



Life Pharmacy Limited

Condensed Interim Financial Statements

For the six months ended 30 September 2007

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Highlights

For the six months ended 30 September 2007

In the interim period to September 2007 the Board and Management of Life Pharmacy have concentrated on a number of key initiatives. These initiatives include:

- Opening of the new Life Pharmacy in Albany on 28 August 2007.
- Opening a second Life Outlet store in Te Rapa, Hamilton on 14 October, following the successful model of the first Life Outlet store in Onehunga's DressMart centre.
- The ongoing development of the Life Pharmacy Living Card, which is now in its rapid growth phase.
- The continued development of the new Life Metro Brand, with a third store opening on 1 November 2007.
- The continued focus and growth of the Tony Ferguson Weight Management Programme
- Andrew Bagnall's investment into Life Pharmacy Limited and the appointment of Andrew to the Life Pharmacy Board.
- The appointment of Philip Ingham as Chief Executive Officer to Life Pharmacy Limited and his appointment to the Life Pharmacy Board.

Life Pharmacy Limited is New Zealand's first listed Retail Pharmacy Group and comprises the Life Pharmacy, Life Metro, Life Outlet and Supa Chem Brands throughout New Zealand. The Life Pharmacy Group comprises of 28 Retail Outlets, 21 of which are associate entities where Life Pharmacy holds a 49% stake, 2 are 50/50 joint venture operations, with the remaining 5 being pure franchisee businesses.

Interim Financial Results

For the six months ended 30 September 2007

	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
Revenue	2,988	2,575	5,024
EBIT	(760)	231	(7,142)
Profit before tax	(718)	262	(7,206)
Profit for the period	(449)	374	(6,562)
Total assets	34,186	41,379	33,270
Total liabilities	8,509	11,388	11,342
Shareholders equity (net assets)	25,677	29,991	21,928
Basic earnings per share (cents)	(1.4)	1.3	(21.8)
Diluted earnings per share (cents)	(1.3)	1.2	(20.9)
Net assets per share (cents)	68.9	96.2	72.8
Dividend per share (cents)	-	0.5	0.5

Directors Report

For the six months ended 30 September 2007

Financial and Operational Performance

For the six months to September 2007 Life Pharmacy Limited recorded group revenues of \$2.988 million (06: \$2.575 million), generating a net loss after tax of \$449,000 (06: surplus of \$374,000). Basic earnings per share for the period were a loss of \$1.4 cents (06: positive earnings of 1.3 cents).

The contribution from Associates during the period was a loss of \$63,000 (06: a surplus of \$628,000). The performance of our associate stores has been driven by a number of factors. The launch of the Living Card last year has seen strong growth, however; the wind down of store-based loyalty schemes during this parallel period has had a negative impact on profitability. Our new stores in Sylvia Park and Albany, whilst performing to expectations, are still in their build-up periods, which affect short-term profitability. In the Auckland region, where 10 of our associate stores trade we have seen a softening in the retail sector, as a result of slower economic conditions, as well as increased competition impacting sales in the first half. Outside of Auckland, Bayfair (Tauranga) and Queensgate (Wellington) have performed significantly below expectations.

During this period parent company expenditure has also increased, with overall expenditure of \$3.748 million, \$1.404 million higher (06: \$2.744 million). Over half of this is from the development and launch costs of the Living Card loyalty programme.

Total assets of the group at \$34.186 million declined by \$7.149 million (06: \$41.379 million), which primarily reflects the impairment write-down in goodwill of \$6.035 million taken in March 2007. Net assets reduced by \$4.324 million compared to the same period last year.

On the 26th July 2007 Life Pharmacy Limited issued 7 million shares to LPL Trustee Limited, a company represented by Andrew Bagnall and Associates. The issue price was at 0.75 cents per share. The Board is pleased with Andrew's investment into Life Pharmacy Limited and welcome him to the Life Pharmacy Board of Directors and look forward to his contribution and guidance to the company.

Growth

The new Life Pharmacy, situated in the Albany Westfield Mall, opened its doors on 28th August 2007. This store is trading ahead of expectations and the consumer response has been very positive. On 1 November 2007 a further Life store, branded Life Metro, commenced trading in the same complex. This is the third Life Metro store, after Sylvia Park and the conversion of the Unichem branded store in St Lukes. The performance of these stores clearly demonstrates the opportunity to further take the Life Brand into this new format and the ability to trade these stores in close proximity of each other.

Life Pharmacy successfully launched the Living Card in April 2007, with our target membership numbers expected to be exceeded the first year. The customer insights and purchasing patterns that this card is providing is starting to generate significant opportunities in our marketing programmes, some of which are being put in place during this Christmas period.

