



Pharmacybrands

Pharmacybrands Limited

Condensed Interim Financial Statements

For the six months ended 30 September 2010

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Highlights

For the six months ended 30 September 2010

- Merger with Life Pharmacy now a year on and expected synergy benefits have substantially been achieved.
- The group recorded a net profit after tax of \$2,180,000 for the six months to 30 September 2010, growth of \$1,018,000 on the same period last year when compared to Pharmacybrands first half 2009 unmerged results. Assuming both companies operated together from 1 April 2009 the comparable earnings would have been \$1,352,000.
- Net assets of \$40.3 million, an increase of \$4.6 million a year ago. Net cash (made up of cash on hand less borrowings) is \$9.2 million, an increase of \$3.2 million on last year.
- From April through to November a net increase of 10 franchisees joined the Group. The total number of franchisees is now 267.
- During the period two partnership stores were sold, and one acquired.
- Associate earnings from partnership stores increased compared to the same period last year, which is pleasing considering the difficult trading environment.

Pharmacybrands Limited is New Zealand's only listed retail pharmacy group and comprises the Unichem, Amcal, Life Pharmacy and Care Chemist brands. In total the company represents 267 retail outlets operating throughout New Zealand including 136 Unichem Pharmacies, 77 Amcal Pharmacies, 26 Life Pharmacies, 2 Life Outlet stores and 26 Care Chemist Pharmacies. Of the 267 retail outlets the company has an ownership interest in 34 pharmacies and 2 outlet stores.

Interim Financial Results

For the six months ended 30 September 2010

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Revenue	10,506	6,717	16,197
EBIT	2,338	1,224	3,581
Profit before tax	2,605	1,382	4,046
Profit for the period	2,180	1,162	3,523
Total assets	45,602	44,633	46,006
Total liabilities	5,281	8,885	7,873
Shareholders equity (net assets)	40,321	35,748	38,133
Basic earnings per share (cents)	2.18	1.76	4.29
Diluted earnings per share (cents)	2.18	1.76	4.29
Net assets per share (cents)	40.4	37.0	38.6
Dividend per share (cents)	-	1.26	1.26

Directors' Report

For the six months ended 30 September 2010

Introduction

With the completion of the merger between Pharmacybrands and Life Pharmacy a year ago and the subsequent integration, the results presented represent the financial performance of the combined business for the first six months of the financial year.

The combined organisation now operates under the company name of Pharmacybrands Limited, which better reflects the support to the four brands of Unichem, Amcal, Life and Care that the company provides services to. With the name change, the NZX ticker has also changed from 'LPL' to 'PHB'.

Trading Environment

The trading environment in the past six months has been variable. We have seen an improvement in dispensary sales, primarily driven by higher prescription numbers. However, retail continues to be challenging, especially in the areas where consumer spend is discretionary such as cosmetics and fragrances. We continue to face increased levels of competition in these areas as we fight for a share of reduced consumer spend. Despite this, our stores continue to provide good levels of service and core health and wellbeing sales continue to grow at a better rate than independent and other branded pharmacy groups.

Strategy

Since the merger, the company has concentrated on three core strategies:

1. Integrating the central office of Pharmacybrands and Life Pharmacy
2. Growing franchisee numbers, and
3. Improving the performance of our partnership stores

Central Office Integration

The integration of the two central offices was completed during the second half of last year. The first half of this year is the first period where the combined entities have traded without significant disruption or integration costs. We are pleased that the expected synergies from the merger have been substantially achieved and the central office is now operating at an efficient level.

Growing Franchisee Numbers

From April through November there has been a net increase in franchise numbers from 257 to 267.

The Board is pleased with this growth in franchisee numbers since the merger of the two organisations, which clearly shows the strength the company has in providing valuable services to the pharmacies operating throughout New Zealand, whether they be located in a mall with a high proportion of prestige cosmetics and fragrance to dispensary pharmacies located near or close to local doctors.

Improving the Performance of our Partnership Stores

Our focus in our partnership stores has been cost control in an environment where sales have been impacted by the current economic environment. In some stores this has concentrated in areas such as labour numbers and scheduling. In other stores a more structural review of costs has been undertaken, including size of stores, layouts and lease terms. Pharmacybrands has facilitated several store ownership changes resulting in the preferred situation of having 51 percent shareholders being active "owner operator" partners. We believe this initiative will result in improved financial performance of these stores.

