Life Pharmacy Limited

Financial Statements and Annual Report

For the year ended 31 March 2008

Annual Report

Contents

For the year ended 31 March 2008

Annual Report
Financial summary
For the year ended 31 March 2008

	Consolidated Group		
	2008	**2007**	**2006**
	$'000	**$'000**	**$'000**
Revenue	6,442	5,024	5,494
Profit/(loss) before tax	(1,068)	(7,206)	955
Profit/(loss) for the period	(570)	(6,562)	1,096
Total assets	32,898	33,270	38,819
Total liabilities	(7,316)	(11,342)	(10,797)
Shareholder equity (net assets)	25,582	21,928	28,022
Dividend	-	849	488
Basic earnings per share (cents)	(1.67)	(21.8)	3.9
Diluted earnings per share(cents)	(1.67)	(21.8)	3.6
Dividends per share (cents)	-	0.5	2.7
Net assets per share (cents)	68.7	72.8	100.0
Net tangible assets per share (cents)	24.2	16.6	21.0

Chairman's letter to shareholders

For the year ended 31 March 2008

Firstly, on behalf of the Board of Life Pharmacy, I would like to take this opportunity to formally acknowledge and thank all our store colleagues, store owners and franchisees for the great resilience they have shown during changing and challenging economic times, and their dedication to living our values of providing excellence and outstanding customer service. During the last year we have seen a tougher retail environment, government dispensing fee reductions, wage pressures in a tight labour market, more competition due to partial deregulation and significant leadership and shareholder changes of the Life Pharmacy Group. Our Group though retains pharmacy retail outlets which continue to be the largest within the country and located in high profile locations. The success of the Group is dependent upon our stores continuing to trade well throughout the country and thereby contributing to our future growth.

Life Pharmacy has gone through significant change in the last 12 months and this was spearheaded by the investment from LPL Trustee Limited into Life Pharmacy on 26 July 2007. LPL Trustee Limited is backed by Andrew Bagnall who has considerable expertise and experience in franchise businesses. The Board and management of Life Pharmacy have appreciated the input and guidance he has provided. The Board welcomes both Andrew Bagnall and John Bolland, as his alternate director, to the Board, thanks them for their highly valued contributions to date and their full commitment to achieving Life Pharmacy vision, goals and strategy.

We were very pleased to appoint our new Chief Executive Officer, Philip Ingham who joined us on 1 August 2007. Philip brings a wealth of experience to the role after spending 20 years with health and beauty giant A.S Watson and in his first 9 months has already achieved a great deal. The future growth strategy for Life Pharmacy is firmly in place with the Board totally committed to our vision to be the biggest most innovative Health, Beauty and Wellness retailer in New Zealand. A number of initiatives have already been put in place including the announcement to move to a logistics solution independent of our main competitor, strengthening of the management team, the introduction of the Life Franchisee Board and the acquisition of Care Chemist Services Limited. Philip talks more about our growth initiatives in his letter.

Philip has built a strong team over the past 6 months including the appointment of Sam Shosanya to the role of General Manager Buying, Marketing and Merchandise and Craig Wilson to Chief Financial Officer. Philip has also retained valuable in-house experience with Jan Jones, recently appointed to General Manager of Corporate Relations, and Des Flynn, General Manager of New Business Development.

Life Pharmacy reports an audited loss of $0.57million (2007: net loss of $6.56 million). The second half performance is an improvement on the first half recording a loss of $0.12m for the six months 31 March 2008 (30 September 2008: loss $0.45 million). This was in line with expectations during the more profitable Christmas trading period.

Sales, including associate stores, continue to be challenging in a low growth economic environment with substantial rises in food and fuel prices, and interest rates affecting household spending. The revenue from associate stores was $0.43 million (2007: $0.76 million). A number of our Auckland stores were impacted by the recent openings of Albany and Sylvia Park as well as the tougher retail environment. The Board decision to have a presence in both of these new malls has provided some resilience to the overall group with Albany, in particular, trading higher than expectations.

Life's group net assets are $25.6 million (2007: $21.9 million) and the increase in the Investment in Associates reflects the investment in the new Life Albany stores that opened during the year and the share of associate store results.

On May 2nd 2008 we announced the signing of a Heads of Agreement with Care Chemist Services Limited with the acquisition of the Care Chemist business expected to be concluded on 30th May 2008. We are pleased to be retaining the services of Nicolette McDonald, former CEO of Care Chemist Services, and Des Adams, founder and former owner of Care Chemist Services. They will continue to support the existing franchisees operating under the Care Chemist brand and will further develop and grow the pharmacy model. The Board are excited about the opportunity this acquisition brings to the group and also to the wider New Zealand pharmacy retailing market and recognises the importance of the role of the pharmacist in the community.

Finally, I wish to acknowledge and thank the Life Pharmacy Board for their contributions during the year specifically managing through the significant changes that have taken place. We are in a healthy position to further grow the Life Group and look forward to implementing the strategies to grow the Life Group and enhance the value of its shareholders.

EM Coutts

Liz Coutts
Chairman.

Chief Executive's Report

For the year ended 31 March 2008

After nine months in the role at Life Pharmacy I have had the opportunity to gain an understanding of the New Zealand pharmacy channel, its relationship with the broader retail and professional services sector, and the role that the Life Pharmacy brand currently plays within the sector. More importantly, I have also had the chance to review what the future might be for LPL in the wider Health, Beauty and Wellness arena.

The pharmacy channel needs to be reengineered in order to address market competitiveness and the impact of reduced dispensing fees. The exciting opportunity is that our stores continue to play a significant role for the consumer and our brand is clearly defined by both our quality in products and excellence in customer service. The Pharmacist and our highly trained store team members play a significant role in this by providing expert care and advice to consumers. In the wider retail market few others can compete with these key competitive advantages. In essence the building block of Life's strategy going forward is built upon this foundation.

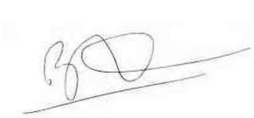
Over the last nine months the Board and I have agreed the key strategic initiatives upon which LPL will be focusing. Delivering these initiatives will be the goal in the coming period. The initiatives are as follows:

1. Driving growth in pharmacy numbers through broadening the scope of the LPL group to also include Community Pharmacy. This will allow further acquisition of both new and existing sites, particularly as we further develop our franchise model.
2. Driving sales through a stronger promotional programme, which is more relevant to the current economic climate and our customers. Leveraging our new loyalty programme database is key to this in both communication to customers and working with suppliers.
3. Lowering the cost of goods through partnerships with our key suppliers and increasing volumes. Later in the year we will provide our members with an independent supply chain service unique to Life Pharmacy.
4. Improving business processes and sharing "best practice" to provide our pharmacies with the tools and expertise to be more efficient and profitable.
5. Developing points of competitive differentiation to which our customers can relate, and which will encourage franchisee acquisition (for example, the Tony Ferguson Weight Management programme).
6. Growing the capability of our highly motivated central office and store teams to provide continued development in our consumer propositions, and consequently growth in sales, profit and shareholder value.

The role of pharmacy in the various government strategic plans relating to the health sector must be clearly understood. LPL is prepared to play a significant role in this as we continue to develop the capability of our people in delivering an appropriate range of quality professional health services to our customers. As I said at the beginning, our stores have the key strength of the pharmacist being at the centre of the products and services that we provide to our customers. Going forward our Group will remain anchored in dispensary and continue to be committed to building a sustainable advantage through the delivery of professional services to the communities they serve.

Retailing is a very demanding career and I would like to take this opportunity to thank all Life Pharmacy colleagues – both working in stores and in our central office – for their hard work, effort and diligence in furthering the Life Pharmacy cause.

After nine months in the business, I believe we now have the team capability and strategic direction to succeed. With the continued backing of Andrew Bagnall, LPL is in position to deliver significant growth in franchise numbers and group profitability in the years ahead.



Philip Ingham
CEO

Corporate Governance
For the year ended 31 March 2008

Role of the Board of Directors
The Board of Life Pharmacy Limited (LPL) 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 LPL and set the policy framework within which LPL must operate. The Chief Executive Officer (CEO) is appointed by the Board, and has delegated authority for the day-to-day operations of LPL.

The Board comprises three independent Directors, three non-executive Directors and an executive Director. The total annual directors' remuneration approved for each financial year is capped at $250,000, with the fees commencing 1 April 2007. The Directors holding office during the year and the remuneration paid or payable to the Directors is as follows:

Director	Appointed	Resigned	Total Fees
John (Andrew) Bagnall	30 August 2007		17,500
Elizabeth (Liz) Coutts *+¥	4 March 2005		80,000
Andrew Davidson +¥	4 March 2005		40,000
Gordon Ritson	22 June 2005	7 May 2007	3,000
Steve Smith *¥	21August 2006		40,000
Mark Vuksich +	4 March 2005		30,000
Neil Webber *	4 March 2005		30,000
Richard (Tim) Roper	4 March 2005	3 April 2007	Nil
Brian (Philip) Ingham	9 August 2007		Nil
Total			**240,500**

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

All remuneration paid to Philip Ingham (and Tim Roper) is derived from employee remuneration (salary and benefits) as CEO of LPL.