Tony Ferguson was first launched in our stores in December 2006. This programme is exclusive to Life Pharmacy and the success shown in Australia is being demonstrated in New Zealand. All of our Life Pharmacy branded stores include a Tony Ferguson booth and many of our store colleagues have now been through the dedicated training programme.

The first Hearing Centre has just opened in our Life Pharmacy store in Albany. The customer offer will be researched and refined before rolling out to further stores.

Governance and Management

The Board appointed Philip Ingham as Chief Executive Officer to Life Pharmacy Limited on 1 August 2007 and on 28 August appointed him as a member of the Board of Directors of Life Pharmacy Limited. Philip brings a wealth of experience to the role after spending 20 years with Health and Beauty giant A.S. Watson. During his time at Watson, Philip was instrumental in developing the store portfolio from 60 stores in one country to nearly 8,000 stores over 34 countries. Philip takes over from Des Flynn who was acting CEO after the retirement of Tim Roper, who resigned from Life Pharmacy on 3 April 2007. The Board wishes to thank Des for his additional contribution during his time as acting CEO. Des remains on the management team.

During the period, both Tim Roper and Gordon Ritson resigned from the Life Pharmacy Board.

The Board and Management of Life Pharmacy are positive about the future opportunities within pharmacy retailing in New Zealand and with the addition of Andrew Bagnall to the Board and Philip Ingham as CEO believe the company is now well placed to take full advantage of this opportunity.

Finally, the board wishes to thank all our colleagues who continue to put in great efforts across our stores and at central office. Our colleagues throughout New Zealand are playing a big part in the new phase into which Life Pharmacy is entering. The Board recognises the willingness of our colleagues in working towards our business goals and also demonstrating and living the Life values.



Liz Coutts
Chairman

Consolidated income statement

For the six months ended 30 September 2007

	Note	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
Operating Revenue				
Associate earnings	8	(63)	628	760
Franchise revenue		2,547	1,764	3,793
Other income		504	183	471
		2,988	2,575	5,024
Operating expenditure				
Governance and accountability		235	225	459
Marketing expenses		1,486	928	2,134
Impaired assets	6	-	-	6,035
Other expenditure		2,027	1,191	3,538
		3,748	2,344	12,166
Operating profit/(loss) before interest and tax		(760)	231	(7,142)
Interest income		405	418	781
Interest expense		(363)	(387)	(845)
Net interest income/(expense)		42	31	(64)
Profit/(loss) before tax		(718)	262	(7,206)
Tax benefit/(expense)		269	112	644
Profit/(loss) for the period		(449)	374	(6,562)
Basic earnings per share (cents)		(1.4)	1.3	(21.8)
Diluted earnings per share (cents)		(1.3)	1.2	(20.9)
Net assets per share (cents)		68.9	96.2	72.8
Net tangible assets per share (cents)		25.0	26.9	16.6
Dividend per share (cents)		-	0.5	0.5

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 16 form part of the financial statements.

Consolidated statement of changes in equity

For the six months ended 30 September 2007

	Note	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
Profit/(loss) for the period		(449)	374	(6,562)
Recognised income for the period		(449)	374	(6,562)
Contributions from owners	7	5,029	2,217	2,209
Shares purchased and cancelled	7	(840)	-	(892)
Share scheme amortisation		9	-	-
Distribution to owners		-	(622)	(849)
Total movements recognised directly in equity		4,198	1,595	468
Total changes in equity		3,749	1,969	(6,094)
Equity at the beginning of the period		21,928	28,022	28,022
Equity at the end of the period		25,677	29,991	21,928

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 16 form part of the financial statements.

Consolidated balance sheet

As at 30 September 2007

	Note	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
Equity				
Share capital	7	35,145	31,847	30,947
Retained deficits		(9,468)	(1,856)	(9,019)
Total equity		25,677	29,991	21,928
Current assets				
Cash and bank balances		3,978	-	1,365
Trade and other receivables		2,766	3,439	3,919
Income tax refund		118	-	140
Inventory		-	77	60
Group advances		6,656	2,370	7,287
Total current assets		13,518	5,886	12,771
Non-current assets				
Bank term investment		-	3,000	-
Fixed assets		907	895	1,112
Deferred tax asset		1,068	253	800
Group advances		-	7,062	-
Group investments	8	18,434	24,283	18,587
Loans to related parties		259	-	-
Total non-current assets		20,668	35,493	20,499
Total assets		34,186	41,379	33,270
Current liabilities				
Bank overdraft		-	74	42
Payables and accruals		1,807	1,601	2,270
Income tax payable		-	10	-
Borrowings	9	6,516	1,584	8,839
Total current liabilities		8,323	3,269	11,151
Non-current liabilities				
Unamortised future income		186	175	191
Borrowings	9	-	7,944	-
Total non-current liabilities		186	8,119	191
Total liabilities		8,509	11,388	11,342
Net assets		25,677	29,991	21,928

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 16 form part of the financial statements.

