Pharmacybrands

Pharmacybrands Limited

Consolidated Financial Statements and Annual Report

For the year ended 31 March 2010

Amcal Care Chemist LifePharmacy Unichem

Annual Report

Contents

For the year ended 31 March 2010

Annual Report
Financial summary
For the year ended 31 March 2010

On 31 March 2010 Life Pharmacy Limited changed its name to Pharmacybrands Limited (PHB). At the same time Pharmacybrands Limited changed its name to Pharmacy Transition Limited (PTL)[1].

	Consolidated Group	
	2010 $'000	2009 $'000
Revenue	16,197	11,264
EBIT	3,581	1,776
Profit before tax	4,046	2,237
Profit for the period	3,523	1,709
Total assets	46,006	10,397
Total liabilities	7,873	3,698
Shareholders equity (net assets)	38,133	6,699

1. The Financial Statements for the year ended 31 March 2010 reflect the combined performance of both companies with comparatives being those of the unmerged Pharmacybrands Limited. As noted in the Interim Financial Statements for the half year ended 30 September 2009, the merger has been presented as a reverse acquisition with Pharmacybrands Limited acquiring Life Pharmacy Limited.

Chairman's letter to shareholders

For the year ended 31 March 2010

Introduction

Since we completed the merger between Pharmacybrands Limited and Life Pharmacy Limited in September last year, the company has been focused on achieving objectives in four priority areas. These are to rapidly conclude the complete integration of head office functions, to ensure that we fully achieve the anticipated benefits of the merger in terms of savings from economies of scale, to develop strategies to capitalise on the strong position the company now enjoys, and to establish a platform for sustainable future growth.

Financial performance

The result speaks to the first and second of these goals: a net profit after tax of $3,523,000 for the twelve months to 31 March 2010, an improvement of $1,814,000 or 106 percent on the previous year. This represents a commendable result, particularly given the difficult trading environment and the considerable team effort required to achieve it while integrating and consolidating critical business functions[1].

As part of that consolidation we changed the name of the company, from Life Pharmacy Limited to Pharmacybrands Limited. This change, together with the accompanying change in NZX code from LPL to PHB, better reflects the company's broad focus and the support it provides to the four brands of Unichem, Amcal, Life Pharmacy and Care Chemist.

Government health spending is under pressure in every country. We must support efforts to address this by responding to the challenge to improve efficiencies and look for new funding options and methods of delivery. The size of our operation means that we are unquestionably the leader in our sector, with broad geographic representation, exposure to all aspects of retail pharmacy and considerable purchasing power. We also have the mass, experience and credibility needed to make a significant and considered contribution to the changing pharmacy environment.

Our efforts in this area will enable us both to capitalise on our strong position and build a platform for future growth. We expect to achieve that growth in two principal areas; the first is in our franchise business, which underpins the national coverage and support we have from owner operators. The second is in our holdings in partnership stores, which represent our principal asset base and enduring strength. Both areas are critical to our success; both will receive due focus.

Financial position

With the investment in Partnership Stores of $23.9 million the net assets of the Group are now $38.1 million (2009: $6.7 million). As at 31 March 2010 the company's cash reserves, a significant portion of which came from capital raising pre-merger, are in excess of $10 million.

To further strengthen the company's financial position the company has undertaken work to transfer debt currently due by the parent company to the ANZ National Bank Limited, direct to the partnership stores, as opposed to the back-to-back loan agreements that are in place for those Life Pharmacy stores. This programme is designed to free up cash for Pharmacybrands to take advantage of future investment opportunities as they arise.

The company is determined to use this strong balance sheet, our market knowledge and intellectual property to grow our penetration in the pharmacy sector, and also to look for opportunities in the wider primary health care market. We believe it is in the best interests of shareholders to invest in securing the long term value of the company rather than paying a dividend to shareholders that would either limit our growth opportunities or require additional capital as acquisitions present.

1. The Financial Statements for the year ended 31 March 2010 reflect the combined performance of both companies with comparatives being those of the unmerged Pharmacybrands Limited. As noted in the Interim Financial Statements for the half year ended 30 September 2009, the merger has been presented as a reverse acquisition with Pharmacybrands Limited acquiring Life Pharmacy Limited.

Chairman's letter to shareholders (continued)

For the year ended 31 March 2010

Governance

On 21 September 2009 the Board appointed Keith Rushbrook as a third Independent Director along with Ian Sharp and Andrew Davidson. Keith was formerly a partner at KPMG and holds a number of Board Directorships in New Zealand. He has been appointed Chair of the Audit Committee. In addition Ken Orr was appointed as an alternate director for William Meaney.

Merging two companies is never easy; credit and thanks must go to Alan and his team for achieving this in a dignified, timely and fiscally successful manner. I must also thank the Pharmacybrands Board for the support and enthusiasm shown to ensure this company proves to be successful for all stakeholders.

Peter Merton
Chairman

CEO Report

For the year ended 31 March 2010

Pharmacybrands Limited has posted a creditable result for the year ended 31 March 2010 while meeting the challenges of integrating two organisations and despite a difficult trading environment.

The integration of two central offices that followed the merger of Pharmacybrands and Life Pharmacy, is now behind us and, as planned, has enabled the company to achieve sustainable annual savings in excess of $2 million.

The company now has 255 pharmacies out of the more than 900 pharmacies operating in New Zealand under its brands: Unichem (130), Amcal (74), Life Pharmacy (27) and Care Chemist (24). Thirty of these are partnership stores, predominantly trading under the Life Pharmacy banner.

Trading environment

The period through March 2010 was a difficult one for retail pharmacies: overall the sector was flat. However, industry data shows that, as a group, Pharmacybrands out-performed the market: we grew retail by 2.7 percent, while the rest of pharmacy declined by 2 percent (Aztec data).

This growth came primarily in the health categories, where our focus on weight management, core health areas and natural health products paid off. Offsetting this, sales of beauty products declined: as the impact of the recession became evident, with consumer spending showing the first signs of slowing in November 2009 and erratic sales continuing well into 2010.

While prescription volumes continue to grow, sales revenues have been impacted as a result of Pharmac reducing tender prices for high volume medicines.

Changes in the funding model

Pharmacy funding is at a cross roads. Dispensing income had eroded significantly under policy changes initiated by the previous government and government agencies are now considering new contracting options to manage expenditure and deliver, better, sooner, more convenient healthcare. It is widely recognised that pharmacy can contribute a lot more to primary care than simply providing a funded dispensary service. It is important that we find ways to off-set rising costs and develop incentives to provide a greater contribution to primary care, irrespective of where the funding comes from. We believe that the establishment of integrated Electronic Health Records will be an important step towards realising the potential of pharmacy. Pharmacy groups like ours are able to participate in large-scale programmes, it will improve the efficiency of our service delivery and, equally importantly, provide us with opportunities to better serve our customers.

Implications for store locations

Mall pharmacies have been impacted more than others by the recession, both as a result of a different product mix and declining customer numbers. Rental increases have outstripped sales growth over several years and our rents in many locations are now untenable. Accordingly we will exit sites where we cannot re-balance those rentals.

We have established new partnership stores in Centre Place Hamilton and Stokes Valley. Our goal for pharmacy ownership is to achieve 51 percent owner-operators in each partnership store, as this model best balances the skills, professional service and dedication of the pharmacist-owner with the services provided by the franchisor. Over the next year the company will be working with existing business partners to move towards this ownership model.

CEO Report (continued)
For the year ended 31 March 2010

Operational focus 2010-2011

Our operational focus for the 2010-2011 year is to capitalise on our existing advantages and to pursue opportunities to extend those:

- We will leverage our size and buying power both to facilitate franchisee growth and profitability. Having critical mass enables us to pursue own brand strategies. Our plans in this regard are progressing well.
- We will add partnership stores to our portfolio to increase our equity interest in the overall pharmacy sector. This is generally achieved through acquiring an existing business and assisting a pharmacist partner to take a 51 percent share holding.
- We will continue to carefully manage the cost structure for existing businesses to re-balance rentals and optimise labour. Responding to the sales trend with good cost management will be important to our result this financial year if retail remains soft.
- We will enhance our retail capability to ensure we can compete effectively against all our competitors. This will require us to undertake initiatives in four areas: to make additional investment in back office systems; to achieve further economies in our merchandising and marketing approach under existing promotional programmes; to develop a web strategy with an integrated e-commerce offering; and to ensure we apply the best retail metrics to continually refine our ranges.
- We will ensure that each of our franchise operations benefits from the learnings, operating procedures and metrics that we apply to our partnership stores.

