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**Annual Report**  
2010/2011

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## Five Year Summary

	2007 \$m	2008 \$m	2009 \$m	2010 <sup>1</sup> \$m	2011 \$m
<b>Operating results</b>					
Sales revenue	2,698.5	2,966.5	3,081.3	3,220.4	3,339.6
EBITDA/(LBITDA)	202.8	195.5	235.0	(276.4)	(111.3)
EBIT/(LBIT)	168.2	158.6	190.3	(322.2)	(159.0)
Profit/(Loss) before tax	134.6	109.4	113.5	(394.3)	(237.7)
Profit/(Loss) after tax	101.8	77.2	80.1	(398.3)	(235.4)
<b>Financial position</b>					
Working capital <sup>6</sup>	240.0	279.4	179.5	216.5	615.2
Fixed assets (incl intangibles)	1,399.5	1,397.7	1,515.0	1,113.6	67.6
Other assets & liabilities	(39.2)	(54.7)	(108.9)	(61.8)	(52.0)
Capital employed	1,600.3	1,622.4	1,585.6	1,268.3	630.8
Net debt/(Net cash) <sup>5,6</sup>	255.8	421.7	387.7	210.6	(202.1)
Net assets	1,344.5	1,200.7	1,197.9	1,057.7	832.9
<b>Shareholder related</b>					
Dividend					
» ordinary per share	8.75c	7.0c	7.0c	3.0c	–
» special per share	–	–	–	–	15.0c
– total dividends (\$m)	82.6	61.0	59.9	35.0	176.8
Earnings/(Loss) per share	10.8c	8.5c	9.4c	(41.7c)	(20.2c)
Dividend payout ratio	81%	79%	75%	N/A	N/A
Net tangible asset backing per share	14.0c	1.0c	(16.0c)	14.0c	69.0c
Market capitalisation (year end) (\$m)	2,536	1,293	1,044	1,102	524
<b>Ratios and Returns</b>					
EBIT margin <sup>2</sup>	6.2%	5.3%	6.2%	(10.0%)	(4.8%)
Gearing <sup>3</sup>	16.0%	26.0%	24.5%	16.6%	N/A
Interest cover <sup>4</sup>	6.0x	4.0x	3.1x	(3.8x)	(1.4x)

1. Restated due to an accounting error. See Note 5 to the Financial Statements.

2. EBIT/Sales Revenue.

3. Net Debt/Capital Employed (year end). As at 31 January 2011, the Group had cash and cash equivalents over and above total debt.

4. Reported EBITDA/Net Financing Costs (times).

5. Net Debt excludes Gateway liability but includes Sigma Rewards investment. As at 31 January 2011, the Group had cash and cash equivalents over and above total debt.

6. During the 2011 financial year, debtors within the Sigma Rewards program have been recorded on balance sheet as well as an equivalent external debt. See Note 2(d) to the Financial Statements.

Through the ongoing support of Sigma's shareholders, customers, suppliers and staff, Sigma has emerged from its recent difficulties with its underlying business sound and a robust balance sheet.

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## Chairman and CEO Report

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### Overview

Sigma continued to face challenging times over the last year. However, we are confident that we have stabilised the core operations of the company. Through the ongoing support of Sigma's shareholders, customers, suppliers and staff, Sigma has emerged from its recent difficulties with its underlying business sound and a robust balance sheet.

### New Management and Board Leadership

Last year saw a change in leadership at Sigma, with the CEO & Managing Director, Mr Elmo de Alwis, and the CFO, Mr Mark Smith, resigning in April and May respectively. Additionally, Dr John Stocker AO (Chairman) and Mr Doug Curlewis retired from the Board of Directors at its Annual General Meeting on 21 June 2010.

The Board was pleased to announce Mr Mark Hooper's return to Sigma as its CEO & Managing Director in August 2010. Mr Hooper had been the CFO of Sigma from 2001 to 2006. He was joined by Mr Jeff Sells as his CFO in August 2010. Mark and Jeff have a depth of corporate and industry experience and we are confident that they will continue to lead Sigma through the stabilisation phase and strategically position it for ongoing growth.

The Board welcomes Mr Ray Gunston. Ray has extensive corporate and financial services experience in the public and private sectors, specialising in finance,

taxation and accounting and we have valued his contribution thus far. Ray stands for election at the Annual General Meeting.

### Sale of Pharmaceuticals Division

Sigma sold its Pharmaceuticals Division to Aspen with effect from 31 January 2011. The proceeds from this sale have enabled Sigma to fully repay its Syndicated and Sigma Rewards debt facilities. It has also enabled the Board of Directors to determine that a special dividend of \$0.15 is to be payable.

Going forward, Sigma retains ownership of the Healthcare Division comprising one of Australia's leading national full line pharmacy wholesalers and Australia's largest and third largest retail pharmacy brands, Amcal (including Amcal Max) and Guardian. Sigma also has an ongoing relationship with Aspen that broadly replicates the position of the Pharmaceutical and Healthcare Divisions of Sigma prior to the sale. Sigma acts as the preferred wholesaler for Aspen products and Aspen as the preferred manufacturer for the majority of Sigma's Private Label product portfolio.

### Financial Performance

For our financial year to 31 January 2011 Sigma reported a loss of \$235.4 million. This includes goodwill impairment of \$258.3 million and other non-recurring items of \$49.4 million after tax.

The results include a full year of activities from the Pharmaceuticals Division. The underlying EBIT for the combined Healthcare Division and Pharmaceuticals Division was \$129.2 million.

Our Healthcare Division remains sound and profitable, with sales revenue for the year up 6.6 percent to \$2.9 billion. Underlying divisional EBIT (pre corporate costs) of \$71.3 million showed 12.1 percent growth on the previous year.

### Restatement of Accounts for Year Ended 31 January 2010

Certain accounting errors were identified in the 2010 full year accounts. These accounts have been restated to reduce reported earnings for the year ended 31 January 2010 from a net loss of \$389.0 million to \$398.3 million and increase reported earnings for the year ended 31 January 2011 by \$9.2 million. The increase in the 2011 reported earnings due to the restatement was not included in the 2011 underlying results.

### Special Dividend

The Board determined that a special dividend of \$0.15 will be payable. The record date to determine entitlements for the dividend was 7pm (AEST) on 11 April 2011. The dividend will be fully franked and paid on 11 May 2011.

### Debt Facilities

On 31 January 2011, Sigma fully repaid and retired its syndicated debt facility. In addition, the ANZ off balance sheet debtors' securitisation facility was fully repaid and cancelled on 9 February 2011.

The Company's net cash position after all debt repayments in early February 2011 was approximately \$210 million.

The Company has extended its on balance sheet debtors' securitisation debt facility for a further three year term, with an increased facility limit of \$200 million. This facility will be used to fund Sigma's monthly working capital requirements.

### Shareholder Class Action

On 29 October 2010, Sigma was served with a statement of claim filed in the Federal Court of Australia making various allegations against the Company concerning its market disclosures during 2009 and 2010. The applicants are seeking unquantified damages. The Company refutes these allegations and is defending the proceedings.

### Industry Changes

PBS Reforms were announced during 2010 which reduce the prices of generic drugs in February 2011 and April 2012 and impact Sigma's wholesaling revenues.

In February 2011, Pfizer Australia moved to an exclusive Direct to Pharmacy model, bypassing all full line wholesalers. This decision is expected to lead to a decline in sales of up to 15 percent for Sigma.

Sigma management acted promptly to implement strategies to mitigate the impact of these industry changes, including reducing its operational costs and winding back customer trading terms and discounts.

### Outlook

2012 marks Sigma's 100th anniversary. Sigma's strong heritage in community pharmacy is the basis for our strategy to be the preferred partner for all industry stakeholders. Following the sale of the Pharmaceuticals Division, Sigma is focused on its full line wholesaling and retail pharmacy operations. Its position in the supply chain offers many opportunities to add value for pharmacists, suppliers and Sigma.

Your Board and management are excited about the year ahead. The 2011 Financial Year accounts demonstrate that despite the difficult year, the Healthcare Division is sound with underlying sales revenue and earnings growth.

The continuing business has a strong balance sheet with minimal intangibles and a robust cash base. This position will be strengthened by a clear financial model that focuses on profitable topline growth and ensuring economic returns on invested capital.

### Wholesale

In wholesaling, a program of reinvestment in distribution centres' infrastructure and systems is expected to bring efficiencies. We continue our rationalisation and consolidation of our logistics functions, with our Head Office and the entire Victoria logistics function scheduled to be housed in Rowville by October 2011.

### Retail

The preferred partner strategy also flows through into our Retail brands business. The support services offered to our Amcal, Guardian and Amcal Max pharmacies will be broadened. Health management systems, increased private label products and strategic supplier relationships offer greater value for pharmacy, supplier and Sigma. We expect to welcome a number of new stores into our Retail brands over the coming year.

### Summary

We have a positive outlook for the forthcoming year. While industry change poses challenges, we believe the fundamentals are sound. There is potential to further optimise Sigma's operations, profitability and returns on invested capital with investment initiatives in both Wholesaling and Retail.



Mr Brian Jamieson, Chairman



Mr Mark Hooper, CEO & Managing Director

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Our financial strategy is geared to deliver profitable growth and improve the return on shareholders' funds.

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Sigma is proud to be a Community Service Obligation qualified pharmacy wholesaler, committed to fully service some 4,000 pharmacies nationally and help to ensure all Australians have timely access to their medicines.

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Sigma supports pharmacies with full retail operational support, including marketing, buying, business analysis, store design, professional development programs and private label products.



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Sigma is mindful of the important role it plays in the community.

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## People and the Community

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Sigma is mindful of the important role it plays in the community and, in close association with its retail branded pharmacies, it actively campaigns to raise community awareness and support of a number of cause-related programs.

The following is a selection of such programs that Sigma has been involved in over the past year as part of these ongoing efforts to foster greater community awareness.

### Queensland Floods

Sigma and its staff donated \$69,505 to the Premier's Disaster Relief Appeal. Special thanks should also be given to our staff in the affected areas around Rockhampton, Toowoomba, Brisbane and Townsville for their dedication and determination to maintain the critical supply of medicines.

Sigma also provided additional specific support for its pharmacy customers affected by the floods and provided services to assist API customers when its main Distribution Centre was flooded.

### Guardian Angel

Now in its eleventh year and with its new partner The Variety Club, Guardian Angel is a knitting program inviting knitters of all levels – novices and experts, children and crafty pros – to pick up sticks, hone their skills and donate their woollen creations to help Australian children in need.

Involvement in the program is free; customers simply head to their local Guardian pharmacy, pick up a pattern

book and start knitting. Completed garments are donated in store and Guardian passes them on to The Variety Club for distribution to children and babies in shelter, aboriginal communities and children affected by recent disasters both in Australia and abroad.

The contribution that the Guardian Angel program makes to the community is overwhelming, with nearly 100,000 knitted garments distributed to needy Australians in 2010. We thank all of our pharmacies for their support and outstanding commitment to the program which won the esteemed AJP 2010 Best Pharmacy Public Relations Campaign. Guardian Pharmacies look forward to spreading their Guardian Angel wings even further across the community in 2011.

### Juvenile Diabetes Research Foundation

The Juvenile Diabetes Research Foundation is the world's largest charitable supporter of diabetes research, investing more than \$150 million per year into the search to find a cure. Australia has one of the highest rates of type 1 diabetes in the world and Amcal's continued support of Jelly Baby Month has raised funds for important research to help find a cure for type 1 juvenile diabetes.

### Cancer Council – Pink Ribbon Day

Amcal is a proud sponsor of the Cancer Council's Pink Ribbon Day, an international awareness and fundraising day for breast cancer.

Every year, around 12,000 Australian women will hear the words "you have breast cancer". The Cancer Council aims to reduce not just the incidence of breast cancer, but also the suffering that women must endure while undergoing treatment. Through an approach of research, support and prevention, they are constantly looking for ways to detect breast cancer earlier, treat it more effectively and help more women survive. During October Amcal pharmacies raise funds for Pink Ribbon Day to assist women in their brave fight against breast cancer.

### School Bugs

Guardian has released a School Bugs and Other Nasties booklet that has 60 pages of information for parents of school aged children with hints and tips on how to treat common ailments such as common colds, head lice, asthma, chicken pox and many more. Guardian pharmacies hand out over 200,000 School Bugs books to families in the local community and support the initiative in store by offering value deals on related products.

### Environmental Impact

As one of Australia's largest healthcare companies, we are conscious of the impact our activities have on the environment, and we continue to implement policies and processes to reduce carbon emissions across all of our divisions. This philosophy will continue following the sale of the pharmaceutical manufacturing operations.

### Workplace Practices

As described in the Corporate Governance section, Sigma recognises that in order to be successful we must encourage a high performance culture through attracting, retaining and motivating exceptional employees. All full time, part time and casual employees as well as contractors are required to conduct themselves in line with our Corporate Values: Integrity, Quality, Customer Focus, Partnerships and Respect. Sigma is an equal opportunity employer and we are very proud of our diverse workforce which contains people from a wide variety of different nationalities, ages and gender. Sigma is committed to providing employees with an environment that is free from harassment, bullying and discrimination. Employees are rewarded for high performance and Sigma is committed to encouraging and assisting with the professional development of its valued employees.

### Occupational Health and Safety

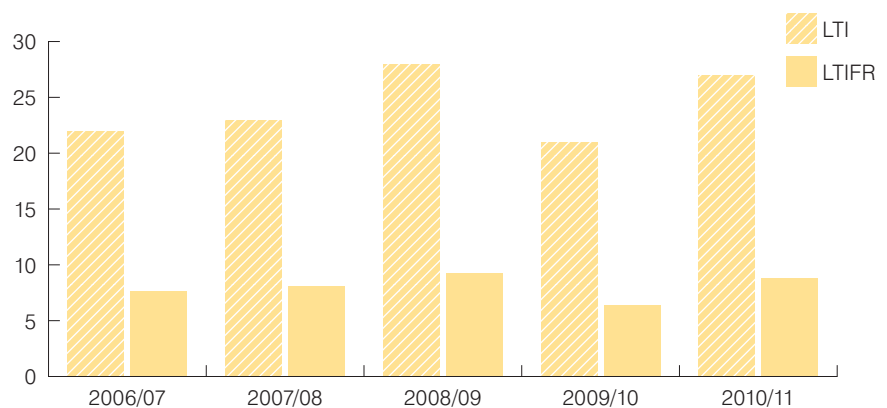
Our Health and Safety performance this year continued to show positive trending across most of our key performance indicator targets. A continuing focus on prevention of injuries and the early and effective medical intervention of injuries when they do occur, saw a reduction of workers' compensation claims cost of 70 percent over the preceding 12 months. Actual workers' compensation claims were also reduced by 13 percent over the same period which, we believe, reflects the robust OHS systems and our focus on creating and maintaining safe workplaces. Nationally, 57 percent of our sites remained lost time injury free with 33 percent of all sites remaining free of any injury claims. Our lost time injury frequency rate trended slightly upwards to 8.84 injuries per million

hours, due partially to the psychosocial complexities involved with the restructuring of our business throughout the year. The category of slips, trips and falls accounted for the majority of injuries this year as opposed to muscular skeletal disorders for previous years. We take this to indicate that while risk identification training in human movements and ergonomics are proving successful, other factors such

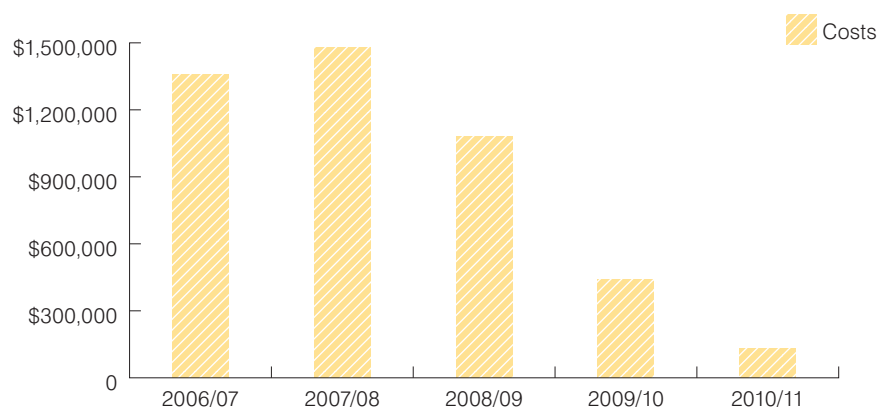
as work processes and fatigue are now presenting for the first time, and control programs will be introduced to address this. Participation in WorkSafe Victoria's Work Health Checks was keenly accepted by our employees, along with site based activities around Safe Work Australia's – Safe Work Australia Week and National Walk to Work Day.



**Figure 1: Lost Time Injury and Frequency – Past 5 years**



**Figure 2: Cost of Claims – Past 5 Years**





## Senior Management

### **Mr Jeff Sells**

Chief Financial Officer

Jeff rejoined Sigma in August 2010 having previously worked for Sigma as Group Treasurer from 2002 to 2004. Prior to rejoining Sigma, Jeff was Chief Financial Officer of Citadel Resources Group Ltd from 2008. Prior to this Jeff was the Chief Financial Officer for Oxiana Limited for 4 years.

### **Ms Sue Morgan**

General Counsel and  
Company Secretary

Sue commenced with Sigma in 2007 as Corporate Lawyer and moved into the position of General Counsel in early 2008. Sue was appointed Company Secretary in August 2009 in addition to her General Counsel role. Prior to commencing with Sigma, Sue spent 8 years with HGR Lawyers. Sue was Special Counsel at HGR, specialising in Media and Entertainment Law, Intellectual Property and Commercial Law. Prior to this, Sue worked in the Australian Broadcasting Corporation – Legal and Copyright Department.

### **Mr Peter Tilley**

General Manager Retail Operations

Peter was appointed to his current role in June 2007. Peter has over 20 years experience in retail, with senior management roles in national groups such as Angus & Robertson, Blockbuster Australia/NZ and Guardian Pharmacies. Peter is responsible for retail marketing, merchandise and private label operations, store design and retail training of the Amcal Max, Amcal and Guardian branded pharmacies and independent Sigma customers.

### **Mrs Jackie Pearson**

National Human Resources Manager

Jackie commenced with Sigma in August 2005. Prior to joining Sigma, Jackie provided human resource consulting services to a variety of organisations within the private, public and government sectors. Jackie is responsible for Sigma's human resources activities including OHS, remuneration and benefits, learning and development, employee relations and recruitment.



From left: Mr Peter Tilley, Mrs Jackie Pearson,  
Mr Jeff Sells & Ms Sue Morgan.



## Board of Directors



**From left:** Mr William J Scott, Ms Linda B Nicholls AO, Mr Brian Jamieson (Chairman), Mr David S Bayes, Mr Mark R Hooper (CEO & Managing Director), Mr David G Manuel, Mr Raymond M Gunston.

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History, experience and relationships have created one company ideally placed to create productive partnerships at both ends of the pharmaceutical supply chain.

**Mr Brian Jamieson  
(Chairman)**

**FCA, MAICD, Non-Executive  
Chairman and Director**

Appointed a Director of Sigma Company Limited in May 2003, a Director of Sigma Pharmaceuticals Limited in December 2005, and Chairman of Sigma Pharmaceuticals Limited in June 2010. Mr Jamieson is Chairman of Mesoblast Limited and a Director of OZ Minerals Limited, Tatts Group Limited, and the Bionic Ear Institute. He is a former Managing Partner of Minter Ellison Lawyers Melbourne, former Chief Executive of KPMG Australia, and former director of Bank of Western Australia Limited, Care Australia, and HBOS Australia Limited. He has over 30 years experience in providing advice and audit services to a diverse range of public and large private companies. Mr Jamieson has not held any directorships of listed entities in addition to those set out above during the last 3 years.

» Age 67.

**Mr Mark R Hooper  
(CEO & Managing Director)**

**BBus (Acc), CPA, FFTP, MAICD,  
Executive Director**

Appointed Managing Director of Sigma Pharmaceuticals Limited in August 2010. Mr Hooper has a broad range of experience in finance, commercial and operational matters primarily in the mining and pharmaceutical industries. He is a former Chief Financial Officer and Executive Director of PaperlinX Limited. From 2006 to 2008 he was the Chief Financial Officer and Chief Operating Officer for the Pharmacy and Consumer business for Symbion Health Limited. Prior to that he was Chief Financial Officer of Sigma from 2001 – 2006. Mr Hooper has not held any directorships of listed entities in addition to those set out above during the last 3 years.

» Age 52.

**Mr David S Bayes**

**FAICD, Non-Executive Director,  
Chairman of the Remuneration and  
Nomination Committee. Member of the  
Risk Management and Audit Committee**

Appointed a Director of Sigma in June 2007. Mr Bayes is currently CEO of Choice Hotels Australasia and has held a variety of board and executive positions including former Chief Operating Officer of Mortgage Choice, Chief Executive Officer and Director of Bakers Delight, former Non-Executive Director of Chiquita Brands South Pacific Ltd, former Non-Executive Director of North Western Healthcare Network and former Director of McDonald's Australia. Mr Bayes is a current member of the Victoria Council, Australian Institute of Company Directors. Mr Bayes has over 30 years experience in multi-outlet retail business. Mr Bayes has not held any directorships of listed entities in addition to those set out above during the last 3 years.

» Age 63.

**Ms Linda B Nicholls AO**

**BA (Econ), MBA, FAICD, Non-Executive  
Director. Chairman of Risk Management  
and Audit Committee**

Appointed a Director of Sigma Company Limited in April 1997 and of Sigma Pharmaceuticals Limited in December 2005. Ms Nicholls is Chairman of KDR VIC (Yarra Trams). She is a Director of Fairfax Media Limited. She is also a Director of the Harvard Business School Alumni Board and Walter and Eliza Hall Institute of Biomedical Science. She is a former Chairman of Healthscope Limited, Australia Post Corporation and a former Director of St George Bank and Insurance Manufacturers of Australia. Ms Nicholls has over 30 years experience in banking and finance in Australia, the USA and New Zealand. Ms Nicholls has not held any directorships of listed entities in addition to those set out above during the last 3 years.

» Age 62.

**Mr William J Scott**

**JP, BPharm, FPS, FACPPM, F.DipMgt,  
FAICD, CDA Dip, Non-Executive  
Director. Member of the Remuneration  
and Nomination Committee**

Appointed a Director of Sigma Company Limited in February 1996 and of Sigma Pharmaceuticals Limited in December 2005. Mr Scott is a community pharmacist and

an active participant in industry affairs. He is Chairman of Fred Pty Ltd, Chairman of Healthlinks.Net Pty Limited, and a Non-Executive Director of eRx. Mr Scott is a former National Vice President and former Victorian President of The Pharmacy Guild of Australia and a former Chairman of the Guild National Health Economics Committee. Mr Scott has not held a directorship of any other listed entity during the last 3 years.

» Age 65.

**Mr David G Manuel**

**BPharm, MPS, MAICD. Non-Executive  
Director. Member of the Remuneration  
and Nomination Committee**

Appointed a Director of Sigma Pharmaceuticals Limited in October 2009. Mr Manuel is a community pharmacist and an active participant in industry affairs with a special interest in cognitive services such as Opiate Dependency treatments, Compounding, and Aged Care pharmacy services. He is the current Western Australian representative on the Amcal Members Advisory Committee (MAC). He is a current Branch Committee Member of The Pharmacy Guild of Australia (WA Branch). Mr Manuel has not held a directorship of any other listed entity during the last 3 years.

» Age 46.

**Mr Raymond M Gunston**

**B.Comm (Hons), DipEd, CPA,  
FTA, AICD. Non-Executive Director,  
Member of the Risk Management  
and Audit Committee**

Appointed a Director of Sigma Pharmaceuticals Limited in July 2010. Mr Gunston has over 30 years of extensive corporate and financial services experience in the public and private sectors, specialising in finance, treasury, mergers and acquisitions, and accounting. He is the current Chief Financial Officer of Tatts Group Limited, and a Director of many of the Tatts Group's subsidiary and associate companies. Mr Gunston has not held a directorship of any other listed entity during the last 3 years.

» Age 53.

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## Corporate Governance Statement

**Sigma's corporate objective is to maximise returns to shareholders within a framework of acceptable risk management. In pursuing this objective the Board draws on corporate governance to contribute to Sigma's performance.**

The Board is committed to applying the ASX Corporate Governance Council's Best Practice Recommendations and as at this date considers that Sigma has adopted those recommendations in all material respects. In this Statement, the relevant governance items are linked to each of the ASX Best Practice Recommendations (2nd edition).

This Statement outlines Sigma's system of governance. Further details can be found on the Corporate Governance section of Sigma's website ([www.sigmaco.com.au](http://www.sigmaco.com.au)).

### Board Responsibilities and Objectives

Sigma's Board is primarily responsible for setting the strategic direction and corporate governance of Sigma Pharmaceuticals Limited and its subsidiaries including:

- overseeing the management of Sigma
- reviewing and approving management's business plans and strategic opportunities
- succession planning
- appointment and annual evaluation of the CEO & Managing Director
- establishing strategic goals for management
- identifying the principal risks and overseeing appropriate control and management systems for them
- monitoring Sigma's performance with the aim of maximising long-term returns to Sigma shareholders at an acceptable level of risk.

### Matters reserved for the Board include:

- overseeing Sigma's corporate strategy and monitoring management's implementation of that strategy
- appointing and removing, determining remuneration of, evaluating performance of and planning for the succession of the CEO & Managing Director
- overseeing remuneration policies and senior executive performance
- overseeing Sigma's control and accountability systems – particularly in relation to the integrity of financial and other reporting
- approving Sigma's annual financial plans and budgets, monitoring financial performance and approving the annual and half year financial statements and reports
- acquisition and disposal of legal entities and significant capital assets
- approval of significant borrowings and commitments
- matters relating to Sigma's securities including declaration of dividends

- reviewing and ratifying policies and systems of risk management, codes of conduct, legal compliance and corporate governance
- setting Sigma's values and standards of conduct and ensuring that these are adhered to in the interests of its shareholders, employees, customers and the community.

Subject to matters reserved to the Board, the management and administration of the business is delegated to the Managing Director as its Chief Executive Officer. Whilst there is ongoing interaction between the Board and management, the Board functions independently of management.

The Board draws on corporate governance best practice to contribute to Sigma's performance.

Further details of Board responsibilities, objectives and structure are set out in the Board Charter on Sigma's website.

» *ASX Best Practice Recommendation 1.1*

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Sigma's corporate objective is to maximise returns to shareholders within a framework of acceptable risk management.

## Board Composition

Sigma's Board currently consists of one Executive and six Non-Executive Directors, including the Chairman.

The tenure of each Director (with the exception of the CEO & Managing Director) is subject to election by shareholders at annual general meeting on a rolling 3 year basis.

On an annual basis the Board reviews the performance of individual Directors and the Board and also reviews both the number and skills of Directors. Sigma sees benefits in having a Board with a diversity of backgrounds, experience and skills. On a regular basis the Board also arranges for a formal, independent performance review of individual Directors and the Board as a whole to ensure it is operating effectively.

Further details regarding the Directors' skills and qualifications and participation in Board and committee meetings are set out in Sigma's annual Directors' Report and Remuneration Report.

» *ASX Best Practice Recommendation 2.6*

## Independence of Directors

The majority of the Board, including the Chairman, are independent Directors. Sigma has adopted a definition of "independence" for Directors that is consistent with that suggested by the ASX Corporate Governance Council. Applying this definition, Mr Scott and Mr Manuel (as practising pharmacists) are not independent. The Board values the insight and advice that they provide.

All other Non-Executive Directors are considered by the Board to be independent, meaning that each one is generally free from any management role, or business interest or other relationship that could materially interfere with the Director's ability to act in the best interests of the Sigma group as a whole.

Only those transactions permitted by Sigma's Constitution and the Corporations Act take place with Directors or their related parties. These are on the same commercial terms and conditions applying to any other external party, supplier or customer. Directors are required to disclose in writing any related party transactions. Related party transactions are set out in the notes to the Company's financial report.

Directors are also required to identify any conflict of interest they may have in dealing with Sigma's affairs and subsequently to refrain from participating in any discussion or voting on those matters. If a potential conflict of interest is likely to arise, the Director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while those matters are considered. Accordingly the Director concerned takes no part in discussion nor exercises any influence over other members of the Board if a potential conflict of interest exists.

On a regular basis Non-Executive Directors meet without the CEO & Managing Director or other members of management being present, to ensure that the Non-Executive Directors maintain independence of thought and judgement.

The Non-Executive Directors also meet independently with the external auditors at least twice per year.

Directors have a right of access to all Company information and executives. Directors are entitled, in fulfilling their duties and responsibilities, to obtain independent professional advice on any matter connected with the discharge of their responsibilities, with prior notice to the Chairman, at Sigma's expense.

» *ASX Best Practice Recommendations 2.1, 2.2, 2.3, 2.5, 2.6*

## Board Committees

The Board has established the following committees to assist it in carrying out its duties and to allow detailed consideration of issues:

- Risk Management and Audit Committee
- Remuneration and Nomination Committee

Each committee is comprised of Non-Executive Directors, and the CEO & Managing Director and relevant senior executives attend by invitation. The committee structure, membership and effectiveness continue to be reviewed on a regular basis.

Each committee has its own written charter setting out its role and responsibilities and the manner in which it is to operate. Further details of those charters are contained on Sigma's website.

Matters determined by committees are submitted to the full Board as recommendations for decision.

The Board and Committees meet regularly throughout the year. The frequency of Board and Committee meetings and Committee members' attendance at those meetings is set out in the Directors' Report. These meetings include both scheduled meetings of the Board and Board Committees and meetings organised as required to deal with any specific or urgent matters requiring their attention or action. All Committee meetings are open to all Board members to attend.

» *ASX Best Practice Recommendations 2.6, 4.1, 4.4, 8.1, 8.2*



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Sigma seeks mutually advantageous strategic long-term relationships with key suppliers; provides quality logistics; and helps manufacturers with its access to some 4,000 retail pharmacies.

As a former manufacturer, Sigma is ideally placed to bring special knowledge and understanding to support manufacturers.



## We seek to recruit and develop high-calibre employees.

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### **Risk Management and Audit Committee**

The Risk Management and Audit Committee comprises Ms Linda Nicholls (Chairman), Mr David Bayes and Mr Ray Gunston, who are all independent Non-Executive Directors.