Financial Performance

For the six months to 30 September 2010 the Group reported a net profit after tax of \$2,180,000 (2009: \$1,162,000). However, the results for the six months to 30 September 2009 represent the financial performance of the unmerged Pharmacybrands business. Assuming the combined organisation, the net profit after tax for the same period last year would have been \$1,352,000 and hence the result represents underlying growth this year of 61 percent. The first half comparatives presented in these Consolidated Interim Financial Statements are for the unmerged Pharmacybrands business for the six months to 30 September 2009 (pre merger).

The Group's balance sheet continues to strengthen and at 30 September 2010 Pharmacybrands has cash reserves in excess of \$11 million. With investment in partnership stores of \$24.6 million the net assets of the Group are \$40.3 million (2009: \$35.7 million). During the period, Pharmacybrands has continued a programme of paying off its debt facility with the National Bank. The current level of debt in the Group is now \$1.9 million, compared to \$3.4 million in September 2009.

Future Plans

Our strategy remains focused on improving both the franchise business and our partnership stores. We continue to pursue investments in pharmacy, but also elsewhere in primary care to accelerate our growth. To improve the returns from existing stores we have initiated a project to benchmark the return on space, inventory and labour, focused initially in our Life Pharmacies to optimise range, layout and service. This process is important to refreshing our consumer offer and managing our expenditure.

We have also added a focus on developing new primary care services for pharmacy as work force issues within the primary care environment continues to be challenging and therefore opens up options for pharmacy to deliver a range of new services.

With the integration of the two organisations clearly behind us, a strong balance sheet, and positive earnings growth, the business is now well placed for future growth and further investment.



For and on behalf of the Board
Peter Merton
Chairman

Consolidated interim statement of comprehensive income

For the six months ended 30 September 2010

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Note			
Operating Revenue			
Membership revenue	2,965	1,824	4,902
Marketing revenue	3,037	2,428	5,808
Associate earnings	1,076	558	1,640
Other income	3,428	1,907	3,847
	10,506	6,717	16,197
Operating expenditure			
Governance and accountability	334	116	407
Marketing expenses	2,887	1,105	4,332
Depreciation and amortisation	148	71	258
Employee benefit expense	2,460	1,949	4,420
Other expenditure	2,339	2,252	3,199
	8,168	5,493	12,616
Operating profit before interest and tax	2,338	1,224	3,581
Interest income	349	158	555
Interest expense	(82)	-	(90)
Net interest income	267	158	465
Profit before tax	2,605	1,382	4,046
Tax expense	(425)	(220)	(523)
Profit after tax	2,180	1,162	3,523
Other comprehensive income for for the half year, net of tax	-	-	-
Total comprehensive income for the year attributable to shareholders	2,180	1,162	3,523
Basic earnings per share (cents)	2.18	1.76	4.29
Diluted earnings per share (cents)	2.18	1.76	4.29

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 17 form part of the financial statements.

Consolidated interim statement of changes in equity

For the six months ended 30 September 2010

	Note	Share Capital \$'000	Retained Earnings \$'000	Total Equity \$'000
September 2009				
Balance at 1 April 2009		3,894	2,805	6,699
Profit for the period			1,162	1,162
Total other comprehensive income			-	-
Total comprehensive income for the period			1,162	1,162
Transactions with owners, recorded directly in equity				
Issue of shares	6	29,133		29,133
Dividends to shareholders	7		(1,246)	(1,246)
Balance at 30 September 2009		33,027	2,721	35,748
March 2010				
Balance at 1 April 2009		3,894	2,805	6,699
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	6	29,136		29,136
Dividends to shareholders	7		(1,246)	(1,246)
Share scheme amortisation		21		21
Balance at 31 March 2010		33,051	5,082	38,133
September 2010				
Balance at 1 April 2010		33,051	5,082	38,133
Profit for the period			2,180	2,180
Total other comprehensive income			-	-
Total comprehensive income for the period			2,180	2,180
Transactions with owners, recorded directly in equity				
Issue of shares	6	5		5
Share scheme amortisation		3		3
Balance at 30 September 2010		33,059	7,262	40,321