In summary, we expect to continue to expand both aspects of our business. As the industry consolidates further and independent pharmacies realise the benefits to be gained by belonging to our franchises we expect to see opportunities to grow our franchise operations. At the same time our partnership store strategy, while still less mature, provides a great opportunity to grow profit and create wealth both for Pharmacybrands and our store partners.

Alan Wham

Alan Wham
Chief Executive Officer

Corporate governance

For the year ended 31 March 2010

Role of the Board of Directors

The Board of Pharmacybrands Limited (PHB) is elected by the shareholders to represent all of the Company's shareholders. It is the Board's responsibility to establish the strategic direction and objectives of PHB and set the policy framework within which PHB must operate. The Chief Executive Officer (CEO) is appointed by the Board, and has delegated authority for the day-to-day operations of PHB.

The Board comprises three independent directors and five non-executive directors. The total annual directors' remuneration approved for each financial year is capped at $310,000, with the fees commencing 1 April 2009. 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	30 August 2007		41,250
John Bolland *	31 October 2008		30,000
Elizabeth (Liz) Coutts	4 March 2005	3 August 2009	26,667
Andrew Davidson +¥	4 March 2005		40,000
William Meaney	7 September 2009		16,250
Peter Merton *+	7 September 2009		43,334
Kenneth Orr (alternate to William Meaney)	3 November 2009		-
Keith Rushbrook *¥	21 September 2009		21,667
Ian Sharp ¥	7 September 2009		16,250
Neil Webber	4 March 2005	8 September 2009	12,500
Mark Vuksich +	4 March 2005		30,000
Total			**277,918**

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

The current directors are involved with, and where applicable, have declared the following general interests:

Andrew Bagnall – LPL Trustee Limited (Director & Shareholder), Segoura Limited (sole Shareholder and Director), major shareholder or director of various unlisted or privately controlled companies.

John Bolland – Contractor to Segoura Limited, shareholder or director of various unlisted or privately controlled companies.

Andrew Davidson – Lighthouse Ventures Limited (Director & Shareholder); Hansells Food Group Limited (Director); Barnardos New Zealand (Director).

William Meaney – The Zuellig Group (Chief Executive Officer), Moksha8 (Director), Cape Healthcare Limited (Director).

Peter Merton – EBOS Limited (Director), Cape Healthcare Limited (Director & Shareholder).

Kenneth Orr (Alternate Director for William Meaney) – Orrs Pharmacies Limited (Director & Shareholder), Orrs Kaipara Pharmacies Limited (Director & Shareholder), Dodds Maungaturoto Pharmacy Limited (Director & Shareholder), Orrs Rust Ave Pharmacy Limited (Director and Shareholder), Manaia Health PHO (Director).

Keith Rushbrook – KC Securities Limited (Director), Perpetual Trust Securities Trustee Limited (Director), Southern Cross Biotechnologies (NZ) Limited (Director).

Ian Sharp – CHB Apothecary Limited (Amcal Pharmacy Waipukurau), (Director & Shareholder).

Mark Vuksich – Pharmacy 277 Limited (Director & Shareholder); PIMS 2005 Limited (Director & Shareholder); St Lukes Pharmacy Holdings Limited (Director & Shareholder); Porirua Pharmacy Limited (Director).

Corporate governance (continued)

For the year ended 31 March 2010

Governance Policies

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.

The Board has established corporate governance policies and confirmed the following principles:

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 General Meeting. Any material information affecting the Company during the intervening period is announced to the financial markets via the New Zealand Stock Exchange (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 PHB. All directors, deemed directors, officers and other restricted persons of PHB must formerly apply for consent to trade PHB's securities from the Chief Financial Officer 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 PHB are obliged to complete and submit disclosure notices to the New Zealand Stock Exchange (NZX) within five days of any trades being settled.

Board Size and Structure

The Board comprises two directors nominated by LPL Trustee Limited (currently Andrew Bagnall and John Bolland), two directors nominated by Cape Healthcare Limited (currently Peter Merton and William Meaney), up to three independent directors and one further non-executive director. The independent directors are selected to ensure that the appropriate skills and experience are available. One of the directors will be appointed as Chairman.

The Board meets periodically, 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.

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 one independent director and two non-executive directors, who meet as required to:

- Review the remuneration of the Chief Executive Officer and approve remuneration of the CEO's direct reports.
- Make recommendations to shareholders for non-executive and independent director remuneration
- 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 Andrew Davidson (Chairman), Peter Merton and Mark Vuksich.

Corporate governance (continued)
For the year ended 31 March 2010

The number of Pharmacybrands' current and former employees whose remuneration and other benefits received as employees was greater than $100,000 during the financial year ended 31 March 2010 fell within the specified bands as follows:

	Group	
	2010	**2009**
Employee annual remuneration bands:		
$100,000 - $110,000	3	2
$110,000 - $120,000	-	-
$120,000 - $130,000	-	1
$130,000 - $140,000	2	2
$140,000 - $150,000	2	-
$150,000 - $160,000	1	-
$170,000 - $180,000	1	-
$200,000 - $210,000	3	-
$220,000 - $230,000	1	-
$330,000 - $340,000	-	1
$520,000 - $530,000	1	-

Audit Committee
The committee comprises one independent director 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 Chief Executive Officer and the Chief Financial Officer attend as ex-officio members and external auditors by invitation of the Chairman. The Audit Committee 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.

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 releases 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
- 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 and John Bolland.

Independent Directors' Committee
The 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 company's associated companies.

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

Group entities

For the year ended 31 March 2010

The current Pharmacybrands Limited group structure comprises 45 companies. The group entities are as follows:

	Holding	Activity
Legal Parent		
Pharmacybrands Limited (formally Life Pharmacy Limited)		Franchisor & Investment
Controlled entities		
Care Chemist Limited	100.0%	Franchisor
Pharmacy Management Limited	100.0%	Services to retail pharmacy
Pharmacy Store Holdings Limited	100.0%	Investment
Pharmacy Transition Limited (formally Pharmacybrands Limited)	100.0%	Franchisor & Investment
Amcal Chemists (NZ) Limited	100.0%	Non-trading
Dispensaryfirst 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
Palmerston North Pharmacy (2005) Limited	100.0%	Non-trading
Smart Pharmacy Limited	100.0%	Non-trading
Unichem Chemists (NZ) Limited	100.0%	Non-trading
Joint Venture entities		
LPL Investments Limited	50.0%	Retail
Pharmacies Instore Limited	50.0%	Retail
Associate entities		
280 Queen Street (2008) Limited	43.9%	Pharmacy
A H McAulay Limited	49.0%	Pharmacy
Albany Pharmacy Limited	49.0%	Pharmacy
Bayfair Pharmacy Limited	49.0%	Pharmacy
Care Chemist Pakuranga (2008) Limited	49.0%	Pharmacy
Centre City Pharmacy (2004) Limited	43.9%	Pharmacy
Guthries Pharmacy 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
Lake Taupo Pharmacy (2008) Limited	48.5%	Pharmacy
Levin Pharmacy (2005) Limited	49.0%	Pharmacy
Life Pharmacy Albany Limited	49.0%	Pharmacy
Life Pharmacy Centre Place (2009) Limited (formally Beauty Direct Operations Limited)	49.0%	Pharmacy
Life Pharmacy Sylvia Park Limited	49.0%	Pharmacy
Life Pharmacy Wall Street Dunedin Limited	49.0%	Pharmacy
Murray Dunn Pharmacy Limited	49.0%	Pharmacy
Neil Webber Pharmacy Limited	49.0%	Pharmacy
Northlands Pharmacy 2003 Limited	49.0%	Pharmacy
Pharmacy 277 Limited	49.0%	Pharmacy
Queensgate Pharmacy Limited	49.0%	Pharmacy
Riccarton Mall Pharmacy 2000 Limited	49.0%	Pharmacy
Shirley Pharmacy Limited	49.0%	Pharmacy
Shore City Pharmacy Limited	49.0%	Pharmacy
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	49.0%	Pharmacy
Waiuku Pharmacy (2005) Limited	46.6%	Pharmacy

Group entities (continued)
For the year ended 31 March 2010

Pharmacybrands is the franchisor to the Amcal, Care Chemist, Life Pharmacy and Unichem brands that operate throughout New Zealand.