The Committee's main responsibility is to review Sigma's financial reporting process, management of risks, audit processes, corporate governance processes and compliance processes. In particular, it is responsible for making recommendations to the Board with respect to all financial information released by Sigma.

The Committee recommends the appointment, removal and remuneration of the external auditors, together with the terms of engagement. It also reviews the activities and organisational structure of the internal audit function and reviews the appointment or replacement of the internal auditor.

The Committee receives regular reports from management and from the internal and external auditors. It also meets at least twice a year with the internal and external auditors without the CEO & Managing Director or other members of management being present. The internal and external auditors are free at any time to communicate directly with either the Chairman of the Committee or the Board.

The Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Prior approval of the Committee must be gained for non-audit work to be performed by the external auditor. There are specified

qualitative limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the audit partner responsible for the audit not perform in that role for more than 5 years.

» *ASX Best Practice Recommendations*  
4.2, 4.3, 4.4

### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee comprises Mr David Bayes (Chairman), Mr Bill Scott and Mr David Manuel who are all Non-Executive Directors.

The Committee's main responsibilities are to advise the Board on remuneration policies and practices, assess the necessary and desirable competencies of Board members, evaluate Board performance, review Board and management succession plans and make specific recommendations on remuneration packages for the CEO & Managing Director, Non-Executive Directors and senior management based on an annual review.

The Remuneration and Nomination Committee is primarily responsible for providing recommendations to the Board in regard to the remuneration strategy, policies and practices applicable to Non-Executive Directors, the CEO & Managing Director, and Senior Executives. It is the Committee's responsibility to ensure that these recommendations are:

- fair and reasonable
- demonstrate a clear relationship between individual performance and total reward

- designed to attract and retain high-calibre talent to deliver superior performance
- motivate employees to pursue the long-term growth and success of the Company
- aligned with current governance and legal requirements.

Remuneration packages are set at levels that are intended to attract and retain quality Directors and executives with the skills necessary to successfully manage the group's operations and achieve Sigma's strategic objectives.

Non-Executive Directors are paid a fixed fee, which is not dependent on Sigma performance. In addition to their base fees, members of Board Committees are paid an annual committee fee.

Independent external advice is sought by the Remuneration and Nomination Committee on the total remuneration (including committee fees) to be paid to Non-Executive Directors and a recommendation is made to the Board. Aggregate fees payable to Non-Executive Directors are submitted for approval by shareholders at Sigma's annual general meeting.

Further details of the responsibilities and activities of the Remuneration and Nomination Committee, remuneration policies and structures, and details of remuneration and retirement benefits paid to Directors are set out in Sigma's Remuneration Report.

» *ASX Best Practice Recommendations*  
2.4, 2.5, 8.2, 8.3

encourage

+

develop

Sigma is committed to ensuring that all shareholders, the market and other stakeholders are provided with and have access to full and timely information about its activities.

### **Executive Performance and Remuneration**

Sigma's Remuneration Policy was designed to recognise the competitive environment that Sigma operates within as well as emphasise the requirement to attract and retain high-calibre talent in order to achieve sustained improvement in Sigma's performance. The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Sigma. The key principles are:

- link executive reward with the strategic goals and sustainable performance of the Company
- apply challenging corporate and individual key performance indicators that focus on both short-term and long-term outcomes
- motivate and recognise superior performers with fair, consistent and competitive rewards
- remunerate fairly and competitively in order to attract and retain top talent
- recognise capabilities and promote opportunities for career and professional development
- through employee ownership of Sigma shares, foster a partnership between employees and other shareholders.

Pursuant to the policy, evaluation of senior executive performance and remuneration

is undertaken by the CEO & Managing Director on an annual basis. Evaluation of the CEO & Managing Director's performance and remuneration is undertaken by the Remuneration and Nomination Committee and Board on an annual basis.

Sigma's executive remuneration policies and structures and details of remuneration paid to senior managers are set out in the Remuneration Report.

» *ASX Best Practice Recommendations 1.2, 2.4, 2.5, 8.3*

### **Risk Assessment and Management**

The Board is committed to the identification, assessment and management of risk throughout Sigma's business activities.

The Company has established policies for the oversight and management of material business risks. The Company's overarching Risk Management Policy is posted on the Corporate Governance page of Sigma's website.

The Board's committee structure forms an important part of the risk management process. Through the Risk Management and Audit Committee, the Board has required management to design and implement a risk management and internal control system to manage Sigma's material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure.

Sigma recognises that risk management is an intrinsic part of each manager's day

to day activity. Each business division is individually responsible and financially accountable for ensuring that there are appropriate systems and structures in place for the protection of its people and assets, in accordance with Sigma's risk policies and systems.

Management reports on a quarterly basis to the Board through the Risk Management and Audit Committee as to the effectiveness of Sigma's management of its material business risks.

The Board also has received assurance from the CEO & Managing Director and the CFO that their declaration provided in accordance with S295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

An analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems is carried out by the internal audit function.

The internal audit manager has direct access to the Risk Management and Audit Committee and meets with them in the absence of management on at least a semi-annual basis.

» *ASX Best Practice Recommendation 7*

## Health and Safety Management

Sigma is committed to the highest standards of occupational health and safety (OHS) in all its operations. Sigma:

- monitors its compliance with relevant legislation
- encourages employees to actively participate in the management of OHS issues
- undertakes annual systems and performance reviews as part of its continuous improvement program.

The Board receives regular management reports that cover compliance and performance matters in respect of health and safety matters.

## Ethical Standards

Sigma has adopted a Code of Conduct that applies to all Directors and employees. Its key principles are:

- honest and ethical behaviour
- respect for people and property
- legal compliance.

In summary Directors and employees must:

- minimise conflicts of interest and disclose possible or potential conflicts
- avoid receipt of material gifts or benefits from third parties in connection with Sigma's business
- report any knowledge of fraud, material error, breach of law, or of a concealed practice against the interest of Sigma
- not use any Sigma asset on an unauthorised basis for personal use or gain (including goods, money, equipment, corporate cards, intellectual property or the services of other areas of the organisation)
- treat all stakeholders (Sigma team members, shareholders, customers, suppliers, the public and others on Sigma's behalf) courteously, fairly and without harassment or unlawful discrimination in any form
- comply with all federal, state and local laws and regulations.

Sigma has a Whistleblowing Policy in place designed to enable Sigma employees to raise concerns internally and at a high level and to disclose

information that the individual believes in good faith shows serious malpractice or wrongdoing within Sigma without fear of reprisal. Employees will not be disadvantaged in raising legitimate concerns. Further details of Sigma's Code of Conduct and Whistleblowing Policy are set out on Sigma's website.

In addition, Sigma has in place and enforces a number of key policies governing the standards of ethical behaviour, compliance with legal obligations and due regard to the reasonable expectations of shareholders required of all Sigma personnel including: Occupational Health & Safety, Equal Employment Opportunities, Harassment, Good Working Relationship and Privacy policies.

» *ASX Best Practice Recommendations 3.1*

## Share Trading

Sigma's share trading policy prohibits Directors or employees from trading in Sigma's shares if they are in possession of non-public price sensitive information. It also prohibits short-term trading and arrangements to manage the risk of price changes of any shares held under any Sigma share plan during their non-disposal period.

Trading is not permitted in the period between end of full and half year and the release of full or half-year results respectively or in the week prior to the annual general meeting. In addition, Directors must obtain prior approval for any trading from the Chairman and senior staff must seek prior approval from the CEO & Managing Director or the Company Secretary.

Regular reminders of Sigma's share trading policy are issued to senior management. Further details of Sigma's share trading policy are set out on Sigma's website.

## Communication and Continuous Disclosure

Sigma is committed to ensuring that all shareholders, the market and other stakeholders are provided with and have access to full and timely information about its activities. Sigma has policies and procedures in place to satisfy this commitment and its continuous disclosure obligations.

Regular briefings and presentations are given. Any new information that is presented will have been disclosed to the ASX and posted on Sigma's website, together with all ASX releases. Sigma's external auditor attends the annual general meeting to answer questions regarding the audit.

Further details of Sigma's communications and continuous disclosure policy and procedure are set out on Sigma's website.

» *ASX Best Practice Recommendations 5.1, 5.2, 6.1, 6.2*

## Interests of Stakeholders

Sigma promotes the highest ethical and professional standards. As a company with a reputation for fair and responsible dealing with stakeholders (including shareholders, customers, suppliers, employees and government regulatory authorities) the Board demands that the highest standard of ethical behaviour be maintained and fostered throughout the organisation.

Sigma accepts the need for a legal regulatory framework of business and for a fair taxation regime. Sigma will therefore at all times seek to comply with the spirit as well as the letter of all applicable laws and regulations (both domestic and foreign) and where appropriate evaluate actions in a broader social context.

Sigma also retains the right to manage its affairs in an efficient, well ordered and systematic manner, giving due consideration to tax and its goal of maximisation of returns to its shareholders.

Sigma requires a culture and system of compliance and accountability to be maintained throughout the organisation and for all employees to take pride in this underlying ethical basis of the organisation, acting legally and responsibly in all matters.

Directors and employees must comply with the codes of conduct that have been adopted by Sigma. These have been set out in earlier sections.

» *ASX Best Practice Recommendations 3, 7*





# Financial Statements

For the financial year ended 31 January 2011

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## Directors' Report

The Directors' report on Sigma Pharmaceuticals Limited (the "Company") and its controlled entities (the "Group") for the financial year ended 31 January 2011.

### Directors

Directors during the financial year and up to the date of this report were:

Mr B Jamieson

Dr J Stocker, AO (retired 21 June 2010)

Mr M Hooper (appointed 30 August 2010)

Mr E de Alwis (resigned 13 August 2010)

Ms L Nicholls, AO

Mr W Scott

Mr D Bayes

Mr D Curlewis (resigned 21 June 2010)

Mr D Manuel

Mr R Gunston (appointed 1 July 2010)

Company Secretary: Ms S Morgan

### Directors' Interests in Share Capital, Options and Performance Rights of the Company

Details of the Directors' relevant interests in shares, options and performance rights of the Company at the date of this report are as follows:

	Number of fully paid ordinary shares	Number of performance rights over fully paid ordinary shares
Mr B Jamieson	254,993	–
Dr J Stocker, AO (retired 21 June 2010)	322,161	–
Mr M Hooper (appointed 30 August 2010)	100,000	–
Mr E de Alwis (resigned 13 August 2010)	2,423,457	–
Ms L Nicholls, AO	427,285	–
Mr W Scott	6,288,642	–
Mr D Curlewis (resigned 21 June 2010)	33,704	–
Mr D Bayes	116,144	–
Mr D Manuel	50,414	–
Mr R Gunston (appointed 1 July 2010)	18,642	–
	<b>10,035,442</b>	–

### Review and Results of Operations

The Group's reported revenue increased \$119,142,000 to \$3,339,572,000 (see Note 4) against a background of absorbing PBS price reforms, highly competitive generic pricing and the Group's cancellation of budgeted product promotions, which had been scheduled for January 2011.

The Group's net loss attributable to members of the Company for the financial year was (\$235,382,000) compared with (\$398,275,000) for the prior year. This loss was primarily due to a non-cash impairment of goodwill of \$258,343,000 and other one-off charges amounting to \$49,400,000 after tax, including \$16,400,000 inventory write-offs and \$14,200,000 doubtful debt provisions.

On 23 November 2010, the Company notified the market that underlying EBIT expectations would be revised downwards as a result of the Company cancelling a number of product promotions sales, which had been scheduled for January 2011. On 28 February 2011, the Group confirmed its revised guidance with underlying EBIT expected to be at the higher end of the November 2010 guidance.

On 16 August 2010, the Group announced that it had agreed in principle to sell its Pharmaceuticals Division to Aspen Pharmacare Holdings Limited group of companies ("Aspen") for gross proceeds of \$900m. The Pharmaceuticals Division comprises the Generics, Consumer (OTC and Herron), Ethical Products, Medical Products, Orphan and Manufacturing businesses.

The sale was completed on 31 January 2011 by way of sale of all the issued share capital in Sigma Pharmaceuticals (Australia) Pty Ltd, Orphan Holdings Pty Ltd and Fawns and McAllan Pty Ltd, previously subsidiaries of the Company. The control of these companies and control over the operations of the Pharmaceuticals Division were effectively transferred to Aspen on 31 January 2011. The loss for the year from the above discontinued operations including a goodwill impairment of \$220,000,000 amounted to (\$162,300,000), and is included in the Group's results above (see Note 9).



On 31 January 2011, the Group fully repaid its syndicated debt facilities using part of the net proceeds of the sale. Accordingly, no covenant testing was required at year end.

On 9 February 2011, the Group fully repaid its Sigma Rewards facility, and as at 31 January 2011 this debt facility amounting to \$343,237,000 was classified as an on balance sheet current liability (see Note 37). The Sigma Rewards facility was not subject to covenant testing.

Sigma invested in further rationalisation and restructuring activities in the 2010/11 year. The majority of this expenditure was within the Healthcare division through the continuation of the Group's consolidation and rationalisation of its logistics facilities. This process includes moving the Group's Victorian logistics facilities from Laverton to Rowville and commencement of the relocation of the Clayton facility to Rowville. The consolidation and rationalisation of the Victorian logistics, distribution and corporate sites to Rowville are expected to be completed by the end of 2011. These initiatives complement the Group's strategic plan to increase efficiencies in its logistics function. Ongoing economic advantages are expected to flow from this rationalisation.

### **Significant Changes in State of Affairs**

There were no significant changes in the state of affairs of the Group during the financial year not otherwise disclosed elsewhere in this report.

### **Principal Activities**

The principal activities of the entities within the Group during the course of the financial year ended 31 January 2011 were the manufacture, marketing and wholesale distribution of pharmaceutical products through the pharmacy and grocery sales channels and the provision of services to retail pharmacists.

On 31 January 2011, the Group sold its Pharmaceutical Division, a separate reportable segment (see Note 3). The results for the year ended 31 January 2011 include a full year of activities from the Pharmaceuticals Division as discontinued operations. For the next financial year, the Group's principal activities will be the wholesale distribution of pharmaceutical products to pharmacies and the provision of retail services to pharmacists.

There were no other significant changes in the nature of the activities of the Group during the year not otherwise mentioned in this report.

### **Events Subsequent to the Reporting Date**

On 9 February 2011, the Group fully repaid its Sigma Rewards debtors securitisation facility (see Note 37).

On 16 March 2011, the Group closed out its remaining interest rate swap over a notional principal of \$50,000,000 (see Note 36).

On 24 March 2011, the Group finalised the extension of its existing Waratah debtors securitisation facility.

No other matter or circumstance has arisen since 31 January 2011 that has significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years not otherwise disclosed above.

### **Dividends**

Since the end of the financial year the Directors have declared a special dividend of \$176,794,000 to be paid at a rate of 15 cents per ordinary share. The dividend is expected to be paid on 11 May 2011 to shareholders on the register at the record date of 11 April 2011. This dividend will be fully franked at the 30% corporate tax rate in Australia. The Company had sufficient net assets at date of declaration of dividend.

No interim dividends were paid during the financial year.

### **Likely Developments and Expected Results of Operations**

Further information regarding likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because the Directors believe disclosure of such information would be likely to result in unreasonable commercial prejudice to the Group.

### **Environmental Regulation**

The Group is required to observe legislation and codes of practice prescribed by the various authorities, including those prescribed by the Environmental Protection Agency. Management ensures that licenses and permits required by local, state and federal bodies are in place. The Company maintains contact with regulatory authorities to ensure its operations maintain compliance and applicable environmental requirements. Various authorities and trading partners inspect the Group's facilities, including reviewing the environmental impact of the operations. The Group has not been prosecuted nor received any notification of intention to prosecute for any failure to comply with environmental regulations. The Group is in the eleventh year of reporting through the National Pollution Inventory for Medicinal and Pharmaceutical Product Manufacturing at the relevant manufacturing sites. All relevant manufacturing sites have been registered, and comply with the relevant state legislation associated with cooling towers. The Directors are not aware of any material issues affecting the Group or its compliance with the relevant environmental agencies or regulatory authorities.

## Directors' Report (continued)

### Board and Committee Meeting Attendance

The table below shows the attendance of Directors of the Company at meetings of the Board and its Committees (where the director was a committee member) during the year.

Directors	Board of Directors' Meetings (Monthly Scheduled)		Board of Directors' Meetings (Unscheduled)		Risk Management and Audit Committee Meetings		Remuneration and Nominations Committee Meetings	
	No. held during the term	No. attended	No. held during the term	No. attended	No. held during the term	No. of meetings attended as a committee member	No. held during the term	No. of meetings attended as a committee member
Mr B Jamieson+	12	12	53	53	9	9	1	1
Mr M Hooper ++	5	5	6	6	–	–	–	–
Ms L Nicholls, AO	12	11	53	48	14	14	–	–
Mr W Scott	12	11	53	53	–	–	4	4
Mr D Bayes	12	12	53	52	6	6	4	4
Mr D Manuel	12	12	53	53	–	–	3	3
Mr R Gunston+++	7	6	7	7	5	5	–	–
Dr J Stocker AO*	5	5	32	32	–	–	–	–
Mr E de Alwis**	6	6	46	45	–	–	–	–
Mr D Curlewis***	5	5	32	28	8	8	–	–

Risk Management and Audit Committee Members: Ms L Nicholls AO, Mr D Bayes, Mr R Gunston

Remuneration and Nominations Committee Members: Mr D Bayes, Mr W Scott, Mr D Manuel

+Mr Jamieson was appointed as Chairman of the Board of Directors on 21 June 2010.

++ Mr Hooper was appointed CEO Managing Director of the Board of Directors on 30 August 2010.

+++Mr Gunston was appointed a Non-Executive Director of the Board of Directors on 01 July 2010.

\* Dr Stocker retired as Chairman and Non-Executive Director of the Board on 21 June 2010.

\*\* Mr de Alwis resigned as CEO & Managing Director of the Board of Directors on 13 August 2010.

\*\*\* Mr Curlewis resigned as a Non-Executive Director of the Board on 21 June 2010.

### Directors' and Officers' Indemnities and Insurance

As provided under the Constitution, the Company indemnifies Directors and officers to the extent permitted by law for any liability incurred to persons other than the Company or its related bodies corporate in their capacity as Directors or officers unless the liability arises out of conduct involving a lack of good faith.

During the year, the Company paid a premium in respect of a contract insuring its Directors and officers against a liability of this nature. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amounts of premiums paid are confidential.

### Non-Audit Services

The Company's Risk Management and Audit Committee ("RMAC") is responsible for the maintenance of auditor independence.

Specifically, the RMAC Charter ensures the independence of the auditor is maintained by:

- a) Limiting the scope and nature of non-audit services that may be provided; and
- b) Requiring that permitted non-audit services must be pre-approved by the RMAC.

The RMAC has reviewed a summary of all non-audit services provided by the external auditors for the financial year ended 31 January 2011. The RMAC has confirmed that the provision of these services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and that the nature and scope of non-audit services provided did not compromise auditor independence. This has been formally advised to the Board of Directors by the RMAC.

Details of the amounts paid or payable to the Group's external auditor, PricewaterhouseCoopers, for both audit and non-audit services are provided in the table below:

Consolidated	2011 \$
<b>Audit services</b>	
Audit and review of the 2009/2010 financial statements by PricewaterhouseCoopers, Australia	607,964
Audit and review of the 2010/2011 financial statements by PricewaterhouseCoopers, Australia	589,000
<b>Other services</b>	
Other assurance services	84,427
Tax compliance services provided by PricewaterhouseCoopers, New Zealand	8,266
<b>Total remuneration</b>	<b>1,289,657</b>

### Auditor's Independence Declaration

The Company's lead auditor has provided a written declaration under Section 307C of the *Corporations Act 2001* that to the best of her knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporation Act 2001* in relation to the audit; and
- the applicable code of professional conduct in relation to the audit.

A copy of this declaration is contained on page 42.

### CEO & Managing Director and Chief Financial Officer Declaration

The CEO & Managing Director and the Chief Financial Officer have given a declaration to the Board concerning the Group's financial statements under section 295A(2) of the *Corporations Act 2001* and recommendations 4.1 and 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations in regard to the integrity of the financial statements.

### Directors' and Executive Officers' Remuneration Policy

Details of the Group's remuneration policy in respect of the Directors and Senior Managers are included in the Remuneration Report on pages 26 to 41. Details of the remuneration paid to each Non-Executive Director, the CEO & Managing Director and other Senior Managers are detailed in the Remuneration Report. The Remuneration Report is incorporated in and forms part of this Directors' Report.

### Rounding

The Company is of the kind referred to in the Australian Securities and Investments Commission Class Order No. 98/100 and in accordance with this Class Order, amounts in the financial statements and this report have been rounded off to the nearest thousand dollars, unless specifically stated to be otherwise.

The Directors' Report is made in accordance with a resolution of the Board of Directors, and signed for and on behalf of the Directors by:



**Mr Brian Jamieson**  
Chairman



**Mr Mark Hooper**  
CEO & Managing Director

Melbourne  
28 March 2011



# Remuneration Report 2010–11

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## 1. Introduction

This Remuneration Report ("report") sets out the Company's Remuneration Framework and its application for the financial year ended 31 January 2011 ("financial year"). The Board is committed to clear and transparent disclosure of the Company's remuneration arrangements and this report outlines for shareholders the key structures, decisions and outcomes regarding Non-Executive Director and Executive remuneration for the financial year.

This report is prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and its subsidiaries. This report has been audited by the Company auditors, PricewaterhouseCoopers, as required by section 308(3C) of the *Corporations Act 2001*.

A number of key events occurred during the financial year, which have impacted the remuneration of Non-Executive Directors and Executives, in particular:

- Retirement of Dr John Stocker as Chairman, effective 21 June 2010
- Retirement of Mr Doug Curlewis as Non-Executive Director, effective 21 June 2010
- Appointment of Mr Brian Jamieson as Chairman, effective 21 June 2010
- Resignation of Mr Elmo de Alwis as CEO & Managing Director, effective 13 August 2010
- Appointment of Mr Mark Hooper as CEO & Managing Director, effective 30 August 2010
- Resignation of Mr Mark Smith as Chief Financial Officer, effective 12 May 2010
- Appointment of Mr Jeff Sells as Chief Financial Officer, effective 30 August 2010
- Sale of Sigma Pharmaceuticals (Australia) Pty Ltd to Aspen Pharmacare Holdings Limited.

### Former Chairman

After more than 11 years tenure as Chairman, Dr John Stocker retired from the Board, effective 21 June 2010. Upon retirement, Dr Stocker received a cash payment of \$22,084.16 in lieu of shares due to the temporary suspension of the Non-Executive Director Share Plan. Dr Stocker also received a payment of \$478,762 in accordance with the now

discontinued Non-Executive Directors' Retirement Plan. The remuneration paid to the former Chairman is set out in Table 1 on page 36.

### Appointment of new Chairman

The Board appointed Mr Brian Jamieson Chairman, effective 21 June 2010. Upon his appointment, Mr Jamieson's base fees increased to the existing rate applicable to the position of Chairman and Mr Jamieson ceased receiving any committee fees. The remuneration paid to the incoming Chairman is set out in Table 1 on page 36.

### Former CEO & Managing Director

After in excess of 33 years tenure with the Company, Mr Elmo de Alwis tendered his resignation from the position of CEO & Managing Director, effective 13 August 2010. Upon termination Mr de Alwis was paid his statutory entitlements of annual leave and long service leave, totalling \$472,582.28. Additionally on termination Mr de Alwis was paid an amount equivalent to 12 months fixed remuneration (\$1,025,000) to cover mutually agreed terms. Upon termination the following entitlements were forfeited:

- 2010/11 Short-Term Incentive Plan – no payments were made under this plan
- 2007, 2008, and 2009 Long-Term Incentive Plans; totalling 1,037,468 Performance Rights – no payments or share issues were made under any of these plans.

The remuneration paid to the former CEO & Managing Director is set out in Table 1 on page 36.

### Appointment of new CEO & Managing Director

The Board appointed Mr Mark Hooper as CEO & Managing Director, effective 30 August 2010. Mr Hooper's fixed remuneration is \$1,050,000 (inclusive of superannuation), which is largely consistent with the previous incumbent. Mr Hooper is entitled to earn up to an additional 100% of base salary as part of the annual Short-Term Incentive Plan and up to an additional 60% of base salary in an annual Long-Term Incentive Plan (3 year vesting period), consistent with the previous incumbent.

Prior to accepting the appointment of CEO & Managing Director with Sigma, Mr Hooper was securely employed in a senior executive position with another company. The offer of employment with

Sigma at the time included a degree of risk due to the financial performance of the Company and the threat of a takeover or significant divestment. In order to attract a high-calibre CEO & Managing Director during this very challenging period for the Company, and to offset forfeited remuneration from his previous employer, Mr Hooper was paid a one-off cash sign-on bonus of \$400,000 (no superannuation payable). Mr Hooper was also awarded an equity sign-on bonus of \$1,000,000 worth of rights to shares in the Company or cash and provided Mr Hooper remains employed by the Company, 100% of the performance rights (or cash) will vest in 3 years.

The remuneration paid to the incoming CEO & Managing Director is described further in section 6 on page 32 and set out in Table 1 on page 36.

### Former Chief Financial Officer

After 2 years service to the Company, Mr Mark Smith tendered his resignation from the position of Chief Financial Officer, effective 12 May 2010. Upon termination Mr Smith was paid his statutory entitlements of annual leave, totalling \$38,584.37. Additionally on termination Mr Smith was paid an amount equivalent to 6 months fixed remuneration (\$222,059.78) to cover mutually agreed terms. Upon termination the following entitlements were forfeited:

- 2010/11 Short-Term Incentive Plan – no payments were made under this plan
- 2008, and 2009 Long-Term Incentive Plans; totalling 313,733 Performance Rights – no payments or share issues were made under any of these plans

The remuneration paid to the former Chief Financial Officer is set out in Table 2 on page 38.

### Appointment of new Chief Financial Officer

Mr Jeff Sells was appointed Chief Financial Officer, effective 30 August 2010. Mr Sells' fixed remuneration is \$450,000 (inclusive of superannuation), which is largely consistent with the previous incumbent. Mr Sells will also be able to earn up to an additional 30% of fixed remuneration as part of the annual Short-Term Incentive Plan and up to an additional 40% of fixed remuneration in an annual Long-Term Incentive Plan (3 year vesting period), consistent with the previous incumbent.

## Remuneration Report (continued)

In order to entice a high-calibre Chief Financial Officer to join the Company during a challenging period, Mr Sells was awarded an equity sign-on bonus of \$250,000 worth of rights to shares in the Company and provided Mr Sells remains employed by the Company, 100% of the performance rights will vest in 3 years.

The remuneration paid to the incoming Chief Financial Officer is described further in section 7 on pages 32–35 and set out in Tables 2 and 5 on pages 38 and 40.

### Sale of Sigma Pharmaceuticals (Australia) Pty Ltd to Aspen Pharmacare Holdings Limited

The sale of Sigma Pharmaceuticals (Australia) Pty Ltd has resulted in several Executives transferring out of the Sigma Group of Companies and into the Aspen Group of Companies, effective 31 January 2011. The Board, using its discretion, determined that transferring Executives would continue to be eligible for payment under the 2010/11 Executive Short-Term Incentive Plan (STI), contingent upon whether the Executive met or exceeded pre-determined Key Performance Indicators (KPIs), given the sale occurred on the last day of the relevant financial year. This resulted in total STI payments to transferring Key Management Personnel of \$94,490.

Upon completion of the audit of the Company's financial result for the financial year, the performance conditions of the 2008 and 2009 Executive Long-Term Incentive Plans (LTI) will be assessed and, where the performance conditions were being met, pro rata vesting of performance rights will occur for transferring Executives.

## 2. Key Management Personnel

For the purpose of this report "Key Management Personnel" are defined as persons having authority and responsibility for planning, directing and controlling the major activities of the Company and Group, and include:

- a) all Executive and Non-Executive Directors of the Company ("Directors"); and
- b) those Executives who have the responsibility and authority for planning, directing and controlling the activities of the Company or the Group, directly or indirectly, during the financial year ("Key Executive Personnel"). For the purposes of this report, Key Executive Personnel also includes the five highest remunerated company executives.

The following Directors and Key Executive Personnel were the Key Management Personnel during the financial year.

<b>Non-Executive Directors</b>		
Mr B Jamieson	Chairman	Elected Chairman 21 June 2010
Dr J Stocker, AO	Chairman	Retired 21 June 2010
Mr D Bayes	Non-Executive Director	
Mr D Curlewis	Non-Executive Director	Retired 21 June 2010
Mr R Gunston	Non-Executive Director	Commenced 1 July 2010
Mr D Manuel	Non-Executive Director	
Ms L Nicholls, AO	Non-Executive Director	
Mr W Scott	Non-Executive Director	
<b>Executive Directors</b>		
Mr E de Alwis	CEO & Managing Director	Resigned 13 August 2010
Mr M Hooper	CEO & Managing Director	Commenced 30 August 2010
<b>Executives</b>		
Mr I Finlay	General Manager Operations	Transferred to Aspen 31 January 2011
Mr K Jeffs	General Manager Medical	Transferred to Aspen 31 January 2011
Mr J Sells	Chief Financial Officer	Commenced 30 August 2010
Mr M Smith	Chief Financial Officer	Resigned 12 May 2010
Mr P Tilley	General Manager Retail Operations	
Ms J Toh	Chief Information Officer and General Manager Wholesale	Resigned 5 January 2011
Mr S Waller	General Manager Consumer	Transferred to Aspen 31 January 2011

### 3. Remuneration Objectives

The fee structure for Non-Executive Directors outlined in section 5 is designed to set aggregate fees at a level which allows the Company to attract and retain high-calibre Non-Executive Directors, whilst ensuring fees remain consistent with other ASX listed companies of similar size. The maximum aggregate fee limit for Non-Executive Directors is approved by shareholders.

The remuneration structure for the CEO & Managing Director and Executives comprises fixed remuneration, and at-risk remuneration which is only payable upon the attainment of performance targets. The objective of the at-risk remuneration component of Executive remuneration is to link reward to the achievement of the Company's annual performance objectives and longer term strategic goals, thus aligning the interests of Executives and shareholders. At-risk remuneration consists of both short-term and long-term incentives.

#### 3.1 Remuneration Framework and Relationship to Company Performance

The Executive Remuneration Framework is designed to align Executive remuneration with personal performance, achievement of strategic objectives and the creation of value for shareholders.

