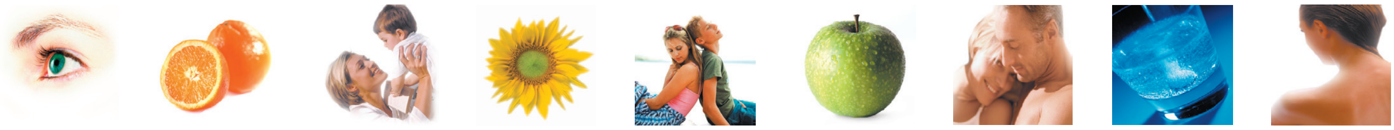

Pharmacybrands

# Pharmacybrands Limited

## Consolidated Financial Statements

## For the year ended 31 March 2012

Amcal Care Chemist LifePharmacy radius pharmacy care Unichem

# Annual Report

# Contents

## For the year ended 31 March 2012

# Annual Report
# Financial summary
## For the year ended 31 March 2012

| | Consolidated Group | |
|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 |
| Revenue (including associate earnings) | 109,344 | 21,667 |
| EBIT | 13,276 | 5,499 |
| Profit before tax | 12,462 | 6,171 |
| Profit after tax | 9,939 | 5,161 |
| | | |
| Total assets | 83,142 | 49,322 |
| Total liabilities | 20,716 | 5,996 |
| Shareholders equity (net assets) | 62,426 | 43,326 |

# Chairman's letter to shareholders

## For the year ended 31 March 2012

**Introduction**

The 2012 year was another step in our pharmacy consolidation strategy, and although we have not quite extracted all the synergy benefits, the profit of $9.9 million demonstrates the success of that strategy. Since September 2009 we have been a company very much in "merger/acquisition" mode, and whilst this is exciting (particularly when successful) it does not happen without a lot of hard work. The Board would like to express their gratitude and thanks to Alan and his team for their efforts over the last 3 years.

The acquisition of Radius Medical has provided us with an opportunity to expand into another area of primary healthcare at a time when further rapid growth in the pharmacy market is unlikely.

**Financial Performance**

The NPAT of $9.9 million included several one off adjustments, although one could argue that as we become a larger entity these type of adjustments are not really "one off". The significant adjustments were associated with acquisition costs and the provision and write-off of some historical bad debts. In total these had a NPAT impact of approximately $1.1 million.

We completed a successful capital raising, using the funds to retire debt associated with the Radius acquisition. We believe a low debt position is prudent in this environment, regardless of the apparently "cheap" cost of debt available currently.

We have declared a dividend of 3.5 cents a share subject to the approval at the Annual General Meeting for the two major shareholders to elect to participate in the Dividend Reinvestment Plan. This approval is a requirement of regulations which do not allow these shareholders to 'creep' their shareholdings beyond current levels without explicit shareholder approval.

"Value" of the company has risen to approximately $110 million (based on NZX share price at time of writing).

We generated $12.9 million of operational cash flow inclusive of associate dividends during the year.

**Strategic Direction**

The CEO report discusses this in more detail, but I want to comment on four clear goals for the medium term.

First we need to build on our market position in primary healthcare by developing offerings that are of tangible benefit to the patients we serve. This means we contribute significantly to improved patient outcomes within the healthcare context. This may mean developing programs that link with other service providers outside the traditional "health arena". If we achieve this, then we will have a sustainable and valuable business going forward, and from this shareholders will benefit. We are hopeful that this can be achieved, despite us being a "for profit" organisation looking to operate in a traditionally "public funded sector".

Secondly we must focus on being a highly efficient operator. We have been focussed on growth for several years and we suspect there are some areas of our business that could probably do with a bit of a "tune up". Resources generated from this can be redeployed to more beneficial and therefore profitable areas. It is also timely that we also ensure that our resources and our processes are adequate to deal with the larger organisation that we have become.

Thirdly we need to grow our medical business. In some ways this area is like pharmacy with many owner operators; however we believe that the sector could benefit from a corporate presence such as ourselves who will invest in processes designed to improve future outcomes. We are still learning here, but believe that there is scope to develop a significant business.

Fourthly we will continue to grow our equity interests in additional primary healthcare businesses.

# Chairman's letter to shareholders (continued)

**For the year ended 31 March 2012**

**The Board**

We have had a couple of changes at the Board level. Bill Meaney leaving the Zuellig Group has meant that Ken Orr (who was Bill's alternate) has joined the Board in his own right and will stand for election at the Annual General Meeting. Ken brings a wealth of primary healthcare industry knowledge and his contribution has and continues to be very valuable. Patrick Davies is the CEO of the Zuellig owned Healthcare distributor in Australia, Symbion, and joined the board in June 2012. He also stands for election. Patrick will offer an insight into the Australian market for us. Andrew Davidson served on the Life Pharmacy/Pharmacybrands Board from March 2005 to June 2012, when he resigned. Andrew has contributed significantly over these years and we thank him for that and wish him all the best. In June 2012, Mary-Elizabeth Tuck was appointed an alternative director to Andrew Bagnall.

The rest of the Board deserve my thanks for their work in helping Pharmacybrands grow into the position it is now.

**The Future**

Whilst we have done well over the last few years, we are still a small company in the overall context of the healthcare sector and indeed listed companies. We are intent on continuing to grow and the 2013 year should show the full benefits of our previous activities. Significant growth beyond that will be determined by successful acquisitions and our ability to ensure our businesses continue to add value to our patients and customers. In the current difficult economic environment and with the impact of an ageing population, the reality is that the funders of health services are genuinely looking for better outcomes from their spend. A very real example of this is the new pharmacy agreement discussed in the CEO report. Our view is that this environment is here to stay for quite a while and it presents both real opportunities and challenges for us.

Finally, many thanks to all the staff in our medical centres, pharmacies and support office, to our equity partners, our "franchisees" in pharmacy and medical centres and our shareholders for helping and supporting us during the year.

Peter Merton
Chairman

# CEO Report

## For the year ended 31 March 2012

Undoubtedly the most significant event for Pharmacybrands during the 2012 financial year was the acquisition of Radius Pharmacy and Medical. It has given us a revenue base and an operational scale that has effectively transformed the business. Following the successful integration of those companies, Pharmacybrands is now well-positioned to play a meaningful role in the way products and services are delivered in the New Zealand health sector.

Pharmacybrands now develops services for over 300 pharmacies throughout New Zealand and has growing interests in the medical centre segment. That gives us national reach for new services through pharmacy and a broad perspective of primary care. We are able to work with the Ministry of Health, District Health Boards (DHBs) and other public sector and industry agencies to develop and introduce nationwide programmes, that provide patient services, make medicines more accessible to consumers and creates new business opportunities for the pharmacies in our network.

**Alignment driving earnings**

Ours is now a substantial business within the primary healthcare sector with four distinct revenue streams:

- Returns on our equity investments in branded pharmacies
- Revenues from services we provide to pharmacies that operate under our brands
- Returns on our equity investment in branded medical centres
- Revenues from services we provide to medical centres

The largest earnings driver for the company is the equity investment we hold in around 70 pharmacies. With over 900 pharmacies now operating in New Zealand there remains considerable scope for us to pursue similar investments. However, as such transactions generally involve individual pharmacies, increasing our equity investment in pharmacy represents a relatively slow and resource-intensive growth path.

It is therefore essential we focus on driving the performance of the pharmacies, both those we have an equity interest and those operating under a brand licence; by developing new services with new revenues streams and helping improve their operational efficiency. Importantly these services facilitate consistent delivery within and across our brands which in turn achieves our ultimate goal of consumer preference.

**Dispensary**

The major change facing pharmacy is a revised Pharmacy Services Agreement between the DHBs and community pharmacies for managing the supply and support for funded medicines to consumers. This represents a major shift in how that funding will be provided, the essence of which is that, over a three year period, payments will move from being for a dispensing "fee for service" to a patient focused service.

At this time the parties have agreed to an envelope of funding, the mechanisms to take joint responsibility for managing the transition, but remains subject to an appropriate agreement being reached to manage the risks for enabling the new model. This will mean community pharmacy has certainty around the pool of funding available from DHBs for the next three years, albeit this will only grow at a maximum of 1.5% annually. To maintain profitability it will be important that we deliver services within our existing capacity and we keep good controls on rentals and other costs that will inevitably keep growing.

The recent prescription fee increase from $3 to $5 may reduce demand for discretional items from consumers, but with an envelope agreed the impact is negligible, as the pool of money available to pharmacy doesn't change. With capped revenue for supplying funded medicines it is important we look to develop new revenue streams for professional services. This makes optimal use of the considerable expertise of our trained pharmacists and of the high level of trust that the public has in them. They are pharmacies' major resource and their most significant differentiator within the health sector.

In that regard we have been encouraged by government, in the shape of Health Workforce New Zealand (HWNZ) to develop services and models of care that have pharmacists working at the top of their training. HWNZ was set up by government in 2009 to provide national leadership on the development of the country's health and disability workforce and has overall responsibility for planning and development of the health workforce, to ensure that staffing is aligned with planning on delivery of services and that the nation's healthcare workforce is fit for purpose. HWNZ recognises the potential role of pharmacy within that framework, and we are working with them and looking at the best overseas models to identify and find ways to deliver new professional services and add value for patients.

