.co.nz

## Bankers

**ANZ National Bank Limited**
The National Bank Tower
209 Queen Street
Auckland 1010

**Bank of New Zealand**
Deloitte Centre
80 Queen Street
Auckland 1010

## Share registrar

**Computershare Investor Services Limited**
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna
Auckland 0622

Managing your shareholding online:
To change your address, update your payment instructions and to view your registered details including transactions, please visit;
www.investorcentre.com/nz

General enquiries can be directed to;
enquiry@computershare.co.nz

Private Bag 92119
Auckland 1142
**Telephone: + 64 9 488 8777**
**Facsimile: + 64 9 488 8787**

Please assist our registrar by quoting your CSN or shareholder number.

Pharmacybrands

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Level 2 Building C,
600 Great South Road
Ellerslie,
Auckland 1542
www.pharmacybrands.co.nz