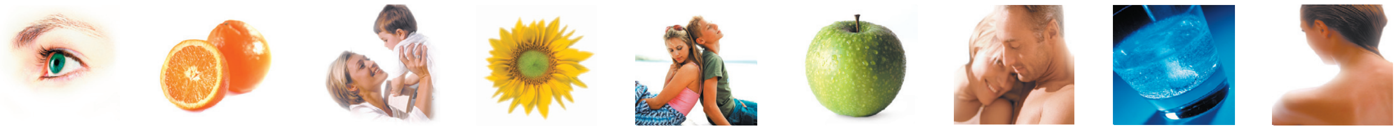

Pharmacybrands

Pharmacybrands Limited

Consolidated Financial Statements and Annual Report

For the year ended 31 March 2011

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	Consolidated Group	
	2011	2010
	$'000	$'000
Revenue	21,667	16,197
EBIT	5,499	3,581
Profit before tax	6,171	4,046
Profit after tax	5,161	3,523
Total assets	49,322	46,006
Total liabilities	5,996	7,873
Shareholders equity (net assets)	43,326	38,133

Chairman's letter to shareholders

For the year ended 31 March 2011

Introduction

2011 has been a year in which your company has maintained focus, controlled costs and performed reasonably well in a difficult retail environment. We have improved profitability, grown franchise numbers, and increased our investment in associates. But of significance has been the post period purchase, on 1 April, of Radius Pharmacy and 11 May, of Radius Medical companies. These provide us with increased scale and give us a stronger position within the overall primary health-care sector.

Financial Performance

The financial statements in this document represent the first full year results reported post the merger between Life Pharmacy Limited and Pharmacybrands Limited in September 2009.

The report presented last year and the 2010 comparative data in this year's report represent 12 months results of the previous Pharmacybrands Group and six months of the previous Life Pharmacy Company.

Our full NPAT of $5.16 million was impacted by several one-off items including:

- A gain of $778,000 on the sale of our investment in an associate.
- Costs of $831,000 associated with the acquisition of Radius which are required to be expensed as incurred in accordance with NZ Accounting Standards.
- A cost of approximately $250,000 to exit the old Life Pharmacy central office lease.

Our cash generation of $5.3 million in the year was very pleasing and this gave us cash reserves of $15.65 million to assist in funding the acquisition of Radius.

Radius Acquisition

The acquisition of Radius Pharmacy was completed on 1 April 2011 and comprised equity interests in 34 pharmacies. The total consideration was $35.1 million subject to settlement adjustments. This was funded in part by the assumption of existing debt in Radius of $18 million with the balance funded from a combination of existing cash resources and some additional bank debt.

In May 2011 we announced the acquisition of Radius Medical Limited and Radius Medical Solutions Limited for consideration of $3.2 million subject to settlement adjustments.

Strategic Direction

Over the last two years Pharmacybrands has been focused on obtaining an improved market position through industry consolidation, starting in September 2009 with the merger between Life Pharmacy Limited and Pharmacybrands Limited, and continuing with the acquisition of Radius Pharmacy Limited. Through this consolidation we now have equity interests in 68 pharmacies, increasing the total number of Pharmacybrands stores, either as franchises or associates to 303.

Our rationale for pursuing a consolidation strategy is three fold:

- To ensure the pharmacy sector can compete effectively with other channels, such as supermarkets and discount retailers, for whom the health and beauty market remains a key growth category, we need to create a strong pharmacy group. To retain market share will require continual enhancement of our retail capability and practice.
- Opportunities for pharmacy to make a greater contribution to primary care will open up as a consequence of increased pressure on government funding, the changing health sector and work force availability. Developing new models of care to address these opportunities may require additional investment.
- Increasing our equity share in pharmacies will both grow earnings and establish a larger group of pharmacies with aligned compliant practice and a consistent consumer offer.

We further extended our sphere of activity in May 2011, when we announced the acquisition of Radius Medical Limited and Radius Medical Solutions Limited. The insights and relationships we gain through these acquisitions will help the company improve overall patient care and achieve better collaborations between medical and pharmacy practitioners.

Chairman's letter to shareholders (continued)

For the year ended 31 March 2011

I would like to thank Alan and his team for their efforts over the year. The Radius acquisition took a large amount of resource and inevitably a degree of distraction ensued. This, together with the bedding down of the Life Pharmacy merger, certainly meant a busy and an eventful year. I would also like to thank the Board, especially Keith Rushbrook and John Bolland for their additional efforts on the Radius acquisition.

I look forward to another successful year, further consolidating our position and the recent acquisitions.

Peter Merton
Chairman

CEO Report
For the year ended 31 March 2011

With the Life Pharmacy merger and the Radius Pharmacy acquisition we have achieved many of our medium term goals earlier than originally anticipated. These goals included among other things increasing our equity interests in pharmacies as a means of generating sustainable earnings over the long term. Our immediate challenge now is to maximise the opportunities delivered through these transactions.

The continuing growth and improved profitability of Pharmacybrands depends primarily on how we influence and respond to the following four business issues:

- Dispensing volumes and associated government funding policies for DHB's and pharmaceuticals.
- Increasing or maintaining retail consumer spend through pharmacy.
- The strength and reach of our pharmacy franchise business.
- Our investment in pharmacy associates.

Dispensing Volumes

Same store dispensing revenue grew 3.5 percent for the year; however prescription volumes are growing at a rate higher than this.