We received Ministry of Health approval for the roll out of private funded flu vaccines through pharmacy in August 2011, and pharmacists who have received certification are now able to offer the service for a full season. We have also received approval from the Reclassification of Medicines Committee to reschedule Dukoral, a vaccine for travellers' diarrhoea, as a medicine Pharmacists can provide. That will help pharmacists offering travel advice and products to customers. And we are working with product suppliers to improve consumer access to other prescription medicines as well as looking at other care models through community pharmacy.

# CEO Report (continued)

## For the year ended 31 March 2012

**Retail**

While dispensary remains the foundation of pharmacy services, for many of our pharmacies, retail sales are a bigger driver of revenues and gross profits. Given that, to achieve same store retail growth of 1.5% last year in our equity interest pharmacies was a positive result in a challenging environment. I would like to congratulate our store staff for the focus on the high standard to which they executed our marketing and promotional programmes and for the high levels of customer service they delivered. Our merchandising, marketing and operational teams have supported our pharmacies well and remain focussed on driving sales and gross profit by enhancing key processes and responding to store performance metrics.

To improve margins and store performance we have launched our first ranges of own branded products. These allow us to build on our understanding of our customers and their preferences, optimising product selection to suit these and capitalising on the strength of our pharmacy brands. We are also pursuing exclusive product and ranges to develop consumer channel preference.

We continue to work to improve our customers' retail experience. We have established a new prestige layout in Life Pharmacy Manukau based on a pilot programme we conducted in Tauranga. This differentiates consumers' experience of pharmacy from the experience they encounter in department stores. Early signs are very encouraging.

We have established a project management team to lead our investment in other new initiatives such as developing our electronic commerce capabilities and enhancing our ability to derive consumer and retail insights from the mass of data that we now have access to. Other initiatives include augmenting our performance management systems and reviewing our brand direction, as we now have five pharmacy brands in our portfolio.

**Medical Centres**

We view our medical business as a valuable arm that broadens our primary care participation. We invest in branded medical centres and provide comprehensive practice support services for them and for NGOs, much as we do in pharmacy. We are keen to increase our investments in medical centres, establish better links with pharmacy and ensure the financial model supports both businesses as the care model shifts over time. This will see nurses and pharmacists taking on more clinical activity and the GP's time utilised on the more complex intuitive medicine or lower cost minor surgery. Our medical centre business has an experienced team based in Napier focussed on growing this side of our business. To provide new services and to pursue our goal of acquiring new equity interests in medical practises we have added resources to our Radius Medical arm.

We note that a number of parties have also begun to pursue investments in and control of medical centres as corporate or not-for-profit entities look for opportunities to consolidate the sector. To compete in this environment will require some investment in new models of care on our part. The key risks appear to be work force availability, particularly outside the main centres, as well as ensuring the financial incentives are appropriately aligned.

With rising healthcare costs primary care becomes an even more important and cost effective service. The nature of this service must keep evolving to ensure relevance meets needs of patients and funders.

**Outlook**

We expect the year ahead to be equally challenging. The good news is that two large mergers are now behind us and we can now direct all our focus on adding future value and ensuring we achieve efficiencies in operations. We are building further capability in our organisation, developing systems to enhance performance and pursuing a range of growth opportunities. We do not think that the retail environment is likely to improve to any significant degree and that will require close monitoring and reacting to demand shifts. We are confident that we have taken a number of key steps to ensure that we are operating efficiently while continuing to maintain very high levels of service delivery. We remain focussed on growing the company and improving returns to shareholders.

Alan Wham

Alan Wham
Chief Executive Officer

# Corporate governance

## For the year ended 31 March 2012

**Role of the Board of Directors**

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

The Board comprises four independent directors and four non-executive directors. The total annual directors' remuneration approved for each financial year is capped at $310,000, with the fees commencing 1 April 2011. 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 | | | 30,000 |
| John Bolland * | | | 30,000 |
| Andrew Davidson +¥ | | 11 June 2012 | 40,000 |
| William Meaney | | 14 March 2012 | - |
| Peter Merton *+ | | | 80,000 |
| Kenneth Orr ¥ | 14 March 2012 | | 30,000 |
| Keith Rushbrook *¥ | | | 40,000 |
| Ian Sharp ¥ | | | 30,000 |
| Mark Vuksich + | | | 30,000 |
| Patrick Davies | 11 June 2012 | | - |
| Mary-Elizabeth Tuck (alternate to Andrew Bagnall) | 5 June 2012 | | - |
| **Total** | | | **310,000** |

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

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

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

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

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

***Peter Merton*** – Cape Healthcare Limited (Director & Shareholder), Consultant to Allied Medical Limited.

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

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

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

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

# Corporate governance (continued)
## For the year ended 31 March 2012

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

***Mary-Elizabeth Tuck*** – Holds a senior legal role at Fisher and Paykel Appliances.

**Governance Policies**
The Board is satisfied that the corporate governance principles adopted or followed by the Group do not materially differ from those provided for in the Corporate Governance Best Practice Code.

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

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

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

**Insider Trading Guidelines**
The Board has issued guidelines to prevent insider trading to all directors, deemed directors, officers and other restricted persons of PHB. All directors, deemed directors, officers and other restricted persons of PHB must formerly apply for consent to trade PHB's securities from the Chief Financial Officer before undertaking any sales or purchases.

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

**Board Size and Structure**
The Board comprises two directors associated with LPL Trustee Limited (currently Andrew Bagnall and John Bolland), two directors associated with Cape Healthcare Limited (currently Peter Merton and Patrick Davies) and four independent directors. The independent directors are selected to ensure that the appropriate skills and experience are available. One of the directors will be appointed as Chairman.

The Board meets periodically, and follows procedures that ensure that all directors have the necessary information to participate in an informed discussion on all agenda items and effectively carry out their duties.

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

**Remuneration and Nominations Committee**
This committee comprises one independent director and two non-executive directors, who meet as required to:

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

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

The composition of the Remuneration and Nominations Committee is currently Peter Merton and Mark Vuksich.

# Corporate governance (continued)
## For the year ended 31 March 2012

The number of employees or former employees of the group, not being directors of Pharmacybrands Limited, who received remuneration and other benefits in their capacity as employees, the value of which exceeded $100,000 for the year ended 31 March 2012 is set out below:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| *Employee annual remuneration bands:* | | |
| $100,000 - $109,999 | 3 | 2 |
| $110,000 - $119,999 | 2 | 2 |
| $120,000 - $129,999 | 3 | 3 |
| $130,000 - $139,999 | 1 | - |
| $140,000 - $149,999 | 1 | - |
| $150,000 - $159,999 | 2 | 1 |
| $160,000 - $169,999 | 1 | 1 |
| $180,000 - $189,999 | 2 | - |
| $190,000 - $199,999 | 1 | - |
| $200,000 - $209,999 | 1 | - |
| $220,000 - $229,000 | 1 | 1 |
| $240,000 - $249,999 | 2 | 1 |
| $250,000 - $259,999 | 1 | - |
| $260,000 - $269,999 | 1 | - |
| $270,000 - $279,999 | 1 | - |
| $310,000 - $319,999 | 1 | - |
| $410,000 - $419,999 | 1 | 1 |
| | | |
| Former employees included in the above bands: | 3 | 2 |

**Audit Committee**
The committee comprises one independent director and two non-independent directors. One of the directors is appointed Chairman who is not the Chairman of the Board. All other directors are entitled to attend the meetings.

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

The Committee meets a minimum of four times each year. It's responsibilities include:
- To review the scope and outcome of the external audit.
- To review the annual and half yearly financial statements prior to approval by the Board.
- To approve the public releases of financial information.
- To assess the performance of financial management and monitoring of material corporate risk assessments and internal controls.
- To report the proceedings of each meeting to the Board.
- To make recommendations to the Board on the appointment of the external auditors, their independence and their fees.

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

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

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

# Group entities
## For the year ended 31 March 2012

The current Pharmacybrands Limited group structure comprises 80 companies. The group entities are as follows:

| | Holding | Activity |
|---|---|---|
| **Legal Parent** | | |
| Pharmacybrands Limited | | Franchisor & Investment |
| | | |
| **Controlled entities** | | |
| Amcal Chemists (NZ) Limited | 100.0% | Non-trading |
| Bayfair Pharmacy Limited | 100.0% | Non-trading |
| Care Chemist Limited | 100.0% | Franchisor |
| Dispensaryfirst Limited | 100.0% | Non-trading |
| Life Holdings Botany Limited | 100.0% | Non-trading |
| Life Pharmacy Limited | 100.0% | Non-trading |
| Life Pharmacy Trustee Company | 100.0% | Non-trading |
| Pharmacybrands On-Line Limited | 100.0% | Non-trading |
| Pharmacy Management Limited | 100.0% | Investment |
| Pharmacy Store Holdings Limited | 100.0% | Investment |
| Porirua Pharmacy 2006 Limited | 100.0% | Non-trading |
| Radius Pharmacy Limited | 100.0% | Franchisor & Investment |
| Radius Medical Solutions Limited | 100.0% | Services to medical centre |
| Radius Medical Limited | 100.0% | Investment |
| Radius Ti Rakau Limited | 100.0% | Medical centre |
| Smart Pharmacy Limited | 100.0% | Non-trading |
| Unichem Chemists (NZ) Limited | 100.0% | Non-trading |
| | | |
| **Joint Venture entities** | | |
| LPL Investments Limited | 50.0% | Retail |
| Pharmacies Instore Limited | 50.0% | Retail |
| | | |
| **Pharmacy entities and Medical Centres** | | |
| The Group has an interest in the following entities: | | |
| 280 Queen Street (2005) Limited | 43.9% | Pharmacy |
| A H McAulay Limited | 49.0% | Non-trading |
| Albany Pharmacy Limited | 49.0% | Pharmacy |
| Bay of Plenty Pharmacies Limited | 49.0% | Pharmacy |
| Bayfair Pharmacy (2010) Limited | 49.0% | Pharmacy |
| Birkenhead Pharmacy (2011) Limited | 48.8% | Pharmacy |
| Botany Downs Pharmacy Limited | 25.0% | Pharmacy |
| Care Chemist Pakuranga (2008) Limited | 49.0% | Pharmacy |
| Centre City Pharmacy (2004) Limited | 43.9% | Pharmacy |
| Chemist Express Limited | 49.0% | Pharmacy |
| Davies Corner Pharmacy Limited | 25.0% | Pharmacy |
| Glenfield Mall Pharmacy Limited | 48.5% | Pharmacy |
| Guppy's Dispensary Limited | 25.0% | Non-trading |
| Guthries Pharmacy Limited | 49.0% | Pharmacy |
| Harbour City Pharmacy (2011) Ltd | 48.5% | Pharmacy |
| Hawkes Bay Pharmacies Limited | 49.0% | Pharmacy |
| Helensville Pharmacy (2008) Limited | 48.5% | Pharmacy |
| Highland Park Pharmacy (2009) Limited | 48.5% | Pharmacy |
| Hurstmere Pharmacy (2008) Limited | 48.5% | Pharmacy |
| J-Mall Pharmacy Limited | 49.0% | Pharmacy |
| Knox Pharmacy 2010 Limited | 48.5% | Pharmacy |
| Lake Taupo Pharmacy (2008) Limited | 48.5% | Pharmacy |
| Levin Pharmacy (2005) Limited | 49.0% | Pharmacy |
| Life Pharmacy Albany Limited | 48.5% | Pharmacy |
| Life Pharmacy Centre Place (2009) Limited | 48.5% | Pharmacy |
| Life Pharmacy Sylvia Park Limited | 49.0% | Pharmacy |

# Group entities (continued)

## For the year ended 31 March 2012

| | Holding | Activity |
|---|---|---|
| **Pharmacy entities and Medical Centres continued** | | |
| Life Pharmacy Wall Street Dunedin Limited | 49.1% | Pharmacy |
| Manukau Pharmacy (2011) Limited | 49.1% | Pharmacy |
| Manawatu Pharmacies Limited | 49.0% | Pharmacy |
| Moorhouse Pharmacy 2003 Limited | 25.0% | Pharmacy |
| Neil Webber Pharmacy Limited | 49.0% | Non-trading |
| Northlands Pharmacy 2003 Limited | 49.0% | Pharmacy |
| Pharmacy 277 Limited | 49.1% | Pharmacy |
| Radius Medical Whakatane Properties Limited | 50.0% | Medical Centre |
| Radius Pharmacy Greenmeadows Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Riccarton Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Te Rapa Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Upper Hutt Ltd | 49.0% | Pharmacy |
| Radius Pharmacy Waikanae Ltd | 25.0% | Pharmacy |
| Radius Pharmacy Wanganui Ltd | 49.0% | Pharmacy |
| Riccarton Mall Pharmacy 2000 Limited | 49.0% | Pharmacy |
| RPG Medicine Management Limited | 25.0% | Pharmacy |
| Shirley Pharmacy Limited | 49.0% | Pharmacy |
| Shore City Pharmacy Limited | 49.0% | Non-trading |
| Shore City Pharmacy (2010) Limited | 48.5% | Pharmacy |
| Silversteam Health Centre Limited | 10.0% | Medical Centre |
| Sinel-Francis Pharmacy Limited | 49.0% | Pharmacy |
| Sinel-Francis Pharmacy Tauranga Limited | 49.0% | Pharmacy |
| St Lukes Pharmacy Holdings Limited | 49.0% | Pharmacy |
| Stokes Valley Pharmacy (2009) Limited | 48.5% | Pharmacy |
| Team Medical At Kapiti Limited | 48.8% | Medical Centre |
| The Doctors (New Lynn) Limited | 30.8% | Medical Centre |
| Total Health Doctors Limited | 42.3% | Medical Centre |
| Upper Hutt Health Centre Pharmacy Limited | 25.0% | Pharmacy |
| Upper Riccarton Pharmacy Limited | 25.0% | Pharmacy |
| Waikanae Healthcare Pharmacy Limited | 25.0% | Non-trading |
| Waiuku Medical Pharmacy (2010) Limited | 48.5% | Pharmacy |
| Waiuku Pharmacy (2005) Limited | 46.6% | Pharmacy |
| West City Pharmacy (2010) Limited | 48.5% | Pharmacy |
| Willis Street Pharmacy Limited | 25.0% | Pharmacy |

# Directors' declaration
## For the year ended 31 March 2012

In the opinion of the directors of Pharmacybrands Limited, the financial statements and notes, on pages 15 to 41:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Group as at 31 March 2012 and the results of their operations and cash flows for the year ended on that date.
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

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

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

The directors are pleased to present the financial statements of Pharmacybrands Limited for the year ended 31 March 2012.

For and on behalf of the Board of Directors:

Peter Merton
Chairman
22 May 2012

Keith Rushbrook
Director
22 May 2012

# Independent Auditors' report

## To the shareholders of Pharmacybrands Limited

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Pharmacybrands Limited and its subsidiaries ("the group") on pages 15 to 41. The financial statements comprise the consolidated statement of financial position as at 31 March 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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

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

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

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

**Opinion**

In our opinion the consolidated financial statements on pages 15 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the consolidated financial position of the group as at 31 March 2012 and of the consolidated financial performance and consolidated cash flows of the group for the year then ended.

# Independent Auditors' report (continued)

## To the shareholders of Pharmacybrands Limited

**Report on Other Legal and Regulatory Requirements**

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

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

KPMG

22 May 2012
Auckland

# Consolidated statement of comprehensive income

## For the year ended 31 March 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Operating Revenue** | | | |
| Revenue | 8 | 105,541 | 19,065 |
| Cost of Sales | | 55,578 | 5,357 |
| | | **49,963** | **13,708** |
| Associate earnings | 19 | 3,803 | 2,602 |
| **Operating expenditure** | | | |
| Governance and accountability | 9 | 794 | 596 |
| Depreciation and amortisation | 16,17 | 1,871 | 282 |
| Employee benefit expense | | 24,643 | 5,087 |
| Other expenditure | 10 | 13,182 | 4,846 |
| | | **40,490** | **10,811** |
| **Operating profit before interest and tax** | | **13,276** | **5,499** |
| Interest income | | 367 | 792 |
| Interest expense | | (1,181) | (120) |
| **Net interest income** | | **(814)** | **672** |
| **Profit before tax** | | **12,462** | **6,171** |
| Tax expense | 11 | (2,523) | (1,010) |
| **Profit for the year** | | **9,939** | **5,161** |
| Other comprehensive income for for the year, net of tax | | - | - |
| **Total comprehensive income for the year attributable to shareholders** | | **9,939** | **5,161** |
| Basic earnings per share (cents) | 12 | 8.76 | 5.17 |
| Diluted earnings per share (cents) | 12 | 8.72 | 5.17 |

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 41 form part of the financial statements.

# Consolidated statement of changes in equity

## For the year ended 31 March 2012

| | Note | Share Capital $'000 | Retained Earnings $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 April 2010 | | 33,051 | 5,082 | 38,133 |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | | | 5,161 | 5,161 |
| **Total other comprehensive income** | | | - | - |
| **Total comprehensive income for the year** | | | **5,161** | **5,161** |
| **Transactions with owners, recorded directly in equity** | | | | |
| Parent company equity changes | | 8,983 | (8,983) | - |
| Issue of shares | | 5 | | 5 |
| Dividends to shareholders | **13** | | - | - |
| Share scheme amortisation | **9** | 27 | | 27 |
| **Balance at 31 March 2011** | | **42,066** | **1,260** | **43,326** |

| | Note | Share Capital $'000 | Retained Earnings $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 April 2011 | | 42,066 | 1,260 | 43,326 |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | | | 9,939 | 9,939 |
| **Total other comprehensive income** | | | - | - |
| **Total comprehensive income for the year** | | | **9,939** | **9,939** |
| **Transactions with owners, recorded directly in equity** | | | | |
| Issue of shares | | 9,116 | | 9,116 |
| Dividends to shareholders | **13** | | - | - |
| Share scheme amortisation | **9** | 45 | | 45 |
| **Balance at 31 March 2012** | | **51,227** | **11,199** | **62,426** |

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 41 form part of the financial statements.