Executive Total Reward comprises Fixed Remuneration and At-Risk Remuneration, which is made up of Short-Term Incentives (STI) and Long-Term Incentives (LTI).

Total Reward						
Fixed Remuneration (cash + superannuation)	+	Short-Term Incentive (STI)	+	Long-Term Incentive (LTI)	=	Total Reward (TR)
Fixed Remuneration	At-Risk Remuneration					

An appropriate target reward mix is determined for each management level with at-risk rewards increasing with the level of responsibility and criticality of the employee's role. The target Total Reward mix for the CEO & Managing Director and Key Executive Personnel is as follows.

Total Reward Mix			
Level	Fixed (%)	STI (%)	LTI (%)
CEO & Managing Director	38%	38%	24%
Key Executive Personnel	58%	18%	24%

In previous years, eligibility for STI payment only arose when the Company's Net Profit After Tax (NPAT) met or exceeded the budget approved by the Board. In order to continue to motivate and retain the Executive team during a challenging period for the Company, the Board, using their discretion, suspended this for the financial year. While the hurdle was suspended, no Executive received any STI payments in respect of the NPAT KPI, which equated to forfeiting 50% of their potential STI. The extent to which the remaining 50% of the STI was payable was calculated on the Executives' ability to meet or exceed their individual KPIs.

The 2007 Executive Long-Term Incentive Plans lapsed and were cancelled during the financial year as a result of the performance measures not being met. The Executives have not and will not receive any payment or shares under these plans. No awards were granted or paid under any other Executive Long-Term Incentive Plan during the financial year.

## Remuneration Report (continued)

The table below contains an overview of the Company's performance against key annual financial performance indicators over the past 5 years:

Financial Performance Indicator	Financial Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
Closing share price \$	2.65	1.50	1.20	0.935	0.445
Ordinary dividends paid (cents per share)	8.75	7.0	7.0	3.0	–
Special dividends paid (cents per share)	–	–	–	–	15.0
Basic EPS (cents per share)	10.8	8.5	9.4	(41.7)	(20.2)
EBIT (\$m)	168.2	158.6	190.3	(322.1)	(159.0)
NPAT (\$m)	101.8	77.2	80.1	(398.2)	(235.4)

As a result of the Company's financial performance no payments have been made to the CEO & Managing Director and Executives under the Executive Short-Term Incentive Plan for the 2007/08, 2008/09 and 2009/10 financial years. During 2010/11 pro-rata STI payments were made to the new CEO & Managing Director and CFO. In addition, the remaining Executives were only eligible to earn up to 50% of their STI based on their ability to meet or exceed their personal and business unit KPIs; the remaining 50% of their STI was forfeited due to the Company not meeting the budgeted NPAT KPI for the financial year.

No performance rights or options have vested for the CEO & Managing Director or Executives during the past six financial years due to the performance conditions not being met.

The remuneration paid to Key Management Personnel during the financial year is set out in Tables 2 and 3 on page 38.

### 4. Remuneration and Nomination Committee

The responsibilities of the Remuneration and Nomination Committee are governed by its Charter (available at <http://www.sigmaco.com.au/corporategovernance.cfm>), which was developed in line with ASX Corporate Governance Principles and Recommendations and the Business Council of Australia Guidelines. The Charter specifies the purpose, authority, membership and activities of the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee is responsible for providing recommendations to the Board in regard to the remuneration strategy, policies and practices applicable to Non-Executive Directors, the CEO & Managing Director, and Executives.

The Remuneration and Nomination Committee comprises three independent Non-Executive Directors, namely a Chairman and two members. Mr Brian Jamieson ceased as Chairman of the Remuneration and Nomination Committee upon his appointment as Chairman of the Board in June 2010. Mr David Bayes was then elected Chairman of the Remuneration and Nomination Committee. The Committee members for the financial year were as follows:

Remuneration and Nomination Committee		
Name	Position	Member from
Mr B Jamieson	Chairman	December 2005 – June 2010
Mr D Bayes	Chairman	June 2007
Mr W Scott	Member	December 2005
Mr D Manuel	Member	July 2010

The Remuneration and Nomination Committee invites the Chairman of the Board and Board members to assist in deliberations and the review of policies and practices. The CEO & Managing Director and National Human Resources Manager provide input into the operations of the Committee and attend Committee meetings. Decisions made by the Committee regarding an individual Executive's remuneration are made without that Executive being present.

Specialist remuneration advice is obtained from independent external advisors to ensure the Company's remuneration practices are consistent with the external market.

The Remuneration and Nomination Committee met four times during the financial year.



## 5. Remuneration – Non-Executive Directors

Remuneration for the Company's Non-Executive Directors is set at levels that fairly reflect the size and complexity of the Company's operations as well as the responsibilities, accountabilities and time commitments of the Directors. To ensure objectivity and impartiality, the remuneration of Non-Executive Directors is not linked to the performance of the Company. Non-Executive Directors do not receive any performance related remuneration and are not entitled to receive performance shares, rights or options over the Company's shares.

Remuneration for the Non-Executive Directors consists of base fees, committee fees and superannuation within a current aggregate fees maximum limit of \$1,100,000, set at the 2007 Annual General Meeting. The total fees paid to Non-Executive Directors for the financial year were \$1,053,434 including superannuation but excluding other on costs as set out in Table 1 on page 36.

Non-Executive Director Fee Rates	
Role	Annual Fee
Chairman	\$282,000
Non-Executive Director	\$110,000
Risk Management and Audit Committee – Chair	\$46,000
Remuneration and Nominations Committee – Chair	\$23,000
Risk Management and Audit Committee – Member	\$11,500
Remuneration and Nomination Committee – Member	\$6,000

The Remuneration and Nomination Committee reviews Non-Executive Director fees annually and submits recommendations to the Board for approval. For the second consecutive year, no increase to Non-Executive Director fees was sought during the financial year.

The Non-Executive Directors' Share Plan was approved by shareholders at the Annual General Meeting in 1998. The Non-Executive Directors' share plan requires that at least 25% of each Non-Executive Director's fees be taken in the form of shares, purchased on market (adjusted according to the highest personal income tax rate and Medicare levy, as per the Plan rules). Table 6 on page 41 sets out the equity holding of all Non-Executive Directors.

In January 2006, the Non-Executive Directors resolved to discontinue the Directors' retirement benefit plan. Benefits accrued under the plan were calculated and, at the choice of the relevant Director, converted into shares or paid into the Director's superannuation fund. The table below sets out the balance of accrued retirement benefits for Non-Executive Directors under the discontinued Directors' retirement benefit plan.

Non-Executive Director	Financial Year	\$ Accumulated Retirement Benefits Balance at 01/02/10	\$ Increase in Retirement Benefits	\$ Retirement Benefits Paid	\$ Accumulated Retirement Benefits Balance at 31/01/11
Dr J Stocker, AO	2010/11	471,345	7,417	478,762	–
	2009/10	456,062	15,283	–	471,345
Mr D Bayes	2010/11	–	–	–	–
	2009/10	–	–	–	–
Mr D Curlewis	2010/11	–	–	–	–
	2009/10	–	–	–	–
Mr R Gunston	2010/11	–	–	–	–
	2009/10	–	–	–	–
Mr B Jamieson	2010/11	–	–	–	–
	2009/10	–	–	–	–
Ms L Nicholls, AO	2010/11	161,842	7,123	–	168,965
	2009/10	156,595	5,247	–	161,842
Mr D Manuel	2010/11	–	–	–	–
	2009/10	–	–	–	–
Mr W Scott	2010/11	–	–	–	–
	2009/10	–	–	–	–
<b>Total</b>	<b>2010/11</b>	<b>633,187</b>	<b>14,540</b>	<b>478,762</b>	<b>168,965</b>
	2009/10	612,657	20,530	–	633,187

## Remuneration Report (continued)

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### 6. Remuneration – CEO & Managing Director

The remuneration objective for the CEO & Managing Director is to provide a demonstrable link between the level of reward and the achievement of strategic objectives and creation of value for shareholders. The CEO & Managing Director's remuneration package contains Fixed Remuneration, a performance related cash Short-Term Incentive, and an equity based Long Term Incentive.

The Fixed Remuneration for the CEO & Managing Director comprises base salary, company superannuation contributions, and voluntary superannuation contributions. Mr Hooper was paid Fixed Remuneration of \$467,438 during the financial year (including base salary and superannuation). Mr Hooper's Fixed Remuneration is reviewed annually. There are no guaranteed salary increases fixed in Mr Hooper's service contract.

Mr Hooper participated in a Short-Term Incentive (STI) program during the financial year. The STI maximum set by the Remuneration and Nomination Committee was 100% of Fixed Remuneration for Mr Hooper, paid on a pro-rata basis in recognition that Mr Hooper commenced part way through the financial year. Mr Hooper's KPIs were specifically developed to capture the critical activities that needed to occur from the time of his commencement until the end of the financial year. As such, NPAT (for this period only) was not a KPI for Mr Hooper. Mr Hooper was awarded an STI payment of \$415,625 in relation to the financial year.

Upon commencement, Mr Hooper was awarded an equity sign-on bonus in the form of an Executive Long-Term Incentive Plan to the value of \$1,000,000 worth of rights to shares in the Company, or cash. The number of performance rights is calculated as \$1,000,000 divided by the average closing price of the shares in the Company over the five trading days immediately preceding the announcement of the bid by Aspen Pharmacare Holdings Limited to purchase Sigma Pharmaceuticals Limited. Provided Mr Hooper remains employed by the Company, 100% of the performance rights (or cash) will vest in 3 years. During the 2011/12 financial year Mr Hooper will be invited to participate in an annual LTI Plan which will provide him with the opportunity to earn up to 60% of Fixed Remuneration in the form of an equity based LTI with a 3 year vesting period.

Table 1 on page 36 sets out the details relating to Mr Hooper's remuneration.

### 7. Remuneration – Executives

The Executive Remuneration framework is designed to ensure that Executive remuneration packages accurately reflect the Executive's level of experience and responsibility, as well as their individual performance and the performance of the Company. The key principles are:

- provide market competitive remuneration to attract, motivate and retain high-calibre Executives
- link at-risk Executive reward to the achievement of the Company's annual performance objectives and the creation of longer term shareholder value
- motivate and reward superior performers with fair, consistent and competitive incentives.

Executives receive a remuneration package comprising Fixed Remuneration, a performance related cash Short-Term Incentive, and an equity based Long-Term Incentive.

#### 7.1 Fixed Remuneration

Fixed Remuneration for the Executives is made up of base salary, company superannuation contributions, and other benefits such as company vehicles, novated lease vehicles and car allowances.

When determining the appropriate Fixed Remuneration for an Executive, consideration is given to the complexity of the role, experience of the employee, performance of the employee, as well as internal and external relativities within the market. External market data is used to benchmark salary levels within similar industries as well as the general market within Australia.

The Fixed Remuneration for the Executives is reviewed annually. The Fixed Remuneration review takes into account any changes in the scope of the role performed by the individual, the performance of the individual and any changes required to meet the principles of the Remuneration Policy. There are no guaranteed salary increases fixed in any Executive service contracts or for any salaried employee.

An overview of the actual Fixed Remuneration paid during the financial year to the Executives identified as Key Management Personnel is as follows:

	\$ Salary	\$ Non- Monetary Benefits	\$ Superannuation Benefits	\$ Total Fixed Remuneration Paid
<b>Executives</b>				
Mr I Finlay	374,759	31,517	14,892	421,167
Mr K Jeffs	282,801	4,757	14,892	302,449
Mr J Sells	197,042	1,982	6,450	205,474
Mr P Tilley	373,953	4,757	14,892	393,602
Mr S Waller	343,285	31,757	14,892	389,934
<b>Total</b>	<b>1,571,840</b>	<b>74,770</b>	<b>66,018</b>	<b>1,712,626</b>

## 7.2 Short-Term Incentive

The Executives participated in the Short-Term Incentive (STI) program during the financial year. The incentive maximum set by the Remuneration and Nomination Committee remained at 30% of Fixed Remuneration as per the previous year. The incoming Chief Financial Officer was entitled to a pro-rata STI payment as he commenced part way through the financial year. The level of STI payment made to each Executive is calculated based on the Executive's ability to meet or exceed a series of Company and individual Key Performance Indicators.

For all Executives (excluding the Chief Financial Officer), half of the STI was weighted towards the Company's key financial metric of Net Profit After Tax (NPAT) and the remaining half was weighted towards Individual KPIs. The Executives forfeited 50% of their possible STI payment as a result of the Company not achieving the budgeted NPAT KPI. The extent to which the remaining 50% of the STI was payable was contingent upon the Executives' ability to meet or exceed their personal and business unit KPIs.

The KPIs for the incoming Chief Financial Officer were specifically developed to capture the critical activities that needed to occur from the time of his commencement until the end of the financial year. As such, NPAT (for this period only) was not a KPI for the incoming Chief Financial Officer.

STI payments for the Executives are recommended by the Remuneration and Nomination Committee to the Board for approval following Board approval of the Company's annual audited financial statements. The STI plan for the Executives is payable during April of each year. Typically the Executives must be employed by the Company at the time incentive payments are made in order to be eligible to receive an incentive payment. However, at the Board's discretion it was deemed appropriate to make STI payments to Executives who transferred to Aspen upon completion of the sale of the Pharmaceutical Division. This was deemed appropriate as it was a mechanism to ensure the transferring Executives remained motivated to perform well for Sigma during the sale process and it also recognised the fact that the transferring Executives worked for Sigma during the entire financial year as the sale completed on 31 January 2011.

The Remuneration and Nomination Committee has assessed the performance of the Executives against the Company and individual KPIs for the financial year and awarded total STI payments of \$192,536. The payments made to the Key Management Personnel are as follows:

	\$ 2009/10 STI Payment	\$ 2010/11 STI Payment
<b>Executives</b>		
Mr J Sells	NA	56,250
Mr P Tilley	-	41,796
<b>Former Executives</b>		
Mr I Finlay	-	32,480
Mr K Jeffs	-	32,175
Mr M Smith	-	Ineligible
Ms J Toh	-	Ineligible
Mr S Waller	-	29,835
<b>Total</b>	<b>-</b>	<b>192,536</b>

## Remuneration Report (continued)

### 7.3 Long-Term Incentive

The Long Term Incentive Plan (LTI) is designed to link Executive reward with the key performance drivers that underpin sustainable growth in shareholder value. The equity nature of this program ensures there is alignment in the values and behaviours of the Executives with those of shareholders. Since August 2006, the Board has approved an annual LTI for the Executives based on Performance Rights.

The Performance Rights granted under the LTI are personal to the recipient and cannot be sold, transferred, mortgaged, charged, hedged, made subject to any margin lending arrangement or otherwise disposed of, dealt with or encumbered in any way. Breach of this provision will result in the Performance Rights lapsing immediately, so that no shares will be allocated or monies paid in respect of those Performance Rights.

#### Performance Rights granted to Chief Financial Officer upon commencement

Upon commencement, Mr Sells was awarded an equity sign on bonus, in the form of an Executive Long-Term Incentive Plan (LTI) to the value of \$250,000 worth of rights to shares in the Company. The number of performance rights is calculated as \$250,000 divided by the average closing price of the shares in the Company over the five trading days immediately preceding the announcement of the bid by Aspen Pharmacare Holdings Limited to purchase Sigma Pharmaceuticals Limited and provided Mr Sells remains employed by the Company, 100% of the performance rights will vest in 3 years.

Table 5 on page 40 sets out the details relating to the performance rights granted to Mr Sells as part of this LTI plan.

#### Performance Rights granted in October 2007, October 2008 and November 2009

In 2007, 2008 and 2009, the Board approved the issue of performance rights to Executives. Each performance right entitled the Executive to be provided with one fully paid ordinary share in the Company upon exercise.

The Executive Long-Term Incentive plans are subject to two separate performance conditions, relating to relative Total Shareholder Return (TSR) performance and Earnings Per Share (EPS). Each performance condition applies to one half (50%) of the total number of performance rights granted to the Executive.

TSR was selected as an appropriate performance measure as it aligns the interest of shareholders and Executives by linking rewards to the level of return that shareholders make on their investment in the Company. EPS was selected as an appropriate performance measure as it provides a true measure of the underlying profitability of the Company.

The relative TSR performance condition is assessed three (3) years from the grant date and is calculated on the basis of the Company's relative TSR ranking at the end of that period (using the average closing share price over the three (3) month period prior to that date) in comparison with the TSR performance of the comparator group of companies (S&P/ASX 100 index for the 2007 and 2008 LTI plans; S&P/ASX 200 index for the 2009 LTI plan) over the same period. The Company's relative TSR ranking must be, as a minimum, at the 50th percentile of the comparator group of companies at the end of the performance period to permit vesting of any performance rights that are subject to the relative TSR performance measure.

The second performance condition requires an increase in the Company's EPS. It depends on the average compound growth rate in the Company's basic EPS over the three (3) year period commencing from the end of the financial year preceding the Grant Date.

The percentage of performance rights which vest depends on the percentage average compound growth rate in EPS. A minimum average annual compound growth rate of 9% in EPS over the performance period is required before any vesting can occur. Any performance rights for which the Performance Conditions are not satisfied will expire on completion of the relevant performance period.

The performance period for the 2007 LTI plan concluded on 26 October 2010. The Company's relative TSR and EPS performance was assessed and it was determined that these performance measures were not met. Therefore, the performance rights granted under the 2007 LTI plan have lapsed and were cancelled. Therefore, no payment has been made or will be made to the Executives under this plan and no shares have been acquired.

The performance period for the 2008 and 2009 LTI plan is still in progress and no payments were made under these plans during the financial year.

The performance rights issued to, and held by, Key Executive Personnel can be found in Tables 4 and 5 on page 40.

### 7.4 Other Employees

All salaried positions within the Company are valued based on job evaluation methodology, and allocated into job grades accordingly. The evaluation process takes into account the size of the role, the accountabilities, the complexity of the role as well as the experience required to perform the role at a satisfactory level. The remuneration of the job grades takes into account the level of the role and external factors such as economic conditions and market rates. Therefore, a salaried employee's position in the job grade is determined by internal and external relativities, performance and experience.

The remuneration of all salaried roles is reviewed annually. There are no guaranteed remuneration increases fixed in any salaried employee's service contracts.

The Company has a performance oriented culture that the remuneration policies drive and support. The Company encourages all employees at all levels to hold shares in Sigma, to align their interests with those of the shareholders. In 2009, the Company offered all employees (except Non-Executive Directors and CEO & Managing Director), the opportunity to buy 4,000 Sigma shares with an interest free loan, and had a take up of 755 acceptances for a total of 2,954,000 shares. Due to the sale of the Pharmaceutical Division, an Employee Share Plan was not deemed appropriate for the financial year; however, future offers remain a key aspect of the Company's Remuneration Policy.

## 8. Service Agreements

### 8.1 Non-Executive Directors

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of Director.

### 8.2 CEO & Managing Director

Mr Mark Hooper, CEO & Managing Director, is the only Executive Director in office. Mr Hooper entered into a contract of employment upon commencing as CEO & Managing Director of the Company on 30 August 2010.

Mr Hooper's contract of employment may be terminated by the Company without cause on the provision of twelve months' notice. Mr Hooper can terminate the contract without cause on the provision of six months' notice. If the Company were to terminate the employment of Mr Hooper, it could, at its discretion, make a payment in lieu of notice equivalent to the amount Mr Hooper would have earned had he served out his notice period.

Notice Period			
CEO & Managing Director	Commencement Date	Notice Period by Company	Notice Period by Employee
Mr M Hooper	30 August 2010	12 months	6 months

### 8.3 Executives

Remuneration and employment arrangements for each Executive are detailed in individual service contracts. Service contracts specify the components of remuneration to be paid to the Executive and the terms of employment. Remuneration levels are reviewed each year and take into account performance, economic factors, changes in the scope of the role and market based changes. There are no set increases for remuneration.

Termination of employment for Executives is made in accordance with contractual obligations or in accordance with legal advice. Service contracts generally do not have fixed terms but provide for minimum periods of notice. Each contract provides for termination of employment without notice in circumstances sufficient to warrant summary termination.

Notice Period			
Key Executive Personnel	Commencement Date	Notice Period by Company	Notice Period by Employee
Mr I Finlay	27 January 2009	6 months	3 months
Mr K Jeffs	22 April 2009	6 months	3 months
Mr J Sells	30 August 2010	12 months	3 months
Mr P Tilley	25 June 2007	6 months	3 months
Mr S Waller	29 January 2008	6 months	3 months

### 8.4 Other Employees

Salaried employees are employed under individual letters of offer that stipulate the terms of employment and the components of their remuneration package.

Non-salaried employees are covered by a range of Workplace Agreements. Details of the Workplace Agreements are available on the Fair Work Australia internet site [www.fwa.gov.au](http://www.fwa.gov.au)

## 9. Loans to Directors and Executives

There were no loans to the Directors during the financial year.

There were no loans to Executives during the financial year, except as allowed under the Employee Share Plan.

Remuneration Report (continued)

**Table 1: Directors' Remuneration – Year Ended 31 January 2011**

	Financial Year	Short-Term Benefits					Non-Monetary Benefits <sup>2</sup>	
		Salary and Base Fees	Committee Fees	Short-term Incentives <sup>1</sup>	Sign-On Cash Payments			
		\$	\$	\$	\$	\$		
<b>Managing Director</b>								
Mr M Hooper <sup>5</sup>	2010/11	460,990	–	415,625	400,000	1,982		
	2009/10	–	–	–	–	–		
<b>Former Managing Director</b>								
Mr E de Alwis <sup>6</sup>	2010/11	505,596	–	–	–	16,037		
	2009/10	965,706	–	–	–	28,359		
<b>Non-Executive Directors</b>								
Mr B Jamieson	2010/11	217,883	13,313	–	–	4,757		
	2009/10	110,000	34,500	–	–	3,361		
Mr D Bayes	2010/11	110,000	23,502	–	–	4,757		
	2009/10	110,000	6,000	–	–	3,361		
Mr R Gunston <sup>8</sup>	2010/11	64,167	6,708	–	–	2,775		
	2009/10	–	–	–	–	–		
Mr D Manuel	2010/11	110,000	3,685	–	–	4,757		
	2009/10	29,615	–	–	–	840		
Ms L Nicholls, AO	2010/11	110,000	46,000	–	–	4,757		
	2009/10	109,998	46,000	–	–	3,361		
Mr W Scott	2010/11	110,000	6,000	–	–	4,757		
	2009/10	109,998	6,000	–	–	3,361		
<b>Former Non-Executive Directors</b>								
Dr J Stocker, AO <sup>9</sup>	2010/11	110,269	–	–	–	1,863		
	2009/10	282,000	–	–	–	3,361		
Mr D Curlewis <sup>9</sup>	2010/11	43,013	4,792	–	–	1,863		
	2009/10	110,000	11,500	–	–	3,361		
<b>Total Directors</b>	2010/11	<b>1,841,917</b>	<b>104,000</b>	<b>415,625</b>	<b>400,000</b>	<b>48,305</b>		
	2009/10	1,827,317	104,000	–	–	49,365		

1. Represents amounts in respect of the Short-Term Incentive Plan at year end as described in section 7.

2. Non-monetary benefits include, where applicable, car allowances, non-cash benefits, fringe benefits tax paid on non-cash benefits and amounts paid for Directors' and officers' cover.

3. Interest on accrued retirement benefits as described in section 5.

4. Value of performance rights is calculated using the Monte-Carlo option pricing model. The value of performance rights under the above method is allocated evenly over the vesting period.

5. Commenced 30 August 2010.

6. Resigned effective 13 August 2010.

7. Includes annual leave and long service leave accruals of \$472,582.28 and 12 months fixed remuneration of \$1,025,000.

8. Commenced 1 July 2010.

9. Retired effective 21 June 2010.

10. Represents cash payment in lieu of shares due to the temporary suspension of the Non-Executive Director Share Plan.

	Post-employment Benefits				Total Remuneration excluding Value in Performance Rights	Value in Performance Rights <sup>4</sup>	Total Remuneration including Value in Performance Rights
	Superannuation Benefits	Increase in Retirement Benefits	Retirement Benefits Paid <sup>3</sup>	Termination Payments			
	\$	\$	\$	\$			
	6,448	–	–	–	1,285,045	–	1,285,045
	–	–	–	–	–	–	–
	32,877	–	–	1,497,582 <sup>7</sup>	2,052,092	(317,939)	1,734,153
	24,163	–	–	–	1,018,228	388,480	1,406,708
	15,580	–	–	–	251,534	–	251,534
	10,757	–	–	–	158,618	–	158,618
	10,402	–	–	–	148,661	–	148,661
	9,038	–	–	–	128,399	–	128,399
	5,775	–	–	–	79,425	–	79,425
	–	–	–	–	–	–	–
	8,858	–	–	–	127,300	–	127,300
	2,308	–	–	–	32,763	–	32,763
	12,155	7,123	–	–	180,035	–	180,035
	11,613	5,247	–	–	176,219	–	176,219
	9,038	–	–	–	129,795	–	129,795
	9,038	–	–	–	128,397	–	128,397
	8,592	–	478,762	22,084 <sup>10</sup>	621,570	–	621,570
	15,267	15,283	–	–	315,911	–	315,911
	3,702	–	–	9,515 <sup>10</sup>	62,884	–	62,884
	9,467	–	–	–	134,328	–	134,328
	<b>113,428</b>	<b>7,123</b>	<b>478,762</b>	<b>1,529,181</b>	<b>4,938,341</b>	<b>(317,939)</b>	<b>4,620,402</b>
	91,651	20,530	–	–	2,092,863	388,480	2,481,343

Remuneration Report (continued)

**Table 2: Key Executive Personnel Remuneration – Year Ended 31 January 2011<sup>1</sup>**

	Financial Year	Short-Term Benefits					
		Salary and Base Fees	Committee Fees	Short-term Incentives <sup>3</sup>	Sign-On Cash Payments	Non-Monetary Benefits <sup>4</sup>	
		\$	\$	\$	\$	\$	
<b>Executives</b>							
Mr J Sells <sup>6</sup>	2010/11	197,042	–	56,250	–	1,982	
	2009/10	–	–	–	–	–	
Mr P Tilley <sup>7</sup>	2010/11	373,953	–	41,796	–	4,757	
	2009/10	–	–	–	–	–	
<b>Former Executives</b>							
Mr I Finlay	2010/11	374,759	–	32,480	–	31,517	
	2009/10	360,571	–	–	–	25,661	
Mr K Jeffs	2010/11	282,801	–	32,175	–	4,757	
	2009/10	196,935	–	–	–	2,521	
Mr M Smith <sup>8</sup>	2010/11	121,738	–	–	–	1,387	
	2009/10	417,874	–	–	–	3,361	
Ms J Toh <sup>9</sup>	2010/11	410,035	–	–	–	4,361	
	2009/10	407,008	–	–	–	23,654	
Mr S Waller	2010/11	343,285	–	29,835	–	31,757	
	2009/10	313,165	–	–	–	30,361	
<b>Total Key Executive Personnel</b>	2010/11	<b>2,103,613</b>	–	<b>192,536</b>	–	<b>80,518</b>	
	2009/10	1,695,553	–	–	–	85,558	

1. Includes persons who were Key Management Personnel in the year ended 31 January 2011.

2. Value of performance rights is calculated using the Monte-Carlo option pricing model. The value of performance rights under the above method is allocated evenly over the vesting period.

3. Represents amounts in respect to the Short-Term Incentive Plan at year end as described in section 7.

4. Non-monetary benefits include, where applicable, car allowances, non-cash benefits, fringe benefits tax paid on non-cash benefits and amounts paid for Directors' and officers' cover.

5. Includes, where applicable, payments for accrued annual leave and long service leave and termination payments in lieu of notice.

6. Commenced 30 August 2010.

7. Remuneration for financial year 2010/11 only included. Not a member of the Key Management Personnel in 2009/10.

8. Resigned effective 12 May 2010.

9. Resigned effective 5 January 2011.

**Table 3: Total Remuneration for Key Management Personnel – Year Ended 31 January 2011**

	Financial Year	Short-Term Benefits					
		Salary and Base Fees	Committee Fees	Short-term Incentives	Sign-On Cash Payments	Non-Monetary Benefits	
		\$	\$	\$	\$	\$	
<b>Executives</b>							
<b>Total Directors</b>	2010/11	1,841,917	104,000	415,625*	400,000*	48,305	
	2009/10	1,827,317	104,000	–	–	49,365	
<b>Total Key Executive Personnel</b>	2010/11	2,103,613	–	192,536	–	80,518	
	2009/10	1,695,553	–	–	–	85,558	
<b>Total Key Management Personnel</b>	2010/11	<b>3,945,530</b>	<b>104,000</b>	<b>608,161</b>	<b>400,000</b>	<b>128,823</b>	
	2009/10	3,522,870	104,000	–	–	134,923	

\* Short-Term Incentives and Sign-On Cash Payments were made only to the CEO & Managing Director.