Dispensing fees payable by a DHB to a pharmacy are determined in accordance with the Pharmacy Services Agreement. Discussions on a revised national agreement, which is scheduled to come into effect in September 2011, are focused on reducing volume growth to a level that matches DHB funding growth. Although the impacts on our pharmacies will ultimately depend on the terms of the new agreement, we expect prescription growth to slow after September 2011.

A significant opportunity exists for pharmacies to provide a greater range of primary care services. This is driven by the aging population demands putting pressure on medical practitioner capacity. Pharmacybrands has responded to the challenge of taking on a broader role in primary care by initiating two programmes: training pharmacists to give unfunded flu vaccinations and offering a private bowel screening service to consumers. We expect to develop more programs in this area and have invested appropriate resources to achieve this.

Retail Performance

The continuing sluggish economy and a sustained period in which consumer spending has remained flat have taken their toll on retail performance. Retail revenue declined 5.1 percent on a same store basis, with health categories holding up a lot better than beauty categories. Overall our same store revenue including dispensary revenue declined 2.7 percent. In such an environment it is essential that we maintain a clear focus on cost control and continue to provide consumers with compelling propositions in health and beauty.

Franchise Business

Our franchise business continues to attract new independent pharmacies into our brands with 12 new stores bringing our total to 269 (prior to our acquisition of Radius Pharmacy Limited). With the Radius acquisition completed we now have 5 brands and 303 retail outlets. At this stage our priority is not to rationalise the brands but ensure the systems and processes that service the brands are aligned, so that we can provide merchandising, marketing, operational and professional services to stores in the most efficient manner. Our franchise business is our core strength as it gives us the volume, geographical reach and critical mass to develop systems and programs to advance pharmacy.

Associate Investments

The acquisition of Radius Pharmacy brings our investment in associate stores to 68. Significantly, through its management structure, Radius is able to operate a very compliant retail model that brings with it strong supplier engagement. Integration of Radius will allow us to adopt the best practices from both companies and apply them in a wider group of pharmacies. We will be able to boost our retail capability at the same time as achieve central office synergy savings through process alignment. We managed to reduce operating costs in our associates due to focused effort by store management, which resulted in same store earnings growth, despite the sales decline. Our associates allow us to test new ranges, services and store layouts. Importantly they are a key contributor to our earnings and growth opportunity.

CEO Report (continued)

For the year ended 31 March 2011

Impact of Earthquakes

The devastation in Christchurch resulting from the February 2011 earthquake has seen three of our franchise pharmacies closed, two in the CBD and one in Eastgate Mall. In addition our associate in The Palms remains closed but is attempting to maintain a prescription service via a caravan. There are also a number of independent pharmacies closed. We wish these businesses well in re-establishing themselves in a very difficult and complex planning environment.

The remaining Christchurch pharmacies have shown strong growth as they have picked up the customer traffic from areas of non-service.

Priorities

Our immediate priorities are to integrate the Radius pharmacies into the Group, to align service delivery and to continue to introduce new primary care services. This will include adopting the best practices across the group and developing our systems to enhance speed and quality of delivery. We will continue to add franchise stores and pursue acquisitions of pharmacies to grow our investment in associates. Radius Medical will provide an additional earnings stream and help us to understand the options for pharmacy to adopt a greater role in primary care. The management team are energised and excited about the opportunities in front of us to drive growth and create an even stronger company in both retail pharmacy and primary care.

Alan Wham

Alan Wham
Chief Executive Officer

Corporate governance

For the year ended 31 March 2011

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 2010. The directors holding office during the year and the remuneration paid or payable to the directors is as follows:

Director	Total Fees
John (Andrew) Bagnall	30,000
John Bolland *	30,000
Andrew Davidson +¥	40,000
William Meaney	
Peter Merton *+	80,000
Kenneth Orr (alternate to William Meaney)	30,000
Keith Rushbrook *¥	40,000
Ian Sharp ¥	30,000
Mark Vuksich +	30,000
Total	**310,000**

* = 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), Plan B Limited (Director & Shareholder), Waiora Investments Limited (Director & Shareholder) - shareholder of Plan B Limited, major shareholder or director of various unlisted or privately controlled companies.

John Bolland – Consultant to LPL Trustee Limited, Consultant to Segoura Limited, Plan B Limited (Director), Waiora Investments Limited (Director & Consultant) - shareholder of Plan B 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 Pharmaceuticals Inc. (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 – PIMS 2005 Limited (Director & Shareholder); St Lukes Pharmacy Holdings Limited (Director & Shareholder).

Corporate governance (continued)
For the year ended 31 March 2011

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 2011

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 2011 fell within the specified bands as follows:

	Group	
	2011	**2010**
Employee annual remuneration bands:		
$100,000 - $110,000	2	3
$110,000 - $120,000	2	-
$120,000 - $130,000	3	-
$130,000 - $140,000	-	2
$140,000 - $150,000	-	2
$150,000 - $160,000	1	1
$160,000 - $170,000	1	-
$170,000 - $180,000	-	1
$200,000 - $210,000	-	3
$220,000 - $230,000	1	1
$230,000 - $240,000	1	-
$410,000 - $420,000	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. It's 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 2011

The current Pharmacybrands Limited group structure comprises 47 companies. The group entities are as follows:

	Holding	Activity
Legal Parent		
Pharmacybrands 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
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
Porirua Pharmacy 2006 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
Knox Pharmacy 2010 Limited	48.5%	Pharmacy
Lake Taupo Pharmacy (2008) Limited	48.5%	Pharmacy
Levin Pharmacy (2005) Limited	49.0%	Pharmacy
Life Pharmacy Albany Limited	49.0%	Pharmacy
Life Pharmacy Centre Place (2009) 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
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 Medical Pharmacy (2010) Limited	46.6%	Pharmacy
Waiuku Pharmacy (2005) Limited	46.6%	Pharmacy
West City Pharmacy (2010) Limited	48.5%	Pharmacy

Group entities (continued)

For the year ended 31 March 2011

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

	Amcal Franchisees	Care Chemist Franchisees	Life Franchisees	Unichem Franchisees
Total	79	27	28	135

Directors' declaration
For the year ended 31 March 2011

In the opinion of the directors of Pharmacybrands Limited, the financial statements and notes, on pages 15 to 44:

- 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 2011 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 2011.