# Consolidated statement of financial position
## As at 31 March 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | | 51,227 | 42,066 |
| Retained earnings | | 11,199 | 1,260 |
| **Total equity** | | **62,426** | **43,326** |
| **Current assets** | | | |
| Cash and cash equivalents | | 8,717 | 15,654 |
| Trade and other receivables | **14** | 8,563 | 4,430 |
| Inventories | | 6,508 | 36 |
| Advances to Associates | **15** | 1,002 | 953 |
| **Total current assets** | | **24,790** | **21,073** |
| **Non-current assets** | | | |
| Fixed assets | **16** | 2,617 | 297 |
| Intangible assets | **17** | 21,283 | 1,146 |
| Deferred tax asset | **18** | 1,548 | 216 |
| Advances to Associates | **15** | 823 | 1,116 |
| Trade and other receivables | | - | 405 |
| Equity accounted group investments | **19** | 32,081 | 25,069 |
| **Total non-current assets** | | **58,352** | **28,249** |
| **Total assets** | | **83,142** | **49,322** |
| **Current liabilities** | | | |
| Payables and accruals | **20** | 14,605 | 4,633 |
| Income taxes payable | **20** | 1,053 | 146 |
| Borrowings | **21** | - | 1,124 |
| **Total current liabilities** | | **15,658** | **5,903** |
| **Non-current liabilities** | | | |
| Unamortised future income | | 58 | 93 |
| Borrowings | **21** | 5,000 | - |
| **Total non-current liabilities** | | **5,058** | **93** |
| **Total liabilities** | | **20,716** | **5,996** |
| **Net assets** | | **62,426** | **43,326** |

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 41 form part of the financial statements.

# Consolidated statement of cash flows
## For the year ended 31 March 2012

| | Note | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Associate dividend received | | 2,846 | 1,800 |
| Receipts from customers | | 105,268 | 17,909 |
| Interest received | | 367 | 792 |
| Payments to suppliers and employees | | (92,189) | (16,350) |
| Interest paid | | (1,181) | (120) |
| Income taxes paid | | (2,167) | (7) |
| **Net cash inflow from operating activities** | **22** | **12,944** | **4,024** |
| **Cash flows from investing activities** | | | |
| Fixed asset purchases | | (567) | (154) |
| Acquisition of subsidiaries | | (18,360) | - |
| Acquisition of subsidiaries, cash | | 3,541 | - |
| Acquisition of subsidiaries, debt acquired | | (18,000) | - |
| Acquisition of interests in associates | | (2,399) | (1,181) |
| Proceeds from sale of interests in associates | | 2,668 | 1,350 |
| Decrease in advances to associates | | 244 | 2,850 |
| **Net cash inflow/(outflow) from investing activities** | | **(32,873)** | **2,865** |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings | | 24,326 | - |
| Repayment of borrowings | | (20,450) | (1,540) |
| Shares issued for cash | | 9,116 | 5 |
| **Net cash inflow/(outflow) from financing activities** | | **12,992** | **(1,535)** |
| **Net increase in cash and cash equivalents** | | **(6,937)** | **5,354** |
| **Add opening cash and cash equivalents** | | **15,654** | **10,300** |
| **Closing cash and cash equivalents** | | **8,717** | **15,654** |
| *Reconciliation of closing cash and cash equivalents to the balance sheet:* | | | |
| Cash and cash equivalents | | 8,717 | 15,654 |
| **Closing cash and cash equivalents** | | **8,717** | **15,654** |

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 19 to 41 form part of the financial statements.

# Notes to the financial statements
## For the year ended 31 March 2012

### 1. Reporting Entity

Pharmacybrands Limited (the "Parent") is a New Zealand company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Parent is an Issuer in terms of the Financial Reporting Act 1993. (Refer note 7)

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

The Group operates the Life Pharmacy, Unichem, Amcal, Care Chemist and Radius Pharmacy franchise brands comprising 305 pharmacy stores and provides Radius Medical franchise branding and management services to 18 entities within New Zealand.

### 2. Basis of preparation

**(a) Statement of compliance**

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

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

The financial statements were approved by the Board of Directors on 22 May 2012.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

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

**(d) Significant estimates and judgements**

The preparation of financial statements in conformity with NZIFRS's requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about carrying values of some assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Information about the significant areas of judgement exercised or estimation in applying accounting policies that have had a significant impact on the amounts recognised in the financial statements are described as follows:

**(i) Classification of investments**

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

**(d) Significant estimates and judgements (continued)**

**(ii) Valuation of goodwill**
The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. This assessment requires the directors to estimate future cash flows to be generated by cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements including the expected rate of growth of revenues and expenses, margins and market shares to be achieved, and the appropriate discount rate to apply when discounting future cash flows. Note 6 of these financial statements provides more information on the assumptions directors have made in this area and the carrying values of goodwill.

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

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

**(a) Revenue recognition**
All revenue is recognised in the income statement when the significant risks and rewards have transferred to the buyer.
The Group's main activity is providing pharmacy retail services through consolidated stores, equity accounted partnership stores and franchise stores operating the Life Pharmacy, Unichem, Amcal, Care Chemist, Radius Pharmacy and Radius Medical franchise brands. The primary method of achieving this is through retail store revenue and the receipt of revenue related to service provided to pharmacies and medical centres, such as franchise arrangements, marketing and other administrative and support services.

**(b) Expenses**
All expenditure is recognised in the income statement when an obligation arises on an accruals basis.

**(c) Finance income and expense**
Interest income and expense is recognised as it accrues using the effective interest rate.

**4. Basis of preparing group financial statements**

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

**(b) Associates and joint ventures (equity accounted investees)**
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the earnings of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investees.

**Basis of preparing group financial statements (continued)**

Goodwill arising on acquisition is included in the carrying amount of the associates and is not separately recognised. After application of the equity method in accounting for associates, the carrying amount of the investment in associates is subject to impairment testing by comparing the recoverable amount with the carrying amount of the investment in associates. The goodwill included in the carrying amount of the investment in associates is allocated to the relevant cash generating units and tested for impairment. The impairment testing is completed annually, or earlier at any interim reporting dates if there are indicators of impairment.

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

**(c) Transactions eliminated on consolidation**

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

**(d) Goodwill**

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

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

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

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

## 5. Specific Accounting Policies

**(a) Share capital**

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

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

**(b) Property, plant & equipment**

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

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

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

**Specific Accounting Policies (continued)**

Estimated useful lives of the asset classes are:

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

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

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

**(c) Intangible assets**

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

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

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

Estimated useful lives of the asset classes are:

| | |
|---|---|
| Software & Trademarks | 3 - 5 years |

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

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

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

**(d) Borrowings and advances**

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

**(e) Taxation**

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

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

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

**(f) Leases**

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

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

**Specific Accounting Policies (continued)**

**(g) Employee entitlements**

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

**(h) Financial instruments**

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

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

**(i) Share based payments**

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

**(j) Goods and services tax (GST)**

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

**(k) Statement of cash flows**

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

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

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

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

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

Financing activities reflect changes in borrowings and equity.

**(l) Segment reporting**

The Group has one reportable segment as described below, which is the Group's main strategic business unit.
The Group's main operations are in the pharmaceutical industry providing pharmacy retail services through consolidated stores, equity accounted partnership stores and franchise stores. Whilst the Board monitors the revenue streams of the three businesses, the segments do not meet the criteria for separate disclosure due to the following:

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

**Specific Accounting Policies (continued)**

Other segments include the provision of medical services through fully owned and equity accounted partnership medical centres, and support services provided to these medical centres, as well as medical centres outside the group. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2012.

**Operating segments**
Information about reportable segments

| | Pharmacy Retail Services | | Other Segments | | Total | |
|---|---|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| External Revenues | 100,771 | 19,065 | 4,770 | - | 105,541 | 19,065 |
| Intersegment revenues | - | - | - | - | - | - |
| Total Revenue | 100,771 | 19,065 | 4,770 | - | 105,541 | 19,065 |
| Interest Income | 340 | 792 | 27 | - | 367 | 792 |
| Interest expense | (1,178) | (120) | (3) | - | (1,181) | (120) |
| Depreciation and amortisation | (1,816) | (282) | (55) | - | (1,871) | (282) |
| Reportable segment profit before income tax | 11,763 | 6,171 | 699 | - | 12,462 | 6,171 |
| Tax expense | (2,354) | (1,010) | (169) | | (2,523) | (1,010) |
| Profit after tax | 9,409 | 5,161 | 530 | | 9,939 | 5,161 |
| Share of profit of equity method investees | 3,601 | 2,602 | 202 | - | 3,803 | 2,602 |
| Reportable segment asset | 80,305 | 49,322 | 2,837 | - | 83,142 | 49,322 |
| Investment in associates | 31,055 | 25,069 | 1,026 | - | 32,081 | 25,069 |
| Capital expenditure | 523 | 154 | 44 | - | 567 | 154 |
| Reportable segment liabilities | 19,618 | 5,996 | 1,098 | - | 20,716 | 5,996 |

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

**(n) Comparatives**
Certain comparative information has been reclassified in order to provide a more consistent basis for comparison.

**(o) 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 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.
  An investor controls an investee when:
  **(i)** it is exposed or has rights to variable returns from its involvement with that Investee;
  **(ii)** it has the ability to affect those returns through its power over that investee; and
  **(iii)** there is a link between power and returns.
  Control is reassessed as facts and circumstances change. NZ IFRS 10 supersedes NZ IAS 27 (2008) and NZ SIC-12 Consolidation—Special Purpose Entities. The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.