The Pharmacybrands stores that operate throughout New Zealand are located in the following regions:

Region	Amcal Franchisees	Care Chemist Franchisees	Life Franchisees	Unichem Franchisees
Northland	3	-	-	7
Greater Auckland	28	17	16	31
Central North Island	12	2	6	30
Lower North Island	10	2	3	30
Upper South Island	8	-	-	5
Central South Island	7	1	3	14
Lower South Island	6	2	1	13
Total	**74**	**24**	**29**	**130**

Directors' declaration
For the year ended 31 March 2010

In the opinion of the directors of Pharmacybrands Limited, the financial statements and notes, on pages 14 to 43:

- 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 2010 and the results of their operations and cash flows for the year ended on that date.
- 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 2010.

For and on behalf of the Board of Directors:

Peter Merton	Keith Rushbrook
Chairman	Director
27 May 2010	27 May 2010

Auditors' report

To the shareholders

For the year ended 31 March 2010

We have audited the financial statements on pages 14 to 43. The financial statements provide information about the past financial performance and financial position of the Group as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 18 to 26.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Group as at 31 March 2010 and the results of their operations and cash flows for the year ended on that date.

Auditor's responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Group.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- the financial statements on pages 14 to 43:
    - comply with New Zealand generally accepted accounting practice;
    - give a true and fair view of the financial position of the Group as at 31 March 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 27 May 2010 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

Consolidated statement of comprehensive income

For the year ended 31 March 2010

	Note	2010 $'000	2009 $'000
Operating Revenue			
Membership revenue	**8**	4,902	4,093
Marketing revenue		5,808	3,679
Associate earnings	**21**	1,640	538
Other income	**9**	3,847	2,954
		16,197	**11,264**
Operating expenditure			
Governance and accountability	**10**	407	244
Marketing expenses		4,332	2,245
Depreciation and amortisation	**18,19**	258	126
Employee benefit expense		4,420	3,356
Other expenditure	**11**	3,199	3,517
		12,616	**9,488**
Operating profit before interest and tax		**3,581**	**1,776**
Interest income		555	461
Interest expense		(90)	-
Net interest income		**465**	**461**
Profit before tax		**4,046**	**2,237**
Tax expense	**12**	(523)	(528)
Profit after tax		**3,523**	**1,709**
Other comprehensive income for for the year, net of tax		-	-
Total comprehensive income for the year attributable to shareholders		**3,523**	**1,709**
Basic earnings per share (cents)	**13**	4.29	3.24
Diluted earnings per share (cents)	**13**	4.29	3.24

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 18 to 43 form part of the financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2010

	Note	Share Capital $'000	Retained Earnings $'000	2009 Total equity $'000
Balance at 1 April 2008		3,853	1,096	4,949
Total comprehensive income for the period				
Profit for the period			1,709	1,709
Total other comprehensive income			-	-
Total comprehensive income for the period			**1,709**	**1,709**
Transactions with owners, recorded directly in equity				
Issue of shares		41		41
Dividends to shareholders		-		-
Balance at 31 March 2009		**3,894**	**2,805**	**6,699**

	Note	Share Capital $'000	Retained Earnings $'000	2010 Total equity $'000
Balance at 1 April 2009		3,894	2,805	6,699
Total comprehensive income for the period				
Profit for the period			3,523	3,523
Total other comprehensive income			-	-
Total comprehensive income for the period			**3,523**	**3,523**
Transactions with owners, recorded directly in equity				
Issue of shares	**14**	29,136		29,136
Dividends to shareholders	**15**		(1,246)	(1,246)
Share scheme amortisation		21		21
Balance at 31 March 2010		**33,051**	**5,082**	**38,133**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 18 to 43 form part of the financial statements.

Consolidated statement of financial position
As at 31 March 2010

	Note	2010 $'000	2009 $'000
Equity			
Share capital		33,051	3,894
Retained earnings		5,082	2,805
Total equity		**38,133**	**6,699**
Current assets			
Cash and bank balances		10,300	4,419
Trade and other receivables	**16**	4,135	1,368
Inventories		48	25
Advances to associates	**17**	4,919	-
Total current assets		**19,402**	**5,812**
Non-current assets			
Fixed assets	**18**	359	230
Intangible assets	**19**	1,212	566
Deferred tax asset	**20**	1,180	178
Advances to associates	**17**	-	-
Equity accounted group investments	**21**	23,853	3,611
Total non-current assets		**26,604**	**4,585**
Total assets		**46,006**	**10,397**
Current liabilities			
Payables and accruals	**22**	5,084	3,698
Unamortised future income		22	-
Borrowings	**23**	2,664	-
Total current liabilities		**7,770**	**3,698**
Non-current liabilities			
Unamortised future income		103	-
Total non-current liabilities		**103**	**-**
Total liabilities		**7,873**	**3,698**
Net assets		**38,133**	**6,699**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 18 to 43 form part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Associate dividend received		1,139	-
Membership, marketing and other revenue		13,927	10,326
Interest received		555	461
Payments to suppliers and employees		(13,684)	(8,549)
Interest paid		(90)	-
Income taxes paid		(499)	(254)
Net cash inflow from operating activities	**24**	**1,348**	**1,984**
Cash flows from investing activities			
Fixed asset purchases		(306)	(47)
Investment in associates		(77)	(188)
Cash acquired on business combination		5,766	-
Sale of shares in associate		70	-
Decrease/(increase) in Loans to associates		1,086	(52)
Net cash inflow/(outflow) from investing activities		**6,539**	**(287)**
Cash flows from financing activities			
Increase/(decrease) in borrowings		(770)	-
Shares issued for cash		11	41
Dividends paid		(1,247)	-
Net cash inflow/(outflow) from financing activities		**(2,006)**	**41**
Net increase in cash equivalents		**5,881**	**1,738**
Add opening cash equivalents		**4,419**	**2,681**
Closing cash and bank balance equivalents		**10,300**	**4,419**
Reconciliation of closing cash equivalents to the balance sheet:			
Cash and bank balances		10,300	4,419
Closing cash equivalents		**10,300**	**4,419**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 18 to 43 form part of the financial statements.

Notes to the financial statements
For the year ended 31 March 2010

1. Reporting Entity

Pharmacybrands Limited (formerly Life Pharmacy 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. (Refer note 7)

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 and Care Chemist franchise brands comprising 257 retail outlets within New Zealand.

2. Basis of preparation

(a) 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 orientated entities. They comply with IFRS.

As a result of the change in the controlling entity within the Group the comparatives have been restated to reflect the Group from the perspective of the controlling entity, Pharmacy Transition Limited (formerly Pharmacybrands Limited).

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

The financial statements were approved by the Board of Directors on 27 May 2010.

(b) 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.

(c) 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.

(d) Significant estimates and judgements

The preparation of financial statements in conformity with NZIFRS's requires management to make judgements, 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 judgements 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 judgement 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:

(d) Significant estimates and judgements (continued)

(i) Classification of investments

Classifying investments as either subsidiaries, associates or joint ventures requires management 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 management to estimate future cash flows to be generated by cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements 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 management 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.

(iii) Recognition of deferred tax assets

The value of deferred tax assets recognised in the financial statements involves a significant degree of judgement around the future profitability, ownership and legislative outcomes impacting on the Group entity to which the assets or potential assets relate. In making the required judgements management take account of all circumstances of which they are aware and current economic forecasts which might have bearing on the tax situation of the entity concerned. Note 20 to these financial statements contains further information on tax losses the Group has incurred but not recognised as a deferred tax asset.

(e) 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 components of the financial statements

(a) 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 operating the Life Pharmacy, Unichem, Amcal & Care Chemist brands. The primary method of achieving this is through receipt of franchise revenue and investing in associate stores. Accordingly the Group records revenue income arising from associate stores as its share of earnings.

Franchise revenue is based on actual franchisees results and is recognised on an accruals basis when it is earned.

(b) Expenses

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

(c) Classification of assets and liabilities between current and non-current

An amount is classified as current when it is expected to be settled or extinguished within one year of the date of the financial statements. All other amounts are classified as non-current.