In conjunction with each Board meeting, the Directors have declared the following interests:

Andrew Bagnall – Life Pharmacy Trustee Company (Director & Shareholder); Major shareholder or Director of various unlisted or privately controlled companies.

Liz Coutts – EBOS Limited (Director); Ministry of Health (Chairman Audit, Finance & Risk Committee); Reserve Bank of New Zealand (Monetary Policy Advisor); Skellerup Holdings Limited (Director); University of Waikato Management Studies Advisory Board (Member).

Andrew Davidson – Kids Help Foundation Trust (What's Up) Charity (Trustee & Director); Lighthouse Ventures Limited (Director & Shareholder); Old Fashion Foods Limited (Director).

Gordon Ritson (Resigned 7 May 2007) – Bayfair Pharmacy Limited (Director & Shareholder); Northlands Pharmacy 2003 Limited (Shareholder); Pharmacy 277 Limited (Shareholder); Pharmacy Defence Association (Inc) (Director); PIMS 2005 Limited (Director & Shareholder); Queensgate Pharmacy Limited (Director & Shareholder); Sinel-Francis Pharmacy Tauranga Limited (Shareholder).

Steve Smith – Fulton Hogan Limited (Director); Trebol Investments Limited (Director); Elevation Capital Management Limited (Director); OCG Consulting Limited (Director); Auckland City Council Zoo Board (co-opted Member); Spanbild Holdings Limited (Director).

Corporate Governance (continued)

For the year ended 31 March 2008

Mark Vuksich – Northlands Pharmacy 2003 Limited (Director and Shareholder); Pharmacy 277 Limited (Director & Shareholder); PIMS 2005 Limited (Director & Shareholder); St Lukes Pharmacy Holdings Limited (Director & Shareholder); St Lukes Pharmacy Limited (Director and Shareholder).

Neil Webber – Ganet Investments Limited (Director & Shareholder); Kroma Colour Prints Limited (Chairman); Minnow Investments Limited (Director & Shareholder); Neil Webber Pharmacy Limited (Director & Shareholder); Northlands Pharmacy 2003 Limited (Shareholder); Pharmacy 277 Limited (Shareholder); PIMS 2005 Limited (Director & Shareholder); Sinel-Francis Pharmacy Limited (Director & Shareholder); Sinel-Francis Pharmacy Tauranga Limited (Director & Shareholder).

Tim Roper (resigned 3 April 2007) – Northlands Pharmacy 2003 Limited (Director and Shareholder); Pharmacy 277 Limited (Shareholder); PIMS 2005 Limited (Director & Shareholder).

Philip Ingham – no other interests held

Governance Policies
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 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. All Directors deemed Directors and Officers of the Company must formally apply for consent to trade the Company'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 and officers of the Company 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 current policy is that the Board will comprise one LPL Trustee Limited Director, three independent Directors, two non-executive Directors and the Chief Executive Officer, the only executive Director. LPL Trustee Limited has the option to appoint one further director. The independent Directors are selected to ensure that the appropriate skills and experience are available. One of the independent Directors will be appointed as Chairman.

The Board meets monthly, 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. Senior managers make direct presentations to the Board on a rotational basis to give directors a broad exposure to management philosophies and capabilities.

The Board has instituted a formal system to review the performance of the Board and the individual directors.

Corporate Governance (continued)

For the year ended 31 March 2008

Board Committees

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

Remuneration and Nominations Committee

This committee comprises two independent directors and one non-executive director. It meets as required to;

- Review the remuneration of the Chief Executive Officer
- 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), Elizabeth Coutts and Mark Vuksich.

The number of employees whose income was within the specified bands is as follows:

	Group		Parent	
	2008	**2007**	**2008**	**2007**
Employee annual remuneration bands:				
$100,000 - $110,000	1	2	1	2
$110,000 - $120,000		3		3
$120,000 - $130,000	1		1	
$130,000 - $140,000	2		2	
$140,000 - $150,000		1		1
$160,000 - $170,000	1	1	1	1
$190,000 - $200,000	1		1	
$240,000 - $250,000	1		1	
Executive Director annual remuneration:				
$210,000 - $220,000		1		1
$390,000 - $400,000	1		1	

Audit Committee

The Committee comprises two independent directors and one non-executive director. One of the independent directors is appointed Chairman who is not the Chairman of the Board. The executive director is not entitled to be a member. All other Directors are entitled to attend the meetings.

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

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

- To review the scope and outcome of the external audit
- To review the annual and half yearly 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

Corporate Governance (continued)

For the year ended 31 March 2008

- 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 Steve Smith (Chairman), Elizabeth Coutts and Neil Webber.

Independent Directors Committee

The Committee comprises the three 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 of more of the company's associated companies.

Organisation Structure and Financial Control

The Board has delegated to the Chief Executive Officer the management responsibilities of the Company. He is supported by the General Manager of Marketing, Merchandising and Buying, who coordinates the marketing and merchandising activities. The Chief Financial Officer is responsible to the Chief Executive Officer for ensuring that all operations within the Company adhere to the Board-approved financial control policies.

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 2008

The current Life Pharmacy Limited (LPL) group structure comprises 23 companies and LPL has appointed a Director to each associate pharmacy company board giving LPL a one-third voting right. The group entities are as follows:

Parent	**Holding**	**Activity**
Life Pharmacy Limited		Franchisor & Investment
Controlled entities		
Beauty Direct Operations Limited	100%	Non-trading
Life Holdings Botany Limited	100%	Non-trading
Tawharanui Holdings 2006 Limited (formerly trading as Life Pharmacy Remuera)	100%	Non-trading
Life Pharmacy Trustee Company	100%	Non-trading
Joint Venture entity		
LPL Investments Limited	50%	Retail
Associate entities		
Life Pharmacy Albany	49%	Pharmacy
Life Pharmacy Bayfair	49%	Pharmacy
Life Pharmacy Birkenhead	49%	Pharmacy
Life Pharmacy Glenfield	49%	Pharmacy
Life Pharmacy Johnsonville	49%	Pharmacy
Life Pharmacy Manukau	49%	Pharmacy
Life Pharmacy Newmarket 277	49%	Pharmacy
Life Pharmacy Northlands	49%	Pharmacy
Life Pharmacy Pakuranga	49%	Pharmacy
Life Pharmacy Queensgate	49%	Pharmacy
Life Pharmacy Riccarton	49%	Pharmacy
Life Pharmacy Rotorua	49%	Pharmacy
Life Pharmacy St Lukes	49%	Pharmacy
Life Pharmacy Sylvia Park	49%	Pharmacy
Life Pharmacy Takapuna	49%	Pharmacy
Life Pharmacy Tauranga	49%	Pharmacy
Life Pharmacy The Palms	49%	Pharmacy
Life Outlet Pharmacy Porirua	49%	Pharmacy
Franchisees		
Life Pharmacy Botany		
Life Pharmacy Chartwell		
Life Pharmacy Centre Place		
Life Pharmacy James Smith		
Life Pharmacy Henderson		

In accordance with the Life Pharmacy franchise agreement, each pharmacy uses the prefix 'Life Pharmacy' and its location as its trading name. For example A H McAulay Limited trades as Life Pharmacy Birkenhead.

Life Pharmacies operate throughout New Zealand, in major metropolitan shopping precincts:

Region	**Associates**	**Franchisees**
Auckland	9	2
Hamilton	-	2
Bay of Plenty	3	-
Wellington	3	1
Christchurch	3	-

Directors' declaration

For the year ended 31 March 2008

In the opinion of the directors of Life Pharmacy Limited, the financial statements and notes, on pages 13 to 42:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Parent and the Group as at 31 March 2008 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 taken which enable, with reasonable accuracy, the determination of the financial position of the Parent and 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 Parent and 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 Life Pharmacy Limited for the year ended 31 March 2008.

For and on behalf of the Board of Directors:

E M Coutts

E M Coutts	B P Ingham
Chairman	Director and CEO
29 May 2008	29 May 2008

Auditors' report

To the shareholders

For the year ended 31 March 2008

To the shareholders of Life Pharmacy Limited

We have audited the financial statements on pages 13 to 42. The financial statements provide information about the past financial performance and financial position of the Parent and Group as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 17 to 22.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Parent and Group as at 31 March 2008 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

Basis of opinion

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

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

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

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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the Parent as far as appears from our examination of those records;
- the financial statements on pages 13 to 42:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Parent and Group as at 31 March 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 29 May 2008 and our unqualified opinion is expressed as at that date.

KPMG.