Post-employment Benefits							
	Superannuation Benefits	Increase in Retirement Benefits	Retirement Benefits Paid	Termination Payments <sup>5</sup>	Total Remuneration excluding Value in Performance Rights	Value in Performance Rights <sup>2</sup>	Total Remuneration including Value in Performance Rights
	\$	\$	\$	\$	\$	\$	\$
	6,450	–	–	–	261,724	34,722	296,447
	–	–	–	–	–	–	–
	14,892	–	–	–	435,398	62,702	498,099
	–	–	–	–	–	–	–
	14,892	–	–	–	453,647	37,748	491,396
	14,371	–	–	–	400,603	6,291	406,894
	14,892	–	–	–	334,624	25,952	360,576
	11,070	–	–	–	210,526	4,325	214,851
	4,060	–	–	260,644	387,830	(60,057)	327,773
	38,853	–	–	–	460,088	49,454	509,542
	13,806	–	–	76,558	504,760	(94,409)	410,351
	14,996	–	–	–	445,658	38,840	484,498
	14,892	–	–	–	419,769	75,560	495,329
	54,163	–	–	–	397,689	44,276	441,965
	<b>83,884</b>	–	–	<b>337,202</b>	<b>2,797,753</b>	<b>82,218</b>	<b>2,879,971</b>
	133,453	–	–	–	1,914,564	143,186	2,057,750

Post-employment Benefits							
	Superannuation Benefits	Increase in Retirement Benefits	Retirement Benefits Paid	Termination Payments	Total Remuneration excluding Value in Performance Rights	Value in Performance Rights	Total Remuneration including Value in Performance Rights
	\$	\$	\$	\$	\$	\$	\$
	113,428	7,123	478,762	1,529,181	4,938,341	(317,939)	4,620,402
	91,651	20,530	–	–	2,092,863	388,480	2,481,343
	83,884	–	–	337,202	2,797,753	82,218	2,879,971
	133,453	–	–	–	1,914,564	143,186	2,057,750
	<b>197,312</b>	<b>7,123</b>	<b>478,762</b>	<b>1,866,383</b>	<b>7,736,094</b>	<b>(235,721)</b>	<b>7,500,373</b>
	225,104	20,530	–	–	4,007,427	531,666	4,539,093

## Remuneration Report (continued)

**Table 4: Performance Rights Granted to CEO & Managing Director and Key Executive Personnel that Lapsed during the Financial Year**

	Grant Date	Number of Share Rights Issued	Exercise Price/ Amount Payable	Fair Value per Share Right at Grant Date <sup>1</sup>	Exercise Date <sup>2</sup>	Share Right Balance at 01/02/10	Number of Share Rights Lapsed during year	\$ Total Value of Share Rights at Grant Date	Share Right Balance at 31/01/11
<b>Former Managing Director</b>									
Mr E de Alwis	31/11/2009	621,840	–	\$0.70	30/11/2012	180,588	180,588	435,288	–
	31/10/2008	456,968	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	456,968	456,968	438,689	–
	26/10/2007	399,912	–	\$1.04	31/01/10 & 26/10/10 <sup>3</sup>	399,912	399,912	415,908	–
<b>Executives</b>									
Mr P Tilley	26/10/2007	77,063	–	\$1.04	31/01/10 & 26/10/10 <sup>3</sup>	77,063	77,063	80,146	–
<b>Former Executives</b>									
Mr M Smith	30/11/2009	181,213	–	\$0.70	30/11/2012	181,213	181,213	126,849	–
	31/10/2008	132,520	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	132,520	132,520	127,219	–
Ms J Toh	30/11/2009	180,588	–	\$0.70	30/11/2012	180,588	180,588	126,412	–
	31/10/2008	133,358	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	133,358	133,358	128,024	–
	26/10/2007	122,670	–	\$1.04	31/01/10 & 26/10/10 <sup>3</sup>	122,670	122,670	127,577	–

1. The fair value of performance rights is not the price that shares were traded at. Rather, it is calculated using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the shares can vest. The calculation is performed independently by Mercer (Australia).
2. Performance rights granted to the CEO & Managing Director and Key Executive Personnel will only vest after satisfying the performance criteria outlined in sections 6 and 7.
3. The EPS growth performance condition is tested at 31 January; the TSR performance condition is tested on the third anniversary of the grant date.

**Table 5: Performance Rights Granted to CEO & Managing Director and Key Executive Personnel that were not available for vesting during the Financial Year**

	Grant Date	Number of Share Rights Issued	Exercise Price/ Amount Payable	Fair Value per Share Right at Grant Date <sup>1</sup>	Exercise Date <sup>2</sup>	Share Right Balance at 01/02/10	Number of Share Rights Lapsed during year	\$ Total Value of Share Rights at Grant Date	Share Right Balance at 31/01/11
<b>Executives</b>									
Mr J Sells	10/09/2010	710,227	–	\$0.35	10/09/2013	–	–	250,000	710,227
Mr P Tilley	30/11/2009	118,679	–	\$0.70	30/11/2012	118,679	–	83,075	118,679
	31/10/2008	87,128	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	87,128	–	83,643	87,128
<b>Former Executives</b>									
Mr I Finlay	30/11/2009	161,779	–	\$0.70	30/11/2012	161,779	–	113,245	161,779
Mr K Jeffs	30/11/2009	111,223	–	\$0.70	30/11/2012	111,213	–	77,856	111,213
Mr S Waller	30/11/2009	160,889	–	\$0.70	30/11/2012	160,889	–	112,622	160,889
	31/10/2008	118,811	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	118,811	–	114,059	118,811

1. The fair value of performance rights is not the price that shares were traded at. Rather, it is calculated using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the shares can vest. The calculation is performed independently by Mercer (Australia).
2. Performance rights granted to the CEO & Managing Director and Key Executive Personnel will only vest after satisfying the performance criteria outlined in sections 6 and 7.
3. The EPS growth performance condition is tested at 31 January; the TSR performance condition is tested on the third anniversary of the grant date.

**Table 6: Equity Holdings of Key Management Personnel**

	Balance at 01/02/10	Share Plan Acquisitions during the year	Other Purchases during the year	Sold during the year	Balance at 31/01/11
<b>Directors</b>					
Mr B Jamieson	187,020	67,973 <sup>1</sup>	–	–	254,993
Mr D Bayes	74,845	41,299 <sup>1</sup>	–	–	116,144
Mr M Hooper	100,000	–	–	–	100,000
Mr R Gunston	–	18,642 <sup>1</sup>	–	–	18,642
Mr D Manuel	14,658	35,756 <sup>1</sup>	–	–	50,414
Ms L Nicholls AO	377,954	49,331 <sup>1</sup>	–	–	427,285
Mr W Scott	6,251,961	36,681 <sup>1</sup>	–	–	6,288,642
<b>Former Directors</b>					
Dr J Stocker AO	322,161	–	–	–	322,161
Mr E de Alwis	2,423,457	–	–	–	2,423,457
Mr D Curlewis	53,704	–	–	20,000	33,704
<b>Total for Directors</b>	<b>9,805,760</b>	<b>249,682</b>	<b>–</b>	<b>20,000</b>	<b>10,035,442</b>
<b>Executives</b>					
Mr J Sells	–	–	–	–	–
Mr P Tilley	4,000	–	–	–	4,000
<b>Former Executives</b>					
Mr I Finlay	–	–	–	–	–
Mr K Jeffs	14,000	–	–	–	14,000
Mr M Smith	76,001	(8,000) <sup>2</sup>	–	–	68,001
Ms J Toh	30,772	–	–	–	30,772
Mr S Waller	–	–	–	–	–
<b>Total for Executives</b>	<b>124,773</b>	<b>(8,000)</b>	<b>–</b>	<b>–</b>	<b>116,773</b>
<b>Total for Key Management Personnel</b>	<b>9,930,533</b>	<b>241,682</b>	<b>–</b>	<b>20,000</b>	<b>10,152,215</b>

1. Represents shares purchased on market under the Non-Executive Director Share Plan.

2. Represents shares acquired through the Employee Share Plan that have been forfeited due to Mr Smith's resignation.

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

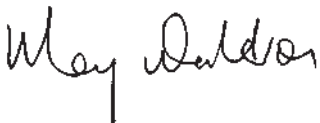
Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331  
MELBOURNE VIC 3001  
DX 77  
Telephone 61 3 8603 1000  
Facsimile 61 3 8603 1999  
[www.pwc.com/au](http://www.pwc.com/au)

## Auditor's Independence Declaration

As lead auditor for the audit of Sigma Pharmaceuticals Limited for the year ended 31 January 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sigma Pharmaceuticals Limited and the entities it controlled during the period.



Mary Waldron  
Partner  
PricewaterhouseCoopers

Melbourne  
18 April 2011



## Statement of comprehensive income

For the year ended 31 January 2011

	Notes	Consolidated	
		2011 \$'000	Restated* 2010 \$'000
<b>Continuing operations</b>			
Sales revenue	4	2,914,271	2,733,827
Cost of goods sold		(2,737,686)	(2,569,536)
<b>Gross profit</b>		<b>176,585</b>	164,291
Other revenue and income	4	36,468	34,108
Warehousing and delivery expenses		(73,581)	(65,475)
Sales and marketing expenses		(26,783)	(33,955)
Administration expenses		(52,367)	(30,662)
Share of net losses from equity accounted investment	15	–	(140)
Impairment in joint venture investment	15	–	(1,221)
Impairment of other assets	6	(24,449)	(2,275)
Impairment of Gateway loans	13	–	(2,500)
Impairment of goodwill	17	(38,343)	(239,809)
Plant rationalisation and restructuring costs	6	(6,635)	(1,272)
<b>Loss before financing costs</b>		<b>(9,105)</b>	(178,910)
Financial income	7	1,027	822
Financial expenses	7	(79,775)	(72,925)
<b>Net financing costs</b>	7	<b>(78,748)</b>	(72,103)
<b>Loss before income tax</b>		<b>(87,853)</b>	(251,013)
Income tax benefit	8	14,771	3,761
<b>Loss from continuing operations</b>		<b>(73,082)</b>	(247,252)
<b>Discontinued operations</b>			
Loss from discontinued operations (net of income tax)	9	(162,300)	(151,023)
<b>Loss for the year</b>		<b>(235,382)</b>	(398,275)
<b>Other comprehensive income</b>			
Changes in the fair value of cash flow hedges		11,283	31,816
Exchange differences on translation of foreign operations		(61)	(19)
Income tax relating to components of other comprehensive income	18	(3,367)	(9,539)
<b>Other comprehensive income for the year, net of tax</b>		<b>7,855</b>	22,258
<b>Total comprehensive loss for the year</b>		<b>(227,527)</b>	(376,017)
<b>Loss per shares (EPS)</b>			
Basic EPS	12	(20.2)	(41.7)
Diluted EPS	12	(20.2)	(41.7)
<b>Continuing operations</b>			
Basic EPS	12	(6.2)	(25.9)
Diluted EPS	12	(6.2)	(25.9)

\* See Note 5 – Correction of prior period error and Note 9 – Discontinued operations.

The above Statement of Comprehensive Income is to be read in conjunction with the accompanying Notes to the Financial Statements.



## Statement of financial position

As at 31 January 2011

	Notes	Consolidated	
		2011 \$'000	Restated* 2010 \$'000
<b>Current assets</b>			
Cash and cash equivalents	33 (a)	556,904	14,418
Receivables	13	648,799	346,002
Current income tax receivable		3,749	–
Inventories	14	225,526	332,728
Derivative financial instruments	36	666	1,180
Prepayments		2,747	8,358
Assets classified as held for sale	10	14,000	–
<b>Total current assets</b>		<b>1,452,391</b>	<b>702,686</b>
<b>Non-current assets</b>			
Receivables	13	2,892	–
Gateway loans receivable	13	9,555	43,274
Derivative financial instruments	36	1,277	3,069
Investments accounted for using the Equity Method	15	–	–
Property, plant and equipment	16	52,534	225,091
Intangible assets	17	15,034	888,521
Deferred tax assets	18	19,315	50,215
<b>Total non-current assets</b>		<b>100,607</b>	<b>1,210,170</b>
<b>Total assets</b>		<b>1,552,998</b>	<b>1,912,856</b>
<b>Current liabilities</b>			
Payables	19	340,754	407,763
Interest bearing liabilities – Gateway	20	3,802	42,793
Interest bearing liabilities	20	354,775	279,407
Current income tax liabilities		–	1,403
Derivative financial instruments	36	–	4,667
Provisions	21	10,804	19,684
Deferred income		21	1,921
<b>Total current liabilities</b>		<b>710,156</b>	<b>757,638</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	9,184	94,012
Derivative financial instruments	36	–	1,616
Provisions	21	510	1,368
Deferred income		229	501
<b>Total non-current liabilities</b>		<b>9,923</b>	<b>97,497</b>
<b>Total liabilities</b>		<b>720,079</b>	<b>855,135</b>
<b>Net assets</b>		<b>832,919</b>	<b>1,057,721</b>
<b>Equity</b>			
Issued capital	22	1,390,492	1,390,492
Issued capital held by equity compensation plan	23	(22,845)	(22,926)
Reserves	24	13,626	3,128
Retained losses		(548,354)	(312,973)
<b>Total Equity</b>		<b>832,919</b>	<b>1,057,721</b>

\* See Note 5 – Correction of prior period error and Note 9 – Discontinued operations.

The above Statement of Financial Position is to be read in conjunction with the accompanying Notes to the Financial Statements.

## Statement of cash flows

For the year ended 31 January 2011

	Notes	Consolidated	
		2011 \$'000	Restated* 2010 \$'000
<b>Inflows (outflows)</b>			
<b>Cash flows from operating activities</b>			
Receipts from customers		3,800,789	3,509,264
Payments to suppliers and employees		(3,607,887)	(3,417,042)
Interest received – third parties		1,027	822
Interest paid – third parties		(79,744)	(77,074)
Income taxes paid		(12,943)	(29,051)
<b>Net cash flows from operating activities</b>	33 (b)	<b>101,242</b>	<b>(13,081)</b>
<b>Cash flows from investing activities</b>			
Asset and Business acquisition, BMS	33 (c)	(1,453)	(70,001)
Disposal of discontinued operations, net of cash disposed of	9	883,468	–
Proceeds from sale of property, plant and equipment		600	17,530
Payments for additions of:			
– Property, plant and equipment		(38,379)	(18,031)
– Development costs		(4,820)	(3,975)
<b>Net cash flows used in investing activities</b>		<b>839,416</b>	<b>(74,477)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares net of issue costs	22	–	290,522
Proceeds from redemption of shares under Sigma Employee Share Plan		80	286
Investment in Sigma Rewards		7,834	(3,222)
Net proceeds/(repayments) of borrowings – Sigma Rewards*		(130,349)	32,305
Net proceeds/(repayments) of borrowings – other		(306,860)	(161,270)
Receipt from Gateway loans & other receivables		31,122	–
Dividends paid	11	–	(55,456)
<b>Net cash flows used in financing activities</b>		<b>(398,173)</b>	<b>103,165</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>542,485</b>	<b>15,607</b>
Cash and cash equivalents held at the beginning of the financial period		14,418	(1,189)
Effects of exchange rate changes on cash and cash equivalents		1	–
<b>Cash and cash equivalents at the end of the financial period</b>	33 (a)	<b>556,904</b>	<b>14,418</b>

\* The Group recognised the debt associated with the Sigma Rewards facility on Balance Sheet as at 31 January 2011. Please refer to Note 1(f), Note 13 and Note 20. Due to the consolidation of Sigma Rewards debt on balance sheet at 31 January 2011, the prior year cash flows have been restated so as to achieve consistency in the disclosure of cash flows from operating, investing and financing activities between the 2011 and 2010 financial years.

The above Cash Flow Statement is to be read in conjunction with the accompanying Notes to the Financial Statements.



## Statement of changes in equity

For the year ended 31 January 2011

Consolidated	Note	Issued Capital \$'000	Issued Capital Held by Equity Compensation Plan \$'000	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>Balance at 1 February 2009</b>		1,083,578	(20,261)	(19,582)	154,197	1,197,932
Total comprehensive income for the year as reported in the 2010 financial statements		–	–	22,258	(389,042)	(366,784)
Correction of Accounting Errors (see Note 5)		–	–	–	(9,233)	(9,233)
<b>Transactions with equity holders in their capacity as equity holders:</b>						
Issue of ordinary shares – Employee Share Plan	22	2,950	(2,950)	–	–	–
Issue of ordinary shares – Dividend Reinvestment Plan	11	13,442	–	–	–	13,442
Issue of ordinary shares – capital raising		290,522	–	–	–	290,522
<i>Movements in:</i>						
– Unvested shares held by equity compensation plan	23	–	286	–	–	286
– Share-based remunerations plans	24	–	–	452	–	452
Dividends appropriated	11	–	–	–	(68,897)	(68,897)
<b>Balance at 31 January 2010</b>		1,390,492	(22,926)	3,128	(312,973)	1,057,721
Total comprehensive income for the year		–	–	7,855	(235,382)	(227,527)
<b>Transactions with equity holders in their capacity as equity holders:</b>						
<i>Movements in:</i>						
– Unvested shares held by equity compensation plan	23	–	81	–	–	81
– Share-based remunerations plans	24	–	–	2,643	–	2,643
<b>Balance at 31 January 2011</b>		<b>1,390,492</b>	<b>(22,845)</b>	<b>13,626</b>	<b>(548,354)</b>	<b>832,919</b>

Note: All items in the Statement of Changes in Equity are net of tax.

The above Statement of Changes in Equity is to be read in conjunction with the accompanying Notes to the Financial Statements.





# Notes to the Financial Statements

For the year ended 31 January 2011

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# Notes to the Financial Statements

For the year ended 31 January 2011

## 1. Basis of Financial Report Preparation

### (a) Significant accounting policies

Sigma Pharmaceuticals Limited (the "Company") is a company domiciled in Australia. This financial report was authorised for issue by the Directors on 28 March 2011. As outlined in Note 38 'Directors' Declaration', this financial report has been amended and authorised for reissue by the Directors on 18 April 2011.

Sigma Pharmaceuticals Limited is the parent entity of the merged Group from a Corporations Law perspective. However, under the requirements of Australian Accounting Standard AASB 3 Business Combinations, Sigma Company Limited was deemed the acquirer of Sigma Pharmaceuticals Limited (accounted for as a reverse acquisition in accordance with AASB 3).

The consolidated financial statements represent a continuation of the financial statements of the Sigma Company Limited Group (the "Group").

### (b) Going concern

The Group reported a net loss after tax for the financial year of (\$235,382,000) including non-cash impairment of goodwill of \$258,343,000 and other one-off charges amounting to \$49,400,000 after tax, including \$16,400,000 inventory write-offs and \$14,200,000 doubtful debt provisions.

The net proceeds from the sale of the Pharmaceutical Division were utilised to fully repay the syndicated debt facility on 31 January 2011 and fully repay the Sigma Rewards debt on 9 February 2011. No covenant testing was required for the syndicated debt as it was fully repaid at year end. The Sigma Rewards facility was not subject to covenant testing. Please refer to the subsequent events Note 37 for details of debt repayments and the extension of the Waratah debtors' securitisation facility.

The Directors believe the Group will continue to trade within the limits of the Group's available funding facilities. In addition, the Group expects to further improve short-term cash flows through:

- changes to trading terms with customers to shorten payment periods
- improvements in inventory holding periods and
- negotiating improved payment terms with major suppliers.

The Directors acknowledge there are normal business risks and uncertainties which could result in budgeted earnings and cash flows not being achieved. If this were to occur, there is a risk of covenants being breached in the future. However, the company intends to maintain an appropriately geared balance sheet going forward in order to ensure that changes to projected cash flows can be managed without the need to seek assistance or waivers from debt providers.

After taking into account all available information, the Directors have concluded that there are reasonable grounds to believe:

- the Group will be able to pay its debts as and when they fall due and
- the basis of preparation of the financial report on a going concern basis is appropriate.

Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

### (c) Statement of Compliance

This general purpose financial report has been prepared in accordance with Australian Accounting Standards ("AASBs"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

### Compliance with IFRS

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### (d) Basis of measurement

This Financial Report is presented in Australian dollars, which is Sigma Pharmaceuticals Limited's functional currency and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

This Financial Report is prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The Group is of a kind referred to in Australian Securities and Investment Commission ("ASIC") class Order 98/100 (CO 05/641 and CO 06/51) and in accordance with that Class Order, amounts in this Financial Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### (e) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sigma Pharmaceuticals Limited, being the parent entity as at 31 January 2011 and the results of all subsidiaries for the year then ended. Sigma Pharmaceuticals Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are

fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group (see Note below).

#### **Transactions eliminated on consolidation**

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **Business combinations**

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the purchase consideration of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

#### **Use of special purpose vehicle**

The special purpose vehicle used is in relation to the Sigma Employee Share Plan (ESP). Any amount of unvested shares held by the ESP are owned by the consolidated entity until they vest and are recorded at cost in the consolidated statements of financial position within equity as shares held by the equity compensation plan.

The activities of the share plan are effectively being conducted on behalf of Sigma according to specific business needs and in essence Sigma has the right to obtain the majority of the benefits from the ESP's activities.

Accordingly the ESP is consolidated into the Group results and intra-group transactions are eliminated in full on consolidation.

#### **(f) Use of accounting estimates and judgements**

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may ultimately differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Impairment of goodwill and intangible assets with indefinite useful lives**

The consolidated entity assesses, at least annually, whether goodwill and other intangible assets which have indefinite useful lives are impaired. These calculations involve an estimate of the recoverable amount of the cash generating units to which such assets are allocated.

This determination requires judgement in the future cash flows, the discount rates, growth rates and working capital assumptions. In addition, management has considered reasonably possible shifts in the movements in key assumptions (see Note 17).

#### **Carrying value of inventory**

The consolidated entity assesses whether inventory is recorded at the lower of cost and Net Realisable Value and ensures all obsolete or slow moving stock is appropriately provided for at each reporting date. These calculations involve estimates and assumptions around specific inventories and to the best of management's knowledge inventories have been correctly and fairly recorded as at 31 January 2011.

#### **Carrying value of receivables**

The consolidated entity assesses whether trade receivables are appropriately provided for at each reporting date. These calculations involve estimates and assumptions around specific customers and to the best of management's knowledge impairment of receivables has been correctly and fairly recorded as at 31 January 2011.

#### **Sigma Rewards**

The Group operated a debtors' securitisation program called Sigma Rewards. The cost associated with the Sigma Rewards program is treated as "finance costs" on the face of the Income Statement.

The program allowed Sigma to receive cash in advance of actual debtor terms and up to 31 July 2010 it was recorded off balance sheet because substantially all the risks and rewards of ownership were transferred to a third party. The Allco Finance Group (Allco), an investor in this program, bore the majority of the risk associated with defaulting debtors. Accordingly, the Group accounted for this program as off balance sheet, due to the nature of Allco's investment (as the bearer of risk).

Subsequent to 31 July 2010, the risk profile of particular debtors that were part of the Sigma Rewards securitisation had increased and Allco's investment in the program was not sufficient to cover the increased risk. As the risk with defaulting debtors could potentially be transferred back to Sigma, the Group is required to consolidate the underlying trust that carried the Sigma Rewards debtors. In effect this brought back on balance sheet all the debtors within Sigma Rewards as well as an equivalent external debt. This facility was paid out and fully extinguished on 9 February 2011.

Furthermore, even if there were no change in the debtor risk profile, the 9 February 2011 Sigma Rewards debt repayment would have required the debtors within Sigma Rewards to be brought back on balance sheet on the same day (see Note 37).

## 2. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Certain comparative amounts have been reclassified to conform with the current year's presentation and to ensure consistency in the financial report.

### (a) Revenue

#### Revenue Recognition

In certain circumstances sales are made to customers on an extended return basis. These extended return periods usually cover a six month period and give the customer the right to return the inventory in its original condition during this period. No revenue on such sales is recognised until the extended return period has lapsed.

In the prior financial year, the Group recognised some sales on a Bill and Hold basis. Bill and Hold sales relate to circumstances whereby the delivery of the goods is delayed at the customer's request but the buyer takes title and accepts billing. Revenue is recognised on Bill and Hold sales provided: it is probable that delivery will be made, the inventory item is on hand and ready for delivery at the time the sale is recognised, the buyer specifically acknowledges the deferred delivery instructions and the agreed payment terms apply. There were no Bill and Hold sales recognised for the year ended 31 January 2011.

Sales made during the ordinary course of business and on normal terms and conditions have an agreed period in which the inventory can be returned. An appropriate provision is recognised for these returns.

Sales revenue represents revenue earned from the sale of the Group's products and services, including Community Service Obligation receipts, net of returns, discounts, allowances, duties and taxes paid. Sales revenue is recognised when the goods are provided, or when the fee in respect of the services is receivable. Fees in respect of services provided are receivable once services have been rendered.

#### Sale of goods

Revenue from the sale of goods (net of returns, discounts and allowances) is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the amount of revenue cannot be measured reliably, or there is continuing managerial involvement with the goods.

#### Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre acquisition profits. However, the investment may need to be tested for impairment as a consequence.

#### Other revenue

##### Membership income

The Amcal and Guardian banner stores pay an annual membership fee to Sigma. This membership fee entitles the stores to access certain Sigma discounts (specifically applicable to banner members) and other benefits including Group catalogue advertising. This revenue is recognised over the period of the year which matches the period over which the services are rendered.

##### Commissions and Fees

This category primarily covers fees billed by Sigma to customers for specific deliveries of dangerous goods. This risk fee covers the incremental cost incurred by Sigma associated with the delivery of these specific goods. This revenue is recognised once the delivery service has been performed.

##### Marketing services and promotional income

This category relates to income received from suppliers relating to promotional services rendered. This revenue is recognised once the service obligations have been performed.

##### Rentals and other trading revenue

Other revenue includes sub-lease rentals and interest income on short-term investments. Sub-lease revenue is recognised on a straight-line basis.

#### Community Service Obligation

A Community Service Obligation (CSO) is an ongoing legislative requirement placed on an organisation by government to provide a benefit to an identified group that would not otherwise be provided by that organisation in the pursuit of its other objectives. In Sigma's case this requirement is around minimum delivery obligations Australia wide. The government provides income to compensate for the higher expenditure incurred to meet these minimum delivery obligations.

Revenue from CSO is recognised when the consolidated entity has complied with the conditions attached to the obligation and has reasonable assurance that the income will be received. CSO income is included in sales revenue.

### (b) Earnings per share

Basic earnings per share are determined by dividing the net profit attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares, adjusted for any bonus elements.

Diluted earnings per share are determined by dividing the net profit attributable to members of the Company, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus elements.

### (c) Foreign currency

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. Foreign exchange gains and losses are brought to account in the Income Statement, except when deferred in equity as qualifying cash flow hedges. The assets and liabilities of foreign controlled subsidiaries are translated into Australian currency at rates of exchange current at balance date, while revenues and expenses are translated at the average rate calculated for the period. Exchange rate differences arising on translation are taken to the foreign currency translation reserve.

#### **(d) Finance costs**

Finance costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. Finance costs that are directly attributable to the acquisition of, or production of, a qualifying asset are capitalised as part of the cost of that asset using the weighted average cost of borrowings. Finance costs include:

- interest on bank overdrafts, short-term and long-term borrowings
- interest payable on Sigma Rewards and Waratah
- interest payable on Gateway
- finance lease charges and
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

The consolidated Group operated a debtors' securitisation program – Sigma Rewards up to 9 February 2011. The program allowed Sigma to receive cash in advance of actual debtor terms and up to 31 July 2010 was recorded off balance sheet due to substantially all the risks and rewards of ownership being transferred to a third party. Allco Finance Group (Allco) was one of the investors in this program and bore the majority of the risk associated with defaulting debtors.

Subsequent to 31 July 2010, the risk profile of particular debtors that were part of the Sigma Rewards securitisation had increased and Allco's investment in the program was not sufficient to cover the increased risk. As the risk with defaulting debtors could potentially be transferred back to Sigma, the Group is required to consolidate the underlying trust that carried the Sigma Rewards debtors. In effect this brought back on balance sheet all the debtors within Sigma Rewards as well as an equivalent external debt (see Note 37).

The Group has a remaining debtors' securitisation program called Waratah. The terms of this facility are such that the risk of the defaulting debtors lies with Sigma and the equivalent external debt is therefore recorded on balance sheet. The accounting treatment for this program has remained unchanged since the last financial year. The costs associated with

this program are treated as "finance costs" on the face of the Income Statement.

#### **(e) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the Goods and Services Tax (GST), except as stated below or if the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position. Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

#### **(f) Dividends**

Dividends are recognised when an obligation to pay a dividend arises, following declaration of the dividend by the Company's Board of Directors.

#### **(g) Acquisition of assets**

The purchase method of accounting is used to account for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued, or liabilities undertaken at the date of acquisition, plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the consolidated

entity's share of the identifiable net assets acquired is recorded as goodwill.

The fair value of cash consideration with deferred settlement terms is determined by discounting any amounts payable in the future to their present value as at the date of acquisition. Present values are calculated using discount rates applicable to similar borrowings arrangements of the consolidated entity.

#### **(h) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative period.

#### **(i) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, which are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

## 2. Summary of Significant Accounting Policies (continued)

### (j) Impairment and Recoverable amount of assets

#### Impairment

The carrying amounts of the consolidated entity's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated annually regardless of the existence of impairment indicators.

An impairment loss is recognised whenever the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Income Statement.

Impairment losses recognised in respect of a cash generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis (see Note 17).

#### Calculation of recoverable amount

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

#### Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of a held-to-maturity security

or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the Income Statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the Income Statement. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments and Notes with maturity of three months or less when purchased.

### (l) Receivables

Trade debtors are settled within 40-150 days of the invoice date and are carried at amounts due. Receivables are measured at amortised cost using the effective interest method less allowances for impairment.

When receivables are considered to be impaired the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Income Statement.

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment.

### (m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed factory overhead expenditure. Overhead costs are allocated on the basis of normal operating capacity. Cost is determined on the basis of first-in first-out, average or standard whichever is the most appropriate in each case.

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value. Obsolete and slow moving stocks are allowed for, to ensure the inventories are recorded at net realisable value where such value is below cost.

### (n) Investments

Investments in joint venture entities are carried at their cost of acquisition. Investments in subsidiaries are carried at cost in the individual financial statements of Sigma Pharmaceuticals Limited. An impairment loss is recognised whenever the carrying amount of the investment exceeds its recoverable amount. Recoverable amount is the higher of value in use and fair value less costs to sell.

### (o) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. Subsequent expenditure is added to the carrying value of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset will

flow to the operation. All other subsequent expenditure is expensed in the period in which it is incurred.

Property, plant and equipment, other than freehold land, are depreciated or amortised on a straight-line basis at various rates dependent upon the estimated average useful life for that asset. The estimated useful lives of each class of asset are as follows:

Buildings	40 years
Plant and Equipment	3 to 20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the Income Statement in the period the item is derecognised.

#### **(p) Intangibles**

Intangibles are carried at cost less accumulated amortisation and impairment losses where applicable. Intangible assets acquired separately are capitalised at cost or if arising from a business combination at fair value as at the date of acquisition.

#### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired. Goodwill is not amortised. Goodwill is tested at least annually for impairment.

#### **IP licence agreement**

Pursuant to an IP licence agreement executed between Sigma Pharmaceuticals Limited and Arrow Group APS and its related entities, Sigma Pharmaceuticals Limited had the right to an exclusive, perpetual licence of data and intellectual property relating to pharmaceutical products in Australia.

#### **Trademarks and licence fees**

All Herron and other trademarks and licence fees were amortised on a straight-line basis over their expected useful lives.

#### **Brand names**

The Amcal and Chemists' Own brand names are being amortised on a straight-line basis over their expected useful lives

of 60 years. All other brand names are amortised on a straight-line basis over their expected useful lives. The majority of the brand names were disposed of with the sale of the Pharmaceuticals Division to Aspen. The Group retains the Amcal brand name.