For and on behalf of the Board of Directors:

Peter Merton
Chairman
27 May 2011

Keith Rushbrook
Director
27 May 2011

Independent Auditors' report

To the shareholders of Pharmacybrands Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Pharmacybrands Limited ("the Group") on pages 15 to 44. The financial statements comprise the consolidated statement of financial position as at 31 March 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

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

Opinion

In our opinion the financial statements of Pharmacybrands Limited on pages 15 to 44:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Group as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

Independent Auditors' report (continued)

To the shareholders of Pharmacybrands Limited

Report on Other Legal and Regulatory Requirements

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

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

KPMG

27 May 2011
Auckland

Consolidated statement of comprehensive income

For the year ended 31 March 2011

	Note	2011 $'000	2010 $'000
Operating Revenue			
Membership revenue	8	6,108	4,902
Marketing revenue		6,066	5,808
Associate earnings	21	2,602	1,640
Other income	9	6,891	3,847
		21,667	**16,197**
Operating expenditure			
Governance and accountability	10	596	407
Marketing expenses		5,357	4,332
Depreciation and amortisation	18,19	282	258
Employee benefit expense		5,087	4,420
Other expenditure	11	4,846	3,199
		16,168	**12,616**
Operating profit before interest and tax		**5,499**	**3,581**
Interest income		792	555
Interest expense		(120)	(90)
Net interest income		**672**	**465**
Profit before tax		**6,171**	**4,046**
Tax expense	12	(1,010)	(523)
Profit after tax		**5,161**	**3,523**
Other comprehensive income for for the year, net of tax		-	-
Total comprehensive income for the year attributable to shareholders		**5,161**	**3,523**
Basic earnings per share (cents)	13	5.17	4.29
Diluted earnings per share (cents)	13	5.17	4.29

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 44 form part of the financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2011

	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		29,136		29,136
Dividends to shareholders	**15**		(1,246)	(1,246)
Share scheme amortisation	**10**	21		21
Balance at 31 March 2010		**33,051**	**5,082**	**38,133**

	Note	Share Capital $'000	Retained Earnings $'000	2011 Total equity $'000
Balance at 1 April 2010		33,051	5,082	38,133
Total comprehensive income for the period				
Profit for the period			5,161	5,161
Total other comprehensive income			-	-
Total comprehensive income for the period			**5,161**	**5,161**
Transactions with owners, recorded directly in equity				
Parent company equity changes	**7**	8,983	(8,983)	-
Issue of shares		5		5
Dividends to shareholders			-	-
Share scheme amortisation	**10**	27		27
Balance at 31 March 2011		**42,066**	**1,260**	**43,326**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 44 form part of the financial statements.

Consolidated statement of financial position
As at 31 March 2011

	Note	2011 $'000	2010 $'000
Equity			
Share capital		42,066	33,051
Retained earnings		1,260	5,082
Total equity		**43,326**	**38,133**
Current assets			
Cash and bank balances		15,654	10,300
Trade and other receivables	**16**	4,430	3,745
Inventories		36	48
Advances	**17**	953	4,339
Total current assets		**21,073**	**18,432**
Non-current assets			
Fixed assets	**18**	297	359
Intangible assets	**19**	1,146	1,212
Deferred tax asset	**20**	216	1,180
Advances	**17**	1,116	580
Trade and other receivables	**16**	405	390
Equity accounted group investments	**21**	25,069	23,853
Total non-current assets		**28,249**	**27,574**
Total assets		**49,322**	**46,006**
Current liabilities			
Payables and accruals	**22**	4,605	5,084
Income Tax Payable		139	-
Unamortised future income		35	22
Borrowings	**23**	1,124	2,664
Total current liabilities		**5,903**	**7,770**
Non-current liabilities			
Unamortised future income		93	103
Total non-current liabilities		**93**	**103**
Total liabilities		**5,996**	**7,873**
Net assets		**43,326**	**38,133**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 44 form part of the financial statements.

Consolidated statement of cash flows
For the year ended 31 March 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Associate dividend received		1,800	1,139
Membership, marketing and other revenue		17,909	13,927
Interest received		792	555
Payments to suppliers and employees		(16,350)	(13,684)
Interest paid		(120)	(90)
Income taxes paid		(7)	(499)
Net cash inflow from operating activities	**24**	**4,024**	**1,348**
Cash flows from investing activities			
Fixed asset purchases		(154)	(306)
Investment in associates		(1,181)	(77)
Cash acquired on business combination		-	5,766
Sale of shares in associate		1,350	70
Decrease/(increase) in advances		2,850	1,086
Net cash inflow/(outflow) from investing activities		**2,865**	**6,539**
Cash flows from financing activities			
Increase/(decrease) in borrowings		(1,540)	(770)
Shares issued for cash		5	11
Dividends paid		-	(1,247)
Net cash inflow/(outflow) from financing activities		**(1,535)**	**(2,006)**
Net increase in cash equivalents		**5,354**	**5,881**
Add opening cash equivalents		**10,300**	**4,419**
Closing cash and bank balance equivalents		**15,654**	**10,300**
Reconciliation of closing cash equivalents to the balance sheet:			
Cash and bank balances		15,654	10,300
Closing cash equivalents		**15,654**	**10,300**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 44 form part of the financial statements.

