



Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Interim report

For the half year ended 31 July 2014

Lodged with the Australian Stock Exchange under Listing Rule 4.2

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Sigma will host a presentation to analysts and media on Thursday 11 September 2014 at 10.00 am with all presentation material posted to Sigma's website (www.sigmaco.com.au)

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Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Results for Announcement to the Market

For the half year ended 31 July 2014
compared to prior half year period ended 31 July 2013

Highlights

- EBIT up 34.5% to \$33.5 million
- Sales revenue up 2.6% to \$1.5 billion
- Return on invested capital (ROIC) reaches 14.9%¹
- \$34.7 million net cash
- Interim dividend temporarily suspended due to lack of franking credits. Cash applied to support the share buy back

The table below provides a summary of the Group's reported financial performance for the half year ended 31 July 2014

Group Financial Results – Half Year Summary

Group Results	31 July 2014 \$000	31 July 2013 \$000	Change %
Sales revenue	1,502,208	1,463,813	Up 2.6%
EBITDA	37,079	28,098	Up 32.0%
Depreciation and amortisation	3,621	3,222	Up 12.4%
Earnings before interest and tax (EBIT)	33,458	24,876	Up 34.5%
Net profit after tax (NPAT)	22,394	16,283	Up 37.5%
EBIT/Sales (EBIT margin)	2.23%	1.70%	Up 31.1%
Basic EPS	2.1c	1.5c	Up 43.2%
Net tangible asset backing per ordinary share	46.1c	48.9c	Down 5.7%

<u>Dividends</u>	Amount per security	Franked amount per security at 30% tax rate
Interim dividend	-	-
Interim dividend - previous corresponding period	2.0c	100%
The record date for determining entitlements to the interim dividend	N/A	

¹ ROIC is based on last twelve month earnings excluding acquisition expenses.

Shareholder information

Shareholder's Calendar

Results announced

2014/15 Half Year Results

11 September 2014

Stakeholder Queries

Share Registry Enquires:

Link Market Services Limited
Locked Bag A14
Sydney South, NSW 1235
Australia

Telephone (within Australia): 1300 139 653

E-mail: registrars@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

Company Enquiries:

Mark Hooper
Managing Director

Jeff Sells
Chief Financial Officer

Gary Woodford
Manager Investor Relations

PO Box 2890
Rowville VIC 3178
Australia

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The Half Year Report and other company information can be found on Sigma's website at www.sigmaco.com.au

SIGMA PHARMACEUTICALS LIMITED

ABN 15 088 417 403

Registered Office:

3 Myer Place, Rowville VIC 3178



Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Interim report

For the half year ended 31 July 2014

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 January 2014 and any public announcements made by Sigma Pharmaceuticals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

The Directors present their report on Sigma Pharmaceuticals Limited (the Company) and its controlled entities (the Group) for the half year ended 31 July 2014.

Directors

The names of the Directors of the Company during the half year and until the date of this report were:

Mr B Jamieson
Mr M Hooper
Mr D Bayes
Mr R Gunston
Mr D Manuel
Ms L Nicholls, AO

Review of operations

Operating and Financial Review

Operations

The Group is the largest full line pharmaceutical wholesale and distribution business in Australia, delivering daily to pharmacies Australia wide. The Group is also the owner of Australia's largest pharmacy-led network, with over 600 members representing the brands Amcal, Amcal Max, Guardian, and since 26 May 2014, Pharmasave and Chemist King. The Group acquired Pharmasave and Chemist King as part of the acquisition of Central Healthcare Pty Limited (CHS), which is a national wholesale and distribution business that also has a small hospital distribution presence.

In addition, the Group manages and promotes a range of Over the Counter private and exclusive label products made available to brand member customers, as well as a generic range of private label products under the Pharmacy Care range.

The only reporting operating segment for the Group is the traditional full line pharmacy wholesale distribution business, retail and private label products.

Financial Performance

The consolidated net profit after tax attributable to shareholders was \$22,394,000 compared to \$16,283,000 for the prior half year.