Basis of recognition components of the financial statements (continued)

(d) 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

(a) 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.

(b) 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. Goodwill arising on acquisition of subsidiaries is included in the carrying value of the subsidiary and is 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 (being each region) 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.

(c) 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.

Basis of preparing group financial statements (continued)

(d) 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 (being the subsidiary) 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 of a cash generating unit.

5. Specific Accounting Policies

(a) Share capital

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

Share options issued by the Parent entitle independent directors and 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 director or employee.

(b) Property, plant & equipment

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

Property, plant & 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 & equipment components to allocate the cost of the asset (less any residual value) over its useful life. The residual values and remaining useful lives of fixed asset components are reviewed at least annually.

Estimated useful lives of the asset classes are:

Office equipment	2 - 10 years

Subsequent expenditure that extends or expands the useful life of property, plant & equipment 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 a fixed asset is recognised in the income statement in the period in which the fixed asset is disposed of.

Specific Accounting Policies (continued)

(c) Intangible assets

Intangible assets owned by the Group are stated at cost less amortisation and any impairment losses with the exception of goodwill (refer note 4(d)).

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 & 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

Specific Accounting Policies (continued)

(h) 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.

(i) 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 appreciation rights is measured using the Black-Scholes formula.

(j) Goods and services tax (GST)

The statement of income has been stated so that all components are exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables, which include GST invoiced.

(k) 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.

(l) Segment reporting

The Group's operations are solely in the pharmaceutical industry providing pharmacy retail services through equity accounted partnership stores and franchise stores. Whilst the Board monitors the revenue streams of the two businesses, the segments do not meet the criteria for separate disclosure due to the following:

- Aggregation of the two operating segments is consistent with the core principal of NZIFRS 8, i.e. aggregating will not distort the interpretation of the financial statements for the users
- The two operating segments 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 two operating segments

Accordingly, all of the Group's operating segments are considered by management to be combined in one reportable segment.

Specific Accounting Policies (continued)

(m) New standards and interpretations adopted and not yet adopted

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 3 Business combinations (revised) changes the application of acquisition accounting for business combinations and the accounting for non-controlling interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements
- Revised NZ IAS 27 Consolidated and Separate Financial Statement changes the accounting for non-controlling interest and the loss of control of a subsidiary. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- Amendments to NZ ISA 32 Financial Instruments: Presentation clarifies that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments are financial liabilities. The amendment becomes mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial statements.
- Amendments to NZ IFRS 2 Share-based Payment – Vesting Conditions and Cancellations change the measurement of share-based payments that contain non-vesting conditions. The amendment becomes mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial statements.

6. Accounting estimates and judgements

In authorising the financial statements for the full year ended 31 March 2010, 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 interim 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.

(a) 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 an internal discounted cash flow model on a value in use basis.

The model is based on an eight year cash flow cycle to coincide with a typical store refit cycle, using the approved budgets for the year ending 31 March 2011 as the first forecast year. Subsequent cash flows for the next seven years have been forecast on an individual associate store basis taking into account inflation and likely growth rates of that particular store and its location. Cash flows beyond that are projected to change in line with inflation.

Accounting estimates and judgements (continued)

The discount rate applied is 15.0% on the unleveraged post-tax nominal cash flows; including working capital movements and capital expenditure (equivalent pre-tax discount rate is 21.4%). An inflation assumption of 2.5% has been used, with growth factors above inflation ranging from 0% to 0.5% for stores, with some specific stores reaching as high as a 5% growth factor above inflation in the year a refit is planned. Where growth factors are added onto inflation these are based on, and are not greater than, the long term average growth rate.

The budget information used as the base for the cash flow forecast is drawn from the budgets approved by each associate company's Board for the year ending 31 March 2011. 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 2011.

For the purposes of impairment testing the associates are grouped into 11 regions based on the proximity to each other and the extent of overlapping customer spend. Each region is tested for impairment based on the aggregate of the individual stores. Net present value within each region is compared to the aggregate of the carrying amount of each associate within each region.

<u>Sensitivities</u>

<u>Discount Rate</u>
A movement of 1% in the discount rate would have the following approximate effect on the calculated recoverable amount of the investments in associates:

1% increase	($2,280,000)	Impairment of $400,000 generated
1% decrease	$2,661,000	No impairment

<u>Retail Sales</u>
A movement of 1% in retail sales would have the following approximate effect on the calculated recoverable amount of the investments in associates:

1% increase	$2,063,000	No impairment
1% decrease	($2,044,000)	Impairment of $275,000 generated

<u>Costs</u>
A movement of 1% in store costs would have the following approximate effect on the calculated recoverable amount of the investments in associates:

1% increase	($495,000)	No impairment
1% decrease	$495,000	No impairment

(b) Impairment testing of goodwill

The Group has goodwill in relation to its investment in the Care Chemist and Amcal franchise businesses. Goodwill is tested for impairment annually using an EBITDA earnings multiple valuation on a value in use basis. The valuation uses the PHB approved budget for the year ending 31 March 2011.

The earnings multiple applied is 5.5 times EBITDA on the direct revenues and costs associated with providing franchise services to the Care Chemist and Amcal branded Pharmacies throughout the country. Any adverse changes in the actual performance of the business for the year ending 31 March 2011 will reduce the calculated recoverable amount and this may result in the recognition of further impairment losses and a further write-down of the carrying amount of the investment.

<u>Sensitivity</u>

<u>EBITDA Multiple</u>
A increase / (decrease) of 0.5 times EBITDA multiple would have the following effect on the calculated recoverable amount of the investment in the brands:

0.5 times EBITDA multiple increase	No impairment
0.5 times EBITDA multiple decrease	No impairment

Accounting estimates and judgements (continued)

(c) Recognition of deferred tax assets in respect of tax losses carried forward

The Group has recognised a deferred tax asset in respect of tax losses carried forward of $3,493,000. These tax losses have been generated from taxable losses and the conversion of excess imputation credits into losses in prior years.

During the year the Group forfeited $742,000 of tax losses brought forward due to the loss of shareholder continuity following the business combination between Pharmacybrands Limited and Pharmacy Transition Limited, and utilised $360,000 of losses from profit generated in the second half post the business combination of the two companies.

The Directors have considered the requirement that there be convincing evidence to support carrying these tax losses, they have identified the key risks and applied their judgement in support of the deferred tax asset being recognised.

7. Business Combination of Pharmacybrands Limited (formerly Life Pharmacy Limited) and Pharmacy Transition Limited (formerly Pharmacybrands Limited).

On 31 March 2010 Life Pharmacy Limited changed its name to Pharmacybrands Limited (PHB). At the same time Pharmacybrands Limited changed its name to Pharmacy Transition Limited (PTL).

On 30 September 2009 Pharmacybrands Limited acquired Pharmacy Transition Limited through the issue of 39.783 fully paid shares in PHB for every PTL share.

From a legal perspective the business combination is an acquisition by PHB of 100% of the issued share capital of PTL. For financial reporting purposes the merger is treated as a reverse acquisition. The directors believe that having reviewed the specifics of the transaction, this accounting treatment is appropriate. The business combination is therefore accounted for and reported as if PTL has acquired 100% of PHB.

The consolidated financial statements are therefore a continuation of PTL. Comparatives are for PTL up to and including 30 September 2009 and the combined Group from 1 October 2009 to 31 March 2010.

The table below shows the fair values of the assets and liabilities acquired. These reflect the pre-acquisition carrying amounts determined by PHB based on applicable NZ IFRSs immediately prior to the acquisition.

The cost of the transaction is determined by reference to the fair value of the shares issued to PTL shareholders.

As shown in the table below there is no new goodwill recognised from the acquisition of PHB by PTL.