#### **Customer relationships and distribution agreements acquired with Orphan acquisition**

The Orphan customer relationships were amortised over a 9 year period, whilst distribution agreements were amortised over a 5 –11 year period (depending on the individual distribution agreement).

#### **Development costs**

Development costs represented costs associated with obtaining appropriate product registrations from relevant government authorities.

Development costs were capitalised when the product was technically and commercially feasible and their future recoverability was reasonably assured to exceed those costs.

Following the initial recognition of the development expenditure, the cost model was applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Development costs were amortised on a straight-line basis over the expected useful life of the underlying product which is generally five to ten years. The carrying value of development costs was reviewed for impairment annually or when an indicator of impairment arises during the reporting period indicating that the carrying value may not be recoverable.

#### **(q) Research**

Research costs are charged against the Income Statement as incurred.

#### **(r) Leases**

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Assets, which are subject to finance leases, are capitalised. The initial amount of the lease asset is the lower of the fair value of the asset and the present value of minimum lease

payments. The corresponding liability represents the future rental obligations net of finance charges. Lease assets are amortised on a straight-line basis over the life of the relevant lease, or where it is likely the consolidated entity will obtain ownership of an asset, the life of the asset.

Lease liabilities are reduced by repayments of principal. The interest components of lease payments are charged against the Income Statement.

Operating leases are not capitalised. Operating lease payments are charged to the Income Statement as incurred on a straight-line basis.

#### **(s) Trade payables**

Liabilities are recognised for amounts to be paid in the future for goods or services provided prior to the end of the reporting period. Trade accounts payable are normally settled within 60 days of the invoice date.

#### **(t) Interest bearing liabilities**

Interest bearing liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Interest bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the loans or borrowings on an effective interest rate basis.

#### **(u) Provisions**

A provision is recognised when a present legal, equitable or constructive obligation exists and can be reliably measured as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

A provision for Directors' retirement benefits is recognised in respect of all eligible Non-Executive Directors who have served in that capacity for at least five years with a pro-rata entitlement accrual commencing after three years service.

## 2. Summary of Significant Accounting Policies (continued)

### (u) Provisions (continued)

#### Directors' retirement

This benefit was frozen at 31 January 2006 whereby Directors will receive their frozen entitlement (plus interest).

#### Rationalisation and restructuring

A provision for rationalisation and restructuring is recognised when the Group is committed to the restructuring plan and expected costs associated with the restructuring are based on the best estimate of the direct expenditures to be incurred, which are both directly and necessarily caused by the restructuring and not associated with the ongoing activities.

### (v) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to balance date. The benefits include wages and salaries, incentives, compensated absences and other benefits, which are charged against profits in their respective expense categories when services are provided or benefits vest with the employee. The provision for employee benefits is measured at the remuneration rates expected to be paid when the liability is settled. Benefits expected to be settled after 12 months from the reporting date are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. Contributions to superannuation plans are charged to the Income Statement as the contributions are paid or become payable.

#### Long Service Leave

The provision for long service leave represents the present value of the estimated future cash outflows to be made by the consolidated entity resulting from employees' services provided up to the reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expenses.

### Superannuation plans

The consolidated entity contributes to various defined contribution superannuation plans. Employer contributions to these plans are recognised as an expense as they are made.

### (w) Share-based payment transactions

Share-based compensation benefits are provided to employees via the Sigma Employee Share Plan, the Senior Executive Option Plan and the Performance Rights Plan.

### Sigma Employee Share Plan

Any amount of unvested shares held by the ESP are owned by the consolidated entity until they vest and are recorded at cost in the consolidated statement of financial position within equity as shares held by the equity compensation plan. Dividends paid by Sigma Pharmaceuticals Limited on shares held by the ESP are eliminated in full on consolidation.

### (x) Income Tax

Deferred income tax is provided for using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred income tax assets are recognised for all the deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. This does not occur where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the

transaction, affects neither the accounting profit nor the taxable profit.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (the tax laws) that have been enacted or substantively enacted at the financial year end date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Deferred tax assets and deferred tax liabilities have not been offset in the statements of financial position. These balances include amounts relating to the Group's foreign operations which therefore do not relate to the tax consolidated Group. The Company believes this disclosure is appropriate.

### Australian tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated Group with effect from 19 December 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated Group is Sigma Pharmaceuticals Limited. Due to the sale of the Pharmaceuticals Division to Aspen on 31 January 2011, several entities exited the Sigma Pharmaceuticals Limited tax-consolidated Group at that time (see Note 30).

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the "separate taxpayer within the Group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are



assumed by the head entity in the tax-consolidated Group and are recognised by the company as amounts payable (receivable) to/(from) other entities in the tax-consolidated Group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated Group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

#### **Nature of tax funding arrangements and tax sharing arrangements**

The head entity, in conjunction with other members of the tax-consolidated Group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated Group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the

financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

#### **(y) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares are shown in equity as a reduction, net of tax, from the proceeds.

#### **(z) Derivatives**

Due to the sale of the Pharmaceuticals Division to Aspen, all of the Group's foreign exchange hedges, and the majority of the interest rate hedges, were closed out by 31 January 2011 (see Note 36). The Group repaid significant amounts of its debt as at 31 January 2011 and made further repayments subsequent to the balance date. The Group's exposure to cash flow variability due to interest rate changes has reduced and accordingly the majority of interest rate swaps were closed out during the year. The remaining interest rate swaps were closed out by 16 March 2011 and the Group has not entered into any further interest rate hedges. The interest rate swaps held at 31 January 2011 do not qualify for hedge accounting. Changes in fair values of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

During the 2010/2011 financial year, risk management activity was conducted in accordance with the Board approved Price Risk Management Policy ("Policy"), which details the consolidated entity's approach to managing price exposures and delineates hedging limits and delegated management authorities.

The risk exposures were managed by quantifying the impact of adverse interest and foreign exchange rate movements on the overall profitability of the consolidated entity and entering into hedging contracts seeking to protect a predetermined level of forecast profitability that may otherwise be impacted by unfavourable market rate movements. The types of instruments approved for use by the Policy include, in respect of interest rate risk management, interest rate swaps, options and forward

rate agreements and in respect of foreign exchange risk management, foreign exchange options and forward currency contracts. All activities are conducted within Board approved guidelines and are regularly reported to the Board.

All derivative financial instruments are recognised in the statements of financial position at their fair value. Changes in the fair values of derivative financial instruments are recognised periodically either in the Income Statement or in equity, depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. Fair value is determined by external advisors and reviewed independently by management.

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges and are highly effective, are recorded in the Income Statement, along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in the fair values of derivative financial instruments that are designated and qualify as cash flow hedges, to the extent that they are effective as hedges, are recorded in equity. These cash flow hedges are recycled using the basis adjustment method. Changes in fair values of derivative financial instruments not qualifying as hedges are reported in the Income Statement.

The relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, are documented at the inception of the transaction. This process includes linking all derivative financial instruments designated to firm commitments or forecast transactions. Whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is also documented both at hedge inception and on an ongoing basis.

## 2. Summary of Significant Accounting Policies (continued)

### (aa) Segments

The Group has applied AASB 8 Operating Segments since the financial year ended 31 January 2010. AASB 8 requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

Management has determined operating segments based on the structure of reports reviewed by the CEO & Managing Director and Chief Financial Officer (who collectively form the *Chief Operating Decision Makers*) that are used in the strategic decision making process. The *Chief Operating Decision Makers* consider the business from both a product and geographic perspective and have identified that the Group operates both a Healthcare and Pharmaceuticals segment. The Geographic segment has been determined as Australia.

Comparative information relating to the financial year ended 31 January 2010 has been reclassified to achieve consistency with the disclosures for the current financial year (see Note 3).

### (ab) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

### (ac) Customer loyalty program

Sigma operates a loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the

award points and the other components of the sale such that the award points are recognised at their fair value. Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed.

### (ad) Deferred income

Deferred income is recognised in the liabilities section of the statements of financial position and reflects income received that relates to a future period. Such income is subsequently recognised in the Income Statement as and when the obligations attached to the income are fulfilled by Sigma. Such income generally relates to promotional services to be rendered.

### (ae) Parent entity financial information

The financial information for the parent entity, Sigma Pharmaceuticals Limited (the "Company"), disclosed in Note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### (i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Company. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

#### (ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

### (af) New standards and interpretations

#### New standards adopted

The following standards, amendments to standards and interpretations have been adopted in preparing this financial report:

- Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards – the revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The adoption of this accounting standard does not result in a change in accounting policy for the Sigma Group as the current accounting policy is in line with the revised AASB 123.
- AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards are effective for annual reporting periods beginning 1 July 2009. AASB 3 is applied prospectively for all business combinations finalised after 1 February 2010. The revised AASB 3 changes the measurement and recognition requirements in accounting for business combinations.
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010). In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The Group applied the revised standards from 1 February 2010. The amendments do not have a significant impact of the financial statements of the Group.

- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Sharebased Payment Transactions [AASB 2] (effective from 1 January 2010). The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group has applied these amendments retrospectively for the financial reporting period commencing on 1 February 2010. There has been no impact on the Group's financial statements.
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective from 1 February 2010). In October 2009, the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The Group has applied the amended standard from 1 February 2010. As the Group has not made any such rights issues, the amendment does not have any effect on the Group.

#### **New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations are available for early adoption but have not been applied in preparing this financial report:

- AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective for annual reporting periods beginning on or after 1 January 2013). AASB 9 addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 and the Group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.
- Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011). In December 2009, the AASB issued a revised AASB 124, Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 February 2011. It is not expected to have any effect on the Group's or the parent entity's related party disclosures. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.
- AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting

Standards arising from Interpretation 19 (effective 1 July 2010). AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 February 2011. It is not expected to have any impact on the Group's financial statements since as the Group has not entered into any debt for equity swaps.

- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2011). In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 February 2011. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011). In November 2010, the AASB made amendments to AASB 7 Financial Instruments: Disclosures which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. This update impacts the Group's disclosures only.

### 3. Segment Information

	Pharmaceuticals (discontinued)	Healthcare	Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000
<b>2011</b>				
<b>Revenue</b>				
Sales Revenue	425,301	2,914,271	–	3,339,572
Other revenue and income	1,404	35,972	496	37,872
External segment revenue	426,705	2,950,243	496	3,377,444
Inter segment revenue <sup>1</sup>	–	–	–	–
<b>Total segment revenue</b>	<b>426,705</b>	<b>2,950,243</b>	<b>496</b>	<b>3,377,444</b>
<b>Result</b>				
Segment result before interest and tax	(177,732)	12,066	(21,171)	(186,837)
Profit on sale of discontinued ops, before tax	27,874	–	–	27,874
	(149,858)	12,066	(21,171)	(158,963)
Net financing costs				(78,748)
Income tax benefit				2,329
<b>Loss for the year</b>				<b>(235,382)</b>
<b>Net assets</b>				
Segment assets <sup>2</sup>	–	958,640	594,358	1,552,998
Segment liabilities <sup>2</sup>	–	(695,555)	(24,524)	(720,079)
<b>Net assets</b>	<b>–</b>	<b>263,085</b>	<b>569,834</b>	<b>832,919</b>
<b>Non-cash expenses</b>				
Depreciation and amortisation	43,482	4,211	–	47,693
Impairment of Goodwill	220,000	38,343	–	258,343
Impairment of other assets	6,428	24,449	–	30,877
Other	(3,029)	5,663	2,871	5,505
<b>Total</b>	<b>266,881</b>	<b>72,666</b>	<b>2,871</b>	<b>342,418</b>
<b>Additions and acquisitions of non-current assets</b>	<b>26,409</b>	<b>16,789</b>	<b>–</b>	<b>43,198</b>

1. The Chief Operating Decision Makers receive information that excludes inter-segment sales.

2. Assets and liabilities shown against each segment exclude deferred tax assets, current and deferred tax liabilities and assets and liabilities which relate to the Group's financing activity. Such balances are held within the Corporate Segment, which is unallocated for management reporting purposes. Due to the on balance sheet treatment of the Sigma Rewards debt as at 31 January 2011, the trade debtors within Sigma Rewards and securitised debt are allocated within the Healthcare segment.

### 3. Segment Information (continued)

	Pharmaceuticals (discontinued)	Healthcare	Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000
<b>2010</b>				
<b>Revenue</b>				
Sales Revenue	486,603	2,733,827	–	3,220,430
Other revenue and income	1,501	33,550	558	35,609
External segment revenue	488,104	2,767,377	558	3,256,039
Inter segment revenue <sup>1</sup>	–	–	–	–
<b>Total segment revenue</b>	<b>488,104</b>	<b>2,767,377</b>	<b>558</b>	<b>3,256,039</b>
<b>Result</b>				
Segment result before interest and tax	(143,277)	(169,483)	(9,427)	(322,187)
Net financing costs				(72,103)
Income tax expense				(3,986)
<b>Loss for the year</b>				<b>(398,276)</b>
<b>Net assets</b>				
Segment assets <sup>2</sup>	1,308,398	443,706	160,752	1,912,856
Segment liabilities <sup>2</sup>	(122,764)	(308,613)	(423,758)	(855,135)
<b>Net assets</b>	<b>1,185,634</b>	<b>135,093</b>	<b>(263,006)</b>	<b>1,057,721</b>
<b>Non-cash expenses</b>				
Depreciation and amortisation	42,146	3,682	–	45,828
Impairment of Goodwill	184,421	239,809	–	424,230
Impairment of other intangibles	11,560	1,360	–	12,920
Other	26,562	9,317	4,173	40,052
<b>Total</b>	<b>264,689</b>	<b>254,168</b>	<b>4,173</b>	<b>523,030</b>
<b>Additions and acquisitions of non-current assets</b>	<b>17,530</b>	<b>4,476</b>	<b>–</b>	<b>22,006</b>

1. The *Chief Operating Decision Makers* receive information that excludes inter-segment sales.

2. Assets and liabilities shown against each segment exclude deferred tax assets, current and deferred tax liabilities and assets and liabilities which relate to the Group's financing activity. Such balances are held within the Corporate Segment, which is unallocated for management reporting purposes. Due to the on balance sheet treatment of the Sigma Rewards debt as at 31 January 2011, the trade debtors within Sigma Rewards and securitised debt are allocated within the Healthcare segment.

### 3. Segment Information (continued)

#### Information on segments

Management has determined operating segments based on reports reviewed by *The Chief Operating Decision Makers*. The segment Note classification is based on a through the-eyes-of-management approach to decision making and resource allocation.

Effective 1 February 2010, there was a change in the internal management reporting and monitoring of the Community Service Obligation (CSO) income and sales revenue associated with certain distributed product lines. As a result of this change, all the CSO income and the sales from the distributed product lines are reported under the Healthcare segment.

The Retail business and Private Label range were not disposed of as part of the Pharmaceutical Division sale to Aspen. Based on the Group's continuing operations including the wholesale and retail business, the results of the Retail business and Private Label range have been reclassified to the Healthcare segment.

The comparative information for 31 January 2010 has been reclassified to achieve consistency with the disclosures for the current financial year. The overall impact on the results for the financial year ended 31 January 2010 has been a reclassification in the segment result before interest and tax for the Pharmaceuticals segment from a loss of (\$137.8) million to a loss of (\$143.3) million including an EBIT adjustment of (\$13.2) million for the 2010 financial year due to prior period accounting errors (Note 5). The reclassifications have impacted the comparative 2010 Healthcare segment EBIT, reducing the loss from (\$174.9) million to (\$169.5) million.

#### Details of segments

**Pharmaceuticals** – includes the manufacture or contract manufacture for Australian and overseas customers. This segment includes the Consumer, Generics, Ethicals, Orphan and Contracts/Exports and each division is net of allocated support costs.

**Healthcare** – represents the traditional pharmacy wholesale business, retail and Private Label product ranges net of allocated support costs.

**Unallocated** – represents corporate head office, Group tax balances, investments in jointly controlled entities, financing and treasury functions. The consolidation of the Gateway Unit Trust is also included in the unallocated segment.

#### Geographical segments

The Group operates predominantly as a manufacturer, distributor and marketer of pharmaceutical and allied products through the pharmacy and grocery channels within Australia.

#### Information on major customers

One customer contributes revenues which form greater than 20% of total Healthcare revenues and Group revenues. This customer has a long standing relationship with Sigma and a service contract is in place until June 2011. Sales revenue for the period to 31 January 2011 was \$678m (2010: \$548m).

## 4. Revenue and Other Income

	Consolidated					
			(Note 9)			
	Continuing operations		Discontinued operations		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010* \$'000	2011 \$'000	2010* \$'000
<b>Sales Revenue</b>	<b>2,914,271</b>	2,733,827	<b>425,301</b>	486,603	<b>3,339,572</b>	3,220,430
<b>Other revenue</b>						
Commissions and fees	7,427	6,272	(223)	923	7,204	7,195
Membership revenue	11,580	11,521	–	–	11,580	11,521
Marketing services and promotional revenue	13,523	12,402	–	1,312	13,523	13,714
Rentals and other trading revenue	4,044	3,872	1,713	(1,059)	5,757	2,813
<b>Total other revenue</b>	<b>36,574</b>	34,067	<b>1,490</b>	1,176	<b>38,064</b>	35,243
<b>Other income</b>						
Profit/(loss) on sale of property, plant and equipment	(106)	41	(86)	325	(192)	366
<b>Total other revenue and other income</b>	<b>36,468</b>	34,108	<b>1,404</b>	1,501	<b>37,872</b>	35,609

\* Total other revenue and income relating to the prior year discontinued operations were overstated by \$15.5m (see Note 5) and has been restated from \$17.0m to \$1.5m. Total other revenue and income have been restated from \$51.1m to \$35.6m.

## 5. Correction of Prior Period Error

Management has identified errors in the 2010 financial report where the accounting for certain transactions was not in accordance with their substance. The error had the following effects on the consolidated statement of comprehensive income for the year ended 31 January 2010 and on the consolidated statement of financial position as at 31 January 2010, total equity and profit after tax being overstated by \$9.2m:

	As previously stated 2010 \$'000	As restated 2010 \$'000	Restatement 2010 \$'000
<b>Effect on Statement of Financial Position</b>			
Inventories	343,918	<b>332,728</b>	(11,190)
Current income tax liabilities	(5,360)	<b>(1,403)</b>	3,957
Prepayments	10,358	<b>8,358</b>	(2,000)
Retained losses	(303,740)	<b>(312,973)</b>	(9,233)
<b>Net decrease in equity</b>			(9,233)
<b>Results of Discontinued Operations</b>			
Decrease in cost of goods sold	(2,890,891)	<b>(2,888,581)</b>	2,310
Decrease in other revenue and income	51,110	<b>35,609</b>	(15,501)
<b>Loss before income tax</b>	(381,099)	<b>(394,290)</b>	(13,191)
Income tax (expense)/benefit	(7,943)	<b>(3,986)</b>	3,957
<b>Loss for the year</b>	(389,042)	<b>(398,275)</b>	(9,233)

The above errors have been corrected by restating each of the affected financial statement line items for the prior year, as described above. Management has appropriately recognised earnings from the above transactions in the current financial year. This prior year restatement has no impact on any periods starting before 1 February 2009. Basic and diluted earnings per share for the prior period have also been restated. The amount of the correction for both the basic and diluted earnings per share was a reduction of 1.0 cents per share.

## 6. Income Statement Disclosure

	Continuing Operations	Continuing Operations	Discontinued Operations	Discontinued Operations	Consolidated	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses before interest and income tax:						
<b>Amortisation</b>						
IP licence agreement	–	–	9,504	9,504	9,504	9,504
Trademarks and licence fees	–	–	20,710	19,526	20,710	19,526
Brand names	507	529	456	457	963	986
Development costs	–	–	2,744	2,385	2,744	2,385
<b>Total amortisation</b>	<b>507</b>	<b>529</b>	<b>33,414</b>	<b>31,872</b>	<b>33,921</b>	<b>32,401</b>
<b>Depreciation</b>						
Buildings	740	613	3,034	2,502	3,774	3,115
Plant and equipment	2,964	2,540	7,034	7,772	9,998	10,312
<b>Total depreciation</b>	<b>3,704</b>	<b>3,153</b>	<b>10,068</b>	<b>10,274</b>	<b>13,772</b>	<b>13,427</b>
Write down of inventories to net realisable value	5,773	8,416	24,771	26,179	30,544	34,595
Write down of property, plant and equipment to recoverable amount	961	14	3,400	–	4,361	14
Impairment of development costs	–	–	3,028	1,224	3,028	1,224
Impairment of definite life intangible assets	–	1,360	–	10,336	–	11,696
Impairment of goodwill	38,343	239,809	220,000	184,421	258,343	424,230
Impairment on Gateway loan book	–	2,500	–	–	–	2,500
Impairment in jointly controlled entities	–	1,221	–	–	–	1,221
Redundancy expense	5,394	726	546	7,329	5,940	8,055
Losses/(profits) from the sale of property, plant and equipment	106	(41)	86	(325)	192	(366)
Impairment – bad and doubtful debts – trade debtors	23,488	901	–	383	23,488	1,284
Employee benefits expense	72,723	73,215	46,990	48,582	119,713	121,797
Share-based payments expense	2,643	468	–	(16)	2,643	452
Directors' retirement provision	15	20	–	–	15	20
Rental expenses on operating leases	9,416	6,583	6,018	6,691	15,434	13,274
Research and development expenditure	–	–	3,597	4,245	3,597	4,245
<b>Rationalisation and restructuring costs</b>						
Amounts included in rationalisation and restructuring costs are detailed below:						
Onerous leases	–	–	667	–	667	–
Redundancy expense	5,394	726	546	7,329	5,940	8,055
Other amounts	1,241	546	919	908	2,160	1,454
<b>Total rationalisation and restructuring costs</b>	<b>6,635</b>	<b>1,272</b>	<b>2,132</b>	<b>8,237</b>	<b>8,767</b>	<b>9,509</b>



## 7. Net Financing Costs

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Financial income</b>		
Interest revenue	1,027	822
<b>Total financial income</b>	<b>1,027</b>	<b>822</b>
<b>Financial expenses</b>		
Interest expense – Sigma Rewards	36,552	24,346
Interest expense	43,223	48,579
<b>Total financial expenses</b>	<b>79,775</b>	<b>72,925</b>
<b>Net financing costs</b>	<b>78,748</b>	<b>72,103</b>

Refer Note 2 (d) for further information on Sigma's net financing costs.

## 8. Income Tax Expense/(Benefit)

	Consolidated	
	2011 \$'000	2010 \$'000
Loss before income tax, excluding gain on sale of discontinued operations	(265,585)	(394,290)*
Prima facie income tax expense calculated at 30%	(79,675)	(118,287)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible amortisation	1,061	1,089
Non deductible impairment	77,503	127,269
Other items	(1,067)	(916)
Amounts (over)/under provided in prior years	(151)	(5,169)
<b>Income tax expense/(benefit)</b>	<b>(2,329)</b>	<b>3,986</b>
Income tax expense/(benefit) comprises:		
Current expense	11,087	24,403
Deferred expense/(benefit)	(13,265)	(15,248)
Adjustments for current income tax of prior periods	(151)	(5,169)
<b>Income tax expense/(benefit) excluding tax on sale of discontinued operations</b>	<b>(2,329)</b>	<b>3,986</b>
Income tax benefit from continuing operations	(14,771)	(3,761)
Income tax expense from discontinuing operations (excluding gain on sale) (Note 9)	12,442	7,747
	(2,329)	3,986
Income tax expense on gain on sale of discontinued operations	–	–
<b>Total income tax expense/(benefit)</b>	<b>(2,329)</b>	<b>3,986</b>

\*See Note 5, the prior year loss before income tax has been restated.

### Australian tax consolidation

The Company has formed a consolidated Group for income tax purposes, effective on and from 19 December 2005, with each of its wholly owned Australian controlled entities. The entities within the Group have entered a tax funding arrangement where each controlled entity will compensate the Company for the amount of tax payable that would be calculated as if the controlled entity was a tax paying entity.

The method used to measure current and deferred income tax amounts is summarised in Note 2 (x).

## 9. Discontinued Operations

On 16 August 2010, the Group announced that it had agreed in principle to sell its Pharmaceuticals Division to Aspen Pharmacare Holdings Limited group of companies ("Aspen") for gross proceeds of \$900m. The Pharmaceuticals Division comprises the Generics, Consumer (comprising OTC and Herron), Ethical Products, Medical Products, Orphan and Manufacturing businesses.

The sale was completed on 31 January 2011 by way of sale of all the issued share capital in Sigma Pharmaceuticals (Australia) Pty Ltd, Orphan Holdings Pty Ltd and Fawns and McAllan Pty Ltd, being subsidiaries of the Company. The control of the transferring companies and control over the operations of the Pharmaceuticals Division were effectively transferred to Aspen on 31 January 2011.

Sigma continued to depreciate and amortise their fixed and intangible assets up until 31 January 2011 because these assets continued to be used and the Group derived value from these assets throughout the year.

From 31 January 2011, the relationship between the Pharmaceuticals Division (owned and controlled by Aspen) and the Group will be governed by contractual arrangements which broadly replicate the position of the divisions prior to the sale, as follows:

- Sigma Company Limited (Sigma Company), a wholly owned subsidiary of the Group, has been appointed by Aspen to distribute the Chemists Own, Consumer PBS Generic, PBS Non Generic and Ethical Products which Aspen acquired from the Group as part of the sale. This arrangement is for an initial five year term which may be extended for a further five years, at Sigma Company's option.
- Sigma Company has appointed Aspen to manufacture and/or supply approximately 85% of its Private Label Portfolio (being those products supplied or manufactured by the Group prior to the sale) for a period of at least two years.

In addition, the Group and Aspen have agreed:

- Sigma Company will, for a fee, provide transitional information, technology, payroll and human resource services to the companies acquired by Aspen for up to 12 months.
- The Group will be subject to a non-compete clause with the Pharmaceuticals Division for two years and with the Generics Division for five years.

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Results of discontinued operations</b>		
Revenue	425,301	486,603
Other income	1,404	1,501
Expenses	(379,277)	(427,162)
Impairment of other intangibles	(3,028)	(11,560)
Impairment of goodwill	(220,000)	(184,421)
Plant rationalisation and restructuring costs	(2,132)	(8,237)
<b>Results from operating activities</b>	<b>(177,732)</b>	<b>(143,276)</b>
Income tax expense	(12,442)	(7,747)
<b>Results from operating activities, net of income tax</b>	<b>(190,174)</b>	<b>(151,023)</b>
Gain on sale of discontinued operations	27,874	–
Income tax on gain on sale of discontinued operations	–	–
<b>Loss from discontinued operations, net of income tax</b>	<b>(162,300)</b>	<b>(151,023)</b>
	<b>Cents</b>	<b>Cents</b>
Basic EPS	(14.0)	(15.8)
Diluted EPS	(14.0)	(15.8)

The results for discontinued operations for 2010 were restated for correction of prior period errors (see Note 5).

The loss from discontinued operations of (\$162,300,000), (2010 – loss (\$151,023,000)) is attributable entirely to the owners of the Group. The loss from continuing operations of (\$73,082,000), (2010 – loss (\$247,252,000)) is also attributable entirely to the owners of the Group.

<b>Cash flows from (used in) discontinued operations</b>		
Net cash from operating activities	142,135	100,308
Net cash from/(used) in investing activities	856,174	(70,489)
Net cash used in financing activities	–	–
<b>Net cash from discontinued operations</b>	<b>998,309</b>	<b>29,819</b>

## 9. Discontinued Operations (continued)

Effect of disposal on financial position of the Group	2011 \$'000	2010 \$'000
Receivables	38,632	–
Inventories	92,503	–
Prepayments	2,553	–
Property, plant and equipment	178,011	–
Intangibles	584,414	–
Deferred tax assets	33,785	–
Payables	(27,135)	–
Provisions	(7,738)	–
Deferred Tax Liabilities	(78,453)	–
<b>Net assets and liabilities</b>	<b>816,572</b>	<b>–</b>
Consideration received*	844,446	–
Cash and cash equivalents disposed of	–	–
<b>Net cash inflow</b>	<b>844,446</b>	<b>–</b>
Gain on Sale of Discontinued Operations	27,874	–

\* The \$900m sale price has been adjusted for a provisional working capital adjustment and selling costs. The working capital adjustment is subject to review by Aspen in accordance with the Share Sale Agreement. This may lead to adjustments and cash payments in the 2011/2012 financial year and as a consequence lead to an adjustment to the gain on sale of discontinued operations.

## 10. Assets Classified as Held For Sale

	Consolidated	
	2011 \$'000	2010 \$'000
Land and Buildings	14,000	–

As part of the Group's strategic review of its logistics function, the Group is committed to selling its facility at Clayton, Victoria with activities being relocated to Rowville, Victoria. This initiative complements the Group's strategic plan to increase efficiencies in its logistics function. Ongoing economic advantages are expected to flow from this rationalisation.

Efforts to sell the premises are continuing and realisation is expected within the January 2012 financial year. An impairment loss of \$0.8 million was recognised during the financial year as the expected fair value less costs to sell of the property was lower than its carrying amount.

## 11. Dividends

### Consolidated

	2011 \$'000	2010 \$'000
Dividends recognised by the parent entity	–	69,792
Less: dividends paid on shares issued under the Employee Share Plan	–	(895)
<b>Dividends recognised by the Group</b>	<b>–</b>	<b>68,897</b>

### The Company

	Cents per Share	Amount \$'000	Date of payment	Tax rate for franking credit %	Percentage franked %
<b>2011</b>					
No dividends paid in the 2010/2011 financial year.					
<b>2010</b>					
2009 Final – Ordinary Shares Paid in Cash	4.0	29,856	7 May 2009	30	100
2009 Final – Ordinary Shares Dividends Reinvested	4.0	4,946	7 May 2009	30	100
Interim – Ordinary Shares Paid in Cash	3.0	26,495	13 November 2009	30	100
Interim – Ordinary Shares Dividends Reinvested*	3.0	8,495	13 November 2009	30	100
Dividends recognised by the parent entity		69,792			
Less: dividends paid on shares issued under the Employee Share Plan		(895)			
<b>Dividends recognised by the Group</b>		<b>68,897</b>			

	The Company	
	2011 \$'000	2010 \$'000
<b>Dividend franking account</b>		
Amount of franking credits available for the subsequent year	91,858	78,961

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking credits that may be prevented from being distributed in subsequent financial years
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the end of the financial year.