Sales Revenue for the half year increased 2.6% to \$1,502,208,000. Volumes distributed during the period grew by 6.7% (3.3% excluding CHS), helping to offset the impact of ongoing Pharmaceutical Benefits Scheme (PBS) price disclosure reform. Adjusting for the impact of PBS price reforms implemented since the prior comparable period, the sales revenue would have grown by 6.5%. To help offset the impact of reduced PBS prices for certain pharmaceutical products, the Group made further reductions to customer discounts during the half year as well as continued to achieve operational efficiencies.

The increased sales revenue and improved gross margin of 7.4%, (7.3% the prior half year), along with two months contribution from CHS, resulted in a gross profit increasing by 4.4% to \$111,043,000 compared to the prior year of \$106,367,000.

Other revenue for the half year increased to \$21,169,000 from \$18,326,000 in the prior half year period. In addition, other operational income increased over the prior period as a result of improved performance from activities aligned to the strategic initiatives to diversify away from traditional distribution based income sources.

Warehouse and delivery expenses for the half year were up 6.3% to \$52,992,000 which is slightly below volume growth. The increase is largely attributable to the inclusion of CHS distribution costs since 26 May 2014, the impact of Enterprise Bargaining Agreement (EBA) wage increases, redundancy costs from the closure of the Toowoomba distribution centre, and higher volumes delivered during the period. Investment in the Group's key distribution sites will be required in order to offset the impact of higher volumes and costs in the future. Significant planning work has been undertaken, with land acquired in August in Berrinba in Queensland for \$6.7 million, and work commencing on the planning and project scoping. Increased capital expenditure will be undertaken in the coming two to three years to complete the construction and fit out.

Directors' Report

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

Financial Performance (continued)

Sales and Marketing expenses for the half year decreased by \$3,803,000 to \$20,308,000. This decrease largely reflects the write-off of the Harrison's pharmacy group debt in the prior period that was not repeated in this half year. A consistent level of investment was maintained in merchandising and marketing capability to better support our customers, the multi-channel online platform, the colour THEORY private label beauty range, and the launch of the beauty THEORY range.

Administration costs for the half year were up by \$2,859,000 to \$21,833,000, with the inclusion of CHS costs and higher IT costs incurred in relation to hosting of new services that have been introduced to support operational investments. Higher legal and professional fees were occurred in the current year in relation to business acquisitions which have been written off as required by accounting standards.

The prior period also includes a pre-tax litigation settlement expense of \$3,677,000 relating to Vifor settlement which did not repeat in this current period.

Net interest expense reached \$662,000 for the half year compared to net interest expense of \$1,159,000 in the prior period. The movement in net interest reflects changes resulting from a renegotiation of debt facilities to better suit business requirements, and a lower level of intra month debt occurring during the period.

Income tax expense of \$10,402,000 was up from \$7,434,000 in the prior period. The increase reflects tax payable on improved profitability for the half year.

Financial Position

The Group's net assets in the last 6 months decreased by 1.7% to \$568,763,000.

The table below shows the working capital balance has increased by \$16,360,000 in the last six months. However, the Cash Conversion Cycle, being the net of Day Sales Outstanding, Days Inventory on Hand and Days Payable Outstanding, has continued to improve, reducing to 48 days for this half year compared to 50 days at 31 January this year. This has resulted from a continued focus on reducing average customer payment terms and maintaining an acceptable spread of Payables to Inventory days outstanding. A summary of the working capital performance and cash conversion cycle is as follows:

\$'000	31 July 2014	31 Jan 2014
Trade Receivable	586,745	521,932
Inventories	283,751	222,392
Trade Creditors	(437,303)	(327,491)
Working Capital	433,193	416,833
Days Sales Outstanding	67	64
Days Inventory Outstanding	36	30
Days Payables Outstanding	55	44
Cash Conversion cycle days	48	50

Directors' Report

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

Financial Position (continued)

The ongoing focus on working capital and capital management has resulted in the Group again achieving its highest underlying Return on Invested Capital ("ROIC") for the half year. Underlying ROIC[^] was 14.9% compared to 14.6% as of 31 January 2014. Going forward, a continued focus on working capital will be maintained, with some further improvements possible, albeit at a slower rate of improvement to prior years.