Auckland

Income statement

For the year ended 31 March 2008

	Note	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Operating revenue					
Associate dividends	**20**	-	-	506	984
Associate earnings	**20**	426	760	-	-
Franchise revenue	**6**	5,512	3,793	5,512	3,793
Other revenue	**7**	504	471	474	59
		6,442	**5,024**	**6,492**	**4836**
Operating expenditure					
Governance and accountability	**8**	482	459	482	459
Marketing expenses		3,254	2,134	3,254	2,134
Impaired assets	**9**	-	6,035	-	6,035
Depreciation and amortisation	**17,18**	280	129	280	129
Employee benefit expense		2,400	1,685	2,393	1,630
Other expenditure	**10**	1,341	1,724	1,313	1,233
		7,757	**12,166**	**7,722**	**11,620**
Operating (loss) before interest and tax		**(1,315)**	**(7,142)**	**(1,230)**	**(6,784)**
Interest income		916	781	904	781
Interest expense		(669)	(845)	(668)	(839)
Net interest income/(expense)		**247**	**(64)**	**236**	**(58)**
(Loss) before tax		**(1,068)**	**(7,206)**	**(994)**	**(6,842)**
Tax benefit	**11**	498	644	504	624
(Loss) for the period		**(570)**	**(6,562)**	**(490)**	**(6,218)**
Basic earnings per share (cents)	**12**	(1.67)	(21.8)	(1.41)	(20.7)
Diluted earnings per share (cents)	**12**	(1.67)	(21.8)	(1.41)	(20.7)
Dividend per share (cents)	**12**	-	0.5	-	0.5

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 17 to 42 form part of the financial statements.

Statement of changes in equity
For the year ended 31 March 2008

		Group		Parent	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(Loss) for the period		(570)	(6,562)	(490)	(6,218)
Recognised income for the period		**(570)**	**(6,562)**	**(490)**	**(6,218)**
Contributions from owners	**13**	5,029	2,209	5,029	2,209
Shares purchased and cancelled	**13**	(840)	(892)	(840)	(892)
Share scheme amortisation	**13**	35	-	35	-
Distribution to owners	**14**	-	(849)	-	(849)
Total transactions with owners recognised directly in equity		**4,224**	**468**	**4,224**	**468**
Total changes in equity		**3,654**	**(6,094)**	**3,734**	**(5,750)**
Equity at the beginning of the period		21,928	28,022	22,597	28,347
Equity at the end of the period		**25,582**	**21,928**	**26,331**	**22,597**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 17 to 42 form part of the financial statements.

Balance sheet
As at 31 March 2008

	Note	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Equity					
Share capital	**13**	35,171	30,947	35,171	30,947
Retained deficits	**14**	(9,589)	(9,019)	(8,840)	(8,350)
Total equity		**25,582**	**21,928**	**26,331**	**22,597**
Current assets					
Cash and bank balances		2,360	1,365	2,352	1,365
Trade and other receivables	**15**	2,644	3,919	2,670	3,752
Income tax refund		-	140	-	82
Inventory		-	60	-	-
Group advances	**16**	-	7,287	-	7,287
Total current assets		**5,004**	**12,771**	**5,022**	**12,486**
Non-current assets					
Fixed assets	**17**	437	443	437	443
Intangible assets	**18**	405	669	405	669
Deferred tax asset	**19**	1,298	800	1,247	743
Group advances	**16**	7,042	-	7,042	-
Group investments	**20**	18,712	18,587	20,756	20,450
Total non-current assets		**27,894**	**20,499**	**29,887**	**22,305**
Total assets		**32,898**	**33,270**	**34,909**	**34,791**
Current liabilities					
Bank overdraft		-	42	-	-
Payables and accruals	**21**	1,401	2,270	2,663	3,164
Unamortised future income		23	-	23	-
Borrowings	**22**	-	8,839	-	8,839
Total current liabilities		**1,424**	**11,151**	**2,686**	**12,003**
Non-current liabilities					
Unamortised future income		146	191	146	191
Borrowings	**22**	5,746	-	5,746	-
Total non-current liabilities		**5,892**	**191**	**5,892**	**191**
Total liabilities		**7,316**	**11,342**	**8,578**	**12,194**
Net assets		**25,582**	**21,928**	**26,331**	**22,597**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 17 to 42 form part of the financial statements.

Statement of cash flows

For the year ended 31 March 2008

		Group		Parent	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash flows from operating activities					
Associate dividend received		512	948	512	948
Franchise and other income received		6,905	2,778	6,622	2,045
Interest received		916	781	904	781
Supplier payments		(5,489)	(3,310)	(5,172)	(1,981)
Directors and employee remuneration		(2,634)	(1,875)	(2,607)	(1,820)
Interest paid		(669)	(846)	(668)	(838)
Income taxes paid		-	-	-	-
Net cash inflow/(outflow) from operating activities	**23**	**(459)**	**(1,524)**	**(409)**	**(865)**
Cash flows from investing activities					
Decrease in investment securities		-	1,000	-	1,000
Decrease in advances from associates		245	-	245	-
Fixed asset purchases		(113)	(639)	(113)	(639)
Investment in associates		-	(672)	-	(672)
Sale of shares in associate		474	-	474	-
Investment in subsidiaries		-	-	(100)	(660)
Decrease/(increase) in loans to associates		(1,045)	1,388	(1,045)	1,388
Net cash inflow/(outflow) from investing activities		**(439)**	**1,077**	**(539)**	**417**
Cash flows from financing activities					
Increase/(decrease) in borrowings		(3,094)	(53)	(3,094)	(53)
Shares issued		5,029	2,209	5,029	2,209
Dividends paid		-	(849)	-	(849)
Net cash inflow/(outflow) from financing activities		**1,935**	**1,307**	**1,935**	**1,307**
Net increase/(decrease) in cash equivalents		**1,037**	**860**	**987**	**859**
Add opening cash equivalents		**1,323**	**463**	**1,365**	**506**
Closing cash equivalents		**2,360**	**1,323**	**2,352**	**1,365**
Reconciliation of closing cash equivalents to the balance sheet:					
Cash and bank balances		2,360	1,365	2,352	1,365
Bank overdraft		-	(42)	-	-
Closing cash equivalents		**2,360**	**1,323**	**2,352**	**1,365**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 17 to 42 form part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2008

1. Reporting entity

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

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

Life Pharmacy Limited operates the Life Pharmacy franchise and brand comprising 26 (2007: 23) pharmacies 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-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 29 May 2008.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of share based payments.

(c) Functional and presentation currency

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

3. 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.

(a) Basis of consolidation

(i) 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.

(ii) 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 income and expenses 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.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intragroup 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.

(iv) Goodwill

Goodwill arising on acquisition is included in the carrying amount of the associates and is not separately recognised. Goodwill represents the excess purchase consideration over the fair value of the net identifiable tangible and intangible assets at the time of acquisition.

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 associate) 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 investment in associates, 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 an operation or associate.

(b) Share capital

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

Share options issued by the Parent entitle the Independent Directors to subscribe for share capital of the Parent. The fair value of the option at grant date is recognised in the income statement and the balance sheet on the date, or over the period, in which the options vest with the Director.

(c) Revenue recognition

All revenue is recognised in the income statement when earned on an accrual basis.

The Group's main activity is operating the Life Pharmacy brand. The primary method of achieving this is through investing in associate stores. Accordingly the Group and Parent record as revenue income arising from associate stores as follows:

Group – share of earnings of associate stores

Parent – dividends receivable from associate stores which are recognised on the date the shareholders right to receive dividends is established.

Franchisee revenue is based on actual associate results and is recognised on an accruals basis when it is earned.

(d) Expenditure recognition

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

(e) Finance Income and Expense
Interest income and expense is recognised as it accrues using the appropriate interest rate.

(f) Accounts receivable
Trade receivables are stated at estimated realisable value after providing for debts where collection is doubtful. All known bad debts are written off and charged to the income statement in the period in which they are identified.

(h) Investments
Investments are recognised in the Parent at cost less any impairment.

(i) Property, plant & equipment

Fixed assets
Fixed assets owned by the Group are stated at cost less accumulated depreciation and any impairment losses.

Fixed assets acquired in stages are not depreciated until the fixed asset is ready for its intended use.

Depreciation is provided on a straight-line basis on all fixed 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 fixed asset components are reviewed at least annually.

Estimated useful lives of the asset classes are:

Office equipment	3 – 10 years

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

Intangible assets
Intangible assets owned by the Group are stated at cost less amortisation and any impairment losses.

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	3 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. Software balances in the prior year were reported within fixed assets but have increased significantly during the year due to investment in accounting and loyalty point software during the year.

Intangible assets (continued)

Prior year software balances have also been reclassified to intangible assets to improve disclosure.

(j) 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.

(k) Taxation

Income tax expense is charged in the income statement in respect of the current period's surplus and comprises current tax and deferred tax.

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 assets are recognised using the balance sheet liability method, after 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.

(l) 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.

(m) Employee entitlements

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

(n) Financial instruments

The Group is party to financial instruments as part of its day-to-day operations. Financial instruments are monetary assets and liabilities and include cash and bank balances, borrowings, receivables and payables.

Financial instruments are initially recognised at their fair value and subsequently measured at their amortised cost.

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

(o) 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.

Statement of cash flows (continued)
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.

(p) New standards and interpretations adopted and not yet adopted
The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application.