	Acquisition Value $'000
Fair value of consideration	29,125
Acquisition costs	330
Cost of acquisition	**29,455**
Trade and other receivables	2,392
Payables and accruals	(3,085)
Fixed assets	359
Advances to associates	6,253
Equity accounted group investments	19,737
Deferred tax asset	1,137
Cash and bank balances net of borrowings	2,662
Fair value of net assets acquired	**29,455**

Pharmacybrands Limited (independent of Pharmacy Transition Limited) recorded a profit of $0.2 million in the six months to 30 September 2009 prior to adjusting for one-off items of $3.2 million that have resulted from the business combination with Pharmacy Transition Limited. These adjustments include:

- The acquisition costs of $0.7 million in relation to the merger with Pharmacy Transition Limited and other related transactions.
- Tax losses of $0.7 million have been forfeited due to changes in shareholder continuity created by the issue of Pharmacy Brands shares to Pharmacy Transition Limited shareholders.
- Integration costs of $0.6 million have been provided for as a result of planned pre acquisition restructuring costs.
- A provision of $1.1 million reflecting a review of pharmacy and other assets prior to the merger of both companies.

Notes to the financial statements

For the year ended 31 March 2010

		2010 $'000	2009 $'000
8.	**Membership revenue**	4,902	4,093

Membership revenue includes revenue from associates 2010: $1,528,000 (2009: $872,000) pursuant to commercial franchise agreements.

		2010 $'000	2009 $'000
9.	**Other income**		
	Management fees	22	304
	Leasing receipts	669	532
	Commissions	1,727	1,304
	Owners & other conference income	703	699
	Gain on sale of investments in associate	70	101
	Associate store administration fees	609	-
	Other	47	14
		3,847	**2,954**
10.	**Governance and accountability**		
	Audit fees	83	35
	Directors' fees	243	146
	Senior Executives' share option expense	21	-
	Reporting	13	9
	Secretarial and board expenses	39	54
	Stock exchange and registry fees	8	-
		407	**244**
	Auditor's remuneration to KPMG/PWC (2009) comprises:		
	Annual audit of financial statements	80	35
	Audit related fees	3	-
		83	35
11.	**Other expenditure**		
	Leases	590	538
	Amortisation of lease incentive	(46)	(35)
	Doubtful debt expense	41	-
	Other operating costs	2,614	3,014
		3,199	**3,517**

12. (a) Income tax expense

	2010 $'000	2009 $'000
Current year tax	(533)	(553)
Prior year adjustment	145	-
Current tax expense	**(388)**	**(553)**
Deferred tax expense		
Use of tax losses	(105)	-
Origination and reversal of temporary differences	(33)	25
Prior year adjustment	3	-
Deferred tax expense	**(135)**	**25**
Total income tax expense	**(523)**	**(528)**
Imputation credit account:		
Opening balance	370	199
Tax payments	330	119
Resident withholding tax deducted	-	-
Imputation credits lost on shareholding change	65	-
Imputation credits dividends received	610	52
Imputation credits dividends paid	(621)	-
Imputation credits on bonus share issue	(111)	-
Imputation credits on tax refunds	-	-
	643	**370**

Tax losses

The Group has $3,493,000 of tax losses to carry forward which results in a deferred tax asset of $1,048,000 (see note 20). Refer to note 6(c) for assumptions regarding recognition of the deferred tax asset in relation to these tax losses.

(b) Numerical reconciliation between tax expense & pre-tax accounting profit/(loss)

	2010 $'000	2009 $'000
Profit before tax	4,046	2,237
Income tax (expense)/benefit at 30%	(1,214)	(671)
(Add)/deduct the tax effect of permanent differences:		
Fully imputed dividends/associate results	428	-
Non-assessable revenue	126	143
Non-deductible expenses	(11)	-
Prior year adjustments	148	-
	(523)	**(528)**

Notes to the financial statements
For the year ended 31 March 2010

13. 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.

	2010 $'000	2009 $'000
Basic earnings per share comprises:		
Profit/(Loss) for the period	**3,523**	**1,709**
Opening number of shares (000's)	66,791	36,353
Add/(deduct) the effect of:		
Shares issued (September 2008)	-	16,432
Shares cancelled (July 2009)	(636)	-
Shares cancelled (September 2009)	(4,225)	-
Shares issued (September 2009)	20,294	-
Shares cancelled (October 2009)	(2)	-
Shares cancelled (December 2009)	(202)	-
Shares issued (March 2010)	41	-
Weighted average number of shares	**82,061**	**52,785**
Basic earnings per share (cents)	4.29	3.24

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares issued during the year.

Diluted earnings per share (cents)
As there have been no share options outstanding during the year, no separate calculation of diluted earnings per share is presented.

Impact of reverse acquisition accounting for combination of PHB and PTL
During the period, PHB legally acquired all of the outstanding shares of PTL (refer note 7). That transaction has been accounted for as a "reverse acquisition" in preparing these Group financial statements. One of the impacts of this accounting treatment is that the 2009 comparative Profit for the Period shown in the Statement of Comprehensive Income, is the 2009 results for PTL. The earnings per share calculation above is also calculated on the basis of PTL's 2009 Profit for the Period, and therefore is different to the earnings per share published in the 2009 audited financial statements of PHB (0.12 cents per share).

	2010	2009
Dividend per share (cents)	1.26	-

The calculation of dividends per share (which is disclosed at the foot of the income statement) is based on the total dividend paid and or declared for the year attributable to ordinary shareholders and the closing number of ordinary shares at the end of the year.

	2010	2009
Net assets per share (cents)	38.6	10.0

The calculation of net assets per share is based on net assets and the closing number of ordinary shares at the end of the year.

	2010	2009
Net tangible assets per share (cents)	36.5	9.0

The calculation of net tangible assets per share is based on net assets less deferred tax and the goodwill element of investment in associates (refer note 20 & 21) and the closing number of ordinary shares at the end of the year.

14. Shares issued and cancelled

On 16 October 2008 Pharmacy Transition Limited issued 1,500 fully paid ordinary shares at $5.50 per share to a new licensee joining the brand. On 12 May 2009 Pharmacy Transition Limited issued a further 1,500 fully paid ordinary shares at $5.50 per share to a new licensee joining the brand. As at 30 September 2009 Pharmacy Transition Limited had a total of 1,023,045 fully paid ordinary shares on issue. No other types or classes of share were on issue.

On 1 March 2010, Pharmcybrands Limited issued 500,000 redeemable ordinary shares to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds shares on behalf of the CEO of Pharmacybrands Limited. The shares were issued at $0.40 per share, initially paid up to $0.01 per share. Until such time as the redeemable ordinary shares are redeemed and transferred to the CEO the shares carry entitlements to dividends and votes to the proportion to which they are paid up. No redeemable ordinary shares can be redeemed before the third anniversary of appointment date of the CEO being 1 October 2009.

The fair value consideration of $29,125,000 from the merger between Pharmacy Transition Limited and Pharmacybrands Limited on 30 September 2009 was determined with reference to the number of shares PTL would have needed to issue in order to reduce the holding of PTL shareholders to the same proportion they hold in PHB post the merger at the fair value price of the shares at the time of the merger.

15. Distribution to owners comprises

On 27 July 2009 Pharmacy Transition Limited paid a dividend of $1.2186 per share.

	2010 $'000	2009 $'000
16. Trade and other receivables		
Trade Receivables	2,238	1,149
Accrued income	156	-
Other receivables	430	50
Prepayments	140	186
Provision for doubtful debts	(83)	(17)
Receivables from associates	1,025	-
Receivables from joint venture	229	-
	4,135	**1,368**

Receivables from associates includes dividends due from associates of $444,000 (2009: Nil), which are contractually payable in accordance with shareholder agreements entered into with each owner of the associate. Trade receivables include amounts owing by associates and joint venture of $581,000 (2009: Nil)

		2010 $'000	2009 $'000
17. Group advances			
Loans to associates	(current)	4,919	-
Loans to associates	(non-current)	-	-
		4,919	**-**

The loans to associates are advanced under a revolving debt facility (refer note 23 for loan terms and security details) with interest charged on a floating basis at 5.97% (2009: n/a). These advances are repayable on demand.

Notes to the financial statements
For the year ended 31 March 2010

	2010 $'000	2009 $'000
18. Property, plant and equipment		
Office Equipment		
Opening cost	736	794
Additions	398	52
Disposals	-	(110)
Closing cost	**1,134**	**736**
Opening accumulated depreciation	506	520
Depreciation for the period	256	91
Disposals	-	(105)
Acquired	75	-
Closing accumulated depreciation	**837**	**506**
Closing book value	297	230
Work in progress	62	-
Total fixed assets	**359**	**230**

Work in progress relates to projects not yet complete.