Consolidated interim statement of financial position

As at 30 September 2010

	Note	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Equity				
Share capital	6	33,059	33,027	33,051
Retained earnings		7,262	2,721	5,082
Total equity		40,321	35,748	38,133
Current assets				
Cash and bank balances		11,087	9,405	10,300
Trade and other receivables		4,620	3,090	4,135
Inventories		83	25	48
Advances to associates		3,155	6,005	4,919
Total current assets		18,945	18,525	19,402
Non-current assets				
Fixed assets		351	605	359
Intangible assets		1,156	933	1,212
Deferred tax asset		545	1,306	1,180
Advances to associates		-	269	-
Equity accounted group investments	8	24,605	22,995	23,853
Total non-current assets		26,657	26,108	26,604
Total assets		45,602	44,633	46,006
Current liabilities				
Payables and accruals		3,276	5,337	5,106
Borrowings	9	1,894	3,434	2,664
Total current liabilities		5,170	8,771	7,770
Non-current liabilities				
Unamortised future income		111	114	103
Total non-current liabilities		111	114	103
Total liabilities		5,281	8,885	7,873
Net assets		40,321	35,748	38,133

Consolidated interim statement of cash flows

For the six months ended 30 September 2010

	Note	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Cash flows from operating activities				
Associate dividend received		862	207	1,139
Membership, marketing and other revenue		9,025	6,447	13,927
Interest received		349	158	555
Payments to suppliers and employees		(9,474)	(5,978)	(13,684)
Interest paid		(82)	-	(90)
Income taxes paid		(230)	(536)	(499)
Net cash inflow from operating activities	10	450	298	1,348
Cash flows from investing activities				
Fixed asset purchases		(87)	(176)	(306)
Investment in associates		(575)	337	(77)
Cash acquired on business combination		-	5,766	5,766
Sale of shares in associate		-	-	70
Decrease/(increase) in loans to associates		1,764	-	1,086
Net cash inflow/(outflow) from investing activities		1,102	5,927	6,539
Cash flows from financing activities				
Increase/(decrease) in borrowings		(770)	-	(770)
Shares issued for cash		5	8	11
Dividends paid		-	(1,247)	(1,247)
Net cash inflow/(outflow) from financing activities		(765)	(1,239)	(2,006)
Net increase/(decrease) in cash equivalents		787	4,986	5,881
Add opening cash equivalents		10,300	4,419	4,419
Closing cash and bank balance equivalents		11,087	9,405	10,300
<i>Reconciliation of closing cash equivalents to the balance sheet:</i>				
Cash and bank balances		11,087	9,405	10,300
Closing cash equivalents		11,087	9,405	10,300

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 17 form part of the financial statements.

Notes to the financial statements

For the six months ended 30 September 2010

1. Reporting Entity

Pharmacybrands Limited (formerly Life Pharmacy Limited) (the "Legal 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.

The consolidated interim financial statements of Pharmacybrands Limited reflect the fact that from an accounting perspective the controlling entity is Pharmacy Transition Limited (formerly Pharmacybrands Limited), and therefore comprise the controlling entity, its controlled entities (including the Legal Parent) together referred to as the "Group" (see note 4).

The Group operates the Life Pharmacy, Unichem, Amcal and Care Chemist franchise brands comprising 267 stores within New Zealand.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. The consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 31 March 2010.

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

The consolidated interim financial statements for the six months ended 30 September 2010 and the comparative information for the six months ended 30 September 2009 are unaudited.

(b) Basis of measurement

The financial statements of the Group are prepared under the historical cost convention, as modified by the revaluation of certain assets identified in 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) Changes in accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 March 2010. The Group has not applied any standards, amendments to standards and interpretations that are not yet effective.

(e) Comparatives

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

3. Accounting estimates and judgements

In authorising the financial statements for the half year ended 30 September 2010, the Directors have ensured that the specific accounting policies necessary for the proper understanding of the financial statements have been disclosed, and that all accounting policies adopted are appropriate for the Group's circumstances and have been consistently applied throughout the year for all Group entities for the purposes of preparing the consolidated interim financial statements.