- *NZ IFRS 3 Business combinations (revised)* changes the application of acquisition accounting for business combinations and the accounting for non-controlling interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. The standard will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The revised standard becomes mandatory for the Group's 31 March 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- Revised NZ IAS 1 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other NZ IFRS's. The revised NZ IAS 1 will be mandatory for the Group's 31 March 2010 financial statements.
- Revised *NZ IAS 23 Borrowing Costs* removes the option to expense borrowing costs incurred in respect of "qualifying assets." This standard removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised standard becomes mandatory for the Group's 31 March 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- Revised NZ IAS 27 *Consolidated and Separate Financial Statement* changes the accounting for non-controlling interest and the loss of control of a subsidiary. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.

(p) New standards and interpretations adopted and not yet adopted (continued)

- Amendments to NZ IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* change the measurement of share-based payments that contain non-vesting conditions. The amendment becomes mandatory for the Group's 31 March 2011 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial statements.
- Amendments to NZ IAS 32 *Financial Instruments: Presentation and Disclosure* and NZ IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* allows certain instruments, normally classified as liabilities to be classified as equity only if they meet certain conditions. This includes puttable financial instrument or an instrument, or components of instruments, that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. New disclosures will also be required in the financial statements. The amendment becomes mandatory for the Group's 31 March 2010 financial statements. The Group has not yet determined the potential effect of the amending standards on the Group's financial statements.
- NZ IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. NZ IFRIC 13 becomes mandatory for the Group's 31 March 2010 financial statements. The Group has not yet determined the potential effect of the interpretation on the Group's financial statements.

4. Accounting estimates and judgements

In authorising the financial statements for the year ended 31 March 2008, 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 Parent and Group's circumstances and have been consistently applied throughout the year for all group entities for the purposes of preparing group financial statements.

Inherent in the application of certain accounting policies, judgements and estimates are required. The Directors, through the Audit Committee, have considered the appropriateness of the following critical judgements and estimates:

Impairment testing of the carrying amount of Investments in Associates

The investment in associates is recognised in the Parent's financial statements at cost. In the Group's financial statements the investment in associates is recognised using the equity method and comprises the share of net assets acquired and goodwill on acquisition. Goodwill is allocated to the relevant cash generating units (being each associate). 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 2009 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 10.1% on the unleveraged post-tax nominal cash flows, including working capital movements and capital expenditure. 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 10% 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.

Impairment testing of the carrying amount of Investments in Associates (continued)
The budget information used as the base for the cash flow forecasts, are drawn from the budgets approved by each associate company's Board for the year ending 31 March 2009. 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 2009.

Any adverse changes in the actual performance of the associates for the year ending 31 March 2009, or future rates of growth, 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 in associates.

<u>Sensitivities</u>

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

1% increase	($2,800,000)
1% decrease	$3,500,000

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

1% increase	$3,171,000
1% decrease	($3,192,000)

Notes to the financial statements
For the year ended 31 March 2008

5. Segmental reporting

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Segmental operating revenue				
Corporate	504	471	474	59
Franchise	5,512	3,793	5,512	3,793
Group investments	426	760	506	984
	6,442	**5,024**	**6,492**	**4,836**

The group investments business segment is made up of the equity accounted earnings of the associates on consolidation.

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Segmental profit/(loss) before interest and tax				
Corporate	(1,545)	(2,110)	(1,541)	(1,975)
Franchise	(148)	260	(148)	260
Group investments	378	(5,292)	459	(5,069)
	(1,315)	**(7,142)**	**(1,230)**	**(6,784)**

The group investments business segment includes impairment losses due to the write-down of subsidiary and associate goodwill of nil (2007: $6,035,000). The group corporate business segment includes bad-debts on loans of nil (2007: $59,000) and depreciation of $150,000 (2006: $146,000).

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Segmental assets				
Corporate	12,217	11,080	12,185	10,738
Franchise	1,077	2,550	1,077	2,550
Group investments	19,604	19,640	21,647	21,503
	32,898	**33,270**	**34,909**	**34,791**
Segmental liabilities				
Corporate	6,150	9,559	7,412	10,411
Franchise	1,166	1,681	1,166	1,681
Group investments	-	102	-	102
	7,316	**11,342**	**8,578**	**12,194**

The segmental reporting includes all of the Group's legal entities, which operate solely within New Zealand. The Group is a profit entity. The Parent operates the Life Pharmacy franchise and brand comprising 26 (2007: 23) pharmacies and has an ownership interest in 18 (2007: 17) associate pharmacy companies licensed annually under the Medicines Act 1981.

Segments are defined as follows:
Corporate – transactions relating to central office support function costs including governance and funding costs.
Franchise – income and expense relating to associates, subsidiaries and joint venture day to day activities.
Group investments – income and expense relating to investment (capital) transactions including dividends received and profit/loss on sale of shares.

Notes to the financial statements
For the year ended 31 March 2008

	Group		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
6. Franchise revenue	5,512	3,793	5,512	3,793

Franchise revenue includes revenues from associates 2008: $1,921,000 (2007: $1,673,000) pursuant to commercial franchise agreements.

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
7. Other revenue				
Retail sales	30	393	-	-
Sale of shares (refer note 20)	474	78	474	59
	504	**471**	**474**	**59**
8. Governance and accountability				
Audit fees	100	119	100	119
Directors fees	240	235	240	235
Directors' share option expense	35	-	35	-
Reporting	27	31	27	31
Secretarial and board expenses	50	40	50	40
Stock exchange and registry fees	30	34	30	34
	482	**459**	**482**	**459**
Auditor's remuneration to KPMG comprises:				
Annual audit of financial statements	100	105	100	105
Audit related fees	-	14	-	14
	100	119	100	119
Other services:				
Other assurance services	23	-	23	-
Due diligence services	-	42	-	42
9. Impaired assets				
Write-down of associate (refer note 20)	-	6,035	-	6,035
	-	**6,035**	**-**	**6,035**
10. Other expenditure				
Cost of sales	12	263	-	-
Leases	406	360	406	213
Amortisation of lease incentive	(22)	(12)	(22)	(12)
Doubtful debt expense	47	-	47	-
Other operating costs	898	1,113	882	1,032
	1,341	**1,724**	**1,313**	**1,233**

Notes to the financial statements

For the year ended 31 March 2008

	Group		Parent	
	2008	**2007**	**2008**	**2007**
11. (a) Income tax benefit	**$'000**	**$'000**	**$'000**	**$'000**
Current tax expense				
Prior year adjustment	-	15	-	(4)
	-	**15**	**-**	**(4)**
Deferred tax expense				
Recognition of tax losses	(494)	(2,629)	(495)	(2,582)
Origination and reversal of temporary differences	(137)	1,993	(139)	1,993
Prior year adjustment	2	(23)	5	(31)
Effect of reduction in tax rate	131	-	125	-
	(498)	**(659)**	**(504)**	**(620)**
Total income tax benefit	**(498)**	**(644)**	**(504)**	**(624)**
Imputation credit account:				
Opening balance	410	305	371	266
Resident withholding tax deducted	3	56	3	56
Imputation credits dividends received	252	467	252	467
Imputation credits on dividends paid	-	(418)	-	(418)
	665	**410**	**626**	**371**

Tax losses

The Parent has $4,179,000 of tax losses to carry forward (2007: $2,253,000) which results in a deferred tax asset of $1,247,000 (2007: $743,000) (see note 19). Tax losses carried forward are subject to ownership continuity. Deferred tax assets have been recognised and carried forward on the basis of restructuring the way in which profits are repatriated from associates and future growth plans for the company. On this basis it is probable that these tax losses will be utilised.

	Group 2008	Group 2007	Parent 2008	Parent 2007
(b) Numerical reconciliation between tax expense & pre-tax accounting (loss)				
(Loss) before tax	(1,069)	(7,206)	(995)	(6,842)
Income tax benefit at 33%	(353)	(2,378)	(328)	(2,258)
Add/(deduct) the tax effect of permanent differences:				
Fully imputed dividends/associate results	(141)	(251)	(167)	(324)
Non-assessable revenue	(154)	14	(156)	14
Non-deductible expenses	17	(13)	17	(13)
Write-down of associate	-	1,992	-	1,992
Prior year adjustments	2	(8)	5	(35)
Effect of company tax rate change*	131	-	125	-
	(498)	**(644)**	**(504)**	**(624)**

*The tax rate for companies changed to 30% effective 1 April 2008

12. Earnings per share

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Basic earnings per share comprises:				
Profit for the period	**(570)**	**(6,562)**	**(490)**	**(6,218)**
Opening number of shares (000's)	30,128	28,010	30,128	28,010
Add/(deduct) the effect of:				
Shares issued (June 2006)	-	2,310	-	2,310
Shares issued and cancelled (July 2006)	-	202	-	202
Shares cancelled (October 2006)	-	(455)	-	(455)
Shares cancelled (April 2007)	(951)	-	(951)	-
Shares issued (July 2007)	4,929	-	5,543	-
Weighted average number of shares	**34,106**	**30,067**	**34,720**	**30,067**
Basic earnings per share (cents)	(1.67)	(21.8)	(1.41)	(20.7)

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.