#### \* Sigma Dividend Reinvestment Plan

In the 2008/2009 financial year, the Board of Sigma Pharmaceuticals Limited ("Sigma") implemented a Dividend Reinvestment Plan ("DRP" or "Plan") for Sigma shareholders.

The DRP provides eligible shareholders with the opportunity to reinvest all or part of their dividend entitlement in additional Sigma shares, instead of receiving cash. The issue of shares under the DRP was free of transaction costs to shareholders. Participation in the DRP is voluntary, and eligible shareholders may participate in respect of all or part of their shareholding in Sigma.

### Subsequent Events

Since the end of the financial year a special dividend of 15 cents per ordinary share has been declared by the Directors (see Note 37).

## 12. Earnings/(Losses) Per Share

	Consolidated	
	2011 Cents	2010 Cents
<b>(a) Basic earnings per share</b>		
From continuing operations	(6.2)	(25.9)
From discontinued operations	(14.0)	(15.8)
Total basic earnings per share	(20.2)	(41.7)
<b>(b) Diluted earnings per share</b>		
From continuing operations	(6.2)	(25.9)
From discontinued operations	(14.0)	(15.8)
Total diluted earnings per share	(20.2)	(41.7)

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Losses used in the calculation of basic and diluted EPS</b>		
<b>Basic EPS</b>		
Net loss used in calculating basic EPS		
From continuing operations	(73,082)	(247,252)
From discontinued operations	(162,300)	(151,023)
Losses used to calculate basic EPS	(235,382)	(398,275)
<b>Diluted EPS</b>		
Net loss used in calculating diluted EPS		
From continuing operations	(73,082)	(247,252)
From discontinued operations	(162,300)	(151,023)
Losses used to calculate diluted EPS	(235,382)	(398,275)

	Consolidated	
	2011 No. '000s	2010 No. '000s
<b>Weighted average number of shares</b>		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	1,163,138	956,085
Weighted average number of ordinary shares on issue adjusted for the dilutive effect of outstanding share rights and options used in the calculation of diluted earnings per share	1,180,095	973,496

### Reconciliation of weighted average number of shares used in the calculation of basic and diluted earnings per share

	2011 No. '000s	2010 No. '000s
Shares on issue as at 1 February	1,178,627	870,038
Add: Effect of shares issued	–	98,991
Less: Effect of shares held under Sigma Employee Share Plan	(15,489)	(12,944)
<b>Weighted average number of ordinary shares used in calculation of basic earnings per share</b>	<b>1,163,138</b>	<b>956,085</b>
Add: Effect of potential conversion to ordinary shares under executive rights/option schemes	1,468	4,467
Add: Effect of shares held under Sigma Employee Share Plan	15,489	12,944
<b>Weighted average number of ordinary shares used in calculation of diluted earnings per share</b>	<b>1,180,095</b>	<b>973,496</b>

### Performance Rights and Options

Full details of share rights and options are included in Note 27. The rights and options are considered dilutive and are included in the calculation of diluted earnings per share.

## 13. Receivables

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Current</b>		
Trade Debtors	664,157	285,742
Provision for impairment of receivables	(23,166)	(1,865)
	640,991	283,877
Other debtors	7,808	7,729
Investment in Sigma Rewards	–	54,396
<b>Total current receivables</b>	<b>648,799</b>	<b>346,002</b>
<b>Non-current</b>		
Other loan receivables	4,992	–
Provision for impairment of receivables	(2,100)	–
<b>Total non-current receivables</b>	<b>2,892</b>	<b>–</b>
<b>Gateway Unit Trust</b>		
Gateway loans receivable	9,555	45,774
Provision for impairment – Sigma Group	–	(2,500)
<b>Gateway loans receivable net of provisions</b>	<b>9,555</b>	<b>43,274</b>

All trade debtors are unsecured and Sigma does not hold any collateral in relation to these debts apart from a standard retention of title clause. In most cases the fair value of the retention of title approximates the carrying value of the trade debt. Included in trade debtors is an amount of \$80.5m (2010: \$112.8m) funded by the Waratah facility (see Note 32). The debtors sold into the Waratah facility yield a cash advance equivalent to approximately 78% (2010: 80%) of the face value of the debtor (see Note 37).

### *Sigma Rewards*

The Group holds an investment of \$46,562,000 (2010: \$54,396,000) in two Notes in relation to its Sigma Rewards debtors program. This investment was classified within 'current receivables' in the prior financial year. During the current financial year the Group consolidated the underlying trust that carried the Sigma Rewards debtors and recorded on balance sheet all the debtors within Sigma Rewards, amounting to \$389.8m, as well an equivalent external debt. For the year ending 31 January 2011, the Investment in Sigma Rewards has been offset against the gross debt associated with the Sigma Rewards facility, in order to reflect the net debt owing (see Note 2(d)).

### *Foreign exchange risk*

The carrying amounts of the Group's current and non-current receivables are denominated in the following currencies:

	Consolidated	
	2011 \$'000	2010 \$'000
New Zealand Dollars	–	59
Australian Dollars	643,883	283,818
	643,883	283,877
Current receivables	640,991	283,877
Non-current receivables	2,892	–
	643,883	283,877

For an analysis of the sensitivity of trade and other receivables to foreign exchange and interest rate risk refer to Note 36.

## 13. Receivables (continued)

### Impaired receivables

As at 31 January 2011, current trade receivables of the Group with a nominal value of \$23.166m (2010: \$1.865m) were impaired. The amount of the provision was \$23.166m (2010: \$1.865m). The individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. It was assessed that no portion of these receivables are expected to be recovered.

The ageing of these Group receivables is as follows:

	Consolidated	
	2011 \$'000	2010 \$'000
0 days to 90 days overdue	20,234	–
Over 90 days overdue	2,932	1,865
	<b>23,166</b>	1,865

As at 31 January 2011, trade receivables of \$21,916,000 (2010: \$21,192,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2011 \$'000	2010 \$'000
0 days to 90 days overdue	14,700	16,445
Over 90 days overdue	7,216	4,747
	<b>21,916</b>	21,192

As noted above these receivables are past due but not impaired and accordingly we expect these receivables to be fully collectable.

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2011 \$'000	2010 \$'000
At start of financial year	1,865	1,363
Provision for impairment recognised during the year	22,608	1,264
Receivables written off during the year as uncollectible	(1,307)	(762)
At end of financial year	<b>23,166</b>	1,865

The creation and release of the provision for impaired receivables have been included in the Income Statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of the receivables mentioned above. The Group does not hold any collateral as security, apart from a standard retention of title clause (see Note 37).

\$2.1m of non-current receivables were considered impaired and the provision for this impairment was \$2.1m.

### Gateway Unit Trust

The loans carry no foreign currency exposure and have been classified as non current because repayment maturity is between 9 and 15 years (with 3 years lapsed from origination of loan). There are 11 individual loans (2010:44 loans) receivable each with an average balance of approximately \$0.9m. Refer to Note 37 for further events subsequent to balance date. The following information discloses the key features of the loan pool:

	2011 Number	2011 Weighted Interest Rate	2011 \$'000	2010 Number	2010 Weighted Interest Rate	2010 \$'000
Fixed Interest Loans	5	8.98%	3,423	20	8.59%	20,088
Variable Interest Loans	6	10.48%	6,132	24	9.62%	25,686
<b>Total Loan Pool</b>	<b>11</b>	<b>9.94%</b>	<b>9,555</b>	<b>44</b>	<b>9.19%</b>	<b>45,774</b>

## 14. Inventories

	Consolidated	
	2011 \$'000	2010* \$'000
<b>At Cost</b>		
Raw materials	–	56,191
Work in Progress	–	6,940
Finished goods	235,699	297,696
Provision for obsolescence	(10,173)	(28,099)
	225,526	332,728

\* Inventories at 31 January 2010 are shown as restated for the adjustment of prior period error. Refer to Note 5.

## 15. Investments

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Jointly Controlled Entity – Joint Venture</b>		
Equity accounted investments*	–	–
<b>Total non-current investments</b>	–	–

\* A subsidiary of the Company is a partner in a joint venture with Plus Points Pty Ltd to manage and administer customer loyalty programs. The 50:50 joint venture is an incorporated joint venture (PPS Loyalty Pty Ltd).

### Investments in jointly controlled entities

#### (a) Movements in carrying amounts

	Consolidated	
	2011 \$'000	2010 \$'000
Carrying amount at start of financial year	–	1,292
Impairment recognised during the period *	–	(1,221)
Share of profits/(losses) before income tax	–	(140)
Share of income tax benefit	–	2
Other movements	–	67
Carrying amount at end of financial year	–	–

\* During the prior financial year management reassessed the carrying value of its investment in this jointly controlled entity and determined that the cash flow forecasts did not support the carrying value of the investment in the joint venture. The review resulted in this investment being treated as non-core and accordingly it was written off.

#### (b) Contingent liabilities of joint ventures

The joint venture had no contingent liabilities.



## 16. Property, Plant and Equipment

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Land and Buildings</b>		
At cost	20,200	172,534
Accumulated depreciation	(2,889)	(15,167)
	<b>17,311</b>	<b>157,367</b>
<b>Plant and Equipment</b>		
At cost	66,166	158,305
Accumulated depreciation	(30,943)	(90,580)
	<b>35,223</b>	<b>67,725</b>
<b>Total non-current property, plant &amp; equipment</b>	<b>52,534</b>	<b>225,091</b>

### Reconciliations

Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the financial period are set out below.

Consolidated	Note	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
Carrying amount at 31 January 2009		130,755	51,513	182,268
Additions		1,565	16,466	18,031
Acquisition of business and assets, BMS	33(c)	28,200	10,158	38,358
Transfer of completed projects		(38)	38	–
Write down to recoverable amount	6	–	(14)	(14)
Disposals		–	(124)	(124)
Depreciation	6	(3,115)	(10,312)	(13,427)
Carrying amount at 31 January 2010		157,367	67,725	225,091
Additions		22,649	15,730	38,379
Disposals		(641)	(152)	(793)
Transfer of completed projects		102	(102)	–
Transfer to assets held for sale	10	(14,000)	–	(14,000)
Pharmaceutical Division Disposal	9	(140,192)	(37,819)	(178,011)
Write down to recoverable amount	6	(4,200)	(161)	(4,361)
Depreciation	6	(3,774)	(9,998)	(13,772)
<b>Carrying amount at 31 January 2011</b>		<b>17,311</b>	<b>35,223</b>	<b>52,534</b>

Security over assets was released and discharged on 31 January 2011 on repayment of the syndicated debt facility.

## 17. Intangible Assets

	Consolidated	
	2011 \$'000	2010 \$'000
Goodwill at cost	–	538,582
IP licence agreement	–	123,557
Accumulated amortisation	–	(39,472)
	–	84,085
Trademarks and licence fees at cost	–	315,250
Accumulated amortisation	–	(100,651)
	–	214,599
Brand names at cost	23,279	39,952
Accumulated amortisation	(8,249)	(9,664)
	15,030	30,288
Development costs at cost	780	27,086
Accumulated amortisation	(776)	(6,119)
	4	20,967
<b>Total non-current intangibles</b>	<b>15,034</b>	<b>888,521</b>

### Reconciliations

Reconciliations of the carrying amount of each class of intangible asset at the beginning and end of the current financial period are set out below:

Consolidated	Note	Goodwill \$'000	IP licence agreement \$'000	Trademarks & licence fees \$'000	Brand Names \$'000	Development Costs \$'000	Total \$'000
Carrying amount at 31 January 2009		960,817	93,589	226,456	31,281	20,601	1,332,744
Additions		–	–	–	–	3,975	3,975
Acquisition of business and assets, BMS	33(c)	1,995	–	19,372	–	–	21,367
Impairment – Pharmaceuticals segment	6	(184,421)	–	(10,336)	–	(1,224)	(195,981)
Impairment – Healthcare segment	6	(239,809)	–	(1,360)	–	–	(241,169)
Foreign currency movements		–	–	–	(14)	–	(14)
Amortisation	6	–	(9,504)	(19,526)	(986)	(2,385)	(32,401)
Carrying amount at 31 January 2010		538,582	84,085	214,606	30,281	20,967	888,521
Additions		–	–	–	–	4,820	4,820
Acquisition of business and assets, BMS	33(c)	1,453	–	–	–	–	1,453
Disposals	9	(281,692)	(74,581)	(193,896)	(14,233)	(20,011)	(584,413)
Impairment – Pharmaceuticals segment	6	(220,000)	–	–	–	(3,028)	(223,028)
Impairment – Healthcare segment	6	(38,343)	–	–	–	–	(38,343)
Foreign currency movements		–	–	–	(55)	–	(55)
Amortisation	6	–	(9,504)	(20,710)	(963)	(2,744)	(33,921)
<b>Carrying amount at 31 January 2011</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>15,030</b>	<b>4</b>	<b>15,034</b>

## 17. Intangible Assets (continued)

### Impairment testing of Goodwill

Goodwill has been allocated to the consolidated entity's cash generating units ("CGUs") according to their business segment.

A summary of goodwill allocated to cash generating units at year end is presented below (see also comments below):

Consolidated	2011 \$'000	2010 \$'000
Pharmaceuticals goodwill	–	420,639
Healthcare goodwill	–	38,343
Orphan goodwill*	–	79,600
<b>Total Goodwill</b>	<b>–</b>	<b>538,582</b>

\* The results of Orphan Australia were included within the Pharmaceuticals segment from 22 February 2008, the effective date of the acquisition. However, Orphan was its own CGU for the purposes of impairment testing up to 31 July 2010.

### Reassessment of Cash Generating Units

During the period, management had substantially completed the integration of the Orphan business with the Pharmaceuticals business. Orphan was acquired in February 2008 with the critical integration milestones commencing mid 2009/2010 financial year and completing by February/March 2010. Accordingly, the Orphan business formed a part of the Pharmaceuticals CGU for the current financial year.

### Calculation Methodology

#### Pharmaceutical CGU

The Pharmaceutical CGU recoverable amount was based on fair value less costs to sell. In determining the disclosures required for the interim accounts for the half year ended 31 July 2010, the Directors considered the Aspen offer announced on 16 August 2010 for the Pharmaceuticals Business. The Aspen Offer of \$900m reflected the recoverable amount of the Pharmaceutical Business assets as at 31 July 2010 and accordingly a goodwill impairment of \$220m was recorded at 31 July 2010. The remaining Pharmaceutical CGU goodwill of \$281.7m was derecognised on completion, 31 January 2011, of the sale of the Pharmaceuticals Division to Aspen.

### Impairment of other intangible assets – development costs

During the period the carrying value of certain intangible assets (development costs) were assessed to be impaired and written down accordingly. These assets belonged to the Pharmaceuticals segment.

#### Healthcare CGU

The Group has reassessed the carrying value of the Healthcare CGU and reperformed impairment analysis to take into account the following changes in the Group's structure subsequent to July 2010:

- the change in Healthcare's future cash flow forecasts due to the new Group structure following the sale of the Pharmaceuticals Division and long-term arrangements with Aspen with respect to distribution
- the revised cost of capital taking into account market risk factors attributable to the Group, and likely lower gearing levels following the paying out of the syndicated and Sigma Rewards debt facilities
- Pfizer's decision to deliver its prescription products (PBS and non PBS) direct to pharmacies from March 2011
- the impact from the latest PBS reforms.

The recoverable amount of the Healthcare CGU is based on value in use. Value in use is calculated using a discounted cash flow model covering a 5 year period with an appropriate terminal growth rate at the end of that period, for the business segment. The model utilises cash flow forecasts and extrapolations based on budgets that have been reviewed by management and the Board. Due to the changes in the business structure and economic conditions of the Group identified above, the value in use calculation does not support the carrying amount of the Healthcare CGU goodwill of \$38.3m and this goodwill has been impaired in the 31 January 2011 financial year.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- The cash flow forecasts for years 2 to 5 are based on extrapolations of the current 2011/2012 budget adjusted as a result of risk sensitivity analysis. The forecast growth rates are based on the CPI adjusted for past performance and management's expectations for future performance.
- The forecast compound annual growth rates (CAGR) for years 1 to 5 in the impairment model at 31 January 2011 for the Healthcare CGU is 3.0% (January 2010: 3.5%).
- The terminal value growth rate at 31 January 2011 for the Healthcare CGU is 2.7% (January 2010: 3.0%).
- Pre tax discount rate used for Healthcare of 13.1% (January 2010: 12.1%), which approximates the CGU's weighted average cost of capital (before tax). Changes in the risk profile of the Company and a lower assumed gearing level have contributed to an increase in the Company's weighted average cost of capital.

## 18. Deferred Income Tax Assets and Liabilities

Movements in deferred tax assets and liabilities during the financial period are:

2011	Balance 1 February 2010	Recognised in income	Recognised in equity	Included in discontinued operations (Note 9)	Balance 31 January 2011
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	560	6,428	–	(38)	6,950
Inventories	8,250	3,484	–	(8,682)	3,052
Trade and other accruals	3,516	(76)	–	65	3,505
Provisions for employee benefits	7,049	(1,384)	–	(1,957)	3,708
Other deferred tax assets	1,665	(1,665)	–	–	–
Derivative hedge reserve	2,554	–	(3,367)	–	(813)
Equity Raising costs capitalised in equity	2,661	–	(638)	–	2,023
Intangibles	(61,209)	6,858	–	50,828	(3,523)
Property, plant and equipment	(8,843)	(380)	–	4,452	(4,771)
<b>Net deferred tax assets</b>	<b>(43,796)</b>	<b>13,265</b>	<b>(4,005)</b>	<b>44,668</b>	<b>10,131</b>
Deferred tax assets	50,215	6,309	(3,424)	(33,785)	19,315
Deferred tax liabilities	(94,012)	6,956	(581)	78,453	(9,184)
<b>Net deferred tax assets</b>	<b>(43,796)</b>	<b>13,265</b>	<b>(4,005)</b>	<b>44,668</b>	<b>10,131</b>

2010	Balance 1 February 2009	Recognised in income	Recognised in equity	Business Combination	Balance 31 January 2010
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	314	246	–	–	560
Inventories	3,262	4,710	–	278	8,250
Trade and other accruals	2,012	1,504	–	–	3,516
Provisions for employee benefits	5,223	1,282	–	544	7,049
Other deferred tax assets	(1,990)	3,656	–	–	1,666
Derivative hedge reserve	12,093	–	(9,539)	–	2,554
Equity Raising costs capitalised in equity	–	–	2,661	–	2,661
Intangibles	(62,713)	1,504	–	–	(61,209)
Property, plant and equipment	(7,642)	(1,433)	–	232	(8,843)
<b>Net deferred tax liabilities</b>	<b>(49,441)</b>	<b>11,469</b>	<b>(6,878)</b>	<b>1,054</b>	<b>(43,796)</b>
Deferred tax assets	41,039	15,000	(6,878)	1,054	50,215
Deferred tax liabilities	(90,480)	(3,531)	–	–	(94,012)
<b>Net deferred tax liabilities</b>	<b>(49,441)</b>	<b>11,469</b>	<b>(6,878)</b>	<b>1,054</b>	<b>(43,796)</b>

## 19. Payables

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Current</b>		
Trade creditors	251,284	353,876
Other creditors	89,470	53,887
<b>Total current payables</b>	<b>340,754</b>	<b>407,763</b>

### Foreign currency risk

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	Consolidated	
	2011 \$'000	2010 \$'000
Euro	–	1,441
United States Dollars	–	5,309
British Pounds	–	678
Other	–	148
Australian Dollars	340,754	400,187
	<b>340,754</b>	<b>407,763</b>

For an analysis of the sensitivity of trade and other payables to foreign currency risk refer to Note 36.

## 20. Interest Bearing Liabilities

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Current</b>		
Other secured loans	11,538	86,421
Syndicated debt	–	192,986
Secured bank borrowings – Sigma Rewards	343,237	–
<b>Total current borrowings</b>	<b>354,775</b>	<b>279,407</b>
Gateway liability (current liability)	3,802	42,793

### Waratah Facility

Within other secured loans, \$62,400,000 is secured by way of deed over certain Sigma accounts receivable under the Waratah facility (refer Note 13 and Note 32). The deed is a fixed and floating charge of a nominal amount of \$10,000 to register a security interest (as registered with the Australian Securities and Investment Commission). As discussed in Note 33 in the 31 January 2010 Statutory Accounts, it was agreed by the Group that all cash collections from Waratah debtors will be maintained in a separate bank account and the cash holdings within this account will be applied to the total Waratah liability on settlement each month. On the basis that the Group is unable to utilise the cash in this separate account for any other purpose but for Waratah debt settlement, the Group has offset the cash collections held in the separate bank account amounting to \$51.0m against the Waratah liability of \$62.4m. Refer to Note 33(a).

The secured loans have been disclosed as current for the year ending 31 January 2011 as this facility was set to expire on 5 February 2011, with the extension to 2014 being negotiated subsequent to the year end (see Note 32 and Note 37).

### Syndicated Debt Facility

Part of the net proceeds from the sale of the Pharmaceutical Division were utilised to fully repay the syndicated debt facility on 31 January 2011. No covenant testing was required for the syndicated debt at 31 January 2011 as it was fully repaid at year end. The Syndicated facility was secured against the Group's commercial properties and businesses subsequent to 31 January 2010. Security over assets was released and discharged on 31 January 2011 on repayment of the syndicated debt facility.

## 20. Interest Bearing Liabilities (continued)

### *Sigma Rewards*

As explained in Note 2 (d) Sigma operated a debtors' securitisation program (Sigma Rewards) which allowed the Group to receive cash in advance of debtors' settlement. As at 31 January 2011, \$343.2m (2010: Nil due to off balance sheet treatment) of Sigma Rewards debt was recorded on balance sheet as a current liability due to its repayment on 9 February 2011. The Sigma Rewards facility was not subject to covenant testing (see Note 37).

Details of the Group's exposure to risk arising from borrowings are set out in Note 36.

### **Fair Value**

The fair value of borrowings equals their carrying amount as the debt is subject to floating interest rates.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Current</b>		
Australian Dollars	354,775	279,407

For an analysis of the sensitivity of borrowings to interest rate risk and foreign exchange risk refer to Note 36.

### *Gateway*

\$3.8 m of interest bearing liabilities arise from the consolidation of the Gateway Unit Trust. This amount has been classified as current as the facility will expire within the 12 months. The interest rate attached to this debt is at arms length and approximates 6.5% (2010: 8.5%). (see Note 37 for repayment of the facility subsequent to year end).

## 21. Provisions

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Current</b>		
Employee benefits	6,844	13,874
Redundancy provisions	2,736	5,177
Lease make good provision	1,055	–
Directors' retirement	169	633
<b>Total current provisions</b>	<b>10,804</b>	<b>19,684</b>
<b>Non-current</b>		
Employee benefits	510	1,368
<b>Total non-current provisions</b>	<b>510</b>	<b>1,368</b>

### **Reconciliation**

Reconciliation of the provision for Directors' retirement benefits, from the beginning to the end of the financial period, is set out below.

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Provision for Directors' Retirement</b>		
Carrying amount at the beginning of the period	633	613
Provisions recognised during the year	15	20
Payment made during the year	(479)	–
<b>Carrying amount at the end of the period</b>	<b>169</b>	<b>633</b>

## 22. Share Capital

### (a) Issued capital

	Consolidated	
	2011 \$'000	2010 \$'000
Ordinary shares fully paid	1,390,492	1,390,492
<b>Total share capital</b>	<b>1,390,492</b>	<b>1,390,492</b>

### (b) Movements – The Company

Date	Details	Notes	No. of shares	Issue price	\$'000
31-01-09	Closing Balance		870,038,109		1,612,794
07-05-09	Shares issued under Dividend Reinvestment Plan	11	4,714,960	\$1.05	4,946
24-09-09	Capital Raising (d)		131,264,382	\$1.02	133,890
16-10-09	Capital Raising (d)		160,330,394	\$1.02	163,537
	less capital raising costs, after tax				(6,905)
13-11-09	Shares issued under Dividend Reinvestment Plan	11	9,324,727	\$0.91	8,495
18-01-10	2009 Employee share plan issue		2,954,000	\$1.00	2,950
<b>31-01-10</b>	<b>Closing Balance</b>		<b>1,178,626,572</b>		<b>1,919,708</b>
	No share capital movements for the January 2011 financial year		–		–
<b>31-01-11</b>	<b>Closing Balance</b>		<b>1,178,626,572</b>		<b>1,919,708</b>

### (c) Movements – Consolidated

Date	Details	Notes			\$'000
<b>31-01-09</b>	<b>Closing Balance</b>				1,083,578
07-05-09	Shares issued under Dividend Reinvestment Plan	11	4,714,960	\$1.05	4,946
24-09-09	Capital Raising (d)		131,264,382	\$1.02	133,890
16-10-09	Capital Raising (d)		160,330,394	\$1.02	163,537
	less capital raising costs, after tax				(6,905)
13-11-09	Shares issued under Dividend Reinvestment Plan	11	9,324,727	\$0.91	8,495
18-01-10	2009 Employee share plan issue		2,954,000	\$1.00	2,950
<b>31-01-10</b>	<b>Closing Balance</b>				<b>1,390,492</b>
	No share capital movements for the January 2011 financial year		–		–
<b>31-01-11</b>	<b>Closing Balance</b>				<b>1,390,492</b>

### (d) \$297m accelerated renounceable entitlement offer

Sigma announced on 7 September 2009 a 1 for 3 fully underwritten accelerated renounceable entitlement offer ("AREO") to raise gross proceeds of \$297 million. Deutsche Bank AG (Sydney Branch) was the sole underwriter of the AREO. Net proceeds from the equity raising were used to fund the BMSA acquisition, reduce debt and fund working capital.

### (e) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Company in proportion to the number of shares held. Every ordinary shareholder present at a meeting of the Company in person or by proxy, is entitled to one vote, and upon a poll each ordinary share is entitled to one vote. Ordinary shares have no par value.

### (f) Capital management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern so that they can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt (see Note 37).

## 23. Shares held by Equity Compensation Plan

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Movements in shares held by equity compensation plan</b>		
Balance at the beginning of the financial period	(22,926)	(20,261)
Employee Share Plan issue	–	(2,950)
Movements in unvested Sigma ordinary shares held by the Employee Share Plan	81	285
<b>Balance at the end of the financial period</b>	<b>(22,845)</b>	<b>(22,926)</b>

The shares held by the “Equity Compensation Plan” account are used to record the balance of the Company’s ordinary shares, which as at the end of the financial year, have not vested to Group employees, and are therefore controlled by the Group. These shares are held by the Sigma Employee Share Plan (“ESP”) (see Note 31).

## 24. Reserves

	Capital Profits Reserve	Foreign Currency Translation Reserve	General Reserve	Option/ Performance Rights Reserve	Embrace	Options Exercised Reserve	Other Comprehensive Income	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 31 January 2009</b>	1,450	(27)	2,280	4,458	–	474	(28,217)	(19,582)
Foreign exchange translation expense	–	(13)	–	–	–	–	–	(13)
Options/performance rights expense	–	–	–	452	–	–	–	452
Net movement in derivatives	–	–	–	–	–	–	31,816	31,816
Deferred income tax	–	(6)	–	–	–	–	(9,539)	(9,545)
<b>Balance at 31 January 2010</b>	<b>1,450</b>	<b>(46)</b>	<b>2,280</b>	<b>4,910</b>	<b>–</b>	<b>474</b>	<b>(5,940)</b>	<b>3,128</b>
Foreign exchange translation expense	–	(61)	–	–	–	–	–	(61)
Options/performance rights expense	–	–	–	(240)	2,883	–	–	2,643
Net movement in derivatives	–	–	–	–	–	–	11,283	11,283
Deferred income tax	–	18	–	–	–	–	(3,385)	(3,367)
<b>Balance at 31 January 2011</b>	<b>1,450</b>	<b>(89)</b>	<b>2,280</b>	<b>4,670</b>	<b>2,883</b>	<b>474</b>	<b>1,958</b>	<b>13,626</b>

### Nature and purpose of reserves

#### Other comprehensive income

Other comprehensive income is used to record adjustments to revalue derivative financial instruments to fair or market value, where the derivative financial instruments qualify for hedge accounting. Upon realisation of the underlying hedged transactions in future financial periods, these revaluation adjustments are reversed from other comprehensive income, and taken to the Income Statement.

#### Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve. The reserve is recognised in the Income Statement when the net investment is disposed of.

#### Option/performance rights reserve

This reserve is used to recognise the fair value of shares, performance rights and options issued to employees.

#### Embrace

This reserve is used to recognise the fair value of shares expected to be issued to customers in 2011/12 subject to satisfactory achievement of trading targets. During the year, the Company introduced an incentive program that was offered to Embrace customers. In return for achieving specified performance goals over a defined performance period, compliant Embrace customers would qualify for a dollar equivalent of shares in the Company.



## 25. Expenditure Commitments

	Note	Consolidated	
		2011 \$'000	2010 \$'000
<b>Contracts for capital expenditure for which no amounts have been provided</b>			
Payable not later than one year		3,526	22,943
<b>Non-cancellable operating leases &amp; licence commitments</b>			
	25(a)		
Expenditure contracted but not provided for in the financial statements:			
– Payable not later than one year		7,381	10,378
– Payable later than one year but not later than five years		16,195	23,594
– Payable later than five years		16,968	–
		<b>40,544</b>	<b>33,972</b>
<b>Remuneration commitments</b>			
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities:			
– Payable not later than one year	25(b)	1,694	2,608

- (a) Assets that are the subject of operating leases include leased premises, licences for sale of certain products, motor vehicles and items of machinery and equipment. The lease terms for leased premises vary between 5 and 15 years with the majority of leases providing for additional option periods. Contingent rental provisions within the lease agreement provide for increases within the rental structure in line with the CPI and market value. The average lease term for equipment rental and licence agreements is 3 and 4 years respectively.
- (b) Amounts disclosed as remuneration commitments include commitments arising from the service contracts of Key Management Personnel referred to in Note 27 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

## 26. Auditor's Remuneration

	Consolidated	
	2011 \$'000	2010 \$'000
During the year the auditors, and the related practices, of Sigma Pharmaceuticals Limited earned the following remuneration:		
<b>Audit or review of financial reports of the entity or any controlled entity</b>		
Audit and review of the 2009/2010 financial statements by PwC, Australia	607,964	860,000
Audit and review of the 2010/2011 financial statements by PwC, Australia	589,000	–
<b>Other assurance services provided by PricewaterhouseCoopers, Australia</b>		
Other assurance services	84,427	307,984
<b>Other services provided by a related practice of PricewaterhouseCoopers, Australia</b>		
Tax compliance services provided by PricewaterhouseCoopers, Australia	–	42,500
Tax compliance services provided by PricewaterhouseCoopers, New Zealand	8,266	7,500
<b>Total Remuneration</b>	<b>1,289,657</b>	<b>1,217,984</b>

## 27. Key Management Personnel Disclosures

The following persons were Directors of the Company during the financial year:

Directors	Position	Details
Mr B Jamieson	Chairman	
Mr M Hooper	CEO & Managing Director	(Appointed 30 August 2010)
Ms L Nicholls, AO	Non-Executive Director	
Mr W Scott	Non-Executive Director	
Mr D Bayes	Non-Executive Director	
Mr D Manuel	Non-Executive Director	
Mr R Gunston	Non-Executive Director	(Appointed 1 July 2010)
<b>Former Directors</b>		
Dr J Stocker, AO	Chairman	(Retired 21 June 2010)
Mr E de Alwis	CEO & Managing Director	(Resigned 13 August 2010)
Mr D Curlewis	Non-Executive Director	(Resigned 21 June 2010)

### Key Management Personnel

The following persons held executive positions with responsibility and authority for the strategic direction and management of both the Company and the Group during the financial year.