During the half year, the Company continued the on market share buy-back program with the purchase of 16,940,144 shares worth \$11,979,000 representing 1.4% of issued capital. Since the commencement of the on market share buyback program in October 2012, a total of 83,289,421 shares worth \$59,058,000 have been bought back, representing 7.0% of issued capital.

Whilst the Group has a debtor securitisation facility with Westpac Banking Corporation, there was no debt drawn at the end of the period. The terms of this facility include the ability to draw and repay funds on a daily cash advance basis, which allows for improved management of the intra month cash flow cycle to improve the net interest cost.

The acquisition of CHS impacted the Balance sheet for the half year end as below:

	\$'000
Net assets acquired	6,982
Intangible assets	34,318
Contingent consideration	(23,373)
Cash paid	17,927

Likely developments and expected results of operations

The Group's vision is to be Australia's Partner of Choice in Health, Beauty, and Wellbeing. The Group's strategy has been to invest in improving our core business in order to assist Pharmacy customers to cope with the ongoing impacts of Federal Government PBS price disclosure reform, and to be in a better position to grow the Group's future earnings for shareholders.

The Group has invested in operational capability for merchandising, marketing and multi-channel and in the next two financial years capital expenditure program to upgrade key distribution centres to drive further operational efficiencies will occur. The first site in which this is currently being planned is our Brisbane distribution centre and land at Berrinba has been acquired in August.

The Group remains confident the implementation of our strategic plans will continue to drive business improvement and growth through the next six months. Contribution from CHS in the second half of the year will increase sales and profit.

Material Risks

There has not been a material change in the Group's risk profile since 31 January 2014. Details of the Group risk are outlined in 31 January 2014 Directors' report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Rounding of amounts

The Company is of the kind referred to in the Australian Securities and Investments Commission Class Order No. 98/100 dated 10 July 1998 relating to the "rounding off" of amounts in the financial report. In accordance with this Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

[^] Underlying ROIC is based on last twelve month earnings excluding acquisition expenses.

Directors' Report

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

Events subsequent to balance date

Subsequent to 31 July 2014 the following events and transactions have occurred:

(a) Pharmacy Alliance Agreement

Sigma Pharmaceuticals Limited (Sigma) announced on 3 September 2014 a 10 year extension of the wholesale supply and services agreement with Pharmacy Alliance Pty. Ltd. (PA). PA provides aggregated buying and support services to over 460 pharmacies across Australia and represents over \$400 million in annual revenue for Sigma.

(b) Acquisition of Discount Drug Stores

On 8 September 2014 Sigma Pharmaceuticals Limited announced that via its subsidiary Central Healthcare Pty Limited (CHS) it had acquired 100% of share capital of Discount Drug Stores Pty Limited (DDS), from the former owners for \$26,700,000 (cash). This acquisition has the potential to increase the earn out payment to the vendors of CHS, as announced on 26 March 2014, subject to improved performance of CHS.

The fair value of all of the identifiable assets and liabilities of DDS and other components of the initial acquisition accounting for the business combination, cannot be quantified, and have not been disclosed, due to the proximity of the acquisition date to the reporting date.

More details are available in the market announcement dated 8 September 2014.

No other matters or circumstances have arisen since 31 July 2014 that have 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.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the Corporations Act 2001, dated 10 September 2014.



Brian Jamieson
Chairman

Melbourne,
10 September 2014



Mark Hooper
Managing Director

The Board of Directors
Sigma Pharmaceuticals Limited
3 Myer Place
Rowville VIC 3178

10 September 2014

Dear Board Members

Sigma Pharmaceuticals Limited


In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Sigma Pharmaceuticals Limited.

As lead audit partner for the review of the financial statements of Sigma Pharmaceuticals Limited for the financial half-year ended 31 July 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU


Tom Imbesi
Partner
Chartered Accountants

For personal use only

Consolidated statement of profit or loss and other comprehensive income

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

	Note	31 July 2014 \$000	31 July 2013 \$000
Sales revenue		1,502,208	1,463,813
Cost of goods sold		(1,391,165)	(1,357,446)
Gross profit		111,043	106,367
Other revenue and income		21,169	18,326
Warehousing and delivery expenses		(52,992)	(49,833)
Sales and marketing expenses		(20,308)	(24,111)
Administration expenses		(21,833)	(18,974)
Litigation settlement expense	10.	-	(3,677)
Depreciation and amortisation		(3,621)	(3,222)
Profit before financing costs		33,458	24,876
Financial income		918	824
Financial expenses		(1,580)	(1,983)
Net financing costs		(662)	(1,159)
Profit before income tax	3.	32,796	23,717
Income tax expense		(10,402)	(7,434)
Net profit for the half year attributable to members		22,394	16,283
Other comprehensive income			
<i>Items that may be reclassified subsequently to Profit or Loss</i>			
Changes in the fair value of cash flow hedges		-	(466)
Exchange differences on translation of foreign operations		(11)	352
Income tax relating to components of other comprehensive income		3	34
Other comprehensive loss for the half year, net of tax		(8)	(80)
Total comprehensive income for the half year		22,386	16,203
Earnings per share (EPS)			
		Cents	Cents
Basic EPS		2.1	1.5
Diluted EPS		2.1	1.4

Notes appearing on pages 14 to 21 are to be read as part of these consolidated interim financial statements.

Consolidated statement of financial position

Sigma Pharmaceuticals Limited

As at 31 July 2014

	Note	31 July 2014 \$000	31 January 2014 \$000
Current assets			
Cash and cash equivalents		34,669	67,468
Trade and other receivables		629,808	557,401
Income tax receivable		-	5,133
Inventories		283,751	222,392
Derivatives		-	18
Prepayments		3,349	3,586
Assets classified as held for sale	5.	607	-
Total current assets		952,184	855,998
Non-current assets			
Trade and other receivables		5,414	6,605
Property, plant and equipment	6.	52,732	52,887
Intangible assets	7.	57,812	22,553
Deferred tax assets		8,352	7,126
Total non-current assets		124,310	89,171
Total assets		1,076,494	945,169
Current liabilities			
Trade and other payables		486,044	353,064
Income tax payable		5,222	-
Provisions		12,787	11,042
Derivative financial instruments		9	-
Deferred income		319	252
Total current liabilities		504,381	364,358
Non-current liabilities			
Borrowings	8(b).	608	-
Provisions		2,628	1,794
Deferred income		114	188
Total non-current liabilities		3,350	1,982
Total liabilities		507,731	366,340
Net assets		568,763	578,829
Equity			
Contributed equity	9.	1,282,685	1,294,414
Reserves		19,307	17,537
Accumulated losses		(733,229)	(733,122)
Total equity		568,763	578,829

Notes appearing on pages 14 to 21 are to be read as part of these consolidated interim financial statements

Consolidated statement of cash flows

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

	Note	31 July 2014 \$000	31 July 2013 \$000
Cash flows from operating activities			
Receipts from customers		1,628,769	1,630,924
Payments to suppliers and employees		(1,609,139)	(1,608,515)
Payment for Litigation settlement	10.	-	(3,677)
Interest received		918	824
Interest paid		(1,396)	(1,919)
Income taxes paid		(326)	(12,870)
Net cash inflow from operating activities		18,826	4,767
Cash flows from investing activities			
Payments for property, plant and equipment and software		(2,261)	(4,539)
Payment for business	11.	(16,122)	-
Proceeds from sale of property, plant and equipment		1	-
Net cash outflow from investing activities		(18,382)	(4,539)
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		(45)	95,000
Payments for shares bought back		(11,979)	(27,744)
Purchase of shares for employees		(2,064)	(6,612)
Proceeds from employee shares exercised	9b.	2,314	196
Receipts from other loans receivable		45	662
Dividends paid	4.	(21,508)	(22,479)
Net cash (outflow) /inflow from financing activities		(33,237)	39,023
Net (decrease)/ increase in cash and cash equivalents		(32,793)	39,251
Cash and cash equivalents held at the beginning of the half year		67,468	112,692
Exchange rate adjustments to cash and cash equivalents held at the beginning of the half year		(6)	2
Cash and cash equivalents at the end of the half year		34,669	151,945

Notes appearing on pages 14 to 21 are to be read as part of these consolidated interim financial statements

