



# Highlights

## For the six months ended 30 September 2008

- Significantly improved store profit contribution of \$424,000 this year versus a loss of \$63,000 last year.
- Sales growth on a comparable store basis in a very challenging environment. This growth has been heavily driven by an increase in the promotional programme and increased promotional use of the Life Living Card. The Living Card is proving to be an excellent marketing and customer relationship tool and further development is planned.
- The development of LPL Group's third party supply chain solution to its own members, launching November 2008.
- The purchase of Care Chemist Services Limited, franchisor business to 8 Care Chemist branded pharmacies operating in the greater Auckland area.
- The successful raising of c\$11.6m of additional capital through a rights issue to existing shareholders.

Life Pharmacy Limited (LPL) is New Zealand's only listed Retail Pharmacy Group and comprises the Life Pharmacy, Life Metro, Life Outlet and Care Chemist Brands. In total, the LPL Group represents 39 retail outlets operating throughout New Zealand including 26 Life Pharmacy Branded stores, 2 Life Outlet stores and 11 pharmacies branded Care Chemist. LPL has a 49% investment in 19 associate pharmacy companies (22 retail outlets), one 50/50 joint venture operation (2 retail outlets) and 15 franchisees.

## Interim Financial Results

### For the six months ended 30 September 2008

	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
Revenue	3,369	2,988	6,442
EBIT	(770)	(760)	(1,315)
Profit before tax	(551)	(718)	(1,068)
Profit for the period	(415)	(449)	(570)
Total assets	42,702	34,186	32,898
Total liabilities	6,480	8,509	7,316
Shareholders equity (net assets)	36,222	25,677	25,582
Basic earnings per share (cents)	(1.04)	(1.36)	(1.61)
Diluted earnings per share (cents)	(1.04)	(1.36)	(1.61)
Net assets per share (cents)	54.2	67.9	67.6
Dividend per share (cents)	-	-	-

# Directors Report

## For the six months ended 30 September 2008

### Financial and Operational Performance

For the six months to September 2008 Life Pharmacy Limited (LPL) recorded a net loss after tax of \$415,000 (07: loss of \$449,000). Basic earnings per share for the period were a loss of 1.04 cents (07: negative earnings of 1.36 cents).

Last year's loss of \$449,000 included a one-off capital gain of \$474,000. After taking this into account the underlying improvement in the group's half year result is \$508,000 and is primarily driven by increased profits from the Associate stores.

The contribution from Associates during the period was an after tax profit of \$424,000 (07: a loss of \$63,000). The increase in profitability in the Associate stores has been driven by a much stronger promotional programme combined with a greater level of focus on store costs. Despite the current tough economic climate the Associate stores in the first half of this financial year have achieved sales growth on a comparable store basis.

During the period the company's operating revenue increased by \$0.381 million to \$3.369 million. This additional income was re-invested back into parent company expenditure, which increased by \$0.391 million to \$4.139 million (07: \$3.748 million).

This increase is in line with our objectives of investing to drive sales in our stores and providing industry leading support to our franchisees.

Total assets of the group at \$42.702 million (07: \$34.186 million) increased by \$8.516 million, which primarily reflects the net proceeds of the first instalment of the Rights Issue that was completed in September.

### Growth

On the 18 September 2008 the company successfully raised c\$11.6m from a rights issue to existing shareholders. As a result of the rights issue, LPL Trustee Limited (backed by Andrew Bagnall) increased its shareholding to 50.01% under the existing option agreement.

The rights issue is payable in two instalments, 50% payable on allotment and 50% payable one year after the allotment (18 September 2009). The funds raised will be used to:

1. reduce the company's external bank debt,
2. provide adequate resources for future growth and working capital in the health, beauty and wellness sector, and
3. invest in the future growth of pharmacy within New Zealand.

On 30 May 2008, LPL purchased Care Chemist Services Limited, franchisor to 8 Care Chemist branded pharmacies operating throughout the greater Auckland region. The acquisition strategy to grow the number of Care Chemist franchisees is now starting to have momentum and by the end of October 2008 the LPL Group has a total of 14 Care Chemist stores operating in New Zealand. The benefit of belonging to the Care Chemist brand includes:

1. In each location the pharmacist is promoted as "your health care coach" to ensure a more complete integration into communities that are served. In conjunction with this, the unique VIP customer rewards programme drives retail growth through the dispensary business.
2. By leveraging the power of belonging to the larger LPL group, the benefits include access to the Tony Ferguson Weight Management franchise, use of the new LPL group supply chain, access to a full range of training and development HR programmes and significant cost saving benefits through group discounts on utilities and store services.

In the past six months LPL has also embarked on an investment programme to future proof pharmacy in New Zealand. One of the key strategies within this plan is the development of a supply chain solution exclusive to the members of the LPL Group. Stage one of this supply chain solution came into effect on 1<sup>st</sup> November 2008, with further developments planned that will provide additional benefits for those pharmacies that are part of the LPL Group.