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

Notes to the financial statements

For the six months ended 30 September 2010

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

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

On 30 September 2009 Pharmacybrands Limited acquired Pharmacy Transition Limited through the issue of 39,783 fully paid shares in PHB for every PTL share.

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

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

Pharmacybrands Limited (independent of Pharmacy Transition Limited) recorded a profit of \$0.2 million in the six months to 30 September 2009 prior to adjusting for one-off items of \$3.2 million that resulted from the business combination with Pharmacy Transition Limited. Assuming both companies had operated together since 1 April 2009, the first half result for last year (excluding the one-off items of \$3.2 million) would have generated Operating Revenue of \$10.5 million and a Profit for the period of \$1.4 million.

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
5. Other income			
Management fees	-	25	22
Leasing receipts	103	146	285
Commissions	1,355	914	1,727
Owners & other conference income	982	703	703
Gain on sale of investments in associate	-	-	70
Associate store administration fees	874	108	993
Other	114	11	47
	3,428	1,907	3,847
6. Share capital			
Opening balance	33,051	3,894	3,894
Share capital issued (a)	5	29,133	29,136
Share scheme amortisation	3	-	21
	33,059	33,027	33,051

Shares issued

(a) On 12 May 2009 Pharmacy Transition Limited issued 1,500 fully paid ordinary shares at \$5.50 per share to a new licensee joining the brand. The fair value consideration of \$29,125,000 from the merger between Pharmacy Transition Limited and Pharmacybrands Limited on 30 September 2009 was determined with reference to the number of shares PTL would have needed to issue in order to reduce the holding of PTL shareholders to the same proportion they hold in PHB post the merger at the fair value price of the shares at the time of the merger.

Notes to the financial statements

For the six months ended 30 September 2010

7. Distribution to owners comprises

On 27 July 2009 Pharmacy Transition Limited paid a dividend of \$1.2168 per share.

8. Group investments

Equity accounted associates
and joint ventures

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
(a)	24,605	22,995	23,853

The movement in equity accounted entities comprises:

Brought forward	23,853	3,611	3,611
Investment in associates	(b) 575	19,192	19,446
Share of net earnings	1,076	558	1,640
Less associate dividend	(899)	(366)	(844)
	24,605	22,995	23,853

Equity accounted associates include goodwill as follows:

Gross goodwill brought forward	17,823	2,781	2,781
Associates acquired	(b) 752	15,042	15,042
	18,575	17,823	17,823

a) Associate pharmacy entities include:

Associate pharmacies and joint venture entities that are equity accounted are listed on page 12.

b) Associates formed during the six month period to 30 September 2010 and capital contributed

Knox Pharmacy 2010 Limited was incorporated in May 2010 and Waiuku Medical Pharmacy (2010) Limited was incorporated in July 2010. Pharmacybrands also contributed additional capital to Shore City Pharmacy Limited and Life Pharmacy Wall Street Dunedin Limited during the period.

Associates formed during the period to 31 March 2010 and capital contributed

The Group acquired a 49% interest in the following pharmacies on 30 September 2009 as a result of the business combination of PHB and PTL; A H McAulay Limited, Bayfair Pharmacy Limited, Guthries Pharmacy Limited, Life Medicentre Pharmacy Pakuranga (2008) Limited, J-Mall Pharmacy Limited, Life Pharmacy Albany Limited, Life Pharmacy Sylvia Park Limited, Murray Dunn Pharmacy Limited, Neil Webber Pharmacy Limited, Northlands Pharmacy 2003 Limited, Pharmacy 277 Limited, Porirua Pharmacy (2006) Limited, Queensgate Pharmacy Limited, Riccarton Mall Pharmacy 2000 Limited, Shirley Pharmacy Limited, Shore City Pharmacy Limited, Sinel-Francis Pharmacy Limited, Sinel-Francis Pharmacy Tauranga Limited and St Lukes Pharmacy Holdings Limited. During the second half the Group acquired a 49% interest in Life Pharmacy Centre Place (2009) Limited and the Group disposed of its 49% interest in Porirua Pharmacy (2006) Limited.

Notes to the financial statements

For the six months ended 30 September 2010

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.