Notes to the financial statements
For the year ended 31 March 2011

1. Reporting Entity

Pharmacybrands Limited (the "Parent") is a New Zealand company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Parent is an Issuer in terms of the Financial Reporting Act 1993. (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 269 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.

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 2011.

(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:

(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.

(d) Significant estimates and judgements (continued)

(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 of 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.

The comparative figures for 2010 have been reclassified to show certain trade receivables and advances which are repayable on demand as non-current that were previously disclosed as current. This reclassification reflects the retrospective impact of changes in the approach to determining expected repayment dates applied for 2011.

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. Goodwill arising on acquisition of subsidiaries is included in the carrying value of the subsidiary and is separately recognised.

(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. 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, share options and share capital 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 options 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) Comparatives

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

(n) 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.

- Amendments to NZ IFRSs 2010 - NZ IAS 1 Presentation of Financial Statements: The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The revised standard becomes mandatory for the Group's 31 March 2012 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- Amendments to NZ IFRSs 2010 - NZ IAS 34 Interim Financial Reporting: The amendments add examples to the list of events or transactions that require disclosure under NZ IAS 34 and remove references to materiality in NZ IAS 34 that describes other minimum disclosures. The revised standard will become mandatory for the Group's 31 March 2012 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- Amendments to NZ IFRSs 2010 - NZ IFRIC 13 Customer Loyalty Programmes: The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment becomes mandatory for the Group's 31 March 2012 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial statements.
- NZ IFRS 9 Financial Instruments (2010) is the standard issued as part of a wider project to replace NZ IAS 39.

  NZ IFRS 9 (2009) retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

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

  The guidance in NZ IAS 39 on impairment of financial assets and hedge accounting continues to apply.

  Application of transitional provisions depends on an entity's adoption date of NZ IFRS 9 (2009) and NZ IFRS 9 (2010).

  Prior periods need not be restated if an entity adopts the standards for reporting periods beginning before 1 January 2012. The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.

6. Accounting estimates and judgements

In authorising the financial statements for the full year ended 31 March 2011, 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.

Accounting estimates and judgements (continued)

(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 2012 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.

The discount rate applied is 10.11% on the unleveraged post-tax nominal cash flows; including working capital movements and capital expenditure (equivalent pre-tax discount rate is 14%). 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 for the year ending 31 March 2012. 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 2012.

For the purposes of impairment testing the associates are grouped into 12 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.

Sensitivities

Discount Rate

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	($4,912,000)	Impairment of $165,000 generated
1% decrease	$6,148,000	No impairment

Retail Sales

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	$5,165,000	No impairment
1% decrease	($4,891,000)	Impairment of $300,000 generated

Costs

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	($4,945,000)	Impairment of $275,000 generated
1% decrease	$4,892,000	No impairment

Accounting estimates and judgements (continued)

(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 2012.

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 2012 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.

Sensitivity

EBITDA Multiple
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

Notes to the financial statements
For the year ended 31 March 2011

7. Controlling Entity

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

From a legal perspective the business combination was an acquisition by PHB of 100% of the issued share capital of PTL. After reviewing the specifics of the transaction, the business combination was treated as a reverse acquisition for financial reporting purposes. The business combination was therefore accounted for and reported as if PTL has acquired 100% of PHB.

In order to simplify the Pharmacybrands group structure the accounting parent PTL was liquidated in March 2011. The result of this is that PHB is now the legal and accounting parent of the group.

This has resulted in the transfer of $8,983,000 from retained earning to share capital in the group financial statements which aligns the share capital of the group with that of its parent.

	2011 $'000	2010 $'000
8. Membership revenue	6,108	4,902

Membership revenue includes revenue from associates 2011: $1,575,000 (2010: $1,528,000) pursuant to commercial franchise agreements.

	2011 $'000	2010 $'000
9. Other income		
Management fees	-	22
Leasing receipts	818	669
Gain on sale of investment in associates	778	70
Associate store administration fees	1,133	609
Rebates, conferences & other	4,162	2,477
	6,891	**3,847**
10. Governance and accountability		
Audit fees	82	83
Directors' fees	310	243
Senior Executives' share option expense	27	21
Reporting	35	13
Secretarial and board expenses	87	39
Stock exchange and registry fees	55	8
	596	**407**
Auditor's remuneration to KPMG comprises:		
Annual audit of financial statements	82	80
Audit related fees	-	3
	82	83
Other services:		
Taxation services	55	-
	55	-
11. Other expenditure		
Leases	884	590
Amortisation of lease incentive	(46)	(46)
Doubtful debt expense	18	41
Other operating costs	3,990	2,614
	4,846	**3,199**

	2011 $'000	2010 $'000
12. (a) Income tax expense		
Current year tax	(258)	(533)
Prior year adjustment	212	145
Current tax expense	**(46)**	**(388)**
Deferred tax expense		
Use of tax losses	(867)	(105)
Origination and reversal of temporary differences	74	(33)
Prior year adjustment	(171)	3
Deferred tax expense	**(964)**	**(135)**
Total income tax expense	**(1,010)**	**(523)**
Imputation credit account:		
Opening balance	643	370
Prior year adjustments	(56)	-
Tax payments	173	330
Imputation credits lost on shareholding change	-	65
Imputation credits dividends received	771	610
Imputation credits dividends paid	-	(621)
Imputation credits on bonus share issue	-	(111)
Imputation credits on tax refunds	(166)	-
	1,365	**643**

Tax losses

The Group has utilised all available tax losses in the current period, with no tax losses to carry forward (2010: $3,493,000 tax losses).