LPL is also further investing in the IT platform across the Group and has introduced a group wide reporting tool that provides connectivity across stores and the central office. This will deliver benefits currently not available to other pharmacy banner groups; for example, benchmarking and greatly enhanced store reporting.

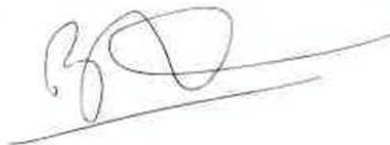
## Outlook

Our stores are about to embark on the peak Christmas trading period. The economic climate has not been as challenging for many years. With volatility in the worldwide financial sector, an election and the country falling into a recession, the ability to maintain levels of sales and profitability has never been as difficult. However, with support and investment from the centre and the continued dedication of our colleagues across all our stores, the Board is looking forward to the Christmas trading period.

Finally, the Board wishes to thank all our colleagues who continue to put in great efforts across stores and at central office. The service and advice provided by our store colleagues to our customers is at the highest level in the Retail Sector and remains one of our key strategic advantages.



For and on behalf of the Board  
Liz Coutts  
**Chairman**



For and on behalf of the Board  
Philip Ingham  
**Director**

# Consolidated interim income statement

For the six months ended 30 September 2008

	Note	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
<b>Operating Revenue</b>				
Associate earnings	7	424	(63)	426
Franchise revenue		2,945	2,547	5,512
Other income		-	504	504
		<b>3,369</b>	<b>2,988</b>	<b>6,442</b>
<b>Operating expenditure</b>				
Governance and accountability		269	235	482
Marketing expenses		1,650	1,486	3,254
Depreciation and amortisation		148	124	280
Employee benefit expense		1,347	1,172	2,400
Other expenditure		725	731	1,341
		<b>4,139</b>	<b>3,748</b>	<b>7,757</b>
<b>Operating profit/(loss) before interest and tax</b>		<b>(770)</b>	<b>(760)</b>	<b>(1,315)</b>
Interest income		476	405	916
Interest expense		(257)	(363)	(669)
<b>Net interest income/(expense)</b>		<b>219</b>	<b>42</b>	<b>247</b>
<b>Profit/(loss) before tax</b>		<b>(550)</b>	<b>(718)</b>	<b>(1,068)</b>
Tax benefit/(expense)		136	269	498
<b>Profit/(loss) for the period</b>		<b>(415)</b>	<b>(449)</b>	<b>(570)</b>
Basic earnings per share (cents)		(1.04)	(1.36)	(1.61)
Diluted earnings per share (cents)		(1.04)	(1.36)	(1.61)

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 20 form part of the financial statements.

# Consolidated interim statement of changes in equity

For the six months ended 30 September 2008

	Note	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
Profit/(loss) for the period		(415)	(449)	(570)
<b>Recognised income for the period</b>		<b>(415)</b>	<b>(449)</b>	<b>(570)</b>
Contributions from owners	6	11,026	5,029	5,029
Shares purchased and cancelled	6	-	(840)	(840)
Share scheme amortisation		29	9	35
<b>Total transactions with owners recognised directly in equity</b>		<b>11,055</b>	<b>4,198</b>	<b>4,224</b>
<b>Total changes in equity</b>		<b>10,640</b>	<b>3,749</b>	<b>3,654</b>
Equity at the beginning of the period		25,582	21,928	21,928
<b>Equity at the end of the period</b>		<b>36,222</b>	<b>25,677</b>	<b>25,582</b>

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 20 form part of the financial statements.

# Consolidated interim balance sheet

As at 30 September 2008

	Note	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
<b>Equity</b>				
Share capital	6	46,226	35,145	35,171
Retained deficits		(10,004)	(9,468)	(9,589)
<b>Total equity</b>		<b>36,222</b>	<b>25,677</b>	<b>25,582</b>
<b>Current assets</b>				
Cash and bank balances		7,214	3,978	2,360
Trade and other receivables		7,974	2,766	2,644
Income tax refund		-	118	-
Group advances		-	6,656	-
<b>Total current assets</b>		<b>15,188</b>	<b>13,518</b>	<b>5,004</b>
<b>Non-current assets</b>				
Fixed assets		428	419	437
Intangible assets		629	488	405
Deferred tax asset		1,434	1,068	1,298
Group advances		6,281	-	7,042
Group investments	7	18,742	18,434	18,712
Loans to related parties		-	259	-
<b>Total non-current assets</b>		<b>27,514</b>	<b>20,668</b>	<b>27,894</b>
<b>Total assets</b>		<b>42,702</b>	<b>34,186</b>	<b>32,898</b>
<b>Current liabilities</b>				
Payables and accruals		1,348	1,807	1,401
Unamortised future income		23	-	23
Borrowings	8	4,975	6,516	-
<b>Total current liabilities</b>		<b>6,346</b>	<b>8,323</b>	<b>1,424</b>
<b>Non-current liabilities</b>				
Unamortised future income		134	186	146
Borrowings	8	-	-	5,746
<b>Total non-current liabilities</b>		<b>134</b>	<b>186</b>	<b>5,892</b>
<b>Total liabilities</b>		<b>6,480</b>	<b>8,509</b>	<b>7,316</b>
<b>Net assets</b>		<b>36,222</b>	<b>25,677</b>	<b>25,582</b>

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 20 form part of the financial statements.