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Diluted earnings per share comprises:				
Profit for the period	**(570)**	**(6,562)**	**(490)**	**(6,218)**
Opening number of shares (000's)	30,128	28,010	30,128	28,010
Add/(deduct) the effect of:				
Shares issued (June 2006)	-	2,310	-	2,310
Shares issued and cancelled (July 2006)	-	202	-	202
Shares cancelled (October 2006)	-	(455)	-	(455)
Shares cancelled (April 2007)	(951)	-	(951)	-
Shares issued (July 2007)	4,929	-	5,543	-
Weighted average number of shares	**34,106**	**30,067**	**34,720**	**30,067**
Diluted earnings per share (cents)	(1.67)	(21.8)	(1.41)	(20.7)

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period and options outstanding. The prior year number of shares has been restated to reflect the fact that the options and deferred shares were not dilutive.

	Group 2008	Group 2007	Parent 2008	Parent 2007
Dividend per share (cents)	-	(0.5)	-	(0.5)

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.

	Group 2008	Group 2007	Parent 2008	Parent 2007
Net assets per share (cents)	68.7	72.8	-	-

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.

	Group 2008	Group 2007	Parent 2008	Parent 2007
Net tangible assets per share (cents)	24.2	16.6	-	-

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 19 & 20) and the closing number of ordinary shares at the end of the year.

		Group		Parent	
		2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
13. Share capital					
Opening balance		30,947	29,630	30,947	29,630
Share capital issued		5,029	2,209	5,029	2,209
Shares purchased and cancelled		(840)	(892)	(840)	(892)
Share scheme amortisation		35	-	35	-
		35,171	**30,947**	**35,171**	**30,947**
Shares authorised and on issue		**000's**	**000's**	**000's**	**000's**
Opening number of shares		30,128	28,010	30,128	28,010
Shares issued fully paid	**(a)**	7,225	2,880	7,225	2,880
Shares issued – not fully paid	**(b)**	900	-	900	-
Shares purchased and cancelled		-	(1,049)	-	(1,049)
Shares issued - performance		-	392	-	392
Shares cancelled	**(c)**	(1,000)	(105)	(1,000)	(105)
		37,253	**30,128**	**37,253**	**30,128**
Shares held as treasury stock		(900)	-	-	-
		36,353	**30,128**	**37,253**	**30,128**

Shares issued

(a) On 26 July 2007, the Parent issued 7,000,000 shares by way of a private placement to LPL Trustee Limited. The issue price was $0.75 per share, with a total cash payment of $5.25 million (before transaction costs). The shares rank equally in all respects with the existing ordinary shares of the Parent. At this time, the Parent also granted an option to LPL Trustee Limited, exercisable until 26 July 2009 to subscribe for such number of ordinary shares which would (if exercised in full) take LPL Trustee Limited's holding (including the 7,000,000 shares listed above) up to 50.01% of the voting securities in the company. The subscription price under the options is $0.75 per share (if exercised prior to 26 July 2008) and $0.825 per share (if exercised between 26 July 2008 and 26 July 2009).

In addition, on 26 July 2007, the Parent issued 225,000 shares to the Chief Executive Officer. The issue price was $0.75 per share with a total cash payment of $168,750.

(b) On 26 July 2007, the Parent issued 900,000 redeemable ordinary shares 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 $0.75 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 75th). No CEO Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited.

In addition, on 26 July 2007, the CEO Option scheme came into effect. The 1,000,000 options for ordinary shares are non transferable and each option entitles the CEO to subscribe for one share. (See note 25)

Shares cancelled

(c) On 19 April 2007, 1,000,000 shares held by PIMS 2005 Limited were cancelled for the purpose of resolving matters relating to the value of pharmacy companies acquired during March 2005.

Put and call option

(d) The Parent and each associate have entered into a Put and Call option commencing in March 2005 in respect of the 51% shareholding in each associate held by the pharmacist owners. The option is only exercisable upon legislative changes from the commencement date allowing total non-pharmacist ownership and control of pharmacies.

13. Share capital (continued)

At a special shareholders meeting held on the 24 April 2007 shareholders approved a new Put and Call option to replace the existing one. The new Put and Call option is in respect of the 51% shareholding in each associate held by the pharmacist owners. The option is only exercisable upon legislative changes allowing total non-pharmacist ownership and control of pharmacies.

If the Parent or the pharmacist chooses to exercise the Call option or the Put option it must do so to the maximum extent permitted by law. The Parent may elect to defer the exercise date of the new Put option for up to 12 months after receipt of an exercise notice from the relevant pharmacist.

The consideration payable by the Parent on exercise of the Call option or the Put option may be either cash or ordinary shares in the Parent (or a combination of both). The value to be attributed to each share in a pharmaceutical company is to be agreed between the Parent and the selling shareholder or failing agreement will be the fair value of the shares as determined by an independent expert. The fact that any shares offered for transfer constitute a minority or majority interest will not be taken into account by the independent expert when determining the fair value of the shares. The Parent can elect to pay the consideration in two instalments – 50% on the exercise date and 50% 12 months later.

The value to be attributed to any shares in the Parent being issued to satisfy the consideration payable under the Put option or the Call option, shall be the volume weighted average market capitalisation of one ordinary share in the Parent calculated from trades on the NZX over the 60 business days preceding the date when the Call option or Put option is exercised. The fair value of the put and call option cannot be reliably determined as required for recognition of the put and call option in the financial statements, and the options are accordingly measured at a nil cost. There has been no legislative changes as at 31 March 2008, therefore no value can be reliably estimated for the put and call options.

	Group		**Parent**	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
14. Retained deficits				
Opening balance	(9,019)	(1,608)	(8,350)	(1,283)
Profit/(loss) for the period	(570)	(6,562)	(490)	(6,218)
Distribution to owners	-	(849)	-	(849)
	(9,589)	**(9,019)**	**(8,840)**	**(8,350)**

Distribution to owners comprise:

In the 2008 financial year to date, no dividends have been paid or declared.

In the 2007 financial year a fully imputed interim dividend of $150,640 (0.5 cents per share) was paid on 26 January 2007 and a fully imputed final dividend of $698,370 (2.24 cents per share), for the year ended 31 March 2006, was paid on the 28 July 2006.

Notes to the financial statements

For the year ended 31 March 2008

	Group		Parent	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
15. Trade and other receivables				
Trade Receivables	843	2,307	843	2,297
Accrued income	81	132	81	132
Other receivables	364	200	364	-
Prepayments	104	105	104	105
Provision for doubtful debts	(47)	-	(47)	-
Receivables from associates	1,157	1,103	1,157	1,103
Receivables from joint venture	142	72	142	72
Receivable from subsidiaries	-	-	26	43
	2,644	**3,919**	**2,670**	**3,752**

Receivables from associates includes dividends due from associates of $749,000 (2007: $756,000), which are contractually payable in accordance with shareholder agreements entered into with each owner of the associate. Trade receivables include amounts owing by associates and joint venture of $144,000 (2007: $1,243,000).

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
16. Group advances				
Loans to associates (current)	-	7,287	-	7,287
Loans to associates (non-current)	7,042	-	7,042	-
	7,042	**7,287**	**7,042**	**7,287**

The loans to associates are advanced under a revolving debt facility (refer note 21 for loan terms and security details) with interest charged on a floating basis at 9.77% (2007: 8.20%).

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
17. Property, plant and equipment				
Office Equipment				
Opening cost	535	526	535	526
Additions	75	9	75	9
Closing cost	**610**	**535**	**610**	**535**
Opening accumulated depreciation	122	44	122	44
Depreciation for the period	85	78	85	78
Closing accumulated depreciation	**207**	**122**	**207**	**122**
Closing book value	403	413	403	413
Work in progress	34	30	34	30
Total fixed assets	**437**	**443**	**437**	**443**

Work in progress relates to projects not yet complete.

Notes to the financial statements

For the year ended 31 March 2008

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
18. Intangible assets				
Software				
Opening cost	277	122	277	122
Additions	367	155	367	155
Closing cost	**644**	**277**	**644**	**277**
Opening accumulated amortisation	53	2	53	2
Amortisation for the period	194	51	194	51
Closing accumulated amortisation	**247**	**53**	**247**	**53**
Closing book value	397	224	397	224
Work in progress	8	445	8	445
Total intangible assets	**405**	**669**	**405**	**669**

Work in progress relates to projects not yet complete.