	2011 $'000	2010 $'000
(b) Numerical reconciliation between tax expense & pre-tax accounting profit/(loss)		
Profit before tax	6,171	4,046
Income tax (expense)/benefit at 30%	(1,851)	(1,214)
(Add)/deduct the tax effect of permanent differences:		
Non-assessable revenue	1,014	554
Non-deductible expenses	(214)	(11)
Prior year adjustments	41	148
	(1,010)	**(523)**

Notes to the financial statements
For the year ended 31 March 2011

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.

	2011 $'000	2010 $'000
Basic earnings per share comprises:		
Profit/(Loss) for the period	**5,161**	**3,523**
Opening number of shares (000's)	99,903	66,791
Add/(deduct) the effect of:		
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
Shares cancelled (November 2010)	(97)	
Weighted average number of shares	**99,806**	**82,061**
Basic earnings per share (cents)	5.17	4.29

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)

There are no dilutive potential ordinary shares, therefore no separate calculation of diluted earnings per share is presented.

	2011	2010
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. No dividends were declared or paid during the year ended 31 March 2011.

	2011	2010
Net assets per share (cents)	43.5	38.6

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.

	2011	2010
Net tangible assets per share (cents)	42.4	36.5

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 10 November 2010 Pharmacybrands Limited cancelled 250,000 redeemable ordinary shares held on trust by Life Pharmacy Trustee Company due to employment conditions not being fulfilled by an employee of the company.

15. Distribution to owners comprises

There were no distributions to owners during the year ended 31 March 2011.

		2011 $'000	2010 $'000
16.	**Trade and other receivables**		
	Trade receivables	1,219	2,238
	Accrued income	601	156
	Other receivables	740	430
	Prepayments	111	140
	Provision for doubtful debts	(50)	(83)
	Receivables from associates	1,632	635
	Receivables from joint venture	177	229
		4,430	**3,745**

Receivables from associates includes dividends due from associates of $638,000 (2010: $444,000), which are contractually payable in accordance with shareholder agreements entered into with each owner of the associate.

Non-current trade and other receivables

Balance owing from associates expected to be collected beyond the next twelve months.

		2011 $'000	2010 $'000
17.	**Advances**		
	Loans to associates	953	4,339
	Advances (current)	**953**	**4,339**
	Loans to associates	466	580
	Loans to other parties	650	-
	Advances (non-current)	**1,116**	**580**

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 5.58% (2010: 5.97%). These advances are repayable on demand.

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

		2011 $'000	2010 $'000
18.	**Property, plant and equipment**		
	Office Equipment		
	Opening cost	1,134	736
	Additions	101	398
	Disposals	-	-
	Closing cost	**1,235**	**1,134**
	Opening accumulated depreciation	837	506
	Depreciation for the period	104	256
	Disposals	-	-
	Acquired	-	75
	Closing accumulated depreciation	**941**	**837**
	Closing book value	294	297
	Work in progress	3	62
	Total fixed assets	**297**	**359**

Work in progress relates to projects not yet complete.

		2011 $'000	2010 $'000
19.	**Intangible assets**		
	Software		
	Opening cost	1,229	229
	Additions	112	1,000
	Disposals	-	-
	Closing cost	**1,341**	**1,229**
	Opening accumulated amortisation	922	204
	Amortisation for the period	178	-
	Disposals	-	-
	Acquired	-	718
	Closing accumulated amortisation	**1,100**	**922**
	Trademarks at cost	**27**	**27**
	Opening accumulated amortisation	14	12
	Amortisation for the period	-	2
	Closing accumulated amortisation	**14**	**14**
	Goodwill		
	Opening cost	892	525
	Additions	-	367
	Closing cost	**892**	**892**
	Total intangible assets	**1,146**	**1,212**
20.	**Deferred tax asset**		
	Opening balance	1,180	178
	Recognised in income statement	(964)	(135)
	Acquired	-	1,137
		216	**1,180**

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 – 2011				
Fixed assets	(29)	12	-	(17)
Provisions	161	72	-	233
Tax losses	1,048	(1,048)	-	-
	1,180	**(964)**	**-**	**216**
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**

			2011 $'000	2010 $'000
21.	**Group investments**			
	Equity accounted joint venture		109	87
	Equity accounted associates	**(a)**	24,960	23,766
			25,069	**23,853**
	The movement in equity accounted associates comprises:			
	Brought forward		23,766	3,611
	Investment in associates	**(b)**	1,855	19,359
	Disposal of associates	**(c)**	(1,246)	-
	Share of net earnings		2,579	1,640
	Less associate dividend		(1,994)	(844)
			24,960	**23,766**
	Equity accounted associates include goodwill as follows:			
	Gross goodwill brought forward		17,823	2,781
	Associates acquired	**(b)**	1,966	15,042
	Disposal of associates	**(c)**	(1,151)	-
	Total goodwill		**18,638**	**17,823**
	Total net goodwill		**18,638**	**17,823**