# Consolidated interim statement of cash flows

For the six months ended 30 September 2008

Note	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
<b>Cash flows from operating activities</b>			
	545	439	512
	3,786	3,283	6,905
	476	405	916
	(3,355)	(2,558)	(5,489)
	(1,457)	(1,264)	(2,634)
	(257)	(363)	(669)
<b>9</b>	<b>(262)</b>	<b>(58)</b>	<b>(459)</b>
<b>Cash flows from investing activities</b>			
	761	-	245
	(207)	(120)	(113)
	-	(978)	-
	(167)	-	-
	-	474	474
	(124)	631	(1,045)
	<b>263</b>	<b>7</b>	<b>(439)</b>
<b>Cash flows from financing activities</b>			
	(770)	(2,323)	(3,094)
	5,623	5,029	5,029
	<b>4,853</b>	<b>2,706</b>	<b>1,935</b>
	<b>4,854</b>	<b>2,655</b>	<b>1,037</b>
	<b>2,360</b>	<b>1,323</b>	<b>1,323</b>
	<b>7,214</b>	<b>3,978</b>	<b>2,360</b>
<i>Reconciliation of closing cash equivalents to the balance sheet:</i>			
	7,214	3,978	2,360
	<b>7,214</b>	<b>3,978</b>	<b>2,360</b>

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 20 form part of the financial statements.

# Notes to the financial statements

As at 30 September 2008

## 1. Reporting entity

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

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

Life Pharmacy Limited operates the Life Pharmacy franchise and the Care Chemist franchise brands comprising 39 (2007: 23) pharmacies within New Zealand.

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. The consolidated interim financial statements of the Group complies with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and Interpretations, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the consolidated interim financial statements also comply with International Financial Reporting Standards ("IFRS") and Interpretations adopted by the International Accounting Standards Board.

The consolidated interim financial statements do not include all of the information required for a full annual financial statement, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 31 March 2008.

The consolidated interim financial statements for the six months ended 30 September 2008 and the comparative information for the six months ended 30 September 2007 are unaudited.

### (b) Changes in accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at the year ended 31 March 2008. The Group has not applied any Standards, Amendments to Standards and Interpretations that are not yet effective.

## 3. Accounting estimates and judgements

In authorising the financial statements for the half year ended 30 September 2008, the Directors have ensured that the specific accounting policies necessary for the proper understanding of the financial statements have been disclosed, and that all accounting policies adopted are appropriate for the Parent and Group's circumstances and have been consistently applied throughout the year for all Group entities for the purposes of preparing the consolidated interim financial statements.

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

### **Impairment testing of the carrying amount of Investments in Associates**

The investment in associates is recognised in the Parent's financial statements at cost. In the Group's financial statements the investment in associates is recognised using the equity method and comprises the share of net assets acquired and goodwill on acquisition. Goodwill is allocated to the relevant cash generating units (being each associate). The investment carrying value is tested for impairment annually using an internal discounted cash flow model on a value in use basis.

# Notes to the financial statements

As at 30 September 2008

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

The model is based on an eight year cash flow cycle to coincide with a typical store refit cycle, using the approved budgets for the year ending 31 March 2009, updated for current trading to 30 September 2008 as the first forecast year. Subsequent cash flows for the next seven years have been forecast on an individual associate store basis taking into account inflation and likely growth rates of that particular store and its location. Cash flows beyond that are projected to change in line with inflation.

The budget information used as the base for the cash flow forecasts, are drawn from the budgets approved by each associate company's Board for the year ending 31 March 2009 and subsequently updated to reflect the 6 months actual results to 30 September 2008.

Any adverse changes in the actual performance of the associates for the year ending 31 March 2009, or future rates of growth, will reduce the calculated recoverable amount and this may result in the recognition of further impairment losses and a further write-down of the carrying amount of the investment in associates.

### Sensitivities

#### Discount Rate

A movement of 1% in the discount rate would have the following effect on the calculated recoverable amount of the investments in associates:

1% increase	(\$3,623,000)
1% decrease	\$4,614,000

#### Retail Sales

A movement of 1% in retail sales would have the following effect on the calculated recoverable amount of the investments in associates:

1% increase	\$3,668,000
1% decrease	(\$3,668,000)

#### Costs

A movement of 1% in store costs would have the following effect on the calculated recoverable amount of the investments in associates:

1% increase	(\$897,000)
1% decrease	\$897,000

# Notes to the financial statements

As at 30 September 2008

## 4. Segmental reporting

### Segmental operating revenue

	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
Corporate	266	504	504
Franchise	2,679	2,547	5,512
Group investments	424	(63)	426
	<b>3,369</b>	<b>2,988</b>	<b>6,442</b>

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

### Segmental profit/(loss) before interest and tax

Corporate	(791)	(452)	(1,545)
Franchise	379	(245)	(148)
Group investments	(358)	(63)	378
	<b>(770)</b>	<b>(760)</b>	<b>(1,315)</b>

The Group investments business segment includes no impairment losses due to the write-down of subsidiary and associate goodwill (30/09/07 nil; 31/03/08 nil). The Group corporate business segment includes no bad-debts on loans (30/09/07 nil; 31/03/08 nil) and depreciation of \$29,000 (30/09/07 \$135,000; 31/03/08 \$150,000).