**Specific Accounting Policies (continued)**

- NZ IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:
  **(i)** the nature of, and risks associated with, an entity's interests in other entities; and
  **(ii)** the effects of those interests on the entity's financial position, financial performance and cash flows.
  The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IFRS 13 replaces the fair value measurement guidance contained in individual NZ IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other NZ IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IAS 28 (2011) supersedes NZ IAS 28 (2008). NZ IAS 28 (2011) makes the following amendments:
  **(i)** NZ IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
  **(ii)** on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.
  The revised standard becomes mandatory for the Group's 31 March 2014 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.
- NZ IFRS 9 Financial Instruments (2010) is the standard issued as part of a wider project to replace NZ IAS 39.
  NZ IFRS 9 (2009) retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.
  NZ IFRS 9 (2010) retained the requirements with respect to the classification and measurement of financial liabilities with the exception of fair value option and certain derivatives linked to unquoted equity instruments. Additionally, NZ IFRS 9 (2010) also retained the recognition requirements of NZ IAS 39.
  The guidance in NZ IAS 39 on impairment of financial assets and hedge accounting continues to apply.
  Application of transitional provisions depends on an entity's adoption date of NZ IFRS 9 (2009) and NZ IFRS 9 (2010).
  Prior periods need not be restated if an entity adopts the standards for reporting periods beginning before 1 January 2012. The revised standard becomes mandatory for the Group's 31 March 2016 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial statements.

**6. Accounting estimates and judgements**

In authorising the financial statements for the full year ended 31 March 2012, the Directors have ensured that the specific accounting policies necessary for the proper understanding of the financial statements have been disclosed, and that all accounting policies adopted are appropriate for the Group's circumstances and have been consistently applied throughout the year for all Group entities for the purposes of preparing the consolidated interim financial statements.

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

**Accounting estimates and judgements (continued)**

**(a) Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Radius Pharmacy (RPL) | 18,392 | - |
| Radius Medical (RML) | 1,694 | - |
| | 20,086 | - |

Each unit was tested for impairment using a value in use discounted cash flow model.

The model is based on a three year cash flow cycle using the approved budgets for the year ending 31 March 2013 as the first forecast year. Subsequent cash flows for the next two years have been forecast taking into account inflation and likely growth rates. Cash flows beyond that are projected to change in line with inflation.

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

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

Sensitivities

Discount Rate

A movement of 0.5% in the discount rate would have the following approximate effect on the calculated recoverable amount of the investments in associates:

| | RPL | RML | |
|---|---|---|---|
| 0.5% increase | ($4,310,000) | ($433,000) | No impairment |
| 0.5% decrease | $4,948,000 | $497,000 | No impairment |

Terminal Growth Rate

A movement of 0.5% in the terminal growth rate would have the following approximate effect on the calculated recoverable amount of the investments in associates:

| | RPL | RML | |
|---|---|---|---|
| 0.5% increase | $4,463,000 | $448,000 | No impairment |
| 0.5% decrease | ($3,888,000) | ($391,000) | No impairment |

**(b) Impairment testing of the carrying amount of Investments in Associates**

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

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

The following triggers were identified:

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

The associates identified that presented a trigger for impairment were tested for impairment using a value in use discounted cash flow model.

**Accounting estimates and judgements (continued)**

The model is based on a three year cash flow cycle using the approved budgets for the year ending 31 March 2013 as the first forecast year. Subsequent cash flows for the next two years have been forecast taking into account inflation and likely growth rates. Cash flows beyond that are projected to change in line with inflation.

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

The budget information used as the base for the cash flow forecast is drawn from the budgets approved by each associate company for the year ending 31 March 2013. 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 2013.

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

<u>Sensitivities</u>

<u>Discount Rate</u>
A movement of 0.5% in the discount rate would have the following approximate effect on the calculated recoverable amount of the investments in associates:

| | | |
|---|---|---|
| 0.5% increase | ($674,000) | No impairment |
| 0.5% decrease | $737,000 | No impairment |

<u>Terminal Growth Rate</u>
A movement of 0.5% in the terminal growth rate would have the following approximate effect on the calculated recoverable amount of the investments in associates:

| | | |
|---|---|---|
| 0.5% increase | $1,315,000 | No impairment |
| 0.5% decrease | ($1,327,000) | No impairment |

**7. Business combination of Pharmacybrands Limited and Radius Pharmacy Limited**

On 1 April 2011, Pharmacybrands Limited's wholly owned subsidiary Pharmacy Store Holdings Limited acquired 100% of the issued shares of Radius Pharmacy Limited (RPL), a pharmacy retail group, for $15.3 million in cash. The Group assumed $18.0 million of debt due to Radius Health Group Limited ('RHGL'), the previous owners of RPL, and other vendors, as part of the transaction, and this was refinanced using a new bank facility from National Bank.

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

**Identifiable assets acquired and liabilities assumed**

| | $m |
|---|---|
| Cash | 3.1 |
| Receivables and prepayments | 4.3 |
| Inventories | 6.0 |
| Fixed assets | 3.5 |
| Investment in associates | 4.7 |
| Other long term investments | 0.2 |
| Deferred Tax | 1.1 |
| Employee entitlements | (0.9) |
| Trade and other payables | (6.8) |
| Net tangible assets | 15.2 |
| Less debt due to RHGL and others assumed on acquisition (as set out in the sale and purchase agreement) | (18.0) |
| Total identifiable net liabilities | (2.8) |

**Consideration to be transferred**

| | |
|---|---|
| Satisfied by: | |
| Cash | 15.3 |
| Total consideration to be transferred | 15.3 |

**Goodwill**

Goodwill recognised as a result of the acquisition is as follows:

| | |
|---|---|
| Total consideration to be transferred | 15.3 |
| Total identifiable net liabilities | 2.8 |
| Goodwill | 18.1 |

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

As part of the settlement process the Group had undertaken its assessment of the fair values of the assets and liabilities acquired. As a result there has been a reduction in goodwill of $4.1 million from that published last year.

The amount of revenue for Radius Pharmacy Limited included in the consolidated statement of comprehensive income since acquisition date was approximately $80,823,000.
It is impractical to calculate the Profit after tax of Radius Pharmacy Limited that is included in the consolidated statement of comprehensive income since acquisition date, as a number of the functions of Radius Pharmacy Limited have been absorbed within the parent company.

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

On 11 May 2011, Pharmacybrands Limited entered into an agreement to acquire 100% of the issued shares of Radius Medical Limited and Radius Medical Solutions Limited from Radius Health Group Limited for $2.7 million. This was financed using a bank facility from National Bank. The purchase was effective from 1 June 2011.

**Identifiable assets acquired and liabilities assumed**

| | $m |
|---|---|
| Cash | 0.5 |
| Receivables and prepayments | 0.5 |
| Fixed assets | 0.2 |
| Investment in associates | 1.0 |
| Trade and other payables | (1.2) |
| Total identifiable net tangible assets | 1.0 |

**Consideration to be transferred**

| | |
|---|---|
| Satisfied by: | |
| Cash | 2.7 |
| Total consideration to be transferred | 2.7 |

**Goodwill**

Goodwill recognised as a result of the acquisition is as follows:

| | |
|---|---|
| Total consideration to be transferred | 2.7 |
| Total identifiable net tangible assets | 1.0 |
| Goodwill | 1.7 |

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

As part of the settlement process  the Group had undertaken its assessment of the fair values of the assets and liabilities acquired. As a result there has been a reduction in goodwill of $0.5 million from that published last year.

The amount of revenue for Radius Medical Limited and Radius Medical Solutions Limited included in the consolidated statement of comprehensive income since acquisition date was approximately $4,770,000.
The amount of Profit after tax for Radius Medical Limited and Radius Medical Solutions Limited included in the consolidated statement of comprehensive income since acquisition date was approximately $530,000.

If the business combination of Radius Medical Limited and Radius Medical Solutions Limited had occurred at the beginning of the year, the Group revenue for the year would have been approximately $106.5 million and the Group Profit after tax would have been approximately $10 million.

**Acquisition related costs**

Costs related to the Radius Pharmacy Limited, Radius Medical Limited and Radius Medical Solutions Limited acquisitions included in other expenses in the Group's consolidated statement of comprehensive income for the year amount to $587,000.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **8. Revenue** | | |
| Store sales | 78,537 | - |
| Services provided to stores | 27,004 | 19,065 |
| | **105,541** | **19,065** |

Revenue from services provided to stores includes revenue from associates 2012: $2,193,000 (2011: $1,575,000) pursuant to commercial franchise agreements.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **9. Governance and accountability** | | |
| Audit fees | 148 | 82 |
| Directors' fees parent | 310 | 310 |
| Directors' fees subsidiaries | 155 | - |
| Senior Executives' share option expense | 45 | 27 |
| Reporting | 32 | 35 |
| Secretarial and board expenses | 40 | 87 |
| Stock exchange and registry fees | 64 | 55 |
| | **794** | **596** |
| *Auditor's remuneration to KPMG comprises:* | | |
| Annual audit of financial statements | 125 | 82 |
| Audit of subsidiaries | 23 | - |
| | 148 | 82 |
| Other services: | | |
| Taxation services | 80 | 55 |
| | 80 | 55 |
| **10. Other expenditure** | | |
| Leases | 4,336 | 884 |
| Amortisation of lease incentive | (35) | (46) |
| Bad debts written off and movement in doubtful debt provision | 863 | 18 |
| Other operating costs | 8,018 | 3,990 |
| | **13,182** | **4,846** |
| **11. (a) Income tax expense** | | |
| Current year tax | (2,714) | (258) |
| Prior year adjustment | (27) | 212 |
| Current tax expense | **(2,741)** | **(46)** |
| **Deferred tax expense** | | |
| Use of tax losses | - | (867) |
| Origination and reversal of temporary differences | 167 | 74 |
| Prior year adjustment | 51 | (171) |
| Deferred tax expense | **218** | **(964)** |
| Total income tax expense | **(2,523)** | **(1,010)** |
| **Imputation credit account:** | | |
| Opening balance | 1,365 | 643 |
| Tax payments | 2,232 | 117 |
| Imputation credits dividends received | 1,185 | 771 |
| Imputation credits on tax refunds | - | (166) |
| Closing balance | **4,782** | **1,365** |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **(b) Numerical reconciliation between tax expense & pre-tax accounting profit/(loss)** | | |
| Profit before tax | 12,462 | 6,171 |
| Income tax (expense)/benefit at 28% (2011: 30%) | (3,489) | (1,851) |
| ***(Add)/deduct the tax effect of adjustments:*** | | |
| Non-assessable revenue | 1,157 | 1,014 |
| Non-deductible expenses | (215) | (214) |
| Prior year adjustments | 24 | 41 |
| | **(2,523)** | **(1,010)** |