Name	Position	Date of change in position
Mr J Sells	Chief Financial Officer	Appointed 30 August 2010
Mr P Tilley	General Manager Retail Operations	
<b>Former Executives</b>		
Mr M Smith	Chief Financial Officer	Resigned 12 May 2010
Ms J Toh	Chief Information Officer and General Manager Logistics	Resigned 5 January 2011
Mr K Jeffs	General Manager Medical	Transferred to Aspen 31 January 2011
Mr I Finlay	General Manager Operations	Transferred to Aspen 31 January 2011
Mr S Waller	General Manager Sales	Transferred to Aspen 31 January 2011

### Individual Directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosure as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report on pages 26 to 41. The disclosures in the Remuneration Report are audited.

Apart from the details disclosed in this Note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

### Total Remuneration for the Group's Key Management Personnel

Key Management Personnel	Financial Year	Short-term benefits					Post Employment Benefits			Share Benefits	Total \$
		Salary and Base Fees \$	Committee Fees \$	Short-Term Incentive \$	Sign on Cash payment \$	Non-Monetary Benefits \$	Super-annuation Benefits \$	Retirement Benefits \$	Termination Benefits \$	Value of performance rights \$	
Total Directors	2011	1,841,917	104,000	415,625	400,000	48,305	113,428	485,885	1,529,181	(317,939)	4,620,402
	2010	1,827,317	104,000	–	–	49,365	91,652	20,530	–	388,480	2,481,344
Total Executives	2011	2,103,613	–	192,536	–	80,518	83,884	–	337,202	82,218	2,879,971
	2010	1,695,553	–	–	–	85,558	133,452	–	–	143,186	2,057,749
Total Remuneration	2011	3,945,530	104,000	608,161	400,000	128,823	197,312	485,885	1,866,383	(235,721)	7,500,373
	2010	3,522,870	104,000	–	–	134,923	225,104	20,530	–	531,666	4,539,094

## 27. Key Management Personnel Disclosures (continued)

### Options and Rights Holdings

The following table details the options and rights issued by the Company to Key Management Personnel.

#### Options/Performance Rights Awarded to previous CEO & Managing Director

Grant Date	Number Issued	Exercise Price/ Amount Payable	Fair value per option at grant date <sup>1</sup>	First exercise date <sup>2</sup>	Balance at 31/01/10	Lapsed/ exercised during financial year	Balance at 31/01/11
26 October 2007	399,912	–	\$1.04	31/01/10 & 26/10/10 <sup>3</sup>	399,912	(399,912)	–
31 October 2008	456,968	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	456,968	(456,968)	–
30 November 2009	621,840	–	\$0.70	30/11/2012	180,588	(180,588)	–

1. The fair value of performance rights has been determined by Mercer Finance and Risk Consulting using the Monte-Carlo option pricing model.
2. Performance rights granted to the CEO & Managing Director will only vest after satisfying the performance criteria. No rights vested or were exercised during the financial year.
3. The EPS growth performance condition is tested at 31 January, the TSR performance condition is tested on the 3rd anniversary of the Grant Date.

#### Performance Rights Issued to Key Executive Personnel

Executive	Grant Date	Number Issued	Exercise Price/ Amount Payable	Fair Value per Share Right at Grant Date <sup>1</sup>	Exercise Date <sup>2</sup>	Balance at 01/02/10	Lapsed during year	Balance at 31/1/11
Mr K Jeffs	30/11/09	111,223	–	\$0.70	30/11/12	111,213	–	111,213
Mr J Sells (commenced 30 August 2010)	10/09/10	710,227	–	\$0.35	10/09/13	–	–	710,227
Mr M Smith (resigned 12 May 2010)	31/10/08	132,520	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	132,520	(132,520)	–
	30/11/09	181,213	–	\$0.70	30/11/12	181,213	(181,213)	–
Mr I Finlay	30/11/09	161,779	–	\$0.70	30/11/12	161,779	–	161,779
Ms J Toh (resigned 05 January 2011)	26/10/07	122,670	–	\$1.04	31/01/10 & 26/10/10 <sup>3</sup>	122,670	(122,670)	–
	31/10/08	133,358	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	133,358	(133,358)	–
	30/11/09	180,588	–	\$0.70	30/11/12	180,588	(180,588)	–
Mr S Waller	31/10/08	118,811	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	118,811	–	118,811
	30/11/09	160,889	–	\$0.70	30/11/12	160,889	–	160,889
Mr P Tilley	26/10/07	77,063	–	\$1.04	31/01/10 & 26/10/10 <sup>3</sup>	77,063	(77,063)	–
	31/10/08	87,128	–	\$0.96	31/01/11 & 31/10/11 <sup>3</sup>	87,128	–	87,128
	30/11/09	118,679	–	\$0.70	30/11/12	118,679	–	118,679

1. The fair value of performance rights is not the price that shares were traded at. Rather, it is calculated using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the shares can vest. The calculation is performed independently by the leading global remuneration experts Mercer (Australia).
2. Performance rights granted to Key Executives will only vest after satisfying the performance criteria outlined in the Remuneration Report.
3. The EPS growth performance condition is tested at 31 January; the TSR performance condition is tested on the 3rd anniversary of the grant date.

#### Options Granted by Arrow Group APS

During their employment with Arrow Pharmaceuticals Ltd Mr C Tangalakis and Mr P Williams were granted options over the Company's ordinary shares held by Arrow Group APS. These options were acquired at arms length fair values and consequently were not dependent on satisfaction of any performance conditions. These options expired on 31 March 2009:

Name	Grant date	Number issued	Number Exercised	Exercise price	Premium payable	Fair value per option at grant date	Exercise date	Expiry Date
Mr C Tangalakis	13-May-05	800,000	–	\$2.00	\$0.54	\$0.54	1-Jan-09	31-Mar-09
Mr P Williams	13-May-05	800,000	–	\$2.00	\$0.54	\$0.54	1-Jan-09	31-Mar-09

## 27. Key Management Personnel Disclosures (continued)

### Equity Holdings of Key Management Personnel

	Number of shares at 01/02/10	Number of shares acquired through Share Plans during the year	Number of shares purchased during the year (excluding share plans)	Number of shares sold during the year	Number of shares at 31/01/11
<b>Directors</b>					
Mr B Jamieson	187,020	67,973 <sup>1</sup>	–	–	254,993
Dr J Stocker, AO (retired 21 Jun 2010)	322,161	–	–	–	322,161
Mr E de Alwis (resigned 13 Aug 2010)	2,423,457	–	–	–	2,423,457
Mr M Hooper (commenced 30 Aug 2010)	100,000	–	–	–	100,000
Mr D Bayes	74,845	41,299 <sup>1</sup>	–	–	116,144
Mr D Curlewis (resigned 21 Jun 2010)	53,704	–	–	(20,000)	33,704
Mr D Manuel	14,658	35,756 <sup>1</sup>	–	–	50,414
Ms L Nicholls, AO	377,954	49,331 <sup>1</sup>	–	–	427,285
Mr W Scott	6,251,961	36,681 <sup>1</sup>	–	–	6,288,642
Mr R Gunston (appointed 1 Jul 2010)	–	18,642 <sup>1</sup>	–	–	18,642
<b>Total for Directors</b>	<b>9,805,760</b>	<b>249,682</b>	<b>–</b>	<b>(20,000)</b>	<b>10,035,442</b>
<b>Key Executive Personnel</b>					
Mr I Finlay	–	–	–	–	–
Mr J Sells (commenced 30 Aug 2010)	–	–	–	–	–
Mr K Jeffs	14,000	–	–	–	14,000
Mr M Smith (resigned 12 May 2010)	76,001	(8,000) <sup>2</sup>	–	–	68,001
Ms J Toh (resigned 5 Jan 2011)	30,772	–	–	–	30,772
Mr S Waller	–	–	–	–	–
Mr P Tilley	4,000	–	–	–	4,000
<b>Total for Key Executive Personnel</b>	<b>124,773</b>	<b>(8,000)</b>	<b>–</b>	<b>–</b>	<b>116,773</b>
<b>Total for Key Management Personnel</b>	<b>9,930,533</b>	<b>241,682</b>	<b>–</b>	<b>(20,000)</b>	<b>10,152,215</b>

1. Represents shares purchased on market under the Non-Executive Director Share Plan.

2. Represents shares allotted under the Sigma Employee Share Plan have been forfeited due to Mr Smith's resignation.

## 28. Related Party Disclosures

### The Company

Sigma Pharmaceuticals Limited is the parent entity of the Group.

### Controlled entities

Interests in controlled entities are set out in Note 30.

The Group does not hold any investments, other than in controlled entities and jointly controlled entities, over which it has significant influence.

The Company transacted business throughout the financial period with certain controlled entities in respect of purchases of goods and services. These transactions were undertaken on normal commercial terms and conditions.

### Key Management Personnel

Disclosures relating to Key Management Personnel are set out in Note 27 and in the Remuneration Report.

### Other transactions with directors

#### (a) Purchases by directors or director-related entities

Directors and their Director-related entities purchase goods from the Group on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to other customers of the Group.

Mr W Scott and his Director-related entities purchased pharmacy products from the Group in the ordinary course of business and on normal commercial terms and conditions. The amount of these purchases during the financial year ending 31 January 2011 was \$13,127,972 (2010 - \$15,208,061).

Also, Mr W Scott and his Director-related entities provided services to the Group in the ordinary course of business and on normal commercial terms and conditions. The amount of these services during the financial year ending 31 January 2011 was \$12,000 (2010 - Nil).

Mr D Manuel and his Director-related entities purchased pharmacy products from the Group in the ordinary course of business and on normal commercial terms and conditions. The amount of these purchases during the financial year ending 31 January 2011 was \$5,282,404 (2010 - \$4,522,475).

The amounts receivable at balance date from Directors or Director-related entities included within trade debtors in Note 13 was \$1,509,727 (2010- \$4,174,275). Amounts receivable from Directors or Director-related entities are subject to the Group's normal trading terms and conditions.

Other transactions entered into by Sigma Pharmaceuticals Limited and the Group with Directors and their Director-related entities are within normal employee, customer or supplier relationships on terms and conditions no more favourable than those available in similar arms length dealings.

## 29. Guarantees and Contingencies

### Guarantees

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Guarantees existed at the end of year in respect of:</b>		
Pharmacist guarantees <sup>(a)</sup>	–	1,000
Sigma Rewards guarantee <sup>(b)</sup>	16,000	13,900
Other guarantees	1,012	2,762
American express guarantee <sup>(c)</sup>	–	16,964
	<b>17,012</b>	<b>34,626</b>

(a) Sigma provided financial guarantees to a number of banks in relation to the borrowings of individual pharmacists. These borrowings related to the financing of pharmacies. Sigma was exposed to the financial viability of such pharmacies and the risk of their financial failure.

As at 31 January 2011, no guarantees were provided by the Group (2010 – 1 guarantee). The amount outstanding in respect of these guarantees as at this date was \$nil (2010 – \$1.2 million). Sigma had maintained a loss indemnity program, which had the effect of reducing the contingent liability under the guarantee program at 31 January 2011 to \$nil (2010 – \$1.0m). The program comprises a series of identical capping arrangements with the major holders of Sigma's guarantees.

Sigma maintained stringent review procedures and controls over the approval of guarantees and the monitoring of guarantee exposures. These included:

- bank-trained personnel to manage the processing and ongoing monitoring of guarantees
- extensive Board-approved policies and procedures for the processing of applications, approval standards, security and documentation standards, ongoing monitoring and review requirements and performance reporting
- regular reporting to the Board and senior management on the performance of the guarantee portfolio, including portfolio analysis based on approved risk categorisation criteria.

Management has assessed the fair value of these financial guarantees as nil.

(b) Amount represents a bank guarantee in respect of financing payment obligations under the Sigma Rewards program to ensure the finance charge abides by the credit rating agency's requirements. As the Sigma Rewards facility was paid out and fully extinguished on 9 February 2011, the guarantee was withdrawn on the same date.

(c) The Group's guarantee to American Express in the event of default by a cardholder using American Express to settle their trade account has now been discharged.

### Deed of Cross Guarantee

Under the terms of a Deed of Cross Guarantee dated 20 January 2006, entered into in accordance with the ASIC Class Order 98/1418, the Company has undertaken to meet any shortfall which might arise on the winding up of controlled entities that are party to the Deed (see Note 35).

## Contingencies

### Shareholder Class Action

On 29 October 2010, the Company was served with a statement of claim filed in the Federal Court of Australia making various allegations against the Company concerning its market disclosures during 2009 and 2010. The applicants are seeking declarations and unquantified damages. The information usually required by AASB 137 Provisions, Contingencies and Contingent Liabilities is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The Company refutes these allegations and is defending the proceedings.

## 30. Details of Controlled Entities

	Country of formation or incorporations	Sigma Pharmaceuticals Group direct or indirect interest in ordinary shares/equity	
		2011 %	2010 %
<b>Sigma Pharmaceuticals Limited (formerly Arrow Pharmaceuticals Limited)</b>	Australia		
<b>Controlled entities:</b>			
Chemist Club Pty Limited <sup>a</sup>	Australia	100	100
Sigma Company Limited <sup>a</sup>	Australia	100	100
Allied Master Chemists of Australia Limited <sup>a</sup>	Australia	100	100
Leodis (Australia) Company Proprietary Limited <sup>a</sup>	Australia	100	100
Orphan Holdings Pty Ltd <sup>b</sup>	Australia	–	100
Orphan Australia Pty Ltd <sup>b</sup>	Australia	–	100
QP Pharmaceuticals Pty Ltd <sup>b</sup>	Australia	–	100
Amcal Pty Limited <sup>a</sup>	Australia	100	100
Extend – A – Care Pty Ltd <sup>a</sup>	Australia	100	100
Fawns & McAllan Proprietary Limited <sup>b</sup>	Australia	–	100
Guardian Pharmacies Australia Pty Ltd <sup>a</sup>	Australia	100	100
Sigma Employee Share Administration Pty Ltd	Australia	100	100
Sigma Finance Pty Ltd <sup>a</sup>	Australia	100	100
Sigma NZ Limited	New Zealand	100	100
Pharmacy Wholesalers (Wellington) Limited	New Zealand	100	100
Sigma Pharmaceuticals (Australia) Pty Ltd. (formerly Sigma Pharmaceuticals Pty Ltd) <sup>b</sup>	Australia	–	100
Herron Pharmaceuticals Pty Ltd <sup>b</sup>	Australia	–	100
Chemist's Own Pty Ltd <sup>b</sup>	Australia	–	100
Stephen Hunter (Pharmaceutical Exports) Pty Limited <sup>b</sup>	Australia	–	100
Whole Health Solutions Pty Ltd <sup>a</sup>	Australia	100	100
Adrian Laboratories (Aust) Pty Ltd <sup>a</sup>	Australia	100	100
Hilton Healthstream Pty Ltd <sup>a</sup>	Australia	100	100
Health Haven Pty Ltd <sup>a</sup>	Australia	100	100
Integrated Naturopathic Services Pty Ltd <sup>a</sup>	Australia	100	100
Sigma (Hong Kong) Pty Limited <sup>b</sup>	Hong Kong	–	100
Sigma Services Proprietary Limited <sup>a</sup>	Australia	100	100
QDL Limited <sup>a</sup>	Australia	100	100
Arrow Pharmaceuticals Pty Ltd (formerly Quality Pharmaceuticals Pty Ltd) <sup>b</sup>	Australia	–	100
Australian Pharmaceuticals Distributors Pty Ltd <sup>a</sup>	Australia	100	100
QDL Pharmaceuticals Pty Ltd <sup>a</sup>	Australia	100	100
Sunshine Pharmacies Pty Ltd <sup>a</sup>	Australia	100	100
Sigma Research Pty Ltd <sup>a</sup>	Australia	100	100
Pharmacy Finance Limited <sup>a</sup>	Australia	100	100
Sigma (W.A.) Pty Ltd <sup>a</sup>	Australia	100	100

a. These wholly-owned companies are subject to a deed of cross guarantee (see Note 35).

b. Control over these entities was transferred to Aspen on completion of the sale of the Pharmaceuticals Division on 31 January 2011 (see Note 9).

## 31. Superannuation and Share Ownership Plans

### Superannuation Funds

The Group participates in a number of Superannuation Funds, which provide retirement benefits and insurance arrangements including both death in service and salary continuance benefits. In line with choice of fund legislation, effective from 1 July 2005, the Group's default superannuation plan operates within the Colonial First State and the Plum Superannuation Master Trust structures, which provide a wide range of investment choices for members. In addition to the default Superannuation Funds, the Group also contributes to a number of individual employee funds where employees have exercised choice. All funds in which the Group participates are administered on an accumulation basis.

The Group meets all Superannuation Guarantee requirements and generally contributes at a level exceeding award and legislative requirements. There exists a legally enforceable obligation to make such contributions as are required by legislative requirements and by the rules of the Plan.

Additional voluntary employee contributions can be made to the fund alongside the mandatory Superannuation Guarantee contributions. Such contributions can be made up to the specified age based limits.

### Industry/Union Plans

The Group participates in industry and union plans on behalf of certain employees. These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement or death.

The employer companies have legally enforceable obligations to contribute at varying rates to these plans.

### Employee Share Plan

The Company's Employee Share Plan periodically offers ordinary shares to all full or part time employees of the Group. In all respects the ordinary shares issued under the plan rank equally with all other fully paid ordinary shares on issue. Interest free loans can be offered to acquire the shares. The price at which shares are issued is determined by the weighted average price of ordinary shares over the five trading days prior to and including the date of issue of shares.

At balance date the following shares were on issue:

Issue date	Issue price <sup>a</sup>	Total shares on issue <sup>a</sup>
31 October 2001	\$0.66	736,210
9 December 2002	\$0.89	839,992
4 August 2003	\$1.28	1,279,942
20 September 2004	\$1.66	2,188,674
16 June 2006	\$2.48	4,083,500
21 January 2009	\$0.97	3,324,600
18 January 2010	\$1.00	2,954,000
		15,406,918

a. The issue price on shares prior to 16 June 2006 has been adjusted for the merger conversion ratio of 4.435:1.

The Employee Share Plan is administered by Sigma Employee Share Administration Pty Ltd, a controlled entity.

Interest free loans from Sigma Employee Share Administration Pty Ltd to employees are for a period of 10 years and are secured by the shares issued. The loans are repayable from dividends received on the shares and from voluntary loan repayments. If an employee leaves employment within the Group, he or she can repay the loan in full and acquire unrestricted ownership of the shares. If the employee does not wish to acquire the shares and repay the loan, the shares are transferred to Sigma Employee Share Administration Pty Ltd for later sale on market to repay the remaining balance of the loan.

Previous employees of the Group who have transferred to Aspen as part of the sale of the Pharmaceuticals Division are no longer eligible to participate in the above share plan. As the market value of Sigma ordinary shares at 31 January 2011 was approximately \$0.45 (2010 - \$0.935) and below the issue prices listed above, it is unlikely that the previous employees will elect to acquire unrestricted ownership of the shares by repaying their interest free loans.



## 32. Credit Facilities

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Credit standby arrangements</b>		
Secured bank overdraft facilities <sup>a</sup>	4,000	4,000
Amount of credit unused	4,000	4,000
Waratah debtors' securitisation facility available <sup>a</sup>	100,000	100,000
Waratah debtors' securitisation facility unused <sup>b</sup>	37,600	14,000
Sigma Rewards debtors' securitisation facility available <sup>a,c</sup>	650,000	650,000
Sigma Rewards debtors' securitisation facility unused	260,000	130,000
Uncommitted bank facilities	–	40,000
Amount of credit unused	–	40,000
Committed unsecured term loan facilities <sup>a</sup>	–	400,000
Amount of credit unused	–	207,000

a. The Group repaid a significant portion of its debt on 31 January 2011 and 9 February 2011 as referred to in Note 1 and the subsequent events Note 37.

b. Refer to Note 20. The Group utilised \$62.4m of the Waratah facility as at 31 January 2011 and this gross liability was offset by \$51.0m of cash holdings (Note 33(a)) in the Waratah cash collections account initiated as part of the facility amendments subsequent to the prior financial year.

c. Refer to Note 20. The Sigma Rewards debt has been recorded on balance sheet as at 31 January 2011.

For the avoidance of doubt it is the drawn portion (used) that is recognised on the Group's Statement of Financial Position.

Refer to Note 37 for further events subsequent to balance date.

### Waratah Facility

The Company has a debtor securitisation arrangement with Westpac Banking Corporation by which it transfers to a third party selected trade debtors in exchange for an immediate cash payment while retaining an exposure to credit losses and continuing obligation to service its accounts with these customers. The maximum amount allowed to be drawn on this facility was \$100 million as at 31 January 2011. This facility and the associated debt are recorded on the Statement of Financial Position. This facility was set to expire on 5 February 2011, with the extension to 2014 being negotiated subsequent to the year end. There were no covenant requirements for this facility as at 31 January 2011, however refer to Note 37 for further events subsequent to balance date.

### 33. Notes to the Statement of Cash Flows

	Consolidated	
	2011 \$'000	Restated* 2010 \$'000

#### (a) Reconciliation of cash and cash equivalents

Cash at the end of the financial period as shown in the Cash Flows Statement is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank and on hand	607,886	14,418
Less: Waratah cash collections offset against Waratah liability**	(50,982)	–
Cash and cash equivalents	556,904	14,418

#### (b) Reconciliation of profit for the year to net cash flows from operating activities

Loss for the year	(235,382)	(398,275)
Impairment of goodwill and other assets	288,926	438,427
Impairment in jointly controlled entities	–	1,221
Depreciation expense	13,772	13,427
Amortisation expense	33,921	32,401
Share-based payments expense	2,643	452
Write-off of plant and equipment	–	14
Loss/(profit) on sale of property, plant and equipment	191	(366)
Profit on sale of discontinued ops	(27,874)	–
<i>Change in assets and liabilities:</i>		
Decrease in net taxes payable	(20,540)	(27,310)
Decrease in inventories	25,888	3,647
(Increase)/decrease in trade, other debtors and prepayments	94,491	(79,493)
Increase/(decrease) in trade, other creditors, employee entitlements and other provisions	(74,794)	2,774
<b>Net cash flows from operating activities</b>	<b>101,242</b>	<b>(13,081)</b>

\* The Group recognised the debt associated with the Sigma Rewards facility on balance sheet as at 31 January 2011. Refer to Note 1(f), Note 13 and Note 20. Due to the consolidation of Sigma Rewards debt on balance sheet at 31 January 2011, the prior year cash flows have been restated so as to achieve consistency in the disclosure of cash flows from operating, investing and financing activities between the 2011 and 2010 financial years.

\*\* Refer to Note 20

### 33. Notes to the Statement of Cash Flows (continued)

#### (c) Businesses acquired in the prior year

Sigma Pharmaceuticals Limited ("Sigma") announced on 7 September 2009 that it had agreed to acquire some parts of the Australian business operations of Bristol Myers Squibb Australia ("BMSA") and associated assets ("BMS Australian Business"). The BMS Australian Business is comprised of the Pharmaceutical and Technical Operations Division which employs approximately 150 people and operates out of BMS Australia's Noble Park facility. Settlement occurred on 2 October 2009 and the final fair values of the identifiable net assets acquired are detailed below.

	Fair values recognised on acquisition \$'000
<b>Current assets</b>	
Inventory	10,970
Prepayments	67
<b>Total current assets</b>	11,037
<b>Non-current assets</b>	
Property, plant and equipment	38,358
Customer relationships and product rights	19,371
Deferred tax assets	1,053
<b>Total non-current assets</b>	58,782
<b>Total assets</b>	69,819
<b>Current liabilities</b>	
Provisions	(1,049)
<b>Total current liabilities</b>	(1,049)
<b>Non-current liabilities</b>	
Provisions	(764)
<b>Total non-current liabilities</b>	(764)
<b>Total liabilities</b>	(1,813)
<b>Net assets at fair value</b>	68,006
Goodwill arising on acquisition	3,447
<b>Purchase Consideration</b>	<b>71,453</b>
<b>Consideration</b>	
Cash	68,012
Costs associated with the acquisition	3,441
<b>Total consideration</b>	<b>71,453</b>

The difference in the provisional fair values of identifiable net assets reported in the prior year accounts and the final fair values reported above relates to \$1,453,000 of stamp duties and other costs associated with the acquisition being finalised in the current financial year.

During the period 2 October 2009 to 31 January 2010, the BMS Asset Acquisition contributed revenues of \$12,018,000 and net profit of \$1,845,000 to the Group (including fair value adjustments). If the acquisition had occurred on 1 February 2009, the beginning of the Group's reporting period, management estimates that the contribution would have been revenues of approximately \$50,000,000 and net profit after tax of \$9,400,000.

## 34. Parent Company Financial Information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

		Restated (Note 5)
	2011 \$'000	2010 \$'000
<b>Statement of Financial Position</b>		
Current assets	44,318	372,854
<b>Total assets</b>	<b>416,818</b>	<b>1,453,501</b>
Current liabilities	49,015	208,711
<b>Total liabilities</b>	<b>60,912</b>	<b>228,496</b>
<b>Net assets</b>	<b>355,906</b>	<b>1,225,005</b>
<b>Equity</b>		
Issued capital	1,919,708	1,919,708
Reserves – Share based payments	3,144	3,384
Accumulated losses	(1,566,946)	(698,087)
<b>Total equity</b>	<b>355,906</b>	<b>1,225,005</b>
<b>Loss for the year</b>	<b>(868,859)</b>	<b>(655,717)</b>
<b>Total comprehensive loss for the year</b>	<b>(869,099)</b>	<b>(655,717)</b>

### (b) Guarantees entered into by parent entity

Carrying amount included in liabilities	–	–
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The parent entity has provided financial guarantees in respect of loans of subsidiaries amounting to \$62,400,000 (2010 – \$86,400,000), secured by way of deed over certain Sigma accounts receivable under the Waratah facility.

The parent entity has also given unsecured guarantees in respect of loans of subsidiaries subject to a syndicated facility arrangement amounting to \$nil (2010 – \$193,000,000).

In addition, there are cross guarantees given by the Company as described in Note 35. No deficiencies of assets exist in any of these entities. No liability was recognised by the parent entity or the consolidated entity in relation to these cross guarantees, as the fair value of the guarantees is immaterial.

### (c) Contingent liabilities of the parent entity

Please refer to Note 29 for comment on shareholder class action. The parent entity did not have any contingent liabilities as at 31 January 2010. For information about guarantees given by the parent entity, please see above.

### (d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant and equipment as at 31 January 2011 or 31 January 2010.

### (e) Parent Company Investment in Subsidiary Companies

During the 2011 financial year \$673m of the parent Company's investment in subsidiaries was disposed due to the sale of the Pharmaceuticals Division. The carrying value of the parent company's investment in subsidiaries as at 31 January 2011 after the above derecognition was \$364m. In the prior financial year, changes in competitive conditions and other factors directly and negatively impacted the short and long-term growth rate for the Group. As a consequence management reassessed the carrying amount of the parent entity's investment in Sigma Company Limited and determined an impairment charge of \$703m.

### (f) Receivables from Controlled Entities

During the 2011 financial year, an impairment loss of \$12m was recognised in the parent Company books in relation to an intercompany loan receivable. The parent loan receivable is not overdue and eliminates on consolidation.

## 35. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended by Class Orders 98/2017 and 00/0321) the wholly-owned Australian controlled entities listed in Note 30 footnote (a) are relieved from the Corporations Act requirements for the preparation, audit and lodgement of financial reports. These entities which are also referred to in the Directors' Declaration are, together with the Company, all members of the 'Extended Closed Group' as defined under the Class Order and are parties to a Deed of Cross Guarantee dated 20 January 2006, which provides that the parties to the Deed will guarantee to each creditor payment in full of any debt of these entities on winding up of that entity.

A Consolidated Income Statement and Statement of Financial Position comprising the Company and those Australian controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee at 31 January 2011 are set out below:

	2011 \$'000	Restated* 2010 \$'000
<b>Sales Revenue</b>	<b>2,914,271</b>	2,733,827
Cost of goods sold	<b>(2,737,686)</b>	(2,569,536)
<b>Gross Profit</b>	<b>176,585</b>	164,291
Other revenue and income	<b>36,050</b>	33,679
Warehousing and delivery expenses	<b>(73,581)</b>	(65,475)
Sales and marketing expenses	<b>(26,783)</b>	(34,870)
Administration and other expenses	<b>(68,846)</b>	(21,884)
Share of net losses from equity accounted investment	–	(140)
Impairment of joint venture investment	–	(1,221)
Impairment of other assets	<b>(24,449)</b>	(2,275)
Impairment of Gateway loans	–	(2,500)
Impairment of goodwill	<b>(38,343)</b>	(239,809)
Plant rationalisation and restructuring costs	<b>(6,635)</b>	(1,272)
<b>Loss before finance costs</b>	<b>(26,002)</b>	(171,476)
Finance income	<b>1,027</b>	822
Financial expenses	<b>(79,775)</b>	(72,925)
<b>Net financing costs</b>	<b>(78,748)</b>	(72,104)
<b>Loss before income tax</b>	<b>(104,750)</b>	(243,580)
<b>Income tax (expense)/benefit</b>	<b>14,826</b>	(3,800)
<b>Loss from continuing operations</b>	<b>(89,924)</b>	(247,380)
<b>Loss from discontinued operations, (net of income tax)</b>	<b>(162,300)</b>	(151,023)
Retained profits/(losses) at the beginning of the financial period	<b>(309,123)</b>	158,177
Total available for appropriation	<b>(561,347)</b>	(240,226)
Dividends provided for or paid	–	(68,897)
<b>Retained losses at the end of the financial period</b>	<b>(561,347)</b>	(309,123)

\* See Note 5 – Correction of prior period error.