### Segmental assets

Corporate	21,799	13,252	12,217
Franchise	1,264	1,879	1,077
Group investments	19,639	19,055	19,604
	<b>42,702</b>	<b>34,186</b>	<b>32,898</b>

### Segmental liabilities

Corporate	5,322	6,906	6,150
Franchise	1,158	1,501	1,166
Group investments	-	102	-
	<b>6,480</b>	<b>8,509</b>	<b>7,316</b>

The segmental reporting includes all of the Group's legal entities, which operate solely within New Zealand. The Group is a profit entity. The Parent operates the Life Pharmacy franchise and brand comprising 26 (31/03/08: 26) pharmacies and the Care Chemist franchise and brand comprising 11 pharmacies (31/03/08: nil) and has an ownership interest in 19 (31/03/08: 18) associate pharmacy companies licensed annually under the Medicines Act 1981.

Segments are defined as follows:

Corporate – transactions relating to central office support function costs including governance and funding costs.

Franchise – income and expense relating to associates, subsidiaries and joint venture day to day activities.

Group investments – income and expense relating to investment (capital) transactions including dividends received and profit/loss on sale of shares.

# Notes to the financial statements

As at 30 September 2008

	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
<b>5. Other income</b>			
Retail sales	-	30	30
Sale of shares (refer note 8)	-	474	474
	<b>-</b>	<b>504</b>	<b>504</b>
<b>6. Share capital</b>			
Opening balance	35,171	30,947	30,947
Share capital issued	11,026	5,029	5,029
Shares purchased and cancelled	-	(840)	(840)
Share scheme amortisation	29	9	35
	<b>46,226</b>	<b>35,145</b>	<b>35,171</b>
<b>Shares authorised and on issue</b>	<b>000's</b>	<b>000's</b>	<b>000's</b>
Opening number of shares	37,253	30,128	30,128
Shares issued - fully paid	(a) 1,467	7,225	7,225
Shares issued - partly paid	(b) 29,965	900	900
Shares cancelled	(d) -	(1,000)	(1,000)
	<b>68,685</b>	<b>37,253</b>	<b>37,253</b>
Shares held as treasury stock	(c) (1,860)	(900)	(900)
	<b>66,825</b>	<b>36,353</b>	<b>36,353</b>

## Shares issued

(a) (i) On 11 August 2008, the Parent issued 1,454,597 fully paid ordinary shares by way of a taxable bonus issue to existing shareholders. The shares were issued on a pro rata basis with one share issued for every 25 shares held on the record date of 8 August 2008. The shares were issued for nil consideration. However, for tax purposes each share had an amount attributed to them of \$1.16 and in addition, each bonus share had an imputation credit attached to it with an amount of \$0.57 per share. For the purposes of section CD 8 of the Income tax Act 2007, the total taxable dividend made by the parent company by way of the bonus issue was \$2,522,388.06 (being made up of \$1,690,000.00 for the bonus share issue and \$832,388.06 imputation credits attached to the dividend). The shares rank on terms equal with those of the existing fully paid ordinary shares in the company.

(ii) On 11 August 2008, the Parent issued 12,000 ordinary shares to the existing eight Care Chemist franchisees that were part of the acquisition of Care Chemist Services Limited dated 20 May 2008 by way of a shareholder's resolution on 7 August 2008. The issue price was \$nil per share. The shares rank on terms equal with those of the existing fully paid ordinary shares in the company.

(b) (i) On 18 September 2008 the parent issued 29,004,631 partly paid ordinary shares to shareholders by way of a renounceable rights issue to holders of existing ordinary shares in the company. The rights issue was offered in the ratio of three partly paid new ordinary shares in the company for every two existing ordinary shares held, at an issue price of \$0.40 per ordinary share. The partly paid ordinary shares were paid to \$0.20 on subscription with a further \$0.20 payable on 18 September 2009 (12 months following the allotment). The proceeds from the

# Notes to the financial statements

As at 30 September 2008

## Share capital (continued)

rights issue raised \$5,800,926 before deducting transaction costs on subscription. The remaining unpaid amount for the 29,004,631 shares, which will be paid on 18 September 2009, has a fair value of \$5,380,359. This amount represents the discounted value of the gross proceeds of \$5,800,926 due on 18 September 2009, with the balance being accounted for as finance income over the period to 18 September 2009.

LPL Trustee Limited, under the option granted to it on 26 July 2007, exercised its rights under the option as part of the renounceable rights issue to the extent that 27,068,975 of the partly paid ordinary shares were issued to LPL Trustee Limited. The partly paid ordinary shares issued to LPL Trustee Limited, in addition to the 7,280,000 ordinary shares already held, takes LPL Trustee Limited's total shareholding in the Parent to 34,348,975 ordinary shares, equal to 50.01% of the company.