Summary associate financial information

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

	Assets	Liabilities	Revenue	Net Profit after Tax
	\$'000	\$'000	\$'000	\$'000
As at and for the half year ended 30 September 2010	46,324	23,280	65,488	2,060
As at and for the half year ended 30 September 2009	44,640	24,034	11,420	580
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 year's profit after tax subject to each associate company complying with any applicable banking covenants and being solvent in accordance with the solvency test requirements under the Companies Act 1993.

Reporting dates

The controlled entities, the joint venture and all associates have a 31 March annual reporting date.

Notes to the financial statements

For the six months ended 30 September 2010

Group investments (continued)

Legal Parent

Pharmacybrands Limited

Controlled entities

Amcal Chemists (NZ) Limited

Care Chemist Limited

Dispensaryfirst Limited

Life Pharmacy Limited

Life Holdings Botany Limited

Life Pharmacy Trustee Company

Palmerston North Pharmacy (2005) Limited

Pharmacy Management Limited

Pharmacy Store Holdings Limited

Pharmacy Transition Limited

Smart Pharmacy Limited

Unichem Chemists (NZ) Limited

Porirua Pharmacy (2006) Limited

Joint Venture entities

LPL Investments Limited

Pharmacies Instore Limited

Associate entities

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

Glenfield Mall Pharmacy 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

Queensgate Pharmacy 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 Pharmacy (2005) Limited

Waiuku Medical Pharmacy (2010) Limited

	Holding	Activity
Pharmacybrands Limited		Franchisor & Investment
Amcal Chemists (NZ) Limited	100.0%	Non-trading
Care Chemist Limited	100.0%	Franchisor
Dispensaryfirst Limited	100.0%	Non-trading
Life Pharmacy Limited	100.0%	Non-trading
Life Holdings Botany Limited	100.0%	Non-trading
Life Pharmacy Trustee Company	100.0%	Non-trading
Palmerston North Pharmacy (2005) Limited	100.0%	Non-trading
Pharmacy Management Limited	100.0%	Services to retail pharmacy
Pharmacy Store Holdings Limited	100.0%	Investment
Pharmacy Transition Limited	100.0%	Franchisor & Investment
Smart Pharmacy Limited	100.0%	Non-trading
Unichem Chemists (NZ) Limited	100.0%	Non-trading
Porirua Pharmacy (2006) Limited	100.0%	Non-trading
LPL Investments Limited	50.0%	Retail
Pharmacies Instore Limited	50.0%	Retail
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
Glenfield Mall Pharmacy Limited	48.5%	Non-trading
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	48.5%	Pharmacy
Life Pharmacy Sylvia Park Limited	49.0%	Pharmacy
Life Pharmacy Wall Street Dunedin Limited	49.0%	Pharmacy
Murray Dunn Pharmacy Limited	49.0%	Pharmacy
Neil Webber Pharmacy Limited	49.0%	Pharmacy
Northlands Pharmacy 2003 Limited	49.0%	Pharmacy
Pharmacy 277 Limited	49.0%	Pharmacy
Queensgate Pharmacy Limited	49.0%	Pharmacy
Riccarton Mall Pharmacy 2000 Limited	49.0%	Pharmacy
Shirley Pharmacy Limited	49.0%	Pharmacy
Shore City Pharmacy Limited	49.0%	Pharmacy
Sinel-Francis Pharmacy Limited	49.0%	Pharmacy
Sinel-Francis Pharmacy Tauranga Limited	49.0%	Pharmacy
St Lukes Pharmacy Holdings Limited	49.0%	Pharmacy
Stokes Valley Pharmacy (2009) Limited	48.5%	Pharmacy
Waiuku Pharmacy (2005) Limited	46.6%	Pharmacy
Waiuku Medical Pharmacy (2010) Limited	48.5%	Pharmacy

Notes to the financial statements

For the six months ended 30 September 2010

9. Borrowings

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Current	1,894	3,434	2,664
Non-current	-	-	-
	1,894	3,434	2,664

Borrowings and loans to associates

Bank borrowings obtained by Pharmacybrands Limited from ANZ National Bank Limited (ANZNB) are on-lent to individual associates under a group borrowing facility comprising a \$1.9 million revolving credit facility allocated directly to the associates. Interest is payable monthly on all borrowings at an effective interest rate of 6.13% on call. Overdraft facilities are arranged directly with the bank.