Consolidated statement of changes in equity

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

	Note	Contributed equity			Accumulated losses	Total equity
		Issued capital	Issued capital held by Equity Compensation Plan	Reserves		
		\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 February 2013		1,368,474	(31,248)	14,511	(740,931)	610,806
Profit for the half year		-	-	-	16,283	16,283
Other comprehensive loss		-	-	(80)	-	(80)
Total comprehensive income for the half year		-	-	(80)	16,283	16,203
Transactions with owners in their capacity as owners:						
<i>Movements in:</i>						
- Employee shares exercised	9b.	-	196	-	-	196
- Share-based remuneration plan		-	-	1,323	-	1,323
- Contributed equity	9a.	(236)	236	-	-	-
Share buy back	9.	(27,311)	(5,697)	-	-	(33,008)
Dividends paid	4.	-	-	727	(23,206)	(22,479)
Dividends applied to equity compensation plan		-	-	(63)	-	(63)
		(27,547)	(5,265)	1,987	(23,206)	(54,031)
Balance at 31 July 2013		1,340,927	(36,513)	16,418	(747,854)	572,978
Balance at 1 February 2014		1,336,065	(41,651)	17,537	(733,122)	578,829
Profit for the half year		-	-	-	22,394	22,394
Other comprehensive loss		-	-	(8)	-	(8)
Total comprehensive income for the half year		-	-	(8)	22,394	22,386
Transactions with owners in their capacity as owners:						
<i>Movements in:</i>						
- Employee shares exercised	9b.	-	2,314	-	-	2,314
- Share-based remuneration plan		-	-	1,235	-	1,235
- Contributed equity	9a.	3,643	(3,643)	-	-	-
Share buy back	9.	(11,979)	(2,064)	-	-	(14,043)
Dividends paid	4.	-	-	993	(22,501)	(21,508)
Dividends applied to equity compensation plan		-	-	(450)	-	(450)
		(8,336)	(3,393)	1,778	(22,501)	(32,452)
Balance at 31 July 2014		1,327,729	(45,044)	19,307	(733,229)	568,763

Notes appearing on pages 14 to 21 are to be read as part of these consolidated interim financial statements.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

1. Basis of financial report preparation and accounting policies

(a) Significant accounting policies

This condensed consolidated interim financial report for the half year reporting period ended 31 July 2014 has been prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The interim financial report does not include all the notes of the type normally included within the annual financial report. Accordingly, this report is to be read in conjunction with the Company's annual report for the year ended 31 January 2014, together with any public announcements made by Sigma Pharmaceuticals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements have been prepared in Australian dollars under the historical cost convention. Comparative information has been reclassified where appropriate to enhance comparability.

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period, except for the standards and interpretations described below.

(b) Estimates

The preparation of this condensed consolidated interim financial report in conformity with AASB 134: Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing this condensed consolidated interim financial report the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial report as at and for the year ended 31 January 2014. We have listed the additional estimate as below:

Goodwill

During the period the Group acquired a subsidiary under an agreement that requires additional consideration to be paid to the previous owners based on the subsidiary achieving defined profit performance in a future trading period. The goodwill calculation has involved estimates and assumptions around the determination of the subsidiary future trading performance and the resultant additional consideration to be paid. To the best of management's knowledge the goodwill and the contingent consideration are fairly recorded at period end (Refer to Note 11).

(c) New standards and interpretations

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

AASB 1031 Materiality (effective 1 January 2014)

The revised standard is an interim standard that cross-references to other standards and the Framework for the Preparation and Presentation of Financial Statements that now contains guidance on materiality. The AASB is progressively removing all references to AASB 1031 from all standards and interpretations and once all these references have been removed AASB 1031 will be withdrawn.

The amendment does not have any impact on the Group's disclosures.

AASB 2014-4 Amendments to Australian Accounting Standards to remove Individual key management personnel disclosure requirements (effective 1 July 2013)

Amends AASB 124 'related Party Disclosures' to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. The amendment would have an impact on year end disclosures. There is no impact on half year disclosures.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

(c) New standards and interpretations (continued)

AASB 2013-3 Amendments to AASB 136 – Recoverable amount disclosures for non –financial assets (effective 1 January 2014)

The amendments require the consolidated entity to provide additional information about the fair value measurements applied in determining the recoverable amount of impaired assets. During the period the Group has not impaired any assets.