**(ii)** On 20 August 2008, the Parent issued an additional 960,000 redeemable ordinary shares to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of senior management of Life Pharmacy Limited. The shares were issued at \$0.55 per share, initially paid up to \$0.01 per share. These shares are in addition to the 900,000 redeemable ordinary shares issued on 26 July 2007 to Life Pharmacy Trustee Company Limited on behalf of the Chief Executive Officer (the 900,000 shares issued on behalf of the CEO were issued at \$0.75 per share, initially paid up to \$0.01 per share). Until such time as the Redeemable Ordinary Shares are redeemed and transferred to Senior Management the shares carry entitlement to dividends and votes to the proportion to which they are paid up. No Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited.

## Treasury Stock

**(c)** The redeemable ordinary shares held by Life Pharmacy Trustee Company Limited to satisfy the CEO and 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.

## Shares cancelled

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

## Put and call option

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

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

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

The consideration payable by the Parent on exercise of the Call option or the Put option may be either cash or ordinary shares in the Parent (or a combination of both). The value to be attributed to each share in a pharmacy company is to be agreed between the Parent and the selling shareholder or failing agreement will be the fair value of the shares as determined by an independent expert. The fact that any shares offered for transfer constitute a minority or

# Notes to the financial statements

As at 30 September 2008

## Share capital (continued)

majority interest will not be taken into account by the independent expert when determining the fair value of the shares. The Parent can elect to pay the consideration in two instalments – 50% on the exercise date and 50% 12 months later.

The value to be attributed to any shares in the Parent being issued to satisfy the consideration payable under the Put option or the Call option, shall be the volume weighted average market capitalisation of one ordinary share in the Parent calculated from trades on the NZX over the 60 business days preceding the date when the Call option or Put option is exercised. The fair value of the put and call option cannot be reliably determined as required for recognition of the put and call option in the financial statements, and the options are accordingly measured at a nil cost. There has been no legislative changes as at 30 September 2008, therefore no value can be reliably estimated for the put and call options.

		Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
<b>7. Group investments</b>				
Equity accounted joint venture		73	100	91
Equity accounted associates	a	18,669	18,334	18,621
		<b>18,742</b>	<b>18,434</b>	<b>18,712</b>
<b>The movement in equity accounted associates comprises:</b>				
Brought forward		18,621	18,487	18,487
Investment in associates	b	124	978	1,046
Share of net surpluses after tax		442	-	434
Share of net deficits after tax		-	(63)	-
Less associate dividend		(518)	(228)	(506)
Cancellation of shares	c	-	(840)	(840)
		<b>18,669</b>	<b>18,334</b>	<b>18,621</b>
<b>Equity accounted associates includes goodwill less accumulated impairment losses as follows:</b>				
Gross goodwill brought forward		21,313	22,153	22,153
Cancellation of shares	c	-	(840)	(840)
<b>Total gross goodwill</b>		<b>21,313</b>	<b>21,313</b>	<b>21,313</b>
Opening accumulated impairment losses		(6,035)	(6,035)	(6,035)
<b>Total impairment losses</b>		<b>(6,035)</b>	<b>(6,035)</b>	<b>(6,035)</b>
<b>Total net goodwill recognised within associates</b>		<b>15,278</b>	<b>15,278</b>	<b>15,278</b>

a) Associate pharmacy entities include:

A H McAulay Limited, Bayfair Pharmacy Limited, Guthries Pharmacy Limited, Life Medicentre Pharmacy Pakuranga (2008) Limited, J-Mall Pharmacy Limited, Life Pharmacy Albany Limited, Life Pharmacy Sylvia Park Limited, Murray Dunn Pharmacy Limited, Neil Webber Pharmacy Limited, Northlands Pharmacy 2003 Limited, Pharmacy 277 Limited, Porirua Pharmacy (2006) Limited, Queensgate Pharmacy Limited, Riccarton Mall Pharmacy 2000 Limited, Shirley Pharmacy Limited, Shore City Pharmacy Limited, Sinel-Francis Pharmacy Limited, Sinel-Francis Pharmacy Tauranga Limited and St Lukes Pharmacy Holdings Limited.

# Notes to the financial statements

As at 30 September 2008

## Group investments (continued)

- b) *Associates formed during the period and capital contributed*  
Life Pharmacy Albany Limited was incorporated in April 2007. Life Medicentre Pharmacy Pakuranga (2008) Limited was incorporated in April 2008. Additional capital was also contributed to one other associate company during the period.
- c) On 19 April 2007 1,000,000 shares held by PIMS 2005 Limited with a value of \$840,000 were cancelled for the purpose of resolving matters relating to the value of pharmacy companies acquired during March 2005.

## Controlled entities

Beauty Direct Operations Limited (non-trading), Life Holdings Botany Limited (retail), Care Chemist Limited and Tawharanui Holdings 2006 Limited (non-trading) are wholly owned subsidiary companies (New Zealand registered companies incorporated under the Companies Act 1993) of the Parent.