**12. Earnings per share**

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

| | | |
|---|---|---|
| ***Basic earnings per share comprises:*** | | |
| Profit for the year | **9,939** | **5,161** |
| Opening number of shares (000's) | 99,907 | 99,903 |
| *Add/(deduct) the effect of:* | | |
| Shares issued (July 2011) | 12,046 | - |
| Shares issued (August 2011) | 1,545 | - |
| Shares cancelled (November 2010) | - | (97) |
| **Weighted average number of shares** | **113,498** | **99,806** |
| **Basic earnings per share (cents)** | 8.76 | 5.17 |

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 of 113,498,000 (2011: 99,806,000).

| | | |
|---|---|---|
| **Diluted earnings per share (cents)** | 8.72 | - |

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares issued during the year after the adjustment for the effects of all dilutive ordinary shares of 113,998,000.

| | | |
|---|---|---|
| **Dividend per share (cents)** | - | - |

No dividends were declared or paid during the years ended 31 March 2011 and 31 March 2012.

| | | |
|---|---|---|
| **Net assets per share (cents)** | 52.0 | 43.5 |

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.

| | | |
|---|---|---|
| **Net tangible assets per share (cents)** | 33.2 | 42.4 |

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

**13. Distribution to owners comprises**

There were no distributions to owners during the year ended 31 March 2012.

# Notes to the financial statements
## For the year ended 31 March 2012

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **14. Trade and other receivables** | | |
| Trade receivables | 2,208 | 1,219 |
| Accrued income | 4,337 | 601 |
| Other receivables | 618 | 740 |
| Prepayments | 435 | 111 |
| Provision for doubtful debts | (134) | (50) |
| Receivables from associates | 1,099 | 1,809 |
| | **8,563** | **4,430** |

Receivables from associates includes dividends due from associates of $0 (2011: $638,000), which are contractually payable in accordance with shareholder agreements entered into with each owner of the associate.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **15. Advances** | | |
| Loans to associates | 1,002 | 953 |
| Advances (current) | **1,002** | **953** |
| | | |
| Loans to associates | 352 | 466 |
| Loans to other parties | 471 | 650 |
| Advances (non-current) | **823** | **1,116** |

The loans to associates are advanced under a revolving debt facility (refer note 21 for loan terms and security details) with interest charged on a floating basis at 5.89% (2011: 5.58%). These advances are repayable on demand.
The loans to other parties are providing vendor financing to the purchasers of pharmacies sold by the Group. The loans are for a term of three years from the date of purchase with interest capitalised annually and payable on maturity of the loans.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **16. Property, plant and equipment** | | |
| **Fixtures, Fittings and Office Equipment** | | |
| Opening cost | 1,235 | 1,134 |
| Acquisitions through business combinations | 13,904 | - |
| Additions | 518 | 101 |
| Disposals | (299) | - |
| **Closing cost** | **15,358** | **1,235** |
| | | |
| Opening accumulated depreciation | 941 | 837 |
| Depreciation for the period | 1,644 | 104 |
| Disposals | (220) | - |
| Acquired | 10,483 | - |
| **Closing accumulated depreciation** | **12,848** | **941** |
| | | |
| **Motor Vehicles** | | |
| Opening cost | - | - |
| Acquisitions through business combinations | 64 | - |
| **Closing cost** | **64** | **-** |
| | | |
| Opening accumulated depreciation | - | - |
| Depreciation for the period | 9 | - |
| Acquired | 33 | - |
| **Closing accumulated depreciation** | **42** | **-** |
| | | |
| Closing book value | 2,532 | 294 |
| Work in progress | 85 | 3 |
| **Total Property, plant and equipment** | **2,617** | **297** |

Work in progress relates to capital projects not yet complete.

| | | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **17. Intangible assets** | | | |
| **Software** | | | |
| Opening cost | | 1,341 | 1,229 |
| Acquisitions through business combinations | | 564 | - |
| Additions | | 103 | 112 |
| Disposals | | (2) | - |
| **Closing cost** | | **2,006** | **1,341** |
| Opening accumulated amortisation | | 1,100 | 922 |
| Amortisation for the period | | 218 | 178 |
| Disposals | | (2) | - |
| Acquired | | 398 | - |
| **Closing accumulated amortisation** | | **1,714** | **1,100** |
| **Trademarks at cost** | | **27** | **27** |
| Opening accumulated amortisation | | 14 | 14 |
| **Closing accumulated amortisation** | | **14** | **14** |
| **Goodwill** | | | |
| Opening cost | | 892 | 892 |
| Additions | **(a)** | 20,086 | - |
| **Closing cost** | | **20,978** | **892** |
| **Total intangible assets** | | **21,283** | **1,146** |

| | | |
|---|---|---|
| ***a)*** | Goodwill recognised as a result of the acquisition of: | |
| | Radius Pharmacy limited | 18,102 |
| | Radius Medical Limited and Radius Medical Solutions Limited | 1,694 |
| | Radius Pharmacy Te Rapa Limited | 290 |
| | | **20,086** |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **18. Deferred tax asset** | | |
| Opening balance | 216 | 1,180 |
| Recognised in income statement | 218 | (964) |
| Recognised on acquisition | 1,114 | - |
| | **1,548** | **216** |

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

| | Opening $'000 | Recognised in the profit or loss $'000 | Recognised on acquisition $'000 | Closing $'000 |
|---|---|---|---|---|
| **Group – 2012** | | | | |
| Fixed assets | (17) | 104 | 877 | 964 |
| Provisions | 233 | 114 | 237 | 584 |
| | **216** | **218** | **1,114** | **1,548** |
| **Group – 2011** | | | | |
| Fixed assets | (29) | 12 | - | (17) |
| Provisions | 161 | 72 | - | 233 |
| Tax losses | 1,048 | (1,048) | - | - |
| | **1,180** | **(964)** | **-** | **216** |

## 19. Group investments

| | | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **The movement in equity accounted associates comprises:** | | | |
| Brought forward | | 25,069 | 23,853 |
| Investment in associates | | 2,399 | 1,855 |
| Associates acquired | (a) | 5,686 | - |
| Disposal of associates | | (2,669) | (1,247) |
| Share of net earnings | | 3,803 | 2,602 |
| Less associate dividend | | (2,207) | (1,994) |
| | | **32,081** | **25,069** |
| **Equity accounted associates include goodwill as follows:** | | | |
| Gross goodwill brought forward | | 18,638 | 17,823 |
| Associates acquired | (a) | 2,421 | 1,966 |
| Disposal of associates | | (1,656) | (1,151) |
| Total goodwill | | **19,403** | **18,638** |

***(a)*** **Associates acquired**

The Group acquired an interest in the following pharmacy entities on 1 April 2011 as a result of the business combination of PHB and Radius Pharmacy Limited; Radius Pharmacy Greenmeadows Ltd, Radius Pharmacy Riccarton Ltd, Radius Pharmacy Te Rapa Ltd, Radius Pharmacy Upper Hutt Ltd, Radius Pharmacy Waikanae Ltd and Radius Pharmacy Wanganui Ltd. The Group also acquired an interest in the following Medical Centre entities on 1 June 2011 as a result of the business combination of PHB and Radius Medical Limited and Radius Medical Solutions Limited; Team Medical At Kapiti Limited, The Doctors ( New Lynn) Limited, Total Health Doctors Limited, Radius Medical Whakatane Properties Limited and Silversteam Health Centre Limited.

**Summary associate financial information**

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

| | Assets $'000 | Liabilities $'000 | Revenue $'000 | Net Profit after tax $'000 |
|---|---|---|---|---|
| As at and for the year ended 31 March 2012 | 58,422 | 28,107 | 147,002 | 7,282 |
| As at and for the year ended 31 March 2011 | 45,879 | 22,377 | 124,436 | 4,855 |

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

**Reporting dates**

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

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **20. Trade and other payables and income taxes payable** | | |
| Trade Payables | 8,158 | 2,228 |
| Payable to associates | 134 | - |
| Accruals | 5,060 | 2,178 |
| Employee entitlements | 1,253 | 227 |
| Income Tax | 1,053 | 146 |
| | **15,658** | **4,779** |
| **21. Borrowings** | | |
| Current | - | 1,124 |
| Non-current | 5,000 | - |
| | **5,000** | **1,124** |

Bank borrowings of $24.3 million were obtained by Pharmacybrands Limited and were used to finance the acquisitions of Radius Pharmacy Limited, Radius Medical Limited and Radius Medical Solutions Limited. These loans were initially for a 5 year term with quarterly repayment terms of $750,000. On 30 June 2011 $750,000 was repaid. Proceeds from the Share Allotment ($8 million) were applied towards reducing the loan balance and no further amortisation was required. On 31 October 2011 the loan balance was reduced by $10 million (sourced from cash reserves) and was restructured to a 5 year revolving term loan of $8 million and a flexible working capital facility of $4 million.