2. Segment information

Information on segments

AASB 8 Operating Segments requires a management approach under which segment information is presented on the same basis as that used for internal reporting provided to the Chief Operating Decision Makers (CODM) of the Group. The CODM have been identified as the executive team consisting of our Chief Executive Officer (CEO), Chief Operating Officer (COO) and the Chief Financial Officer (CFO).

For the period ended 31 July 2014 management determined that based on the structure of reports provided to the CODM and used by them for decision making and resource allocation, that the Group operates only the Healthcare segment.

The Healthcare segment represents the traditional full line pharmacy wholesale business, retail and private label product ranges.

Geographical segments

The Group operates predominantly within Australia.

Information on major customers

One customer contributes revenue which forms greater than 30% of the Group revenues. The customer has a long standing relationship with Sigma and a service contract is in place until October 2015. Sales revenue for the half year ended 31 July 2014 was \$552m (2013: \$473m).

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

	31 July 2014 \$000	31 July 2013 \$000
3. Profit for the half year		
Profit before income tax expense has been determined after including:		
Write down of inventories	1,653	1,988
Provision for doubtful debts	(4)	3,952
	<u>31 July 2014 \$000</u>	<u>31 July 2013 \$000</u>
4. Dividends		
Dividends paid during the half year		
Dividends recognised by the parent entity	22,501	23,213
Less: dividends paid on shares held by Sigma Employee share plan	-	(7)
	<u>22,501</u>	<u>23,206</u>
Less: dividends paid on shares issued under the Employee share plan	(993)	(727)
Dividends paid by the group	<u>21,508</u>	<u>22,479</u>
	<u>31 July 2014 \$000</u>	<u>31 July 2013 \$000</u>
5. Assets classified as held for sale		
Land and buildings	607	-
Total	<u>607</u>	<u>-</u>

As part of the Group's strategic review of its logistics function, the Group has closed the Toowoomba distribution centre in June 2014. The Group intends to dispose of the property and efforts to sell the premises are continuing. Realisation is expected within next six months. No impairment loss was recognised on reclassification of the property as held for sale as the sale price of the property is expected to be higher than the carrying value.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

6. Property plant and equipment

	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
At 31 January 2014			
Cost	27,462	66,413	93,875
Accumulated depreciation	(7,313)	(33,675)	(40,988)
Net book amount	20,149	32,738	52,887
Half year ended 31 July 2014			
Opening net book amount	20,149	32,738	52,887
Additions	817	1,444	2,261
Acquisition of subsidiary	-	809	809
Transfer of completed projects	22	(22)	-
Transfer to Intangible software	-	(42)	(42)
Transfer to assets held for sale	(466)	(141)	(607)
Disposals	-	-	-
Depreciation	(250)	(2,326)	(2,576)
Closing net book amount	20,272	32,460	52,732
At 31 July 2014			
Cost	27,710	68,357	96,067
Accumulated depreciation	(7,438)	(35,897)	(43,335)
Net book amount	20,272	32,460	52,732

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

7. Intangible assets

	Brand names	Software	Goodwill	Trademark	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 January 2014					
Cost	24,357	9,281	-	-	33,638
Accumulated amortisation	(10,264)	(821)	-	-	(11,085)
Net book amount	14,093	8,460	-	-	22,553
Half year ended 31 July 2014					
Opening net book amount	14,093	8,460	-	-	22,553
Transfer from Property, plant and equipment	-	42	-	-	42
Acquisition of subsidiary	-	1,969	34,318	10	36,297
Foreign currency movements	(35)	-	-	-	(35)
Amortisation	(231)	(814)	-	-	(1,045)
Closing net book amount	13,827	9,657	34,318	10	57,812
At 31 July 2014					
Cost	24,247	11,292	34,318	10	69,867
Accumulated amortisation	(10,420)	(1,635)	-	-	(12,055)
Net book amount	13,827	9,657	34,318	10	57,812

8. Borrowings

(a) Westpac Receivables Purchase Agreement

The Company by executing the "Receivables Purchase Agreement dated 28 January 1999" ("RPA") and amended as part of the "Sigma Amendment Agreement No. 8" dated 5 June 2014, has a debtor securitisation facility with Westpac Banking Corporation, expiring on 5 February 2016. The limit has been increased from \$125 million to \$175 million and the term is two years. The facility has been refinanced on the same terms and conditions as the previous facility. However, additional flexibility regarding funding drawdowns has been created.