	Group 2008 $'000	Group 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
19. Deferred tax asset				
Opening balance	800	141	743	123
Recognised in income statement	498	659	504	620
	1,298	**800**	**1,247**	**743**

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

	Opening $'000	Recognised in the income statement $'000	Closing $'000
Group – 2008			
Fixed assets	(14)	(29)	(43)
Provisions	(18)	24	6
Impact of change in tax rate	-	(131)	(131)
Tax losses	832	634	1,466
	800	**498**	**1,298**
Group – 2007			
Fixed assets	-	(14)	(14)
Provisions	-	(18)	(18)
Tax losses	141	691	832
	141	**659**	**800**
Parent – 2008			
Fixed assets	(14)	(29)	(43)
Provisions	(18)	24	6
Impact of change in tax rate	-	(125)	(125)
Tax losses	775	634	1,409
	743	**504**	**1,247**
Parent – 2007			
Fixed assets	-	(14)	(14)
Provisions	-	(18)	(18)
Tax losses	123	652	775
	123	**620**	**743**

Notes to the financial statements

For the year ended 31 March 2008

		Group		Parent	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
20. Group investments					
Subsidiaries at cost		-	-	1,428	1,328
Joint venture at cost		-	-	100	100
Equity accounted joint venture		91	100	-	-
Associates at cost, less impairment	a	-	-	19,228	19,022
Equity accounted associates	a	18,621	18,487	-	-
		18,712	**18,587**	**20,756**	**20,450**

The movement in equity accounted associates comprises:

		2008 $'000	2007 $'000
Brought forward		18,487	24,990
Additional acquisition costs		-	-
Investment in associates	b	1,046	672
Share of net surpluses after tax		434	760
Less associate dividend		(506)	(984)
Disposal of associate operations		-	(916)
Write down of associate		-	(6,035)
Cancellation of shares	c	(840)	-
		18,621	**18,487**

Equity accounted associates includes goodwill less accumulated impairment losses as follows:

		2008 $'000	2007 $'000
Gross goodwill brought forward		22,153	22,046
Cancellation of shares	c	(840)	-
Disposal adjustment		-	(707)
Prior year adjustment		-	814
Total gross goodwill		**21,313**	**22,153**
Opening accumulated impairment losses		(6,035)	(51)
Impairment recognised on disposal		-	51
Impairment loss for the period		-	(6,035)
Total impairment losses		**(6,035)**	**(6,035)**
Total net goodwill		**15,278**	**16,118**

a) *Associate pharmacy entities include:*
A H McAulay Limited, Bayfair Pharmacy Limited, Guthries Pharmacy 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 2000 Limited, Shirley Pharmacy Limited, Shore City Pharmacy Limited, Sinel-Francis Pharmacy Limited, Sinel-Francis Pharmacy Tauranga Limited and St Lukes Pharmacy Holdings Limited.

b) *Associates formed during the period and capital contributed*
Life Pharmacy Albany Limited was incorporated in April 2007. Additional capital was also contributed to two other associates during the period.

c) On 19 April 2007 1,000,000 shares held by PIMS 2005 Limited with a value of $840,000 were cancelled for the purpose of resolving matters relating to the value of pharmacy companies acquired during March 2005.

20. Group investments (continued)

Controlled entities

Beauty Direct Operations Limited (non-trading), Life Holdings Botany Limited (retail) and Tawharanui Holdings 2006 Limited (non-trading) are wholly owned subsidiary companies (New Zealand registered companies incorporated under the Companies Act 1993) of the Parent. Tawharanui Holdings 2006 Limited (formerly Wylies Pharmacy Limited) sold the pharmacy operations previously trading as Life Pharmacy Remuera on 28 February 2006.

Joint venture

LPL Investments Limited (a New Zealand registered company incorporated under the Companies Act 1993) is a joint venture with CS Company Limited trading as Life Outlet Stores. Pursuant to the joint venture agreement, the joint venture partners have an equal right to and obligation for all revenues, expenses, assets, liabilities and voting rights. The first store commenced trading in November 2005 in the Onehunga outlet centre and a second store commenced trading in the Te Rapa outlet centre in October 2007.

Associate entities

The Parent acquired and holds a 49% ownership interest in each associate (New Zealand registered companies incorporated under the Companies Act 1993) with the Parent entity holding a one-third voting right on the Board of each of the associates.

Reporting dates

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

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	Profit $'000
As at and for the year ended 31 March 2008	22,618	19,275	96,361	1,353
As at and for the year ended 31 March 2007	22,253	19,844	89,955	1,536

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.

	Group		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
21. Payables and accruals				
Trade payables	753	1,722	753	1,663
Accruals	584	493	582	432
Employee entitlements	64	55	64	55
Payable to associate	-	-	-	-
Payable to subsidiary	-	-	1,264	1,014
	1,401	**2,270**	**2,663**	**3,164**

Tawharanui Holdings 2006 Limited (formerly Wylies Pharmacy Limited) advanced $1,033,000 to the Parent during 2006 following the sale of its pharmacy business. In 2007 the Parent acquired the remaining 51% shareholding. During 2008 a final settlement of $200,000 plus interest was received with respect to Wylies Pharmacy. Trade payables include $1,000 owing to associates and accruals include $194,000 owing to associates.

The accruals balance includes a creditor relating to loyalty points which is offset by receivables from associates of $656,000 (2007: nil) owed to the Parent for loyalty program rewards points issued to customers. The loyalty points are valued at their redeemable value.

	Group		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
22. Borrowings				
Current	-	8,839	-	8,839
Non-current	5,746	-	5,746	-
	5,746	**8,839**	**5,746**	**8,839**

Borrowings and Loans to Associates

Borrowings and loans to associates reflect bank borrowings obtained by the Parent from ANZ National Bank Limited (ANZNB) and on-lent to each individual associate under a group borrowing facility comprising a $5.9 million (2007: $7.2 million) revolving credit facility allocated directly to the associates. Interest is payable monthly on all borrowings at an effective interest rate of 9.77% (2006: 8.20%) on call. Overdraft facilities are arranged directly with the bank. The $500,000 short term loan facility for the Parent was repaid during the year.

The associate advances and borrowings are secured pursuant to back-to-back general security agreements over the assets of the Parent and each associate. The security provided by the associates is several. The Parent has provided guarantees in favour of ANZNB, with back-to-back guarantees received from each pharmacist shareholding limiting the Parent's ultimate exposure to commensurate with the Parent's 49% shareholding in each associate.

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

During the period the financial covenants have not been reached by all associates or by the charging group and as a consequence the ANZNB were entitled to review the funding arrangements. The current group borrowing facility was amended during the year, extending the term beyond the next 12 month period. New financial banking covenants replacing those in existence were also put in place, and are as follows:

22. Borrowings (continued)

- Consolidated net earnings of Life Pharmacy Limited (Group entity) to not be adverse to the annual approved budget by more than 15%, measured at the half year and full year, and

- EBITDA of Life Pharmacy Limited (Parent company) to not be adverse to the annual approved budget by more than 15%, measured at the half year and full year.

The existing operational and reporting covenants have not changed. As at 31 March 2008 the company is not in breach of any covenant.

	Group		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
23. Operating cash flows reconciliation				
Profit/(loss) for the period	(571)	(6,562)	(490)	(6,218)
Less capital gains	(474)		(474)	
	(1,045)	(6,562)	(964)	(6,218)
Add/(deduct) non-cash items:				
Equity accounted losses	80	224	-	-
Profit on sale of associate	-	(78)	-	(59)
Write-down of investment in subsidiary	-	-	-	17
Depreciation and amortisation	279	146	279	129
Write-down of associate goodwill	-	6,035	-	6,035
Amortisation of lease incentive	(22)	(12)	(22)	(12)
Deferred tax	(498)	(659)	(505)	(620)
Share/option scheme costs	35	-	35	-
Add/(deduct) changes in working capital items:				
Trade and other receivables	1,415	(1,408)	1166	(1,748)
Inventory	61	18	-	-
Payables and accruals	(764)	772	(398)	1,611
Net cash inflow/(outflow) from operating activities	**(459)**	**(1,524)**	**(409)**	**(865)**
24. Non-cancellable operating leases				
Due within one year	402	406	402	406
Due between one and five years	1,040	1,084	1,040	1,084
Due after five years	597	632	597	632
	2,039	**2,122**	**2,039**	**2,122**

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.

25. Financial instruments

The Parent and Group is party to financial instruments as part of their normal operations. Financial instruments are monetary assets and liabilities and include cash and bank balances, receivables, bank term investment, group advances, bank overdrafts, payables, borrowings and the put and call option to acquire the remaining 51% ownership interest in the associate pharmacies.

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

Credit risk

The Parent and Group's maximum credit risk resulting from a third party defaulting on its obligations to the Parent and the Group is represented by the carrying amount of each financial asset on the balance sheet. The Parent and the Group are not exposed to any material concentrations of credit risk other than its exposure within the retail pharmacy sector and banking facilities. The Parent and Group monitor 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 Parent and Group generally has amounts owed to and amounts owed by the same counterparty, although no legal right of set-off exists. The Parent 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 Parent and Group.