	2010 $'000	2009 $'000
19. Intangible assets		
Software		
Opening cost	227	382
Additions	999	2
Disposals	-	(157)
Closing cost	**1,226**	**227**
Opening accumulated amortisation	201	321
Amortisation for the period	-	35
Disposals	-	(155)
Acquired	718	-
Closing accumulated amortisation	**919**	**201**
Trademarks at cost	**27**	**27**
Opening accumulated amortisation	12	12
Amortisation for the period	2	-
Closing accumulated amortisation	**14**	**12**
Goodwill		
Opening cost	525	525
Additions	367	-
Closing cost	**892**	**525**
Total intangible assets	**1,212**	**566**

	2010 $'000	2009 $'000
20. Deferred tax asset		
Opening balance	178	153
Recognised in income statement	(135)	25
Acquired	1,137	-
	1,180	**178**

The deferred tax asset is made up of the following temporary differences:

	Opening $'000	Recognised in the profit or loss $'000	Acquired $'000	Closing $'000
Group – 2010				
Fixed assets	24	(57)	4	(29)
Provisions	154	27	(20)	161
Tax losses	-	(105)	1,153	1,048
	178	**(135)**	**1,137**	**1,180**
Group – 2009				
Fixed assets	19	5	-	24
Provisions	134	20	-	154
Tax losses	-	-	-	-
	153	**25**	**-**	**178**

		2010 $'000	2009 $'000
21. Group investments			
Equity accounted joint venture		87	-
Equity accounted associates	**(a)**	23,766	3,611
		23,853	**3,611**
The movement in equity accounted associates comprises:			
Brought forward		3,611	2,885
Investment in associates	**(b)**	19,359	326
Disposal of associates		-	(32)
Share of net earnings		1,640	538
Less associate dividend		(844)	(106)
		23,766	**3,611**
Equity accounted associates include goodwill as follows:			
Gross goodwill brought forward		2,781	1,416
Associates acquired	**(b)**	15,042	1,365
Total goodwill		**17,823**	**2,781**

Group investments (continued)

a) *Associate pharmacy entities include:*
Equity accounted associate pharmacies are listed on page 10 under associate entities.

b) *Associates acquired during the period*
The Group acquired a 49% interest in the following pharmacies as a result of the business combination of PHB and PTL; A H McAulay Limited, Bayfair Pharmacy Limited, Guthries Pharmacy Limited, Life Medicentre Pharmacy Pakuranga (2008) Limited, J-Mall Pharmacy Limited, Life Pharmacy Albany Limited, Life Pharmacy Sylvia Park Limited , Murray Dunn Pharmacy Limited, Neil Webber Pharmacy Limited, Northlands Pharmacy 2003 Limited, Pharmacy 277 Limited, Porirua Pharmacy (2006) Limited, Queensgate Pharmacy Limited, Riccarton Mall Pharmacy 2000 Limited, Shirley Pharmacy Limited, Shore City Pharmacy Limited, Sinel-Francis Pharmacy Limited, Sinel-Francis Pharmacy Tauranga Limited and St Lukes Pharmacy Holdings Limited. During the second half the Group acquired a 49% interest in Life Pharmacy Centre Place (2009) Limited and the Group disposed of its 49% interest is Porirua Pharmacy (2006) Limited.

Summary associate financial information
The aggregate results of the associates financial position and operations for the reporting period are as follows:

	Assets $'000	Liabilities $'000	Revenue $'000	Net Profit after tax $'000
As at and for the year ended 31 March 2010	45,604	23,433	79,644	3,022
As at and for the year ended 31 March 2009	9,221	4,054	20,615	808

Under the shareholders' agreement executed with each associate, dividend distributions are capped at the current years 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, the joint venture and all associates have a 31 March reporting date.

22. Trade and other payables

	2010 $'000	2009 $'000
Trade Payables	2,077	1,997
Accruals	2,952	1,701
Employee entitlements	55	-
	5,084	**3,698**

23. Borrowings

	2010 $'000	2009 $'000
Current	2,664	-
Non-current	-	-
	2,664	**-**

Borrowings

Bank borrowings obtained by Pharmacybrands Limited from ANZ National Bank Limited (ANZNB) are on-lent to individual associates under a group borrowing facility comprising $3.4 million revolving credit facility allocated directly to the associates. Interest is payable monthly on all borrowings at an effective interest rate of 5.67% on call. Overdraft facilities are arranged directly with the bank.

The associate advances and borrowings (refer note 17) 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 ANZNB, with back-to-back guarantees received from each pharmacist shareholding limiting the Company's ultimate exposure to commensurate with Pharmacybrands Limited's 49% shareholding in each associate.

While back-to-back loan and guarantee agreements have been executed between ANZNB, Pharmacybrands Limited and each associate, the Company does not have a legal right of set-off and accordingly both the associate advances and borrowings are separately recognised in the balance sheet.

On 29 September 2009 the current facility was extended for a further 4 months to 31 January 2010 and then on 5 April 2010 formerly extended further to 31 July 2010.

During the year ended 31 March 2009 Pharmacy Transition Limited received approved credit flexi facility of $2.0m from ANZNB. On 5 April 2010 Pharmacybrands Limited received a new facility agreement with the ANZNB that included the existing facility agreement previously with the former Life Pharmacy Limited company, with a balance of $3,049,200. The credit flexi facility of $2.0 million was not renewed. Pharmacybrands Limited and its subsidiaries have signed a General Security Agreement with ANZNB and have given cross guarantees for each other.

Notes to the financial statements
For the year ended 31 March 2010

		2010 $'000	2009 $'000
24. Operating cash flows reconciliation			
Profit/(loss) for the period		3,523	1,709
Less capital gains		(70)	-
Operating profit		3,453	1,709
Add/(deduct) non-cash items:			
Equity accounted profits		(795)	(538)
Depreciation & asset write-off		258	126
Amortisation of lease incentive		(11)	-
Bad debts		139	-
Deferred tax		135	(23)
Share/option scheme costs		21	-
Add/(deduct) changes in working capital items:			
Receivables and accruals		(266)	(97)
Inventory		(23)	23
Payables and accruals		(1,563)	784
Net cash inflow/(outflow) from operating activities		**1,348**	**1,984**
25. Shares on issue			
Shares authorised and on issue		**000's**	**000's**
Opening number of shares		68,685	37,253
Shares issued - fully paid	**(a)**	41,223	1,467
Shares issued - partly paid	**(b)**	500	29,965
Shares cancelled - partly paid	**(c)**	(9,661)	-
		100,747	**68,685**
Shares held as treasury stock	**(d)**	(844)	(1,894)
		99,903	**66,791**

(a) (i) On 7 September 2009, Pharmacybrands Limited issued 523,379 fully paid ordinary shares by way of a taxable bonus issue to existing shareholders. The shares were issued on a pro rata basis with one share issued for every 100 fully paid shares and one share for every 200 partly paid shares held on the record date of 28 August 2009. The shares were issued for nil consideration. However, for tax purposes each share had an amount attributed to them of $0.64 and in addition, each bonus share had an imputation credit attached to it with an amount of $0.21 per share. For the purposes of section CD 8 of the Income Tax Act 2007, the total taxable dividend made by the parent company by way of the bonus issue was $335,907 (being made up of $225,058 for the bonus share issue and $110,849 imputation credits attached to the dividend). The shares rank on terms equal with those of the existing fully paid ordinary shares in the company.

(ii) On 30 September 2009, Pharmacybrands Limited announced the compulsory acquisition of 100% of the shares in Pharmacy Transition Limited pursuant to the full takeover offer dated 4 September 2009. The total number of shares issued to existing Pharmacybrands shareholders for the 100% acquisition was 40,699,728 fully paid ordinary shares. The issue price was equivalent to 39.783 Pharmacybrands shares for every one Pharmacy Transition Limited share. The shares rank on terms equal with those of the existing fully paid ordinary shares in the Pharmacybrands Limited.

Shares on issue (continued)

(b) (i) On 18 September 2009, the final instalment of the remaining 20,954,332 partly paid shares at $0.20 per share was paid by shareholders. These shares have now converted to fully paid ordinary shares in Pharmacybrands Limited and rank on terms equal with those existing fully paid ordinary shares in the company.