The facility is subject to interest cover and gearing covenants and provides the Company with additional funding flexibility to meet its working capital requirements. Using a pool of its eligible receivables as security, Sigma can draw down funds provided through advances from Westpac pursuant to the RPA. Repayment of the Westpac advances occurs from the collection of the underlying receivables.

The facility imposes rights and obligations on Sigma with respect to the quality and maintenance of its debtor book, collection of receivables, settlement and reporting to Westpac. As at the half year ended 31 July 2014, Sigma has complied with its obligations under the facility.

The interest rate applicable to the facility is variable and Sigma does not hedge the interest rate.

The debt has been classified as current as the drawdowns of the Westpac advances are for a period of 30 days.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

8. Borrowings (continued)

(b) Non- current borrowings

As part of the Central Healthcare acquisition, the Group acquired an interest bearing three year loan of \$720,000 which has been used to fund a loan to a customer on a back to back basis.

9. Contributed equity

	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
(a) Movement in ordinary share capital during the half year				
Shares forfeited under the Employee loan funded share plans	(1,378,592)	(626,000)	(195)	(712)
Shares issued under the Employee loan funded share plans	1,378,592	626,000	820	476
New shares issued	5,072,476	-	3,018	-
Share buyback	(16,940,144)	(36,051,195)	(11,979)	(27,311)
	<u>(11,867,668)</u>	<u>(36,051,195)</u>	<u>(8,336)</u>	<u>(27,547)</u>
(b) Movement in treasury share capital during the half year				
	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
Shares forfeited under the Employee loan funded share plans	1,378,592	626,000	195	712
Shares issued under the Employee loan funded share plans	(1,378,592)	(626,000)	(820)	(476)
Shares issued under short term incentive	1,007,593	611,210	-	-
Shares issued under the Employee loan funded share plans out of new share issue	(5,072,476)	-	(3,018)	-
Shares bought on market	(3,000,000)	(7,292,039)	(2,064)	(5,697)
Employee shares exercised	4,410,247	266,285	2,314	196
	<u>(2,654,636)</u>	<u>(6,414,544)</u>	<u>(3,393)</u>	<u>(5,265)</u>
(c) Total movement in contributed equity			<u>(11,729)</u>	<u>(32,812)</u>

10. Litigation Settlement expense

Sigma Pharmaceuticals Limited reached an agreement with Vifor (International) Limited in May 2013. The matter related to Sigma's injectable iron product, Ferrosig. The reported expense consists of agreed settlement amount plus legal costs. Sigma has retained the rights to sell the Ferrosig product in the Australia market.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

11. Acquisition of subsidiary

On 26 May 2014 Sigma Pharmaceuticals Limited acquired 100% of the issued shares in Central Healthcare Pty Limited (Central Healthcare) for consideration of \$41,300,000. The acquisition is strategically important to Sigma as it will open new avenues for growth.

Central Healthcare is a wholesaler and distributor of pharmaceutical products to hospitals and retail pharmacies and is an approved CSO distributor in Victoria, NSW, ACT and Queensland. Central Healthcare also owns and manages the Pharmasave retail brand.

Consideration transferred

	\$'000
Cash paid	17,927
Contingent consideration	23,373
Total consideration	<u>41,300</u>

Contingent consideration

The Group has agreed to pay the previous owners additional consideration based on the EBITDA achieved over the period 1 July 2014 to 30 June 2015. The contingent consideration is based on the estimated EBITDA for the 12 months ending 30 June 2015 times a multiple stipulated in the sale agreement.