Consolidated statement of cash flows

For the six months ended 30 September 2007

	Note	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
Cash flows from operating activities				
Associate dividend received		439	707	948
Franchise and other income received		3,283	2,086	2,778
Interest received		405	411	781
Supplier payments		(2,558)	(1,675)	(3,310)
Directors and employee remuneration		(1,264)	(814)	(1,875)
Interest paid		(363)	(387)	(846)
Net cash inflow/(outflow) from operating activities	10	(58)	328	(1,524)
Cash flows from investing activities				
Decrease (increase) in investment securities		-	(2,000)	1,000
Fixed asset purchases		(120)	(310)	(639)
Investment in associates		(978)	-	(672)
Sale of shares in associate		474	-	-
Decrease/(increase) in loans to associates		631	(786)	1,388
Net cash inflow/(outflow) from investing activities		7	(3,096)	1,077
Cash flows from financing activities				
Increase/(decrease) in borrowings		(2,323)	636	(53)
Shares issued		5,029	2,217	2,209
Dividends paid		-	(622)	(849)
Net cash inflow/(outflow) from financing activities		2,706	2,231	1,307
Net increase/(decrease) in cash equivalents		2,655	(537)	860
Add opening cash equivalents		1,323	463	463
Closing cash equivalents		3,978	(74)	1,323
<i>Reconciliation of closing cash equivalents to the balance sheet:</i>				
Cash and bank balances		3,978	-	1,365
Bank overdraft		-	(74)	(42)
Closing cash equivalents		3,978	(74)	1,323

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 8 to 16 form part of the financial statements.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

1. Reporting entity

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

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

Life Pharmacy Limited operates the Life Pharmacy franchise and brand comprising 26 (30/09/06 21; 31/03/07 23) pharmacies within New Zealand.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

(b) Changes in accounting policies

The International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective. The group has not yet applied these in preparing these interim financial statements although the application of these standards, amendments and interpretations would require further disclosures, but is not expected to have a material impact on the group's results.

There have been no other changes in accounting policy in the six months ended 30 September 2007, however, certain comparatives have been restated to conform with the current period's presentation.

The financial statements for the six months ended 30 September 2007 and 30 September 2006 are unaudited. The financial information for the year ended 31 March 2007 has been extracted from the audited financial statements of the Group for that period. These interim financial statements should be read in conjunction with the Group's financial statements for the year ended 31 March 2007.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

3. Accounting estimates and judgements

In authorising the financial statements for the six months ended 30 September 2007, 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 period for all group entities for the purposes of preparing group financial statements.

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

Impairment testing of the carrying amount of Investments in Associates

The investment in associates is recognised in the Parent's financial statements at cost less impairment. In the Group's financial statements the investment in associates is recognised using the equity method and comprises the share of net tangible assets acquired and goodwill on acquisition, less impairment.

Goodwill is allocated to the relevant cash generating units (being each associate) and is tested for impairment at least annually using an internal discounted cash flow model on a value in use basis.

The model is based on an eight year cash flow cycle to coincide with a typical store refit cycle, using the approved budgets for the year ending 31 March 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.

Any adverse changes in the actual performance of the associates for the year ending 31 March 2008, 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.

The Board has reviewed the investment in associates at half year and based on current performance versus the 2008 individual store budgets, the current retail environment (including seasonal factors) and future store performance has determined that no further impairment of the investment in associates or goodwill on acquisition is required. A further impairment review will be undertaken at March 2008.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
4. Segmental reporting			
Segmental operating revenue			
Corporate	504	183	471
Franchise	2,547	1,764	3,793
Group investments	(63)	628	760
	2,988	2,575	5,024

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	(452)	(940)	(2,110)
Franchise	(245)	543	260
Group investments	(63)	628	(5,292)
	(760)	231	(7,142)

The Group investments business segment includes no impairment losses due to the write-down of subsidiary and associate goodwill (30/09/06 nil; 31/03/07 \$6,035,000). The Group corporate business segment includes no bad-debts on loans (30/09/06 nil; 31/03/07 \$59,000) and depreciation of \$135,000 (30/09/06 \$34,000; 31/03/07 \$146,000).