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

Trade and other receivables

	Gross receivable	Impairment	Gross receivable	Impairment
	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Not past due	2,128	-	3,581	-
Past due 0-30 days	71	-	139	-
Past due 31-120 days	227	-	78	-
Past due more than 120 days	265	47	121	-
Total	**2,691**	**47**	**3,919**	**-**

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 it 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;

Group			**2008**			
	Balance Sheet	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Bank loan	5,746	6,337	1,036	997	4,304	-
Trade and other payables	1,401	1,401	1,401	-	-	-
Bank overdraft	-	-	-	-	-	-
Total Non-derivative liabilities	**7,147**	**7,738**	**2,437**	**997**	**4,304**	**-**

25. Financial instruments (continued)

Group	2007					
	Balance Sheet	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Bank loan	8,839	9,626	2,672	1,071	5,883	-
Trade and other payables	2,270	2,270	2,270	-	-	-
Bank overdraft	42	42	42	-	-	-
Total Non-derivative liabilities	**11,151**	**11,938**	**4,984**	**1,071**	**5,883**	**-**

Parent	2008					
	Balance Sheet	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Bank loan	5,746	6,337	1,036	997	4,304	-
Trade and other payables	2,663	2,663	2,663	-	-	-
Bank overdraft	-	-	-	-	-	-
Total Non-derivative liabilities	**8,409**	**9,000**	**3,699**	**997**	**4,304**	**-**

Parent	2007					
	Balance Sheet	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Bank loan	8,839	9,626	2,672	1,071	5,883	-
Trade and other payables	3,164	3,164	3,164	-	-	-
Bank overdraft	-	-	-	-	-	-
Total Non-derivative liabilities	**12,003**	**12,790**	**5,836**	**1,071**	**5,883**	**-**

Market risk
As interest rates change, the fair value of financial instruments may change. The Parent and Group maintains its interest earning and interest bearing financial instruments in matched maturities and interest rate re-pricing terms. Refer to notes 16 and 21 for details of the interest rates and repricing for the group advances and borrowings, which are the most significant financial instruments. As a result the group sensitivity to interest rate fluctuations is negligible.

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.

25. Financial instruments (continued)

Classification and Fair Values

The carrying amount of the Parent and Group's on-balance sheet financial instruments closely approximate their fair values as at 31 March 2008 and 31 March 2007. The fair value of all of the following financial instruments is determined using their transactional value.

	Note	2008			
		Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Assets					
Group advances		7,042	-	7,042	7,042
Total non-current assets		**7,042**	**-**	**7,042**	**7,042**
Trade and other receivables	15	2,644	-	2,644	2,644
Cash and cash equivalents		2,360	-	2,360	2,360
Total current assets		**5,004**	**-**	**5,004**	**5,004**
Total assets		**12,046**		**12,046**	**12,046**
Liabilities					
Loans and borrowings	22	-	5,746	5,746	5,746
Total non-current liabilities		**-**	**5,746**	**5,746**	**5,746**
Bank Overdraft		-	-	-	-
Loans and borrowings	22	-	-	-	-
Trade payables	21	-	1,401	1,401	1,401
Total current liabilities		**-**	**1,401**	**1,401**	**1,401**
Total Liabilities		**-**	**7,147**	**7,147**	**7,147**

	Note	2007			
		Loans and receivables $'000	Other amortised cost $'000	Total carrying amount $'000	Fair value $'000
Assets					
Trade and other receivables	15	3,919	-	3,919	3,919
Cash and cash equivalents		1,365	-	1,365	1,365
Group advances	22	7,287	-	7,287	7,287
Total current assets		**12,571**		**12,571**	**12,571**
Bank Overdraft		-	42	42	42
Loans and borrowings	22	-	8,839	8,839	8,839
Trade payables	21	-	2,270	2,270	2,270
Total current liabilities		**-**	**11,151**	**11,151**	**11,151**

The Parent and each associate have entered into a put and call option in respect of the 51% shareholding in each associate held by the pharmacist owners. The option is only exercisable upon legislative changes allowing total non-pharmacist ownership and control of pharmacies. The fair value of the put and call option cannot be reliably determined (because of the need for legislative change before they become exercisable) as required for recognition of the put and call option in the financial statements, and the options are accordingly measured at a nil cost.

Notes to the financial statements

For the year ended 31 March 2008

26. Share based payments

On 14 February 2005 the shareholders of the Parent passed a resolution establishing an Independent Director's Option Scheme (the scheme). No amount was payable on the granting of the options and the exercise price for each option under the scheme is based on the volume weighted average price calculated over the 40 trading days ending 1 June 2005 ($1.30), increasing by 12% compounding on the anniversary in each year commencing on 4 March 2005, adjusted for any dividends paid.

On 26 July 2007, the CEO Option scheme came into effect. No amount was payable on the granting of the options and the exercise price for each option is $0.75 per share.

In addition, on 26 July 2007, the Parent issued 225,000 ordinary shares to the Chief Executive Officer. The issue price was $0.75 per share with a total cash payment of $168,750.

The Parent issued 900,000 redeemable ordinary shares (ROS) on 26 July 2007 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 $0.75 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 75^{th}). No CEO Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited.

Share options are issued by the Parent which entitles the Chief Executive Officer to subscribe for share capital of the Parent. The fair value of the option at grant date is recognised in the income statement and the balance sheet on the date, or over the period, in which the options vest with the CEO.

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 Instruments	Vesting conditions and period
	'000	
Option grant to Independent Directors on 14 February 2005	800	Vest in equal proportions over a 3 year period with a first anniversary date of 14 February 2005. The options are exercisable at the discretion of the Board based on the share price exceeding a volume weighted average price calculated over 40 trading days ending 1 June 2005 ($1.30), increasing by 12% compounding on the anniversary in each year commencing on 4 March 2005, adjusted for any dividend. Two thirds of the option is exercisable as at 4 March 2007, and the remaining on the third anniversary of scheme.
Option grant to CEO on 26 July 2007	1,000	CEO options will vest on 26 July 2008 or earlier and can be exercised at the sole discretion of the Board of Directors. The life of the option is the earlier of 26 July 2008 or the date of resignation
Total share options	**1,800**	
ROS granted to Life Pharmacy Trustee Company Ltd on 26 July 2007	900	Redeemable in three equal proportions in 2010, 2011 and 2012 provided the CEO remains with the group at these dates. The option expires on 26 July 2012.
Total ROS	**900**	

26. Share based payments (continued)

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of Options	Weighted average Exercise price	Number of options
	2008	2008	2007	2007
	$	'000	$	'000
Outstanding at 1 April	1.5	264	1.46	800
Forfeited during period	1.5	(264)	1.5	(536)
Exercised during period	-	-	-	-
Granted during period	0.75	1,000	-	-
Outstanding 31 March	0.75	1,000	1.5	264
Exercisable 31 March	0.75	1,000	-	-

The options outstanding at 31 March 2008 have an exercisable price of $0.75 and a contractual life of 3 months (or resignation of CEO, if earlier)

The fair value of the CEO Redeemable Ordinary Shares is $155,100. This cost is being amortised over the relevant period for each tranche of shares. Option / share vesting costs of $34,566 have been recognised in the period. The fair value of the ROS at grant date is determined using the Black-Scholes formula. The model inputs were: the share price of $0.70, the exercise price of $0.75, expected volatility of 45%, expected dividends of 3%, 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 7.0%.

27. Related Parties

The Parent has a 49% shareholding in 18 associate companies (trading as pharmacies), 1 joint venture (outlet store) and 4 100% owned subsidiary companies (4 non-trading).

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

The Parent has commercial franchise agreements with all 18 associate companies and five other franchisee stores relating to marketing levies and franchise fees. The Parent 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 joint venture.

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.

The Parent has arranged bank borrowings from the ANZNB under a group borrowing facility and offers the funds to associate companies. The associate companies also arrange bank overdrafts and bank bonds with the ANZNB.

The Parent has shareholder agreements with the 51% shareholders of the associates. The agreements cap the dividend payment from each associate at the current year's profit after tax subject to each associate company complying with any applicable banking covenant and being solvent in accordance with the solvency test requirements under the Companies Act 1993.

27. Related Parties (continued)

Related party transactions for Parent and Group:

	Note	Transaction Value 2008	Transaction Value 2007	Balance Outstanding 2008	Balance Outstanding 2007
Dividends		506	984	749	756
Marketing levies and franchise fees	6	1,921	1,673	30	-
On-charged costs	15	1,054	2,069	114	1,243
Receivable from associates	15			1,130	347
Loans to associates	16			7,042	7,287
Total owing from associates				9,065	9,633
Receivable from joint venture	15			142	72
Receivable from subsidiary*	15			26	43
Receivable from other related parties	15			259	-
Payable to associates	21			195	-
Payable to subsidiary*	21			1,264	1,014

* these items are nil for the Group

During the year, funds were advanced to three of the 51% shareholder pharmacists to fund the purchase of shares in their respective pharmacies.

Director's remuneration is shown in note 8.

The Put and Call options with associates are shown in note 13. During the year the Parent issued, acquired and cancelled shares with associates, see note 13 for details. The Parent contributed capital of $1,046,000 (2007: $672,000) to associates during the year, see note 20. The Parent guarantees the associate banking facilities in commensurate with its 49% shareholding in each associate, see note 25.

Key management personnel remuneration

The Group provides compensation to key management personnel which comprises of executive officers. The CEO also participates in the share option scheme (note 26). Key management personnel compensation comprised:

	Group 2008	Group 2007	Parent 2008	Parent 2007
Short-term employee benefits $'000	765	1,022	765	1,022

28. Commitments and Contingencies

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

The Parent's ultimate exposure to bank facilities with its associates is commensurate with the Parent's 49% shareholding in each associate and includes the advance to the associates of $7.0 million as described in note 16, and lease bonds of $1.6 million.