Assets acquired and liabilities assumed at the date of acquisition

The following fair values have been determined on a provisional basis:

	\$'000
Cash and cash equivalents	1,805
Inventories	15,143
Prepayments	144
Trade and other receivables (i)	30,411
Property, plant and equipment	809
Intangibles	1,979
Net deferred tax assets	910
Trade and other payables	(42,098)
Provisions	(1,468)
Borrowings	(653)
Net identifiable assets acquired	<u>6,982</u>

- (i) Trade receivables acquired with a fair value of \$28,852,700 had gross contractual amounts of \$31,834,500. The best estimate at acquisition date of the contractual cash flows not expected to be collected is \$2,981,800.

If the new information obtained within one year from the acquisition date about the facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

The Group incurred acquisition related costs of \$65,000 in the period (\$662,000 in the financial year ended 31 January 2014) related to external legal fees and due diligence costs. These costs have been included in 'Administration expense' in the Group's statement of profit or loss and other comprehensive income.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2014

11. Acquisition of subsidiary (continued)

Goodwill arising on acquisition

	\$'000
Total consideration	41,300
Less : fair value of identifiable net assets acquired	<u>(6,982)</u>
Goodwill arising on acquisition	<u>34,318</u>

The Goodwill amount consists of identifiable intangibles such as brands and customer contracts. At the half year end no valuation has been determined for the identifiable intangibles and the work will progress over the next few months to finalise this value.

Net cash outflow arising on acquisition

	\$'000
Consideration paid in cash	17,927
Less : cash and cash equivalent balances acquired	<u>(1,805)</u>
	<u>16,122</u>

Impact of acquisition on the results of the Group

Included in the profit for the half-year is \$227,000 attributable to Central Healthcare. Revenue for the half year includes \$40,395,000 in respect of Central Healthcare.

Had the acquisition of Central Healthcare been effected at 1 February 2014, the revenue of the Group for the six months ended 31 July 2014 would have been \$1,567,550,000 and the profit for the half year would have been \$22,524,000.

12. Contingent Liability

A contingent liability exists in respect of the insurer's right, in certain circumstances to clawback insurance proceeds received in relation to the shareholder class action brought by Slater & Gordon on behalf of certain shareholders who purchased shares in Sigma between 7 September 2009 and 25 February 2010.

13. Events subsequent to balance date

Subsequent to 31 July 2014 the following events and transactions have occurred:

(a) Pharmacy Alliance Agreement

Sigma Pharmaceuticals Limited (Sigma) announced on 3 September 2014 a 10 year extension of the wholesale supply and services agreement with Pharmacy Alliance Pty. Ltd. (PA). PA provides aggregated buying and support services to over 460 pharmacies across Australia and represents over \$400 million in annual revenue for Sigma.

(b) Acquisition of Discount Drug Stores

On 8 September 2014 Sigma Pharmaceuticals Limited announced that via its subsidiary Central Healthcare Pty Limited (CHS) it had acquired 100% of share capital of Discount Drug Stores Pty Limited (DDS), from the former owners for \$26,700,000 (cash). This acquisition has the potential to increase the earn out payment to the vendors of CHS, as announced on 26 March 2014, subject to improved performance of CHS.

The fair value of all of the identifiable assets and liabilities of DDS and other components of the initial acquisition accounting for the business combination, cannot be quantified, and have not been disclosed, due to the proximity of the acquisition date to the reporting date.

Directors Declaration

Sigma Pharmaceuticals Limited

In the opinion of the Directors of Sigma Pharmaceuticals Limited:

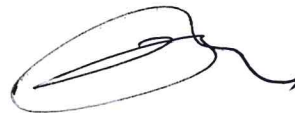
- a) the financial statements and notes set out on pages 10 to 21 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 July 2014 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date, and
- b) there are reasonable grounds to believe that Sigma Pharmaceuticals Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors, pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Brian Jamieson
Chairman



Mark Hooper
Managing Director

Melbourne
10 September 2014

Independent Auditor's Review Report to the members of Sigma Pharmaceuticals Limited

We have reviewed the accompanying half-year financial report of Sigma Pharmaceuticals Limited, which comprises the consolidated statement of financial position as at 31 July 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 22.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 July 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sigma Pharmaceuticals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Auditor's Independence Declaration


In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Sigma Pharmaceuticals Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sigma Pharmaceuticals Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 July 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


DELOITTE TOUCHE TOHMATSU



Tom Imbesi
Partner
Chartered Accountants
Melbourne, 10 September 2014