## Joint venture

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

## Associate entities

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

## Reporting dates

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

## Associate accounting policies

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

## Summary associate financial information

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

	Assets \$'000	Liabilities \$'000	Revenue \$'000	Profit \$'000
As at and for the half year ended 30 September 2008	35,283	21,300	47,384	902
As at and for the half year ended 30 September 2007	34,860	17,488	44,366	(129)
As at and for the year ended 31 March 2008	22,618	19,275	96,361	1,353

# Notes to the financial statements

As at 30 September 2008

## Group investments (continued)

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.

## 8. Borrowings

Current  
Non-current

	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
Current	4,975	6,516	-
Non-current	-	-	5,746
	<b>4,975</b>	<b>6,516</b>	<b>5,746</b>

### Borrowings and Loans to Associates

Borrowings and loans to associates reflect bank borrowings obtained by the Parent from ANZ National Bank Limited (ANZNB) and on-lent to each individual associate under a group borrowing facility comprising a \$4.9 million (2008: \$5.9 million) revolving credit facility allocated directly to the associates. Interest is payable monthly on all borrowings at an effective interest rate of 9.30% (2008: 9.77%) on call. Overdraft facilities are arranged directly with the bank. The \$500,000 short term loan facility for the Parent was repaid during 2008.

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

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

During the period the financial covenants in place were as follows:

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

On 6<sup>th</sup> August 2008 the ANZNB agreed to suspend the financial covenants for the Group for the duration of the term of the existing facility on the condition that a minimum of \$2,325,000 was raised from the Rights Issue prior to 30 September 2008 and a further commitment of \$2,325,000 was to be raised from the completion of the Rights Issue within 12 months of the completion of the capital raising exercise.

The existing operational and reporting covenants have not changed. As at 30 September 2008 the company is in compliance with all covenants in place.

# Notes to the financial statements

As at 30 September 2008

	Half year ended 30 Sep 2008 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
<b>9. Operating cash flows reconciliation</b>			
Profit/(loss) for the period	(415)	(449)	(571)
Less capital gains	-	(474)	(474)
Operating profit	(415)	(923)	(1,045)
<i>Add/(deduct) non-cash items:</i>			
Equity accounted losses	94	291	80
Depreciation	159	135	279
Amortisation of lease incentive	(11)	(11)	(22)
Deferred tax	(137)	(269)	(498)
Share / option scheme costs	29	9	35
<i>Add/(deduct) changes in working capital items:</i>			
Trade and other receivables	915	917	1,415
Inventory	-	61	61
Payables and accruals	(896)	(268)	(764)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(262)</b>	<b>(58)</b>	<b>(459)</b>
<b>10. Non-cancellable operating leases</b>			
Due within one year	366	424	402
Due between one and five years	981	1,268	1,040
Due after five years	488	456	597
	<b>1,835</b>	<b>2,148</b>	<b>2,039</b>

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.

## 11. Acquisition of subsidiaries

A wholly owned Group subsidiary Care Chemist Limited acquired all of the business and assets from Care Chemist Services Limited on 30 May 2008.

# Notes to the financial statements

As at 30 September 2008

## 12. Related Parties

The Parent has a 49% shareholding in 19 associate companies (trading as pharmacies), 1 joint venture (outlet stores) and 5 100% owned subsidiary companies (Care Chemist Ltd and 4 non-trading).

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

The Parent has commercial franchise agreements with all 19 associate companies and five other franchisee stores relating to marketing levies and franchise fees. The Parent also incurs transactions on behalf of the stores which are on-charged. These transactions comprise items such as training courses, central purchasing agreements, central advertising campaigns, loyalty card costs, Tony Ferguson franchisee payments and IT related costs. The Parent has leased some equipment which is on-leased to associate companies. The Parent performs accounting services, based on commercial fees, for some of the stores and the joint venture.

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

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

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

### Related party transactions for the Group:

	Transaction Value		Balance Outstanding	
	Half year ended 30 Sep 2008 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000	Half year ended 30 Sep 2008 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
Dividends	518	506	722	749
Marketing levies and franchise fees	975	1,921	35	30
On-charged costs	241	1,054	146	114
Receivable from associates			413	1,130
Loans to associates			6,280	7,042
Total owing from associates			7,596	9,065
Receivable from joint venture			182	142
Receivable from other related parties			259	259
Payable to associates			158	195

The Put and Call options with associates are shown in note 6. During the year the Parent issued, acquired and cancelled shares with associates, see note 6 for details. The Parent contributed capital of \$124,000 (2008: \$1,046,000) to associates during the year, see note 7. The Parent guarantees the associate banking facilities commensurate with its 49% shareholding in each associate.