The associate advances and borrowings 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 match Pharmacybrands Limited's 49% shareholding in each associate.

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

On 11 November 2010 the current facility was extended for a further 4 months to 31 March 2011. Pharmacybrands Limited and its subsidiaries have signed a General Security Agreement with ANZNB and have given cross guarantees for each other.

10. Operating cash flows reconciliation

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Profit/(loss) for the period	2,180	1,162	3,523
Less capital gains	-	-	(70)
Operating profit	2,180	1,162	3,453
<i>Add/(deduct) non-cash items:</i>			
Equity accounted profits	(177)	(352)	(795)
Depreciation & asset write-off	151	160	258
Amortisation of lease incentive	21	-	(11)
Bad debts	(44)	-	139
Deferred tax	635	9	135
Share/option scheme costs	3	-	21
<i>Add/(deduct) changes in working capital items:</i>			
Receivables and accruals	(441)	289	(266)
Inventory	(35)	-	(23)
Payables and accruals	(1,843)	(970)	(1,563)
Net cash inflow/(outflow) from operating activities	450	298	1,348

Notes to the financial statements

For the six months ended 30 September 2010

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
11. Shares on issue			
Shares authorised and on issue	000's	000's	000's
Opening number of shares	100,747	68,685	68,685
Shares issued - fully paid (a)	-	41,223	41,223
Shares issued - partly paid (b)	-	-	500
Shares cancelled - partly paid (c)	-	(8,950)	(9,661)
	100,747	100,958	100,747
Shares held as treasury stock (d)	(844)	(960)	(844)
	99,903	99,998	99,903

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

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

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

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

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

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

Notes to the financial statements

For the six months ended 30 September 2010

Shares on issue (continued)

Treasury stock

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

12. Related parties

The Parent has a minority interest in 34 associate pharmacies, 2 joint venture retail outlets and 12 100% owned subsidiary companies (pharmacy investment, franchise and management operations and 8 non-trading).

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

The Group has commercial franchise agreements with all associate companies and franchisee stores relating to marketing levies and franchise fees. The Group also incurs transactions on behalf of the stores which are on-charged. These transactions comprise items such as training courses, central purchasing agreements, central advertising campaigns, loyalty card costs, Tony Ferguson franchisee payments and IT related costs. The Parent has leased some equipment which is on-leased to associate companies. The Parent performs accounting services, based on commercial fees, for some of the stores and the 2 joint venture stores.

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

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

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

Related party transactions for the group:

	Transaction Value		Balance Outstanding	
	Half year ended 30 Sep 2010 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000	Half year ended 30 Sep 2010 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
Dividends	899	844	481	444
Marketing levies and franchise fees	671	1,119	-	19
On-charged costs	1,235	1,138	754	560
Receivable from associates			239	70
Loans to associates			3,156	4,919
Total owing from associates			4,630	6,012
Receivable from joint venture			236	229
Receivable from other related parties			209	264
Payable to associates			-	379

During the year the Parent issued, acquired and cancelled shares with associates, see note 10 for details. The Parent contributed capital of \$575,000 (2010: \$0) to associates during the year, see note 7. The Parent guarantees the associate banking facilities commensurate with its shareholding in each associate or as otherwise agreed.

Notes to the financial statements

For the six months ended 30 September 2010

	Half year ended 30 Sep 2010 (Unaudited) \$'000	Half year ended 30 Sep 2009 (Unaudited) \$'000	Year ended 31 Mar 2010 (Audited) \$'000
13. Non-cancellable operating leases			
Due within one year	1,756	1,291	881
Due between one and five years	3,715	2,895	2,204
Due after five years	57	330	162
	5,528	4,516	3,247

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

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

14. Share based payments

Pharmacybrands Limited issued 960,000 redeemable ordinary shares (ROS) on 20 August 2008 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of Senior Executives of Pharmacybrands Limited. The shares were issued at \$0.55 per share, initially paid up to \$0.01 per share. Until such time as the Executive Redeemable Ordinary Shares are redeemed and transferred to executives the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 55th). No Executive Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited. On 17 December 2009 Pharmacybrands Limited cancelled 710,000 of these redeemable ordinary shares due to employment conditions not being fulfilled by former senior executives of Life Pharmacy Limited. On 9 November 2010 Pharmacybrands Limited cancelled the remaining 250,000 of these redeemable ordinary shares due to employment conditions not being fulfilled by former senior executives of Pharmacybrands Limited.