The associate advances and borrowings (refer note 15) are secured pursuant to back-to-back general security agreements over the assets of Pharmacybrands Limited and each associate. The security provided by the associates is several. Pharmacybrands Limited has provided guarantees in favour of ANZNB, with back-to-back guarantees received from each pharmacist shareholding limiting the Company's ultimate exposure to commensurate with Pharmacybrands Limited's shareholding in each associate.

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

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **22. Operating cash flows reconciliation** | | |
| Profit for the year | 9,939 | 5,161 |
| Less gain on sale of investments in associates | - | (778) |
| Operating profit | 9,939 | 4,383 |
| *Add/(deduct) non-cash items:* | | |
| Equity accounted profits | (1,595) | (608) |
| Depreciation & asset write-off | 1,871 | 282 |
| Amortisation of lease incentive | (35) | 4 |
| Bad and doubtful debts | 863 | (17) |
| Deferred tax | (218) | 964 |
| Share/option scheme costs | 45 | 27 |
| *Add/(deduct) changes in working capital items:* | | |
| Receivables and accruals | 365 | (572) |
| Inventory | (465) | 12 |
| Payables and accruals | 2,174 | (451) |
| **Net cash inflow/(outflow) from operating activities** | **12,944** | **4,024** |

| | | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **23. Shares on issue** | | | |
| **Shares authorised and on issue** | | **000's** | **000's** |
| Opening number of shares | | 100,501 | 100,747 |
| Shares cancelled - partly paid | **(a)** | - | (250) |
| Shares issued - fully paid | **(b)** | 20,258 | 4 |
| | | **120,759** | **100,501** |
| Shares held as treasury stock | **(c)** | (594) | (594) |
| | | **120,165** | **99,907** |

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

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

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

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

**Treasury stock**

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

**24. Financial Instruments**

The Group is party to financial instruments as part of its normal operations. Financial instruments include cash and cash equivalents, borrowings, trade and other receivables and trade and other payables. Risk management policies are used to mitigate the Group's exposures to credit risk, liquidity risk and market risk that arise in the normal course of operations.

**Credit risk**

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

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

| **Trade and other receivables** | Gross receivable 2012 $'000 | Impairment 2012 $'000 | Gross receivable 2011 $'000 | Impairment 2011 $'000 |
|---|---|---|---|---|
| Not past due | 7,768 | - | 3,648 | - |
| Past due 0-30 days | 658 | - | 165 | - |
| Past due 31-120 days | 128 | - | 438 | - |
| Past due more than 120 days | 133 | (124) | 229 | (50) |
| **Total** | **8,687** | **(124)** | **4,480** | **(50)** |
| **Non-current receivables** | | | | |
| Past due more than 120 days | - | - | 405 | - |
| **Total** | **-** | **-** | **405** | **-** |

**Financial Instruments (continued)**

**Liquidity risk**

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

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Balance Sheet $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
| Bank loan | 5,000 | 6,640 | 205 | 205 | 410 | 5,820 |
| Trade and other payables | 14,605 | 14,605 | 14,605 | - | - | - |
| Bank overdraft | - | - | - | - | - | - |
| **Total non-derivative liabilities** | **19,605** | **21,245** | **14,810** | **205** | **410** | **5,820** |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Balance Sheet $'000 | Contractual cash flows $'000 | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 |
| Bank loan | 1,124 | 1,153 | 796 | 357 | - | - |
| Trade and other payables | 4,779 | 4,779 | 4,779 | - | - | - |
| Bank overdraft | - | - | - | - | - | - |
| **Total non-derivative liabilities** | **5,903** | **5,932** | **5,575** | **357** | **-** | **-** |

**Market risk**

As interest rates change, the fair value of financial instruments may change. The Group maintains its interest earning and interest bearing financial instruments in matched maturities and interest rate re-pricing terms. Refer to notes 15 and 21 for details of the interest rates and re-pricing for the group advances and borrowings, which are the most significant financial instruments.

**Interest rate swaps - cashflow hedges**

Interest bearing loans of the group bear variable interest rates. In order to protect against interest rate volatility, the Group entered into interest rate swap contracts under which it has the right to receive interest at variable rates and pay interest at fixed rates. Swaps in place cover 100% (2011:0%) of the principal outstanding. The fixed interest rates range between 4.43% and 4.73%.

At 31 March 2012, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

| | Maturity Date | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| NZD Swap 4.43% | 31 March 2015 | 1,000 | - |
| NZD Swap 4.73% | 31 March 2016 | 4,000 | - |

As At 31 March 2012, the mark-to-market value of these swaps was a loss of $213,011 (2011: 0).

**Financial Instruments (continued)**

**Capital management**

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

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

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

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

**Classification and Fair Values**

The carrying amount of the Group's on-balance sheet financial instruments closely approximate their fair values as at 31 March 2012 and 31 March 2011. The fair value of all of the following financial instruments is determined using their transactional value.

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

**Financial Instruments (continued)**

| | Note | 2011 Loans and receivables $'000 | Other amortised cost $'000 | Total carrying amount $'000 | Fair value $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trade and other receivables | **14** | 405 | - | 405 | 405 |
| Advances | **15** | 1,116 | - | 1,116 | 1,116 |
| **Total non-current assets** | | **1,521** | **-** | **1,521** | **1,521** |
| Trade and other receivables | **14** | 4,430 | - | 4,430 | 4,430 |
| Cash and cash equivalents | | 15,654 | - | 15,654 | 15,654 |
| Advances | **15** | 953 | - | 953 | 953 |
| **Total current assets** | | **21,037** | **-** | **21,037** | **21,037** |
| **Total assets** | | **22,558** | **-** | **22,558** | **22,558** |
| **Liabilities** | | | | | |
| Loans and borrowings | **21** | - | - | - | - |
| **Total non-current liabilities** | | **-** | **-** | **-** | **-** |
| Loans and borrowings | **21** | - | 1,124 | 1,124 | 1,124 |
| Trade payables | **20** | - | 4,779 | 4,779 | 4,779 |
| **Total current liabilities** | | **-** | **5,903** | **5,903** | **5,903** |
| **Total Liabilities** | | **-** | **5,903** | **5,903** | **5,903** |

**25. Related parties**

The parent has a minority interest in 46 associate entities and 2 joint venture retail outlets. The parent also has an interest in a further 31 entities which include pharmacy companies, investment companies, franchise companies and non trading companies.

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

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

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

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

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

During the year the parent wrote off approximately $841,000 for debts owed by associates.

**Related parties (continued)**

**Related party transactions for the group:**

| | Transaction Value | | Balance Outstanding | |
|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| Dividends | 2,207 | 1,994 | - | 638 |
| Marketing levies and franchise fees | 2,777 | 1,945 | 71 | 72 |
| On-charged costs | 1,755 | 1,932 | 291 | 911 |
| Receivable from associates | | | 1,153 | 1,160 |
| Loans to associates | | | 1,825 | 2,069 |
| Total owing from associates | | | 3,340 | 4,850 |
| Receivable from other related parties | | | 344 | 474 |
| Payable to associates | | | 227 | 244 |

During the year the Parent issued, acquired and cancelled shares with associates, see note 19 for details. The Parent contributed capital and shareholder loans of $2,399,000 (2011: $1,855,000) to associates during the year, see note 19. The Parent guarantees the associate banking facilities commensurate with its shareholding in each associate or as otherwise agreed.

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

| | Group | |
|---|---|---|
| | **2012 $'000** | **2011 $'000** |
| Short-term employee benefits | 2,541 | 1,606 |
| Share vesting costs | 45 | 27 |
| **26. Non-cancellable operating leases** | | |
| Due within one year | 3,279 | 563 |
| Due between one and five years | 8,007 | 1,198 |
| Due after five years | 2,752 | - |
| | **14,038** | **1,761** |

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

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

**27. Share based payments**
Pharmacybrands Limited issued 500,000 redeemable ordinary shares (ROS) on 1 March 2010 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of the Chief Executive Officer. The shares were issued at $0.40 per share, initially paid up to $0.01 per share. Until such time as the CEO Redeemable Ordinary Shares are redeemed and transferred to the CEO the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 40th). No CEO Redeemable Ordinary Shares can be redeemed before the second anniversary of the appointment date of the CEO (being 1 October 2009). An amount of $45,000 (2011: $27,000) has been charged to the income statement reflecting the amortisation of the fair value of entitlements under this scheme.