29. Events Subsequent to the Reporting Date

On the 2nd May 2008 Life Pharmacy Limited announced that a Heads of Agreement was signed with Care Chemist Services Limited to acquire 100% of the assets of this business. Care Chemist Services Limited operates as a franchisor to 8 Care Chemist branded retail pharmacies throughout the greater Auckland area. Care Chemist Services Limited does not have a beneficial interest in any pharmacies. The settlement date of this transaction is expected to be 30th May 2008.

Shareholder Information
As at 30 April 2008

Major Shareholders
Life Pharmacy Limited's ordinary shares are listed on the New Zealand Stock Exchange. The 20 largest registered holders of quoted equity securities as at 30 April 2008 was as follows:

Name	Holding	%
LPL Trustee Limited	7,000,000	19.26
PIMS 2005 Limited	3,373,642	9.28
Massey Pharmacy Limited	2,881,150	7.93
M. Fleet	2,304,882	6.34
M. Dunn & Fortune Manning Trustees	1,872,758	5.15
G K Ritson	1,609,329	4.43
Ganet Investments Limited	1,511,893	4.16
N Bullock & M Bullock & S Sheldon	1,184,632	3.26
B Fordyce, F Dragicevich & C Hutton	1,125,536	3.10
T Lai, C Lai & K Yee	899,850	2.48
M S Vuksich, F Vuksich & W Yovich	879,850	2.42
P Guthrie	778,630	2.14
Watt Land Company Limited	770,000	2.12
J Guthrie	737,761	2.03
D Milne, J Milne & L Lamberg	659,600	1.81
E McAulay	654,058	1.80
A McAulay	627,896	1.73
F Walker, E Walker & N Comerford	562,067	1.55
S Irvine, P Irvine & P Phillips	550,000	1.51
J Begovic, K Begovic & K Palin	469,804	1.29

Substantial Security Holders
The following persons are deemed to be substantial security holders in accordance with section 26 of the Securities Amendment Act 1988:

Name	Holding
LPL Trustee Limited	7,000,000
PIMS 2005 Limited	3,373,642
Massey Pharmacy Limited	2,881,150
M. Fleet	2,304,882
M. Dunn & Fortune Manning Trustees	1,872,758

As at 30 April 2008 Life Pharmacy Limited had on issue 36,352,991 voting securities (as defined by the Securities Markets Act 1988) being fully paid ordinary shares.

Shareholding Spread
Life Pharmacy Limited's shareholding spread as at 30 April 2007 is as follows:

Size of Holding	Holders	%	Securities	%
1-999	276	46.8	102,871	0.3
1,000-9,999	224	38.0	568,686	1.6
10,000-99,999	52	8.8	1,299,351	3.6
100,00-249,999	7	1.2	1,864,471	5.1
250,000-499,000	12	2.0	2,534,258	6.9
500,000-1,000,000	11	1.7	8,019,712	19.6
1,000,000 and over	9	1.5	22,863,642	62.9
Total	**590**	**100**	**37,252,991**	**100**

Shareholder Information

As at 30 April 2008

Directors' shareholding and trades
The following table summarises all shares held and traded (whether directly or indirectly) by the Directors of LPL during the year ended 30 April 2008.

Directors	Holding 1 May 2007	Cancelled	Issued	Net trades in the year	Holding 30 April 2008
J A Bagnall	-	-	7,000,000	-	7,000,000
E M Coutts	100,000	-	-	-	100,000
A J Davidson	100,000	-	-	-	100,000
G K Ritson (i)	1,609,329	-	-	-	1,609,329
R T Roper (ii)	313,418	-	-	(19,610)	293,808
S J Smith	-	-	-	-	-
M S Vuksich (iii)	879,850	-	-	-	879,850
N W Webber (iv)	1,522,169	-	-	-	1,522,169
B P Ingham	-	-	225,000	-	225,000

The following directors also have an interest in PIMS 2005 Limited that owns 3,373,462 Life Pharmacy shares:
(i) G K Ritson 9.75% interest
(ii) R T Roper 9.75% beneficial interest
(iii) M S Vuksich 4.9% interest
(iv) N W Webber 3.9% interest

Independent Directors' Share Option Scheme
The terms and conditions of the Directors' Share Option Scheme are disclosed within Note 26 of the financial statements. Share options have been issued to E M Coutts 400,000, A J Davidson 200,000 and unallocated 200,000.

CEO Share Option Scheme
The terms and conditions of the CEO Share Option Scheme are disclosed within Note 26 of the financial statements. During the year the company issued 900,000 redeemable ordinary shares to Life Pharmacy Trustee Company Limited, a wholly owned subsidiary, under the Chief Executive Incentive Scheme (also disclosed within Note 26).

Directors Insurance
Life Pharmacy 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.

Company Directory
For the year ended 31 March 2008

Registered Office
Life Pharmacy Ltd
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Greenlane
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Telephone: +64 9 580 1900
Facsimile: +64 9 580 1907

Management
B P Ingham
Chief Executive Officer
Philip.ingham@lifepharmacy.co.nz

C Wilson
Chief Financial Officer
Craig.wilson@lifepharmacy.co.nz

Websites
For corporate information on Life Pharmacy Limited, employment opportunities, details on current Life Pharmacy in-store promotions and online beauty retails offers visit www.lifepharmacy.co.nz

Auditors
KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland City
Auckland

Legal Advisers
Chapman Tripp
Level 35, 23 - 29 Albert Street
Po Box 2206
Auckland 1140

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

Board
E M Coutts BMS, CA
Chairman

A J Davidson
Independent Director

S J Smith B.Com, Dip Bus (fin)
Independent Director

J A Bagnall (J B Bolland Alternate Director)
Non-Executive

M S Vuksich MPS
Non-Executive

N W Webber MBA, MPS
Non-Executive

B P Ingham
Executive

Board Secretary
J H Greenwood BCom, FCA
Life Pharmacy Ltd
PO Box 17 141
Greenlane
Auckland

Share Registry & Investors Enquiries
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
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Computershare Investor Services Limited
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Auckland 1020

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Takeovers Code (Life Pharmacy Limited) Exemption Notice 2007
LPL Trustee Option

This Notice forms part of the Life Pharmacy Limited Annual Report for the year ended 31 March 2008.

LPL Trustee Limited ("LPL Trustee") holds an option to acquire up to 50.01% of the ordinary shares in Life Pharmacy (the "LPL Option"). Takeovers Code (Life Pharmacy Limited) Exemption Notice 2007 was granted in respect of the LPL Option, and as a condition of that exemption Life Pharmacy is required to advise the following information.

Summary of terms of the LPL Option

The LPL Option allows LPL Trustee to subscribe, at any time prior to 26 July 2009, for such number of ordinary shares in Life Pharmacy to enable LPL Trustee to hold (inclusive of the 7,000,000 shares LPL Trustee acquired on 26 July 2007) up to 50.01% of the voting securities in Life Pharmacy. The issue price payable in respect of each share issued pursuant to the LPL Option is $0.75 (if exercised prior to 26 July 2008) and $0.825 (if exercised on or after 26 July 2008 but prior to 26 July 2009) or, in the context of any capital raising initiated by Life Pharmacy, at any lower pricing of that capital raising.

Summary of terms and conditions of the Exemption

Takeovers Code (Life Pharmacy Limited) Exemption Notice 2007 exempted Life Pharmacy and LPL Trustee from certain technical requirements of Rules 7(d), 16(b) and 16(d) of the Takeovers Code, on the basis that:

a) certain information was disclosed at Life Pharmacy's meeting of the shareholders held on 26 July 2008 which approved the LPL Option;
b) until the option is fully exercised or expires: (i) Life Pharmacy's annual report must include certain information in respect of LPL Option (being the information as set out in this section); (ii) LPL Trustee must not become the holder or controller of an increased percentage of voting securities, except as a result of the exercise of the LPL Option; (iii) there must not be a change in control of LPL Trustee; and (iv) there must not be a change in the terms and conditions of the LPL Option or the agreement under which LPL Trustee acquired its initial 7,000,000 share shareholding in Life Pharmacy.

The exemption does not apply to any increase in voting control resulting from the exercise of the LPL Option if that would take LPL Trustee's holding above 50.01%.

Summary of LPL Trustee's shareholding and option rights

As at the date of this annual report:

a) The number of voting securities allotted to LPL Trustee pursuant to an initial placement of shares on 26 June 2007 was 7,000,000 fully paid ordinary shares.
b) The number of voting securities allotted to LPL Trustee as a result of the exercise of the LPL Option is nil.
c) The total percentage of voting rights on issue in Life Pharmacy held or controlled by LPL Trustee is 19.26%.
d) The maximum percentage of total voting rights that could be held or controlled by LPL Trustee immediately following the full exercise of the LPL Option is 50.01%.

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