a) **Associate pharmacy entities include:**

280 Queen Street (2008) Limited
A H McAulay Limited
Albany Pharmacy Limited
Bayfair Pharmacy Limited
Care Chemist Pakuranga (2008) Limited
Centre City Pharmacy (2004) Limited
Guthries Pharmacy Limited
Helensville Pharmacy (2008) Limited
Highland Park Pharmacy (2009) Limited
Hurstmere Pharmacy (2008) Limited
J-Mall Pharmacy Limited
Knox Pharmacy 2010 Limited
Lake Taupo Pharmacy (2008) Limited
Levin Pharmacy (2005) Limited
Life Pharmacy Albany Limited
Life Pharmacy Centre Place (2009) Limited
Life Pharmacy Sylvia Park Limited
Life Pharmacy Wall Street Dunedin Limited
Murray Dunn Pharmacy Limited
Neil Webber Pharmacy Limited
Northlands Pharmacy 2003 Limited
Pharmacy 277 Limited
Riccarton Mall Pharmacy 2000 Limited
Shirley Pharmacy Limited
Shore City Pharmacy Limited
Sinel-Francis Pharmacy Limited
Sinel-Francis Pharmacy Tauranga Limited
St Lukes Pharmacy Holdings Limited
Stokes Valley Pharmacy (2009) Limited
Waiuku Medical Pharmacy (2010) Limited
Waiuku Pharmacy (2005) Limited
West City Pharmacy (2010) Limited

b) **Associates acquired during the period**

During the period the Group acquired a 48.5% interest in Knox Pharmacy 2010 Limited, Waiuku Medical Pharmacy (2010) Limited and West City Pharmacy (2010) Limited and the Group acquired a greater equity share in Pharmacy 277 Limited, Bayfair Pharmacy Limited and Sinel-Francis Pharmacy Tauranga Limited.

c) **Disposal of associates during the period**

During the period the Group disposed of its 49% interest in Queensgate Pharmacy Limited and a profit of $777,564 was recognised as other income.

Group investments (continued)

Associate accounting policies

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.

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 2011	45,879	22,377	124,436	4,855
As at and for the year ended 31 March 2010	45,604	23,433	79,644	3,022

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.

	2011 $'000	2010 $'000
22. Trade and other payables		
Trade Payables	2,200	2,078
Accruals	2,178	2,787
Employee entitlements	227	219
	4,605	**5,084**
23. Borrowings		
Current	1,124	2,664
Non-current	-	-
	1,124	**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 $1.0 million revolving credit facility allocated directly to the associates. Interest is payable monthly on all borrowings at an effective interest rate of 5.58% 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.

Borrowings (continued)

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.

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

			2011 $'000	2010 $'000
24.	**Operating cash flows reconciliation**			
	Profit/(loss) for the period		5,161	3,523
	Less gain on sale of investments in associates		(778)	(70)
	Operating profit		4,383	3,453
	Add/(deduct) non-cash items:			
	Equity accounted profits		(608)	(795)
	Depreciation & amortisation		282	258
	Amortisation of lease incentive		4	(11)
	Movement in provision for bad debts		(17)	139
	Deferred tax		964	135
	Share/option scheme costs		27	21
	Add/(deduct) changes in working capital items:			
	Receivables and accruals		(572)	(266)
	Inventory		12	(23)
	Payables and accruals		(451)	(1,563)
	Net cash inflow/(outflow) from operating activities		**4,024**	**1,348**
25.	**Shares on issue**			
	Shares authorised and on issue		**000's**	**000's**
	Opening number of shares		100,747	68,685
	Shares cancelled - partly paid	**(a)**	(250)	(9,661)
	Shares issued - fully paid	**(b)**	4	41,223
	Shares issued - partly paid		-	500
			100,501	**100,747**
	Shares held as treasury stock	**(c)**	(594)	(844)
			99,907	**99,903**

(a) On 10 November 2010 Pharmacybrands Limited cancelled 250,000 redeemable ordinary shares held on trust by Life Pharmacy Trustee Company due to employment conditions not being fulfilled by an employee of the company.

(b) A total of 4,339 fully paid shares held in suspense transferred to issued in March 2011.

Treasury stock
(c) 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.

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 2011 $'000**	**Impairment 2011 $'000**	**Gross receivable 2010 $'000**	**Impairment 2010 $'000**
Not past due	3,648	-	3,088	(1)
Past due 0-30 days	165	-	214	-
Past due 31-120 days	438	-	314	(21)
Past due more than 120 days	229	(50)	212	(61)
Total	**4,480**	**(50)**	**3,828**	**(83)**
Non-current receivables				
Past due more than 120 days	405	-	390	-
Total	**405**	**-**	**390**	**-**

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)

	2011					
	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	1,124	1,153	796	357	-	-
Trade and other payables	4,605	4,605	4,605	-	-	-
Bank overdraft	-	-	-	-	-	-
Total non-derivative liabilities	**5,729**	**5,758**	**5,401**	**357**	**-**	**-**

	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**	**-**	**-**	**-**

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 2011 and 31 March 2010. The fair value of all of the following financial instruments is determined using their transactional value.

Financial Instruments (continued)

	Note	2011 Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Assets					
Trade and other receivables	16	405	-	405	405
Advances	17	1,116	-	1,116	1,116
Total non-current assets		**1,521**	**-**	**1,521**	**1,521**
Trade and other receivables	16	4,430	-	4,430	4,430
Cash and cash equivalents		15,654	-	15,654	15,654
Advances	17	953	-	953	953
Total current assets		**21,037**	**-**	**21,037**	**21,037**
Total assets		**22,558**	**-**	**22,558**	**22,558**
Liabilities					
Loans and borrowings	23	-	-	-	-
Total non-current liabilities		**-**	**-**	**-**	**-**
Loans and borrowings	23	-	1,124	1,124	1,124
Trade payables	22	-	4,605	4,605	4,605
Total current liabilities		**-**	**5,729**	**5,729**	**5,729**
Total Liabilities		**-**	**5,729**	**5,729**	**5,729**

	Note	2010 Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Assets					
Trade and other receivables	16	390	-	390	390
Advances	17	580	-	580	580
Total non-current assets		**970**	**-**	**970**	**970**
Trade and other receivables	16	3,745	-	3,745	3,745
Cash and cash equivalents		10,300	-	10,300	10,300
Advances	17	4,339	-	4,339	4,339
Total current assets		**18,384**	**-**	**18,384**	**18,384**
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**

27. Related parties

The Group has an interest in 32 associate companies (trading as pharmacies), 2 joint ventures (retail outlets) and 12 100% owned subsidiary companies (pharmacy investment, franchise and management operations and 9 non-trading).