Segmental assets

Corporate	13,252	13,855	11,080
Franchise	1,879	1,741	2,550
Group investments	19,055	25,783	19,640
	34,186	41,379	33,270

Segmental liabilities

Corporate	6,906	11,163	9,559
Franchise	1,501	225	1,681
Group investments	102	-	102
	8,509	11,388	11,342

5. Other income

Retail sales	30	183	393
Sale of shares (refer note 8)	474	-	78
Sundry	-	-	-
	504	183	471

6. Impaired assets

Write-down of investment in associates (refer note 8)	-	-	-
Write-down of associate goodwill (refer note 8)	-	-	6,035
	-	-	6,035

Notes to the consolidated financial statements

For the six months ended 30 September 2007

	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
7. Share capital			
Opening balance	30,947	29,630	29,630
Share capital issued	5,029	2,217	2,209
Shares purchased and cancelled	(840)	-	(892)
Share options	9	-	-
	35,145	31,847	30,947
Shares authorised and on issue	000's	000's	000's
Opening number of shares	30,128	28,010	28,010
Shares issued	8,125	3,272	2,880
Shares purchased and cancelled	-	-	(1,049)
Shares issued - performance	-	-	392
Shares cancelled	(1,000)	(105)	(105)
	37,253	31,177	30,128

Shares issued

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

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

In addition, the company issued 900,000 shares to Life Pharmacy Trustee Company Limited, a wholly owned subsidiary, under the Chief Executive Incentive Scheme. The issue price was \$0.75 per share with a cash payment of \$9,000. The Chief Executive Officer may request a transfer of the shares in one-third lots following the third, fourth and fifth anniversary of the issue date. The fair value of the 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 \$9,162 have been recognised in the period.

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

Shares cancelled

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.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

7. Share capital (continued)

Put and call option

The Parent and each associate have entered into a 10 year 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 within 10 years 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 pharmaceutical company is to be agreed between the Parent and the selling shareholder or failing agreement will be the fair value of the shares as determined by an independent expert. The fact that any shares offered for transfer constitute a minority or majority interest will not be taken into account by the independent expert when determining the fair value of the shares. The Parent can elect to pay the consideration in two instalments – 50% on the exercise date and 50% 12 months later.

The value to be attributed to any shares in the Parent being issued to satisfy the consideration payable under the Put option or the Call option, shall be the volume weighted average market capitalisation of one ordinary share in the Parent calculated from trades on the NZSX over the 60 business days preceding the date when the Call option or Put option is exercised.

CEO Options

On 26 July 2007, the CEO Option scheme came into effect. The 1,000,000 options for ordinary shares are non transferable and each option entitles the CEO to subscribe for one share. The ordinary shares issued following the exercise of the options will rank equally with all other ordinary shares. No amount was payable on the granting of the options and the exercise price for each option is \$0.75 per share. The CEO Option will lapse at the earlier of 26 July 2008 or the date that Mr Ingham resigns or gives notice of termination of his employment contract.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2006 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
8. Group investments			
Equity accounted joint venture	100	100	100
Equity accounted associates	a	18,334	24,183
	18,434	24,283	18,587
The movement in equity accounted associates comprises:			
Brought forward	18,487	24,990	24,990
Associate held for sale	-	(786)	-
Investment in associates	b	978	-
Share of net surpluses after tax	-	628	672
Share of net deficits after tax	-	-	760
Less associate dividend	(63)	-	-
Disposal of associate operations	(228)	(649)	(984)
Write-down of associate goodwill	-	-	(916)
Cancellation of shares	c	(840)	(6,035)
	18,334	24,183	18,487
Equity accounted associates includes goodwill less accumulated impairment losses as follows:			
Gross goodwill brought forward	22,153	22,046	22,046
Associate held for sale	-	(649)	-
Disposal adjustment	-	-	(707)
Cancellation of shares	c	(840)	814
Total gross goodwill	21,313	21,397	22,153
Opening accumulated impairment losses	(6,035)	(51)	(51)
Impairment recognised on disposal	-	-	51
Impairment loss for the period	-	-	(6,035)
Total impairment losses	(6,035)	(51)	(6,035)
Total net goodwill recognised within associates	15,278	21,346	16,118

a) Associate pharmacy entities include:

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

b) Associates formed during the period and capital contributed

Life Pharmacy Albany Limited was incorporated in April 2007. Additional capital was also contributed to Sylvia Park during the period to support the new Life Metro Store.

c) Cancellation of shares

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.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

9. Borrowings

Current
Non-current

Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
6,516	1,584	8,839
-	7,944	-
6,516	9,528	8,839

Borrowings and Loans to Associates

Borrowings and loans to associates reflect bank borrowings obtained by the Parent from ANZ National Bank Limited (ANZNB) and on-lent to each individual associate under a group borrowing facility comprising a \$7.2 million revolving credit facility allocated directly to the associates. Interest is payable monthly on all borrowings at an effective interest rate of 8.5% (2006: 7.90%) on call.