(ii) On 1 March 2010, Pharmcybrands Limited issued 500,000 redeemable ordinary shares to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds shares on behalf of the CEO of Pharmacybrands Limited. The shares were issued at $0.40 per share, initially paid up to $0.01 per share. Until such time as the redeemable ordinary shares are redeemed and transferred to the CEO the shares carry entitlements to dividends and votes to the proportion to which they are paid up. No redeemable ordinary shares can be redeemed before the third anniversary of appointment date of the CEO being 1 October 2009.

(c) (i) On 7 September 2009 Pharmacybrands Limited by the way of a share buy back, purchased 8,045,958 partly paid ordinary shares from existing shareholders in conjunction with the full takeover offer of Pharmacy Transition limited dated 4 September 2009. The purchase price of the buy back of partly paid shares was $0.52 per share on a fully paid basis.

(ii) On 16 July 2009 Pharmacybrands Limited cancelled 900,000 redeemable ordinary shares held on trust by Life Pharmacy Trustee Company due to employment conditions not being fulfilled by the former CEO of Life Pharmacy Limited. On 17 December 2009 Pharmacybrands Limited cancelled a further 710,000 redeemable ordinary shares held on trust by Life Pharmacy Trustee Company due to employment conditions not being fulfilled by former senior executives of Life Pharmacy Limited.

(iii) on 20th October 2009 4,341 partly paid shares were redeemed and cancelled by Pharmacybrands Limited due to the final instalment of the partly paid shares of $0.20 per share not being met by the holders of these shares.

Treasury stock

(d) 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.

26. 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.

Financial Instruments (continued)

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:

Trade and other receivables

	Gross receivable 2010 $'000	Impairment 2010 $'000	Gross receivable 2009 $'000	Impairment 2009 $'000
Not past due	3,088	(1)	1,118	-
Past due 0-30 days	214	-	230	-
Past due 31-120 days	314	(21)	32	(8)
Past due more than 120 days	602	(61)	5	(9)
Total	**4,218**	**(83)**	**1,385**	**(17)**

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:

Financial Instruments (continued)

Liquidity risk (continued)

2010	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	2,664	2,710	2,710	-	-	-
Trade and other payables	5,084	5,084	5,084	-	-	-
Bank overdraft	-	-	-	-	-	-
Total non-derivative liabilities	**7,748**	**7,794**	**7,794**	**-**	**-**	**-**

2009	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	-	-	-	-	-	-
Trade and other payables	3,698	3,698	3,698	-	-	-
Bank overdraft	-	-	-	-	-	-
Total non-derivative liabilities	**3,698**	**3,698**	**3,698**	**-**	**-**	**-**

Market risk
As interest rates change, the fair value of financial instruments may change. The Group maintains its interest earning and interest bearing financial instruments in matched maturities and interest rate re-pricing terms. Refer to notes 17 and 23 for details of the interest rates and re-pricing for the group advances and borrowings, which are the most significant financial instruments.

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 2010 and 31 March 2009. The fair value of all of the following financial instruments is determined using their transactional value.

Financial Instruments (continued)

		2010			
	Note	Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Assets					
Group advances	17	-	-	-	-
Total non-current assets		**-**	**-**	**-**	**-**
Trade and other receivables	16	4,135	-	4,135	4,135
Cash and cash equivalents		10,300	-	10,300	10,300
Group advances	17	4,919	-	4,919	4,919
Total current assets		**19,354**	**-**	**19,354**	**19,354**
Total assets		**19,354**	**-**	**19,354**	**19,354**
Liabilities					
Loans and borrowings	23	-	-	-	-
Total non-current liabilities		**-**	**-**	**-**	**-**
Loans and borrowings	23	-	2,664	2,664	2,664
Trade payables	22	-	5,084	5,084	5,084
Total current liabilities		**-**	**7,748**	**7,748**	**7,748**
Total Liabilities		**-**	**7,748**	**7,748**	**7,748**

		2009			
	Note	Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Assets					
Group advances	17	-	-	-	-
Total non-current assets		**-**	**-**	**-**	**-**
Trade and other receivables	16	1,368	-	1,368	1,368
Cash and cash equivalents		4,419	-	4,419	4,419
Group advances	17	-	-	-	-
Total current assets		**5,787**	**-**	**5,787**	**5,787**
Total assets		**5,787**	**-**	**5,787**	**5,787**
Liabilities					
Loans and borrowings	23	-	-	-	-
Total non-current liabilities		**-**	**-**	**-**	**-**
Loans and borrowings	23	-	-	-	-
Trade payables	22	-	3,698	3,698	3,698
Total current liabilities		**-**	**3,698**	**3,698**	**3,698**
Total Liabilities		**-**	**3,698**	**3,698**	**3,698**

27. Related parties

The Group has an interest in 30 associate companies (trading as pharmacies), 2 joint ventures (retail outlets) and 12 100% owned subsidiary companies (pharmacy investment, franchise and management operations and 8 non-trading).

During the period, there have been three directors who have 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 incurs transactions on behalf of the stores which are on-charged. These transactions comprise items such as training courses, central purchasing agreements, central advertising campaigns, loyalty card costs, Tony Ferguson franchisee payments 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 and one of the joint ventures.

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.

Related party transactions for the group:

	Transaction Value		Balance Outstanding	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Dividends	844	106	444	-
Marketing levies and franchise fees	1,119	167	19	-
On-charged costs	1,138	705	560	46
Receivable from associates				
Loans to associates			4,919	-
Total owing from associates			5,942	46
Receivable from joint venture			7	-
Receivable from other related parties			300	-
Payable to associates			379	-

During the year the Parent issued, acquired and cancelled shares with associates, see note 21 for details. The Parent contributed capital of $97,000 (2009: $326,000) to associates during the year, see note 21. The Parent guarantees the associate banking facilities commensurate with its shareholding in each associate or as otherwise agreed.

Related parties (continued)

Key management personnel remuneration

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

	Group	
	2010 $'000	**2009 $'000**
Short-term employee benefits	1,077	631

28. Non-cancellable operating leases

	2010 $'000	**2009 $'000**
Due within one year	1,236	881
Due between one and five years	2,516	2,204
Due after five years	171	162
	3,923	**3,247**

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.

29. Share based payments

Pharmacybrands Limited issued 960,000 redeemable ordinary shares (ROS) on 20 August 2008 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of Senior Executives of Pharmacybrands Limited. The shares were issued at $0.55 per share, initially paid up to $0.01 per share. Until such time as the Executive Redeemable Ordinary Shares are redeemed and transferred to executives the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 55th). No Executive Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited. On 17 December 2009 Pharmacybrands Limited cancelled 710,000 of these redeemable ordinary shares due to employment conditions not being fulfilled by former senior executives of Life Pharmacy Limited.

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). No CEO Redeemable Ordinary Shares can be redeemed before the third anniversary of the appointment date of the CEO (being 1 October 2009).

Share based payments (continued)

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 20 August 2008	960	Redeemable in three equal proportions in 2011, 2012 and 2013 provided the executive remains with the group at these dates. The option expires on 20 August 2013.
	(710)	300,000 of these options expired 30 April 2009, 250,000 expired 31 August 2009 and 160,000 expired on 9 January 2010 due to failure to meet non-market
ROS granted to Life Pharmacy Trustee Company Ltd on 1 March 2010	500	Redeemable in three equal proportions in 2012, 2013 and 2014 provided the CEO remains with the group at these dates. The option expires on 1 October 2015.
Total ROS	**750**	

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%.

Executive Redeemable Ordinary Share Scheme (granted 20 August 2008)
The fair value of the Executive Redeemable Ordinary Shares is $201,600. This cost is being amortised over the relevant period for each tranche of shares. The fair value of the ROS at grant date is determined using the Black-Scholes formula. The model inputs were: the share price of $0.45, the exercise price of $0.55, 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 6.3%. During the period a number of executives resigned from office, breaking the non-market conditions of the options.

30. Commitments and contingencies

The Parent holds preferential rights to establish pharmacies in one shopping centre currently under development or still to be developed.

The Parent's ultimate exposure to bank facilities with its associates is commensurate with the Parent's 49% shareholding in each associate and includes the advance to the associates of $4.9 million and lease bonds of $1.4 million.

31. Subsequent events

On 16 April 2010 Pharmacy Store Holdings Limited (a 100% subsidiary of Pharmacybrands Limited) entered in a binding agreement to purchase the assets of Knox Pharmacy (2008) Limited.