# Notes to the financial statements

As at 30 September 2008

## Related Parties (continued)

### Key management personnel remuneration

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

	Group	
	Half year ended 30 Sep 2008 (Unaudited) \$'000	Year ended 31 Mar 2008 (Audited) \$'000
Short-term employee benefits	767	765

## 13. Share based payments

On 14 February 2005 the shareholders of the Parent passed a resolution establishing an Independent Director's Option Scheme (the scheme). No amount was payable on the granting of the options and the exercise price for each option under the scheme is based on the volume weighted average price calculated over the 40 trading days ending 1 June 2005 (\$1.30), increasing by 12% compounding on the anniversary in each year commencing on 4 March 2005, adjusted for any dividends paid. These options expired on 14 February 2008.

On 26 July 2007, the CEO Option scheme came into effect. No amount was payable on the granting of the options and the exercise price for each option is \$0.75 per share. These options expired on 26 July 2008.

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

The Parent issued 900,000 redeemable ordinary shares (ROS) on 26 July 2007 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of the Chief Executive Officer. The shares were issued at \$0.75 per share, initially paid up to \$0.01 per share. Until such time as the CEO Redeemable Ordinary Shares are redeemed and transferred to the CEO the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 75<sup>th</sup>). No CEO Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited.

The Parent issued 960,000 redeemable ordinary shares (ROS) on 20 August 2008 to Life Pharmacy Trustee Company Limited as a trustee of a trust that holds the shares on behalf of the Executives of Life Pharmacy Limited. The shares were issued at \$0.55 per share, initially paid up to \$0.01 per share. Until such time as the Executive Redeemable Ordinary Shares are redeemed and transferred to executives the shares carry entitlement to dividends and votes to the proportion to which they are paid up (i.e. one 55<sup>th</sup>). No Executive Redeemable Ordinary Shares can be redeemed before the third anniversary of the issue of the shares to Life Pharmacy Trustee Company Limited.

# Notes to the financial statements

As at 30 September 2008

## 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 Instruments '000	Vesting conditions and period
Option grant to Independent Directors on 14 February 2005	800	Vest in equal proportions over a 3 year period with a first anniversary date of 14 February 2005. The options are exercisable at the discretion of the Board based on the share price exceeding a volume weighted average price calculated over 40 trading days ending 1 June 2005 (\$1.30), increasing by 12% compounding on the anniversary in each year commencing on 4 March 2005, adjusted for any dividend. Two thirds of the option is exercisable as at 4 March 2007, and the remaining on the third anniversary of scheme. <b>These options expired on 14 February 2008.</b>
Option grant to CEO on 26 July 2007	1,000	CEO options will vest on 26 July 2008 or earlier and can be exercised at the sole discretion of the Board of Directors. The life of the option is the earlier of 26 July 2008 or the date of resignation. <b>These options expired on 26 July 2008.</b>
<b>Total share options</b>	<b>1,800</b>	
ROS granted to Life Pharmacy Trustee Company Ltd on 26 July 2007	900	Redeemable in three equal proportions in 2010, 2011 and 2012 provided the CEO remains with the group at these dates. The option expires on 26 July 2012.
ROS granted to Life Pharmacy Trustee Company Ltd on 20 August 2008	960	Redeemable in three equal proportions in 2011, 2012 and 2013 provided the executive remains with the group at these dates. The option expires on 20 August 2013
<b>Total ROS</b>	<b>1,860</b>	

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

	Weighted average exercise price	Number of Options	Weighted average Exercise price	Number of options
	2009	2009	2008	2008
	\$	'000	\$	'000
Outstanding at 1 April	0.75	1,000	1.50	264
Forfeited during period	0.75	1,000	1.50	(264)
Exercised during period	-	-	-	-
Granted during period	-	-	0.75	1,000
Outstanding 31 March	-	-	0.75	1,000
Exercisable 31 March	-	-	0.75	1,000

The fair value of the CEO Redeemable Ordinary Shares is \$155,100. This cost is being amortised over the relevant period for each tranche of shares. Option / share vesting costs of \$23,386 have been recognised in the period. The fair value of the ROS at grant date is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.70, the exercise

# Notes to the financial statements

As at 30 September 2008

## Share based payments (continued)

price of \$0.75, expected volatility of 45%, expected dividends of 3%, a term of 3 years for tranche 1, 4 years for tranche 2, 5 years for tranche 3, and a risk-free interest rate of 7.0%.

The fair value of the Executive Redeemable Ordinary Shares is \$201,600. This cost is being amortised over the relevant period for each tranche of shares. Option / share vesting costs of \$5,768 have been recognised in the period. The fair value of the ROS at grant date is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.45, the exercise price of \$0.55, expected volatility of 60%, expected dividends of 0%, a term of 3 years for tranche 1, 4 years for tranche 2, 5 years for tranche 3, and a risk-free interest rate of 6.3%.

## 14. Commitments and Contingencies

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

The Parent's ultimate exposure to bank facilities with its associates is commensurate with the Parent's 49% shareholding in each associate and includes the advance to the associates of \$6.3 million and lease bonds of \$1.1 million.

## 15. Subsequent Events

There are no significant matters subsequent to the balance date which require disclosure or adjustment to the financial statements.