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.

The financial banking covenants are as follows:

	Associate	Charging Group
EBIT/Funding costs	>4.0	>5.0
Total financial indebtedness/EBITDA	<2.5	<1.5
Total financial indebtedness/Net tangible assets	<1.0	<0.75

The covenants are calculated on a 12 month rolling basis each quarter. The Charging Group is based on a consolidated group basis as if the associates were 100% owned subsidiaries.

During the period the financial covenants have not been reached by all associates or by the charging group and as a consequence the ANZNB is entitled to review the funding arrangements. In November 2006 the Parent recapitalised some stores that were in covenant breach. The Parent is in the process of rectifying the covenant breaches, and subsequent to balance date the ANZNB has temporarily suspended the financial covenants for the Group and Associate Stores for a period between 1 July 2007 and 31 August 2008. The directors are comfortable that the breaches will be rectified to the satisfaction of ANZNB prior to the lifting of the temporary suspension.

Notes to the consolidated financial statements

For the six months ended 30 September 2007

	Half year ended 30 Sep 2007 (Unaudited) \$'000	Half year ended 30 Sep 2007 (Unaudited) \$'000	Year ended 31 Mar 2007 (Audited) \$'000
10. Operating cash flows reconciliation			
Profit/(loss) for the period	(449)	374	(6,562)
Less capital gains	(474)	-	-
Operating profit	(923)	374	(6,562)
<i>Add/(deduct) non-cash items:</i>			
Equity accounted losses	291	21	224
Profit on sale of associate	-	-	(78)
Write-down of investment in subsidiary	-	-	-
Depreciation	135	34	146
Write-down of associate goodwill	-	-	6,035
Amortisation of lease incentive	(11)	(10)	(12)
Deferred tax	(269)	(112)	(659)
Share / option scheme costs	9	-	-
<i>Add/(deduct) changes in working capital items:</i>			
Trade and other receivables	917	(729)	(1,408)
Inventory	61	1	18
Payables and accruals	(268)	749	772
Net cash inflow/(outflow) from operating activities	(58)	328	(1,524)
11. Non-cancellable operating leases			
Due within one year	424	295	406
Due between one and five years	1,268	897	1,084
Due after five years	456	730	632
	2,148	1,922	2,122

Notes to the consolidated financial statements

For the six months ended 30 September 2007

12. Related Parties

The Parent has a 49% shareholding in 18 associate companies (trading as pharmacies), 1 joint venture (outlet stores) and 3 100% owned subsidiary companies (2 non-trading and a cosmetic store).

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

The Parent has commercial franchise agreements with all 18 associate companies and five other franchisee stores relating to marketing levies and franchise fees. The Parent also incurs transactions on behalf of the stores which are on-charged. These transactions comprise items such as training courses, central purchasing agreements, central advertising campaigns, loyalty card set-up 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.

13. Commitments and Contingencies

The Parent holds preferential rights to establish pharmacies in two shopping centres currently under development or still to be developed. The Parent also has the first option to establish any additional pharmacies within these same shopping centres. The Parent has guaranteed the lease obligations in respect of Life Pharmacy Sylvia Park Limited premises.

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 \$6.7 million as described in note 12, bank overdraft facilities of \$2.6 million and lease bonds of \$1.5 million.

14. Subsequent Events

On 31 October 2007 the ANZNB temporarily suspended the financial covenants for the Group and Associate Stores for a period between 1 July 2007 and 31 August 2008. The directors are comfortable that the breaches will be rectified to the satisfaction of ANZNB prior to the lifting of the temporary suspension.

Company Directory

For the six months ended 30 September 2007

Registered Office

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Management

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

D C Flynn
Chief Operating Officer
Des.flynn@lifepharmacy.co.nz

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

Websites

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

Auditors

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland City
Auckland

Legal Advisers

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

Bankers

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

Board

E M Coutts BMS, CA
Chairman

A J Davidson
Independent Director

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

Andrew Bagnall (John Bolland Nominee Director)
Non-Executive

M S Vuksich MPS
Non-Executive

N W Webber MBA, MPS
Non-Executive

B P Ingham
Executive

Board Secretary

J H Greenwood BCom, FCA
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PO Box 17 141
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Auckland

Share Registry & Investors Enquiries

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