Shareholder Information
As at 30 April 2010

Major Shareholders

Pharmacybrands Limited's ordinary shares are listed on the New Zealand Stock Exchange using the NZX code, PHB. The 20 largest registered holders of quoted equity securities as at 30 April 2010 were as follows:

Name	Holding	%
Cape Healthcare Limited	26,904,646	26.71
LPL Trustee Limited	26,904,355	26.70
Massey Pharmacy Limited	3,030,000	3.01
M Fleet & MRI Christchurch Trustees Limited	2,421,048	2.40
G K Ritson	1,972,643	1.96
M Dunn & Fortune Manning Trustee Company Limited	1,967,145	1.95
Ganet Investments Limited	1,598,780	1.59
B A Fordyce, F Dragicevich & C L Hutton	1,182,263	1.17
A H McAulay	1,037,770	1.03
D S Milne, J M Milne & L W Lamberg	1,029,072	1.02
T Lai, C P Lai & K Yee	984,985	0.98
M S Vuksich, F A Vuksich & W M G Yovich	974,027	0.97
P J Guthrie	817,873	0.81
Watt Land Company Limited	808,808	0.80
J P Guthrie	774,944	0.77
E A Mcaulay	687,022	0.68
K C Wilkinson & M E Wilkinson	626,542	0.62
M E Bullock & S J Sheldon	622,169	0.62
N C Bullock & S J Sheldon	622,168	0.62
F B H Walker, E A Walker & N J Comefford	590,396	0.59

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	26,904,646	26.71
LPL Trustee Limited	26,904,355	26.70

As at 30 April 2010 Pharmacybrands Limited had on issue 100,746,684 securities (as defined by the Securities Markets Act 1988) being 99,996,684 fully paid ordinary shares, and 750,000 redeemable ordinary shares payable to $0.01 and held on trust by Life Pharmacy Trustee Company Limited on behalf of senior executive employees.

Shareholding Spread

Pharmacybrands Limited's shareholding spread as at 30 April 2010 is as follows:

Size of Holding	Holders	%	Securities	%
1-999	108	16.3	63,488	0.06
1,000 - 9,999	260	39.2	731,615	0.73
10,000 - 99,999	220	33.0	9,905,819	9.91
100,000 - 499,999	53	8.0	12,087,757	12.09
500,000 - 999,999	13	2.0	9,160,283	9.16
1,000,000 and over	10	1.5	68,047,722	68.05
Total	**664**	**100.0**	**99,996,684**	**100.00**

Shareholder Information
As at 30 April 2010

Directors' shareholding and trades
The following table summarises all shares held and traded (whether directly or indirectly) by the Directors of LPL during the thirteen months ended 30 April 2010.

Directors	Holding 1 Apr 2009	Cancelled	Issued	Net trades in the period	Holding 30 Apr 2010
J A Bagnall (i)	34,348,975	(7,652,765)	208,145	-	26,904,355
J B Bolland	-	-	-	-	-
W Meaney (ii)	-	-	26,904,646	-	26,904,646
P M Merton (iii)	-	-	26,904,646	-	26,904,646
A J Davidson (iv)	260,000	(44,103)	1,820	-	217,717
K R Rushbrook	-	-	-	-	-
I G S Sharp (v)	-	-	99,457	-	99,457
M S Vuksich (vi)	1,124,103	-	9,200	-	1,133,303

(i) Holder of beneficial interest of 26,904,355 fully paid ordinary shares in PHB (shares are legally owned by LPL Trustee Limited). Received beneficial interest in 208,145 fully paid ordinary PHB shares (shares issued to LPL Trustee Limited) pursuant to bonus issue on 7 September 2009. Received $2,448,885 as consideration for buyback of 7,652,765 partly paid ordinary shares in PHB held by LPL Trustee Limited on 7 September 2009.

(ii) W Meaney is a director of Cape Healthcare Limited, and CEO of The Zuellig Group which, via a subsidiary, is a 51% shareholder of Cape Healthcare Limited. W Meaney has a Relevant Interest in the 26,904,646 fully paid ordinary shares in PHB owned by Cape Healthcare Limited. The 26,904,646 fully paid ordinary shares in PHB were issued to Cape Healthcare Limited on 7th September 2009 as consideration for the transfer of 676,285 shares in Pharmacy Transition Limited (formerly Pharmacybrands Limited) pursuant to a takeover offer.

(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 26,904,646 fully paid ordinary shares in PHB owned by Cape Healthcare Limited. The 26,904,646 fully paid ordinary shares in PHB were issued to Cape Healthcare Limited on 7th September 2009 as consideration for the transfer of 676,285 shares in Pharmacy Transition Limited (formerly Pharmacybrands Limited) pursuant to a takeover offer.

(iv) Holder of a beneficial interest of 217,717 fully paid ordinary shares in PHB (shares are legally owned by Custodial Services Limited). Received beneficial interest in 1,820 fully paid ordinary PHB shares (shares issued to Davidson No.2 Trust in Custodial Services Limited) pursuant to bonus issue on 7 September 2009. Received $14,112.96 as consideration for buyback of 44,103 partly paid ordinary shares in PHB (shares held by Davidson No.2 Trust in Custodial Services Limited) on 7 September 2009.

(v) Holder of a beneficial interest of 99,457 fully paid ordinary shares in PHB. Received beneficial interest in 99,457 fully paid ordinary shares in PHB on 7th September 2009 in return for 3,000 shares in Pharmacy Transition Limited (formerly Pharmacybrands Limited).

(vi) Holder of a beneficial interest of 1,133,303 fully paid ordinary shares in PHB (shares are legally owned by Mark Vuksich, Frances Vuksich & Walter Yovich). Received beneficial interest in 9,200 fully paid ordinary PHB shares (shares issued to Mark Vuksich, Frances Vuksich & Walter Yovich) pursuant to bonus issue on 7 September 2009. Received beneficial interest in 159,276 fully paid ordinary PHB shares (shares issued to Mark Vuksich, Frances Vuksich & Walter Yovich) from In Specie Distribution on Liquidation of PIMS (2005) Limited on 21st January 2010.

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.

Shareholder Information
As at 30 April 2010

Waivers received from the NZSX Listing Rules

NZX Regulation granted Pharmacybrands Limited waivers from the following NZSX Listing Rules over the 12 month period preceding the date two months before the date of publication of this annual report:

(a) Rule 9.3.1 (in respect of allowing LPL Trustee Limited to vote on the resolutions to approve the buyback of shares in Pharmacybrands Limited and to undertake the takeover of Pharmacy Transition Limited);

(b) Rule 9.2.5(b) (in respect of exempting Pharmacybrands Limited from having to furnish to shareholders an appraisal report in relation to the buyback of shares); and

(c) Rule 9.3.1 (in respect of allowing all shareholders that had mutual shareholdings in Pharmacybrands Limited and Pharmacy Transition Limited to vote on the resolution to approve the issue of shares for the purposes of the takeover).

A copy of NZX Regulation's decision in relation to the granting of the above waivers can be found by clicking on the 'Corporate' tab of Life Pharmacy's website, www.lifepharmacy.co.nz.

Company Directory
As at 31 March 2010

Registered Office
Pharmacybrands Ltd
Level 2, Building C
600 Great South Road
Greenlane
Auckland

Telephone: +64 9 571 9080

Board
P M Merton
Chairman

A J Davidson
Independent 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

W Meaney
Non-Executive 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 City
Auckland

Websites
www.lifepharmacy.co.nz
www.unichem.co.nz
www.amcal.co.nz
www.carechemist.co.nz

Management
A H Wham
Chief Executive Officer
Alan.wham@pbl.co.nz

C R Wilson
Chief Financial Officer
Craig.wilson@pbl.co.nz

Bankers
ANZ National Bank Limited
The National Bank Tower
209 Queen Street
Auckland City
Auckland

Share Registrar
Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna
North Shore City 0622

Managing your shareholding online:
To change your address, update your payment instructions and to view your registered details including transactions, please visit;

www.computershare.co.nz/investorcentre

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

2786M Pharmacy Brands AR 2010.indd 47 17/06/10 2:50 PM

Amcal

Care Chemist

LifePharmacy

Unichem