# Shareholder Information

As at 30 September 2008

## Major Shareholders

Life Pharmacy Limited's ordinary shares are listed on the New Zealand Stock Exchange. The 20 largest registered holders of quoted equity securities (a combination of Fully Paid and Partly Paid Ordinary Shares) as at 30 September 2008 was as follows:

Name	Holding	%
LPL Trustee Limited	34,348,975	50.01
PIMS 2005 Limited	3,508,400	5.11
Massey Pharmacy Limited	2,996,396	4.36
M. Fleet	2,397,077	3.49
M. Dunn & Fortune Manning Trustees	1,947,668	2.84
G K Ritson	1,673,702	2.44
Ganet Investments Limited	1,572,369	2.29
N Bullock & M Bullock & S Sheldon	1,232,017	1.79
B Fordyce, F Dragicevich & C Hutton	1,170,557	1.70
T Lai, C Lai & K Yee	935,844	1.36
M S Vuksich, F Vuksich & W Yovich	925,044	1.35
P Guthrie	809,775	1.18
Watt Land Company Limited	800,800	1.17
J Guthrie	767,271	1.12
D Milne, J Milne & L Lamberg	685,984	1.00
E McAulay	680,220	0.99
A McAulay	653,012	0.95
P Ingham	635,720	0.93
J Begovic, K Begovic & K Palin	591,730	0.86
F Walker, E Walker & N Comerford	584,550	0.85

## Substantial Security Holders

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

Name	Holding
LPL Trustee Limited	34,348,975
PIMS 2005 Limited	3,508,400

As at 30 September 2008 Life Pharmacy Limited had on issue 68,684,219 securities (as defined by the Securities Markets Act 1988) being 37,819,588 fully paid ordinary shares, 29,004,631 partly paid ordinary shares and 1,860,000 Redeemable Ordinary Shares payable to \$0.01 held on trust.

## Shareholding Spread

Life Pharmacy Limited's shareholding spread as at 30 September 2008 is as follows:

Size of Holding	Holders	%	Securities	%
1-999	253	41.5	99,650	0.1
1,000 - 9,999	246	40.3	670,550	1.0
10,000 - 99,999	69	11.3	1,955,092	2.8
100,000 - 249,999	12	2.0	1,682,769	2.5
250,000 - 499,999	8	1.3	2,927,047	4.3
500,000 - 999,999	12	2.0	8,641,950	12.6
1,000,000 and over	10	1.6	52,707,161	76.7
<b>Total</b>	<b>610</b>	<b>100</b>	<b>68,684,219</b>	<b>100</b>

# Shareholder Information

As at 30 September 2008

## Directors' shareholding and trades

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

Directors	Holding 1 April 2008	Cancelled	Issued	Net trades in the period	Holding 30 Sept 2008
J A Bagnall	7,000,000	-	27,348,975	-	34,348,975
E M Coutts	100,000	-	50,000	-	150,000
A J Davidson	100,000	-	160,000	-	260,000
S J Smith(i)	-	-	-	-	-
M S Vuksich (ii)	879,850	-	45,194	-	925,044
N W Webber (iii)	1,522,169	-	60,887	-	1,583,056
J B Bolland(iv)	-	-	-	-	-
B P Ingham	225,000	-	410,720	-	635,720

The following directors also have an interest in PIMS 2005 Limited that owns 3,508,400 Life Pharmacy shares:

- (i) Resigned as Director on 31 October 2008
- (ii) M S Vuksich 4.9% interest
- (iii) N W Webber 3.9% interest
- (iv) Appointed as Director on 31 October 2008

## CEO Incentive Scheme

The terms and conditions of the CEO incentive scheme are disclosed within note 13 of the interim financial statements. 900,000 redeemable ordinary shares were granted to BP Ingham under the terms of this scheme.

## Directors Insurance

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

# Company Directory

As at 30 September 2008

## Registered Office

Life Pharmacy Ltd  
Level 1, Building B  
600 Great South Road  
Greenlane  
Auckland

Telephone: +64 9 580 1900  
Facsimile: +64 9 580 1907

## Management

B P Ingham  
Chief Executive Officer  
[Philip.ingham@lifepharmacy.co.nz](mailto:Philip.ingham@lifepharmacy.co.nz)

C Wilson  
Chief Financial Officer  
[Craig.wilson@lifepharmacy.co.nz](mailto:Craig.wilson@lifepharmacy.co.nz)

## Websites

For corporate information on Life Pharmacy Limited, employment opportunities, details on current Life Pharmacy in-store promotions and online beauty retail offers visit [www.lifepharmacy.co.nz](http://www.lifepharmacy.co.nz)

## Auditors

KPMG  
KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland City  
Auckland

## Legal Advisers

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

## Bankers

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

## Board

E M Coutts BMS, CA  
Chairman

A J Davidson  
Independent Director

J A Bagnall  
Non-Executive

J B Bolland BCom, CA  
Non-Executive

M S Vuksich MPS  
Non-Executive

N W Webber MBA, MPS  
Non-Executive

B P Ingham  
Executive

## Board Secretary

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

## Share Registry & Investors Enquiries

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