During the period, there has been one director, who has had shareholdings in various associate companies and shareholdings in the Parent company, and there have been 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, supplier 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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Dividends	1,994	844	638	444
Marketing levies and franchise fees	1,945	1,119	72	19
On-charged costs	1,932	1,138	911	560
Receivable from associates			1,160	826
Loans to associates			2,069	4,919
Total owing from associates			4,850	6,768
Receivable from joint venture			177	7
Receivable from other related parties			297	300
Payable to associates			244	379

During the year the Parent issued, acquired and cancelled shares with associates, see note 21 for details. The Parent contributed capital and shareholder loans of $1,855,000 (2010: $97,000) 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 the directors and executive officers. The CEO and other senior executives also participate in the share option scheme. Key management personnel compensation comprised:

	Group	
	2011 $'000	**2010 $'000**
Short-term employee benefits	1,606	1,034
Share vesting costs	27	43

28. Non-cancellable operating leases

	2011 $'000	2010 $'000
Due within one year	563	505
Due between one and five years	1,198	1,653
Due after five years	-	-
	1,761	**2,158**

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 held 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. In December 2009 Pharmacybrands Limited cancelled 710,000 of these redeemable ordinary shares and in November 2010 cancelled the remaining 250,000 of these redeemable ordinary shares due to employment conditions not being fulfilled. An amount of $19,000 has been credited to the income statement in respect of this scheme to bring the cummulative amount charged to income to zero.

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). An amount of $46,000 has been charged to the income statement reflecting the amortisation of the fair value of entitlements under this scheme.

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 conditions.
	(250)	250,000 of these options expired 10 November 2010 due to failure to meet non-market conditions.
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	**500**	

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%.

30. Commitments and contingencies

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

	$'000
• Lease commitments	6,849
• Lease bonds	1,790
• Lease guarantees	1,356
• Loan guarantees	5,768
	15,763

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

The Parent has provided guarantees for all obligations under bank facilities provided to certain of its associates. The bank also holds personal guarantees from the other shareholders of these associate companies for these facilities.

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

31. Subsequent events

Business combination of Pharmacybrands Limited and Radius Pharmacy Limited

On 1 April 2011, Pharmacybrands Limited's wholly owned subsidiary Pharmacy Store Holdings Limited acquired 100% of the issued shares of Radius Pharmacy Limited (RPL), a pharmacy retail group, for $17.1 million in cash. The Group assumed $18.0 million of debt due to Radius Health Group Limited ('RHGL'), the previous owners of RPL, and other vendors, as part of the transaction, and this has subsequently been refinanced using a new bank facility from National Bank.

As a result of the acquisition, the Group's portfolio of stores in which an equity ownership interest is held will increase from 34 to 68. The Group expects to benefit from economies of scale.

Due to the short time period between the acquisition date and issuance of the financial statements, the Group has not yet completed the initial accounting for the transaction.

The settlement process is not yet complete. The purchase price may be subject to change in the event that the fair values of assets and liabilities acquired differ to the preliminary values set out in the sale and purchase agreement. Under the terms of the sale and purchase agreement the schedule of assets and liabilities acquired will not be finalised until 60 working days following the acquisition. Once this process is completed the Group will undertake its assessment of the fair values of the assets and liabilities acquired. The group does not expect that the excess of the purchase price over the carrying amount of assets and liabilities acquired will change significantly once the settlement process is complete.

However, for information purposes the Group has presented below the values of assets and liabilities and associated consideration set out in the sale and purchase agreement. These figures are subject to change and will be finalised for reporting in the 2012 financial year.

Identifiable assets acquired and liabilities assumed (using amounts in the sale and purchase agreement)

	$m
Cash	2.2
Receivables and prepayments	4.5
Inventories	7.2
Fixed assets	4.3
Investment in associates	1.9
Other long term investments	0.2
Employee entitlements	(1.0)
Trade and other payables	(6.4)
Net tangible assets	12.9
Less debt due to RHGL and others assumed on acquisition (as set out in the sale and purchase agreement)	(18.0)
Total identifiable net liabilities	(5.1)

Consideration to be transferred

Satisfied by:	
Cash	17.1
Total consideration to be transferred	17.1

Goodwill

Based on the above preliminary figures, goodwill recognised as a result of the acquisition would be as follows:

Total consideration to be transferred	17.1
Total identifiable net liabilities	5.1
Goodwill	22.2

Business combination of Pharmacybrands Limited and Radius Pharmacy Limited (continued)

The goodwill is attributable to the maintainable profits and assembled network of pharmacies and workforce.

The outcome of the Company's assessment of the fair values of the assets and liabilities acquired and its analysis of whether other intangible assets exist may result in the amount of goodwill recognised when the initial accounting for the transaction is complete differing from the amount shown above.

Any goodwill recognised when the initial accounting is complete is not expected to be deductible for income tax purposes.