## 35. Deed of Cross Guarantee (continued)

		Restated*
	2011 \$'000	2010 \$'000
<b>Statements of Financial Position</b>		
<b>Current assets</b>		
Cash and cash equivalents	556,833	14,418
Receivables	647,970	345,964
Current income tax receivable	3,775	–
Inventories	225,526	332,728
Derivative financial instruments	666	1,180
Non-current assets held for sale	14,000	–
Prepayments	2,747	8,358
<b>Total current assets</b>	<b>1,451,517</b>	<b>702,648</b>
<b>Non-current assets</b>		
Receivables	–	34,305
Gateway loans receivable	9,555	43,274
Property, plant and equipment	52,534	225,091
Derivative financial instruments	1,277	3,069
Intangible assets	12,752	885,957
Deferred tax assets	19,315	50,215
<b>Total non-current assets</b>	<b>95,433</b>	<b>1,241,911</b>
<b>Total assets</b>	<b>1,546,950</b>	<b>1,944,559</b>
<b>Current liabilities</b>		
Payables	348,385	408,522
Interest bearing liabilities Gateway	3,802	42,793
Interest bearing liabilities	354,775	279,407
Current income tax liabilities	–	1,403
Derivative financial instruments	–	4,667
Deferred income	20	1,921
Provisions	10,804	19,684
<b>Total current liabilities</b>	<b>717,786</b>	<b>758,397</b>
<b>Non-current liabilities</b>		
Payables	–	27,095
Deferred tax liabilities	8,499	94,012
Deferred income	229	500
Derivative financial instruments	–	1,616
Provisions	510	1,368
<b>Total non-current liabilities</b>	<b>9,238</b>	<b>124,591</b>
<b>Total liabilities</b>	<b>727,024</b>	<b>882,988</b>
<b>Net assets</b>	<b>819,926</b>	<b>1,061,571</b>
<b>Equity</b>		
Issued capital	1,390,492	1,390,492
Issued capital held by equity compensation plan	(22,845)	(22,926)
Reserves	13,626	3,128
Retained losses	(561,347)	(309,123)
<b>Total parent entity interest</b>	<b>819,926</b>	<b>1,061,571</b>

\* See Note 5 – Correction of prior period error.

## 36. Financial Instruments

Note 36 should be read in conjunction with Note 37 for details of events subsequent to balance date.

### Financial Risk Management

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk and interest rate risk, use of derivative financial instruments and non-derivative financial instruments.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Interest rate and foreign exchange rate risk exposures are managed by quantifying the impact of adverse interest and foreign exchange rate movements on the overall profitability of the Group and entering into hedging contracts seeking to protect a predetermined level of forecast profitability that may otherwise be impacted by unfavourable market rate movements.

The Group's Treasury function acts under the authorisation granted in the Policy and compliance is monitored by the Risk Management and Audit Committee within parameters set by the Board, via monthly reporting to the Board.

Due to the sale of the Pharmaceuticals Division to Aspen, all the Group's foreign exchange hedges, and the majority of interest rate hedges, were closed out by 31 January 2011.

#### (a) Market risk

##### (i) Foreign exchange risk

Due to the disposal of the Pharmaceuticals Division to Aspen on 31 January 2011 all foreign exchange hedges were closed out by 31 January 2011.

Foreign exchange risk arises from future anticipated commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

A portion of the Group's supply and export contracts is sourced from a variety of overseas entities and payable in the corresponding local currency. The major currencies were principally US Dollars (USD), Euros (EUR), British Pound (GBP) and New Zealand Dollars (NZD). Accordingly the Group is exposed to foreign exchange risk arising from currency movements.

During the year the Group documented and designated hedging transactions to an underlying exposure at inception of the hedging contract and recognised any ineffective portion in earnings. All of the Group's foreign exchange hedging contracts had been designated as cash flow hedges for the current period.

##### (ii) Cash flow and fair value interest rate risk

Interest rate risk relates to the Group's cash flow exposures to changes in interest rates on the Group's interest bearing liabilities. As interest rates fluctuate, the amount of interest payable on financing where the interest rate is not fixed will also fluctuate. Consistent with the Policy, the Group may seek to mitigate its exposure to fluctuations in interest rates by entering into interest rate hedging contracts for a portion of forecast interest rate exposures.

The Group used part of the net proceeds of the sale of Pharmaceuticals Division to repay significant amounts of its debt as at 31 January 2011 and make further repayments subsequent to balance date.

The Group's exposure to cash flow variability due to interest rate changes has reduced and accordingly the majority of interest rate swaps were closed out during the year. The remaining interest rate swaps were closed out by 16 March 2011 and the Group has not entered into any further interest rate hedges.

The interest rate swaps held at 31 January 2011 do not qualify for hedge accounting. Changes in fair values of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

During the year the Group documented and designated hedging transactions to an underlying exposure at inception of the hedging contract and recognised any ineffective portion in earnings. All of the Group's interest rate hedging contracts had been designated as cash flow hedges and had matched terms consistent with the underlying designated interest rate exposures. The Group may utilise interest rate swaps, options and forward rate agreements to manage the risks. Option instruments include caps, floors and collars. Speculative or trading interest rate activities are not permitted, and hedging contracts may have not have longer than a five year maturity timeframe.

The Group's main interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

## 36. Financial Instruments (continued)

The Group managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps and options to achieve a predetermined maximum and/or minimum interest rate for its exposure to floating interest rate obligations on an agreed notional principle. The Group agreed with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. Interest rate options have the economic effect of converting borrowings floating rates to fixed rates at a known worst case rate but with the potential ability to achieve a more favourable interest rate if the prevailing market rate is lower than the strike price at expiry. Generally, the Group raised short-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

### (iii) Summarised Sensitivity Analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk (sensitivity against the implied 30 day bank bill rate for interest rate risk and sensitivity against the end of year spot rates on traded currencies for foreign exchange risk). The table below represents the quantitative impact on the financial statements should the variation occur.

31 January 2011	Carrying Amount \$'000	Interest rate risk				Foreign exchange risk			
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>									
Cash and cash equivalent	556,904	(5,569)	–	5,569	–	–	–	–	–
Accounts Receivable	640,991	–	–	–	–	–	–	–	–
Derivatives – cash flow hedges	1,943	(493)	–	493	–	–	–	–	–
<b>Financial liabilities</b>									
Trade Payables	(251,284)	–	–	–	–	–	–	–	–
Derivatives – cash flow hedges	–	–	–	–	–	–	–	–	–
Borrowings on balance sheet	(358,577)	3,586	–	(3,586)	–	–	–	–	–
No off balance sheet borrowings	–	–	–	–	–	–	–	–	–
<b>Total increase/(decrease)</b>	<b>–</b>	<b>(2,476)</b>	<b>–</b>	<b>2,476</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Note: The information detailed above is pre tax.

31 January 2010	Carrying Amount \$'000	Interest rate risk				Foreign exchange risk			
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>									
Cash and cash equivalent	14,418	(144)	–	144	–	2	–	(1)	–
Accounts Receivable	283,877	–	–	–	–	–	–	–	–
Derivatives – cash flow hedges	4,248	(2,166)	(2,682)	2,166	3,485	–	–	–	–
<b>Financial liabilities</b>									
Trade Payables	(353,876)	–	–	–	–	(758)	–	689	–
Derivatives – cash flow hedges	(6,283)	(2,311)	(3,851)	2,311	3,779	–	–	–	–
Borrowings on balance sheet	(279,407)	2,794	–	(2,794)	–	–	–	–	–
Borrowings off balance sheet (Rewards)	(520,000)	5,200	–	(5,200)	–	–	–	–	–
<b>Total increase/(decrease)</b>	<b>–</b>	<b>3,373</b>	<b>(6,533)</b>	<b>(3,373)</b>	<b>7,264</b>	<b>(756)</b>	<b>–</b>	<b>688</b>	<b>–</b>

Note: The information detailed above is pre tax.



## 36. Financial Instruments (continued)

### (b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Only reputable banks and financial institutions are accepted as sources of funding. Customer credit assessments determine the credit quality after assessing their financial position, past experience and other relevant factors. Individual risk limits are granted in accordance with the internal Credit Policy and authorised via appropriate personnel as defined by the Group's Delegation of Authority manual. The utilisation of credit limits by customers is regularly monitored by operational management. A proportion of customers settle in cash or using major credit cards, mitigating credit risk.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are approved by senior management. At 31 January 2011, the Company had no pharmacist guarantees.

Major concentrations of credit risk arise from the principal activity of the Group which gives rise to large receivables. Concentration of individual credit risk is limited due to the large number of individual customers (even those part of a buying group). The credit risk on financial assets of the Group that have been recognised on balance sheet is generally the carrying amount, net of any provisions for doubtful debts. The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of the receivables above. Credit risk also arises on guarantees provided, as detailed in Note 29.

### (c) Liquidity Risk

Liquidity risk management implies maintaining sufficient cash, marketable securities and access to cash via committed credit lines in order to meet commitments as and when they fall due. Group Treasury manages the surety and flexibility in funding by ensuring committed credit lines are available. The Weighted Average Term to Maturity of committed bank facilities and rolling cash flow forecasts are periodically provided to management. The table below analyses the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (principal and interest components), except for interest rate options and swaps. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

At 31 January 2011	Current Less than 1 year \$'000	Non current Between 1 year and 2 years \$'000	Non current Between 2 years and 5 years \$'000	Non current Over 5 years \$'000
Bank overdrafts and loans	354,775	–	–	–
Payables	340,754	–	–	–
Gateway liability	3,802	–	–	–
Interest rate options and swaps*	1,943	–	–	–
Guarantees as per Note 29	17,012	–	–	–

\* The amounts expected to be payable/receivable in relation to the interest rate options and swaps have been estimated using forward interest rates applicable at the reporting date.

Based on this maturity analysis, management is of the view that committed facilities are adequate to cover future cash flow requirements.

At 31 January 2010	Current Less than 1 year \$'000	Non current Between 1 year and 2 years \$'000	Non current Between 2 years and 5 years \$'000	Non current Over 5 years \$'000
Bank overdrafts and loans	294,878**	–	–	–
Payables	407,763	–	–	–
Gateway liability	46,430	–	–	–
Interest rate options and swaps*	3,881	1,338	278	–
Guarantees as per Note 29	34,626	–	–	–

\* The amounts expected to be payable/receivable in relation to the interest rate options and swaps have been estimated using forward interest rates applicable at the reporting date.

\*\* The \$295 million includes a principal component of \$86 million and \$193 million.

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

## 36. Financial Instruments (continued)

### (d) Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounts cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts was determined using forward exchange market rates at the balance sheet date. The carrying value less impairment provision of trade receivables and carrying value of payables are reasonable approximations of their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### Derivative Financial Instruments

The derivative instruments used by the Group and detailed below are classified as Level 2 in accordance with AASB 7 *Financial Instruments Disclosures*. Level 2 refers to the fair value hierarchy specified in AASB 7, whereby the fair value of such derivatives is determined by inputs other than quoted prices that are observable for the asset or liability. The proceeds from the sale of the Pharmaceutical Division were used to reduce a substantial portion of the Group's debt on 31 January 2011 and subsequent to balance sheet date. Due to the reduction in the original underlying hedged debt, the remaining interest rate options and swaps do not qualify as cash flow hedges as at 31 January 2011.

There are no financial assets or financial liabilities carried at fair value on the balance sheet whose fair value measurements are classified as Level 1 or Level 3, and there are no other items included in Level 2.

### (a) Net fair value of derivative instruments

The fair value of Sigma's derivative financial instruments is detailed below:

	Consolidated	
	2011 \$'000	2010 \$'000
<b>Current Assets</b>		
Interest rate options – cash flow hedges	36	299
Interest rate swaps – cash flow hedges	630	753
Foreign exchange forward contracts – cash flow hedges	–	42
Foreign exchange options – cash flow hedges	–	86
<b>Total current derivative financial instrument assets</b>	<b>666</b>	<b>1,180</b>
<b>Non Current Assets</b>		
Interest rate options – cash flow hedges	17	452
Interest rate swaps – cash flow hedges	1,260	2,617
<b>Total non current derivative financial instruments assets</b>	<b>1,277</b>	<b>3,069</b>
<b>Total derivative assets current and non-current</b>	<b>1,943</b>	<b>4,249</b>
<b>Current Liabilities</b>		
Interest rate options – cash flow hedges	–	2,287
Interest rate swaps – cash flow hedges	–	1,594
Foreign exchange forward contracts – cash flow hedges	–	786
<b>Total current derivative financial instrument liabilities</b>	<b>–</b>	<b>4,667</b>
<b>Non Current Liabilities</b>		
Interest rate options – cash flow hedges	–	742
Interest rate swaps – cash flow hedges	–	873
<b>Total non current derivative financial instrument liabilities</b>	<b>–</b>	<b>1,616</b>
<b>Total derivative liabilities current and non-current</b>	<b>–</b>	<b>6,283</b>

## 36. Financial Instruments (continued)

### (b) Instruments used by the Group

The Group was party to derivative financial instruments in the normal course of the business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies.

#### *Interest rate swap contracts – cash flow hedges*

Interest rate swaps allow the Group to swap floating rate borrowings into fixed rate obligations. Each swap entered into involves the payment or receipt of the net amount of interest between fixed and floating rates on a monthly basis, calculated by reference to an agreed notional principal amount. The weighted average fixed interest rate on the Group's interest rate swap contracts for the financial period ending 31 January 2011 was 4.0% (2010: 5.3%) over a notional principal of \$51,120,000 (2010: \$480,000,000).

Bank loans of the Group currently bear an average variable interest rate of 7.0% (2010: 6.5%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Due to the repayment of certain debt facilities subsequent to balance sheet date, the current Swaps in place expire subsequent to January 2011 and as such do not qualify as cash flow hedges.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised and included in finance costs. This loss does not reflect ineffective hedges, instead it reflects the floating interest rate compared to the fixed swap rate. Any ineffective portion is recognised in the Income Statement immediately.

#### *Interest rate option contracts – cash flow hedges*

Interest rate options allow the Group to achieve predetermined maximum and/or minimum interest rates for its exposure to floating interest rate obligations on an agreed notional principal amount. Underlying debt of the Group currently bears an average variable interest rate of 7.0% (2010: 6.5%). Accordingly, the Group has entered into options that allow the Group to protect part of the loans from exposure to increasing interest rates.

Interest rate options include caps, floors and collars. Each floor (cap) involves the receipt (payment) of an upfront premium amount as well as an exchange of the net amount of interest between the floor or cap rate and the floating rate (if necessary) on a monthly basis.

When bought separately and not in conjunction with an associated floor, interest rate caps are used to achieve a known maximum interest rate outcome for an agreed notional principal amount. For interest rate caps held as at 31 January 2011, the weighted average cap rate was 6.0% (2010: 6.0% over a notional principal of \$100 million (2010: \$150 million)).

In some instances, caps and floors are bought and sold simultaneously so as to achieve a known interest rate range outcome (collar) for an agreed notional principal amount. The premium paid by the Group for call options purchased as part of a collar structure is at least equal to the premium generated for put options sold. No interest rate collars were held as at 31 January 2011 (2010: \$200 million).

Interest rate option contracts require settlement of net interest receivable or payable each 30 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised and included in finance cost. The ineffective portion is then recognised in the Income Statement immediately. Changes in the extrinsic value of interest rate options are periodically recorded in the Profit or Loss statement over the life of the instrument.

#### *Summary of interest rate derivative financial instruments*

##### As at 31 January 2011

Maturing in the period ending	Interest rate swaps		Interest rate caps		Interest rate floors	
	Notional face value \$'000	Average Rate %	Notional face value \$'000	Average Rate %	Notional face value \$'000	Average Rate %
1 year or less	1,120	6.66	25,000	6.60	–	–
1 to 2 years	–	–	75,000	6.60	–	–
2 to 5 years	50,000	3.98	–	–	–	–

##### As at 31 January 2010

Maturing in the period ending	Interest rate swaps		Interest rate caps		Interest rate floors	
	Notional face value \$'000	Average Rate %	Notional face value \$'000	Average Rate %	Notional face value \$'000	Average Rate %
1 year or less	250,000	5.5	50,000	7.4	50,000	6.5
1 to 2 years	75,000	4.4	125,000	7.7	100,000	6.9
2 to 5 years	155,000	5.2	125,000	6.0	–	–

## 36. Financial Instruments (continued)

### Foreign currency options – cash flow hedges

Sigma Pharmaceuticals Limited had entered into the foreign currency option contracts for the anticipated purchase of inventory.

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when payments are scheduled to be made. The cash flows are expected to occur at various dates within one year from the balance date. At balance date, there are no outstanding contracts.

Maturity	Sell Australian dollars		Average exchange rate	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Buy USD</b>				
0 – 6 months	–	1,250	–	0.80
6 – 12 months	–	–	–	–
<b>Buy Euro</b>				
0 – 6 months	–	2,212	–	0.57
6 – 12 months	–	4,038	–	0.56
<b>Buy GBP</b>				
0 – 6 months	–	722	–	0.55
6 – 12 months	–	187	–	0.55

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurements of the component recognised in the balance sheet by the related amount deferred in equity.

### Forward exchange contracts – cash flow hedges

Sigma Pharmaceuticals Limited entered into forward exchange contracts for the anticipated purchase of inventory. The contracts were timed to mature when payments are scheduled to be made. The cash flows are expected to occur at various dates within one year from the balance date. At 31 January 2011, there were no outstanding contracts.

Maturity	Sell Australian dollars		Average exchange rate	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Buy US Dollars</b>				
0 – 6 months	–	3,557	–	0.71
<b>Buy Euro</b>				
0 – 6 months	–	1,907	–	0.60
<b>Buy Great British Pounds</b>				
0 – 6 months	–	–	–	–
6 – 12 months	–	907	–	0.56

Maturity	Buy Australian dollars		Average exchange rate	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Sell New Zealand Dollars</b>				
0 – 6 months	–	398	–	1.19

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occurred, the Group adjusted the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

### (c) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. At reporting date \$1,943,000 was receivable (Australian dollar equivalents) from interest rate swap contracts and options (2010: \$4,248,430 payable).

The Group undertakes 100% of its transactions in foreign exchange and interest rate contracts with reputable financial institutions.

## 37. Events Subsequent to Reporting Date

### Dividends

Since the end of the financial year the Directors have declared a special dividend of \$176,794,000 to be paid at a rate of 15 cents per ordinary share. The dividend is expected to be paid on 11 May 2011 to shareholders on the register at the record date of 11 April 2011. This dividend will be fully franked at the 30% corporate tax rate, in Australia.

### Financial Instruments

The Group closed out its interest rate swap over a notional principal of \$50,000,000 on 16 March 2011. Please refer to Note 36 discussing the Group's Financial Risk Management policies.

### Repayments of Debt Facilities and Extension of Waratah Facility

#### *Waratah Facility*

The existing Waratah debtor securitisation facility of \$100,000,000 was due to expire on 5 February 2011.

On 24 March 2011, the Company extended the facility to 5 February 2014. The facility is subject to certain eligibility and availability of finance criteria, and provides the Company with \$200,000,000 of available funding. This facility is subject to interest cover and gearing covenants.

#### *Sigma Rewards Facility*

This facility was paid out and fully extinguished on 9 February 2011.

As explained in Note 1(f) the consolidated Group operated a debtors' securitisation program referred to as Sigma Rewards. The program allowed Sigma to receive cash in advance of actual debtor terms and up to 31 July 2010 it was recorded off balance sheet due to the fact that substantially all the risks and rewards of ownership were transferred to a third party. Subsequent to 31 July 2010, the risk profile of particular debtors that were part of the Sigma Rewards securitisation had increased and as the risk with defaulting debtors could potentially be transferred back to Sigma, the Group is required to consolidate the underlying trust that carried the Sigma Rewards debtors. In effect this brought back on balance sheet all the debtors within Sigma Rewards as well as an equivalent external debt.

Furthermore, even if there was no change in the debtor risk profile, the 9 February 2011 Sigma Rewards debt repayment would have required the debtors within Sigma Rewards to be brought back on balance sheet on the same day.

#### *Gateway Pharmacy Finance Facility*

The consolidated Group operates a Pharmacy Financing program referred to as Gateway. The program operates through a Unit Trust (the special purpose vehicle used to hold the Gateway loans), which is consolidated as part of the Group. The Gateway program allows the Group to source competitive funding for Sigma customers' as part of the overall Embrace program. The Group has an ongoing program for pharmacy borrowers to refinance these loans through alternative funding arrangements in the 2011/12 financial year.

The Group fully repaid its Gateway loans on 9 February 2011.

## 38. Directors' Declaration

The previously issued financial report of the Company for the year ended 31 January 2011 dated 28 March 2011 has been withdrawn and is replaced by this financial report. The revision was necessary as the Directors' Declaration has been updated to include a statement of compliance with International Financial Reporting Standards as required by the *Corporations Act 2001*. Accordingly, the Directors have amended the financial report and accompanying notes by updating the Directors' Declaration on page 100.

## Directors' Declaration

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In the opinion of the directors of Sigma Pharmaceuticals Limited:

(a) the financial statements and notes, set out on pages 43 to 99, are in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 January 2011 and of its performance for the financial year ended on that date; and
- (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

There are reasonable grounds to believe that the Company and the controlled entities identified in Note 30 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC class Order 98/1418.

Note 1(c) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 January 2011 pursuant to Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

For and on behalf of the Board.



**Mr Brian Jamieson**  
Chairman



**Mr Mark Hooper**  
CEO & Managing Director

Melbourne  
18 April 2011

Independent auditor's report to the members of  
Sigma Pharmaceuticals Limited

**Report on the financial report**

We have audited the accompanying financial report of Sigma Pharmaceuticals Limited (the company) which comprises the statement of financial position as at 31 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Sigma Pharmaceuticals Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331  
MELBOURNE VIC 3001  
DX 77  
Telephone 61 3 8603 1000  
Facsimile 61 3 8603 1999  
[www.pwc.com/au](http://www.pwc.com/au)

## Independent auditor's report to the members of Sigma Pharmaceuticals Limited (continued)

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Sigma Pharmaceuticals Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 January 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### *Statement of Compliance with International Financial Reporting Standards*

Without qualifying our opinion, we draw attention to Note 38 in the financial statements stating that the Directors' Declaration on page 100 of Sigma Pharmaceuticals Limited has been updated to include a statement of compliance with IFRS as required by the *Corporations Act 2001*. This audit report supersedes our audit report on the previously issued financial report, dated 28 March 2011.

### **Report on the Remuneration Report**


We have audited the remuneration report included in pages 26 to 41 of the directors' report for the year ended 31 January 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Sigma Pharmaceuticals Limited for the year ended 31 January 2011, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Mary Waldron  
Partner

Melbourne  
18 April 2011





## Shareholder Information

### Equity Security Holders

As at 5 April 2011, the Company has 1,178,626,572 ordinary shares on issue. Further details of the Company's equity securities are as follows:

### Largest holders

The following table shows the 20 largest registered shareholders as at 5 April 2011 (as named on the register of shareholders):

Name	Ordinary Shares	
	Number Held	% of Issued Shares
J P Morgan Nominees Australia Limited	172,111,611	14.60%
National Nominees Limited	138,486,986	11.75%
HSBC Custody Nominees (Australia) Limited	122,538,241	10.40%
Citicorp Nominees Pty Limited	82,177,101	6.97%
Citicorp Nominees Pty Limited	14,723,500	1.25%
RBC Dexia Investor Services Australia Nominees Pty Limited	13,865,476	1.18%
Cogent Nominees Pty Limited	11,957,506	1.01%
J P Morgan Nominees Australia Limited	9,290,185	0.79%
Wildflower Investments Pty Ltd	9,000,000	0.76%
HSBC Custody Nominees (Australia) Limited	5,962,563	0.51%
Woodross Nominees Pty Ltd	5,780,612	0.49%
AMP Life Limited	4,833,662	0.41%
M F Custodians Ltd	4,247,988	0.36%
Argo Investments Limited	4,000,000	0.34%
S.E.S.A	3,999,264	0.34%
Queensland Investment Corporation	3,814,517	0.32%
FJP Pty Ltd	3,808,714	0.32%
Citicorp Nominees Pty Limited	3,556,367	0.30%
Invia Custodian Pty Limited	3,342,168	0.28%
RBC Dexia Investor Services Australia Nominees Pty Limited	3,000,000	0.25%
<b>Total</b>	<b>620,496,461</b>	<b>52.65%</b>
<b>Balance of Register</b>	<b>558,130,111</b>	<b>47.35%</b>
<b>Grand Total</b>	<b>1,178,626,572</b>	<b>100%</b>

### Substantial shareholders

The following table shows the substantial holders in the Company as notified to the Company in substantial holding notices as at 5 April 2011:

Names	Noted Date of Change	Number of Equity Securities	Voting Power
Orbis Investment Management (Australia) Pty Ltd	04/03/2011	221,450,981	18.79%
Maple-Brown Abbott Limited	12/01/2011	105,226,247	8.93%

## Shareholder Information (continued)

### Distribution of Equity Securities

Holdings Distribution	
Range	Number of Holders
100,001 and over	803
10,001 to 100,000	8,010
5,001 to 10,000	5,214
1,001 to 5,000	10,245
1 to 1,000	2,906
<b>Total</b>	<b>27,178</b>
<b>Unmarketable Parcels</b>	<b>4,110</b>

### Voting rights

The voting rights attaching to each class of equity securities are set out below:

#### Ordinary Shares

Holders of ordinary shares have the right to vote at every general meeting of the Company and at separate meetings of holders of Ordinary Shares. At a general or separate meeting, every holder of ordinary shares present in person or by proxy has, on poll, one vote for each ordinary share held.

#### Performance Rights

Performance Rights have been issued to employees by the Company under the financial years of 2009, 2010 and 2011 Long Term Incentive Plans.

- number of employees participating: 5
- maximum number of ordinary shares which may be issued if the performance conditions are achieved: 916,034

### Shareholder Calendar\*

Names	2010/11 Full Year Results	2011/12 Half Year Results
Results Announced	28 March 2011	28 September 2011
Ex-Dividend Date	5 April 2011	TBA
Dividend Record Date	11 April 2011	TBA
Dividend Payment Date	11 May 2011	TBA

Annual General Meeting: 8 June 2011

\* Dates may be subject to change



## Contact

### Company Details

Sigma Pharmaceuticals Limited  
Registered Office  
96 Merrindale Drive  
Croydon South  
VIC 3136 Australia  
[www.sigmaco.com.au](http://www.sigmaco.com.au)

### Corporate Head Office

96 Merrindale Drive  
Croydon South  
VIC 3136 Australia  
Tel +61 (0)3 9839 2800  
Fax +61 (0)3 9839 2752

### Directors and Senior Management

Refer to website:  
[www.sigmaco.com.au](http://www.sigmaco.com.au)

### Company Secretary

**Sue Morgan**  
96 Merrindale Drive  
Croydon South  
VIC 3136 Australia

### Investor Relations

**Rosemary Cummins**  
96 Merrindale Drive  
Croydon South  
VIC 3136 Australia  
Email [investor.relations@signet.com.au](mailto:investor.relations@signet.com.au)

### Auditors

PricewaterhouseCoopers

### Share Registry Details

Link Market Services  
Locked Bag A14  
Sydney South  
NSW 1235 Australia  
Tel (within Australia) 1300 554 474  
Tel (International) +61 (0)2 8280 7111  
Email [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Recent Dividends:

#### Sigma Pharmaceuticals Limited

2010 Interim Dividend	3.00c
2009 Full Year Dividend	4.00c
2009 Interim Dividend	3.00c
2008 Full Year Dividend	4.00c
2008 Interim Dividend	3.00c
2007 Full Year Dividend	5.15c
2007 Interim Dividend	3.60c

### Offices – Healthcare

1408 Centre Road  
Clayton VIC 3168 Australia  
Tel +61 (0)3 9542 9511  
Fax +61 (0)3 9542 9769

24–26 Watson Street  
Shepparton VIC 3630 Australia  
Tel +61 (0)3 5821 4255  
Fax +61 (0)3 5831 3006

1 Distribution Place  
Seven Hills NSW 2147 Australia  
Tel +61 (0)2 9837 9001  
Fax +61 (0)2 9837 9036

31 Glenwood Drive  
Thornton NSW 2322 Australia  
Tel +61 (0)2 4966 5444  
Fax +61 (0)2 4966 5600

46 Dividend Street  
Mansfield QLD 4122 Australia  
Tel +61 (0)7 3212 1621  
Fax +61 (0)7 3849 4622

271 Bolsover Street  
Rockhampton QLD 4701 Australia  
Tel +61 (0)7 4922 1374  
Fax +61 (0)7 4922 7328

31 Vanity Street  
Toowoomba QLD 4350 Australia  
Tel +61 (0)7 4634 5155  
Fax +61 (0)7 4634 5465

16–20 Bell Street  
Townsville QLD 4810 Australia  
Tel +61 (0)7 4771 2022  
Fax +61 (0)7 4772 3454

227 South Road  
Ridleyton SA 5008 Australia  
Tel +61 (0)8 8346 9561  
Fax +61 (0)8 8340 1448

3/2205 Coonawarra Road  
Winnellie NT 0820 Australia  
Tel +61 (0)8 8947 2264  
Fax +61 (0)8 8984 3875

26 Wheeler Street  
Belmont WA 6104 Australia  
Tel +61 (0)8 9478 9700  
Fax +61 (0)8 9478 9788

McKay Avenue  
Grove Estate  
Glenorchy TAS 7010 Australia  
Tel +61 (0)3 6272 3211  
Fax +61 (0)3 6272 3232

17–19 Invermay Street  
Invermay TAS 7248 Australia  
Tel +61 (0)3 6331 2011  
Fax +61 (0)3 6331 6470

history  
+  
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**Sigma Pharmaceuticals Limited**

Registered Office  
96 Merrindale Drive  
Croydon South  
VIC 3136 Australia  
[www.sigmaco.com.au](http://www.sigmaco.com.au)

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