**Share based payments continued**

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

| Grant date/employees entitled | Number of shares '000 | Vesting conditions and period |
|---|---|---|
| ROS granted to Life Pharmacy Trustee Company Ltd on 1 March 2010 | 500 | Redeemable in three equal proportions in 2011, 2012 and 2013 provided the CEO remains with the group at these dates. The option expires on 1 October 2015. |
| **Total ROS** | **500** | |

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

## 28. Commitments and contingencies
The Group has exposure to bank facilities and lease commitments of it's associates as follows:

| | Group | |
|---|---|---|
| | **2012 $'000** | **2011 $'000** |
| • Lease commitments | 5,573 | 6,849 |
| • Lease bonds | 1,790 | 1,790 |
| • Lease guarantees | 708 | 1,356 |
| • Loan guarantees | 6,314 | 5,768 |
| | **14,385** | **15,763** |

Lease commitments are for the rental of certain of the pharmacy premises used by associate companies and are covered by back to back lease agreements with the associate companies.
The Parent has provided guarantees for all obligations under bank facilities provided to certain of its associates. The bank also holds personal guarantees from the other shareholders of these associate companies for these facilities.
Lease guarantees have been given by the Parent for two associate companies where the lease is with the associate company and a lease bond has not been provided.

## 29. Subsequent events
The Group has made investments in pharmacies and medical centres of $2.2m.
On 24 April 2012, 800,000 redeemable ordinary shares were issued in accordance with the terms of the Employee Share Ownership Plan.

# Shareholder Information
## As at 30 April 2012

### Major shareholders
Pharmacybrands Limited's ordinary shares are listed on the New Zealand Stock Exchange using the NZX code, PHB. The 20 largest registered holders of quoted equity securities as at 30 April 2012 were as follows:

| Name | Holding | % |
|---|---|---|
| Cape Healthcare Limited | 36,547,229 | 30.06 |
| LPL Trustee Limited | 36,546,932 | 30.06 |
| Massey Pharmacy Limited | 3,040,000 | 2.50 |
| M J Fleet & MRI Christchurch Trustees Limited | 2,431,048 | 2.00 |
| M L Dunn & Fortune Manning Trustee Company Limited | 1,977,145 | 1.63 |
| Ganet Investments Limited | 1,608,887 | 1.32 |
| G K Ritson | 1,401,317 | 1.15 |
| B A Fordyce, F Dragicevich & C L Hutton | 1,182,263 | 0.97 |
| New Zealand Permanent Trustees Limited | 1,141,874 | 0.94 |
| A H McAulay | 1,037,770 | 0.85 |
| T Lai, C P Lai & K Yee | 994,985 | 0.82 |
| M S Vuksich, F A Vuksich & W M G Yovich | 984,027 | 0.81 |
| Watt Land Company Limited | 818,808 | 0.67 |
| P J Guthrie | 817,873 | 0.67 |
| E A McAulay | 687,022 | 0.57 |
| K C Wilkinson & M E Wilkinson | 636,542 | 0.52 |
| N C Bullock & S J Sheldon | 632,168 | 0.52 |
| M E Bullock & S J Sheldon | 622,169 | 0.51 |
| F B H Walker, E A Walker & N J Comerford | 590,396 | 0.49 |
| Bay Pharmacies Limited | 547,504 | 0.45 |

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

| Name | Holding | % |
|---|---|---|
| Cape Healthcare Limited | 36,547,229 | 30.06 |
| LPL Trustee Limited | 36,546,932 | 30.06 |

As at 30 April 2012 Pharmacybrands Limited had on issue 121,578,836 securities (as defined by the Securities Markets Act 1988) being 120,278,836 fully paid ordinary shares, and 1,300,000 redeemable ordinary shares payable to $0.01 and held on trust by Life Pharmacy Trustee Company Limited on behalf of senior executive employees.

### Shareholding spread
Pharmacybrands Limited's shareholding spread as at 30 April 2012 is as follows:

| Size of holding | Holders | % | Securities | % |
|---|---|---|---|---|
| 1-999 | 96 | 13.3 | 56,419 | 0.05 |
| 1,000 - 9,999 | 273 | 37.9 | 847,895 | 0.71 |
| 10,000 - 99,999 | 264 | 36.7 | 10,034,247 | 8.34 |
| 100,000 - 499,999 | 64 | 8.9 | 13,543,543 | 11.26 |
| 500,000 - 999,999 | 13 | 1.8 | 8,880,219 | 7.38 |
| 1,000,000 and over | 10 | 1.4 | 86,916,513 | 72.26 |
| **Total** | **720** | **100.0** | **120,278,836** | **100.00** |

# Shareholder Information
## As at 30 April 2012

**Directors' shareholding and trades**
The following table summarises all shares held and traded (whether directly or indirectly) by the Directors of Pharmacybrands Limited during the twelve months ended 30 April 2012.

| Directors | Holding 1 May 2011 | Cancelled | Issued | Net trades in the period | Holding 30 Apr 2012 |
|---|---|---|---|---|---|
| J A Bagnall (i) | 26,904,355 | - | 8,888,889 | 753,688 | 36,546,932 |
| J B Bolland | - | - | - | - | - |
| P M Merton (ii) | 26,904,646 | - | 8,888,889 | 753,694 | 36,547,229 |
| A J Davidson (iii) | 217,717 | - | 10,000 | - | 227,717 |
| K R Rushbrook (iv) | 20,000 | - | 10,000 | - | 30,000 |
| I G S Sharp (v) | 99,457 | - | 10,000 | - | 109,457 |
| M S Vuksich (vi) | 1,133,303 | - | 20,000 | - | 1,153,303 |
| K Orr (vii) | 477,395 | - | 20,000 | - | 497,395 |

(i) Holder of beneficial interest of 36,546,932 fully paid ordinary shares in PHB (shares are legally owned by LPL Trustee Limited). Acquired a beneficial interest in 8,888,889 fully paid ordinary shares in PHB (shares issued to LPL Trustee Limited for $4,000,000) on 25 July 2011 as a result of a placement. Acquired a beneficial interest in 753,688 fully paid ordinary shares in PHB (shares issued to LPL Trustee Limited for $494,737) between 9 and 26 September 2011 to return to percentage of shareholding held (30.39%) prior to issue of shares under Share Purchase Plan.

(ii) P M Merton is a director of Cape Healthcare Limited and a trustee of the Pentz Trust which is a 49% shareholder of Cape Healthcare Limited. P M Merton has a Relevant Interest in the 36,547,229 fully paid ordinary shares in PHB owned by Cape Healthcare Limited. Acquired a beneficial interest in 8,888,889 fully paid ordinary shares in PHB (shares issued to Cape Healthcare Limited for $4,000,000) on 25 July 2011 as a result of a placement. Acquired a beneficial interest in 753,694 fully paid ordinary shares in PHB (shares issued to Cape Healthcare Limited for $491,511) between 6 and 8 September 2011 to return to percentage of shareholding held (30.39%) prior to issue of shares under Share Purchase Plan.

(iii) Holder of a beneficial interest of 227,717 fully paid ordinary shares in PHB (shares are legally owned by Custodial Services Limited). Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to Custodial Services Limited for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan.

(iv) Holder of a beneficial interest of 30,000 fully paid ordinary shares in PHB (shares are legally owned by First NZ Custodians Limited). Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to First NZ Custodians Limited for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan.

(v) Holder of a beneficial interest of 109,457 fully paid ordinary shares in PHB (shares are legally owned by Investment Custodial Services Limited). Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to Investment Custodial Services Limited for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan.

(vi) Holder of a beneficial interest of 1,153,303 fully paid ordinary shares in PHB (shares are legally owned by Mark Vuksich, Frances Vuksich & Walter Yovich). Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to Mark Vuksich, Frances Vuksich & Walter Yovich for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan. Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to Mark Vuksich for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan.

(vii) Holder of a beneficial interest of 497,395 fully paid ordinary shares in PHB (shares are legally owned by Orrs Kaipara Pharmacies Limited and Orrs Pharmacies Limited). Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to Orrs Kaipara Pharmacies Limited for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan. Acquired a beneficial interest in 10,000 fully paid ordinary shares in PHB (shares issued to Orrs Pharmacies Limited for $4,500) on 16 August 2011 as a result of an allotment of shares under Share Purchase Plan.

# Shareholder Information
## As at 30 April 2012

**Directors' insurance**

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

**Waivers received from the NZSX Listing Rules**

NZX Regulation granted Pharmacybrands Limited waivers from the following NZSX Listing Rules over the 12 month period preceding the date two months before the date of publication of the 31 March 2010 annual report:

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

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

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

A copy of NZX Regulation's decision in relation to the granting of the above waivers can be found by clicking on the 'Investor Relations' tab of Pharmacybrands website, www.pharmacybrands.co.nz.

# Company Directory
## As at 31 March 2012

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

Telephone: +64 9 571 9080

**Board**
P M Merton
Chairman

A J Davidson
Independent Director

J A Bagnall
Non-Executive Director

J B Bolland
Non-Executive Director

M S Vuksich
Non-Executive Director

I G S Sharp
Independent Director

K R Rushbrook
Independent Director

K Orr
Independent Director

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

**Auditor**
KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland City
Auckland

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

**Management**
A H Wham
Chief Executive Officer

V Singh
Chief Financial Officer

A Isbister
Chief Executive Officer - Radius Medical

J Reeves
National Operations Manager

J Fogarty
Executive - Acquisitions

M Seymour
Executive - Pharmacy

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

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

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

www.investorcentre.com/nz

General enquiries can be directed to;
enquiry@computershare.co.nz
Private Bag 92119
Auckland 1142
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Please assist our registrar by quoting your CSN or shareholder number