Pharmacybrands Limited issued 500,000 redeemable ordinary shares (ROS) on 1 March 2010 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of the Chief Executive Officer. The shares were issued at \$0.40 per share, initially paid up to \$0.01 per share. Until such time as the CEO Redeemable Ordinary Shares are redeemed and transferred to the CEO the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 40th). No CEO Redeemable Ordinary Shares can be redeemed before the third anniversary of the appointment date of the CEO (being 1 October 2009).

Notes to the financial statements

For the six months ended 30 September 2010

Share based payments (continued)

The terms and conditions of the grants are as follows:

Grant date/employees entitled	Number of Instruments '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.
	(960)	300,000 of these options expired 30 April 2009, 250,000 expired 31 August 2009, 160,000 expired on 9 January 2010 and 250,000 expired on 27 September 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 and is to be settled by physical delivery of shares.
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%.

Executive Redeemable Ordinary Share Scheme (granted 20 August 2008)

The fair value of the Executive Redeemable Ordinary Shares is \$201,600. This cost is being amortised over the relevant period for each tranche of shares. The fair value of the ROS at grant date is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.45, the exercise price of \$0.55, expected volatility of 60%, expected dividends of 0%, a term of 3 years for tranche 1, 4 years for tranche 2, 5 years for tranche 3, and a risk-free interest rate of 6.3%. Since April 2009 all of the executives participating in the redeemable ordinary share scheme have resigned from office, breaking the non-market conditions of the options.

15. Commitments and contingencies

The Parent's ultimate exposure to bank facilities with its associates is commensurate with the Parent's 49% shareholding in each associate and includes the advance to the associates of \$3.2 million and lease bonds of \$1.7 million.

16. Subsequent events

On the 31st October 2010 Pharmacybrands Limited entered in a binding agreement to purchase 51% of Bayfair Pharmacy Limited and sell 49% of Queensgate Pharmacy Limited.

Shareholder Information

As at 31 October 2010

Major Shareholders

Pharmacybrands Limited's ordinary shares are listed on the New Zealand Stock Exchange using the NZX code, PHB. The 20 largest registered holders of quoted equity securities as at 31 October 2010 were as follows:

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

Substantial Security Holders

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

Name	Holding	%
Cape Healthcare Limited	26,904,646	26.71
LPL Trustee Limited	26,904,355	26.70

As at 31 October 2010 Pharmacybrands Limited had on issue 100,746,684 securities (as defined by the Securities Markets Act 1988) being 99,996,684 fully paid ordinary shares, and 750,000 redeemable ordinary shares payable to \$0.01 and held on trust by Life Pharmacy Trustee Company Limited on behalf of senior executive employees.

Shareholding Spread

Pharmacybrands Limited's shareholding spread as at 31 October 2010 is as follows:

Size of Holding	Holders	%	Securities	%
1-999	107	16.2	62,858	0.06
1,000 - 9,999	252	38.1	692,413	0.69
10,000 - 99,999	224	33.9	10,023,429	10.02
100,000 - 499,999	55	8.3	12,049,872	12.05
500,000 - 999,999	13	2.0	9,130,283	9.13
1,000,000 and over	10	1.5	68,037,829	68.05
Total	661	100.0	99,996,684	100.00

Shareholder Information

As at 31 October 2010

Directors' shareholding and trades

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

Directors	Holding	Cancelled	Net trades in the		Holding
	1 Apr 2010		Issued	period	31 Oct 2010
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 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:

- 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);
- 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);
- 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

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 October 2010

Registered Office

Pharmacybrands Ltd
Level 2, Building C
600 Great South Road
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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
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Websites

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

Management

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Chief Executive Officer
Alan.wham@pbl.co.nz

V Singh
Chief Financial Officer
vivek.singh@pbl.co.nz

Bankers

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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;

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Please assist our registrar by quoting your CSN or shareholder number