Business combination of Pharmacybrands Limited and Radius Medical Limited and Radius Medical Solutions Limited

On 11 May 2011, Pharmacybrands Limited entered into an agreement to acquire 100% of the issued shares of Radius Medical Limited and Radius Medical Solutions Limited from Radius Health Group Limited for $3.2 million. This will be financed using a bank facility from National Bank. The purchase will be effective from 1 June 2011.

Due to the short time period between the acquisition date and issuance of the financial statements, the Group has not yet completed the initial accounting for the transaction.

The settlement process is not yet complete. The purchase price may be subject to change in the event that the fair values of assets and liabilities acquired differ to the preliminary values set out in the sale and purchase agreement. Under the terms of the sale and purchase agreement the schedule of assets and liabilities acquired will not be finalised until 60 working days following the acquisition. Once this process is completed the Group will undertake its assessment of the fair values of the assets and liabilities acquired. The group does not expect that the excess of the purchase price over the carrying amount of assets and liabilities acquired will change significantly once the settlement process is complete.

However, for information purposes the Company has presented below the combined values of assets and liabilities and associated consideration set out in the sale and purchase agreement. These figures are subject to change and will be finalised for reporting in the 2012 financial year.

Identifiable assets acquired and liabilities assumed (using amounts in the sale and purchase agreement)

	$m
Cash	0.3
Receivables and prepayments	0.5
Fixed assets	0.2
Investment in associates	0.9
Trade and other payables	(0.8)
Total identifiable net tangible assets	1.1

Consideration to be transferred

Satisfied by:	
Cash	3.2
Total consideration to be transferred	3.2

Goodwill

Based on the above preliminary figures, goodwill recognised as a result of the acquisition would be as follows:

Total consideration to be transferred	3.2
Total identifiable net tangible assets	1.1
Goodwill	2.1

Business combination of Pharmacybrands Limited and Radius Medical Limited and Radius Medical Solutions Limited (continued)

The goodwill is attributable to the maintainable profits and assembled network of medical centres and workforce.

The outcome of the Company's assessment of the fair values of the assets and liabilities acquired and its analysis of whether other intangible assets exist may result in the amount of goodwill recognised when the initial accounting for the transaction is complete differing from the amount shown above.

Any goodwill recognised when the initial accounting is complete is not expected to be deductible for income tax purposes.

Acquisition related costs
Costs related to the Radius Pharmacy Limited, Radius Medical Limited and Radius Medical Solutions Limited acquisitions included in other expenses in the Group's consolidated statement of comprehensive income for the year amount to $0.8 million.

Shareholder Information
As at 30 April 2011

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 2011 were as follows:

Name	Holding	%
Cape Healthcare Limited	26,904,646	26.77
LPL Trustee Limited	26,904,355	26.77
Massey Pharmacy Limited	3,030,000	3.01
M Fleet & MRI Christchurch Trustees Limited	2,421,048	2.41
G K Ritson	1,967,344	1.96
M Dunn & Fortune Manning Trustee Company Limited	1,967,145	1.96
Ganet Investments Limited	1,598,887	1.59
B A Fordyce, F Dragicevich & C L Hutton	1,182,263	1.18
A H McAulay	1,037,770	1.03
T Lai, C P Lai & K Yee	984,985	0.98
D S Milne, J M Milne & L W Lamberg	984,072	0.98
M S Vuksich, F A Vuksich & W M G Yovich	974,027	0.97
P J Guthrie	817,873	0.81
NZ Guardian Trust Investment Nominees Limited	816,721	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

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	26.77
LPL Trustee Limited	26,904,355	26.77

As at 30 April 2011 Pharmacybrands Limited had on issue 100,501,023 securities (as defined by the Securities Markets Act 1988) being 100,001,023 fully paid ordinary shares, and 500,000 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 2011 is as follows:

Size of holding	Holders	%	Securities	%
1-999	106	16.0	63,137	0.06
1,000 - 9,999	259	39.1	719,278	0.72
10,000 - 99,999	217	32.8	9,658,429	9.66
100,000 - 499,999	57	8.6	11,847,327	11.85
500,000 - 999,999	13	2.0	9,597,708	9.60
1,000,000 and over	10	1.5	68,115,144	68.11
Total	**662**	**100.0**	**100,001,023**	**100.00**

Shareholder Information

As at 30 April 2011

Directors' shareholding and trades

The following table summarises all shares held and traded (whether directly or indirectly) by the Directors of Pharmacybrands Limited during the twelve months ended 30 April 2011.

Directors	Holding 1 May 2010	Cancelled	Issued	Net trades in the period	Holding 30 Apr 2011
J A Bagnall (i)	26,904,355	-	-	-	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)	217,717	-	-	-	217,717
K R Rushbrook (v)	-	-	-	20,000	20,000
I G S Sharp (vi)	99,457	-	-	-	99,457
M S Vuksich (vii)	1,133,303	-	-	-	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).

(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.

(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.

(iv) Holder of a beneficial interest of 217,717 fully paid ordinary shares in PHB (shares are legally owned by Custodial Services Limited).

(v) Purchased on market 20,000 fully paid ordinary shares in PHB on 4th June 2010 (shares are legally owned by First NZ Custodians Limited).

(vi) Holder of a beneficial interest of 99,457 fully paid ordinary shares in PHB (shares are legally owned by Investment Custodial Services Limited).

(vii) 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).

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.

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 the 31 March 2010 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);

(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 'Investor Relations' tab of Pharmacybrands website, www.pharmacybrands.co.nz.

Company Directory
As at 31 March 2011

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

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

V Singh
Chief Financial Officer
Vivek.singh@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