

# Annual Report 2010



ASCENT PHARMAHEALTH LIMITED

ABN 52 107 340 367

## Corporate Information

ABN: 52 107 340 367

### Directors

W. J. Jenkins (Chairman)

D. Bastas

T. J. R. O'Brien AM

A. Kumar

T. S. Rangan

R. Aston (resigned 31 August 2010)

### Company Secretaries

A. Burgess

S. L. Blank

### Registered office

151-153 Clarendon Street,

South Melbourne, Victoria, 3205, Australia

### Principal place of business

151-153 Clarendon Street,

South Melbourne, Victoria, 3205, Australia

Phone: 61 3 8677 6600

### Share Registry

Computershare Investor Services Pty Ltd,

Yarra Falls, 452 Johnstone Street

Abbotsford, Victoria, 3067, Australia

Phone: 1300 850 505

Ascent Pharmahealth Limited shares are listed on the Australian Securities Exchange (ASX).

### Bankers

Bank of Western Australia Ltd

Level 5, Bourke Place

600 Bourke Street

Melbourne, Victoria, 3000, Australia

### Auditors

Ernst & Young

8 Exhibition Street

Melbourne, Victoria 3000, Australia

### Website address

[www.ascentpharma.com.au](http://www.ascentpharma.com.au)

All monetary amounts in this report are in Australian dollars unless stated otherwise.

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Ascent Pharmahealth Limited

ANNUAL REPORT TO SHAREHOLDERS  
for the year ended 31 December 2010

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# Review by Chairman and CEO

On behalf of the Board of Directors, we are pleased to report that for the financial year ended 31 December 2010 the Group achieved sales revenue growth of 26% and net profit after tax growth of 30% as compared to the last financial year ending 31 December 2009.

The group delivered growth across both Australian and Asian markets via our expanded sales force and our increased product offering. Continued investment and focus on increasing Ascent's product portfolio across key markets in Australia and Asia will enable Ascent to meet competitive challenges and government price reforms.

The Australian business delivered a 35% increase in net profit after tax this year when compared to the previous financial year. This result was achieved through a focus on organic growth in both new customers and the expansion of Ascent's product offering to existing customers.

In 2011 the Australian business will experience further pressure on gross margins in its generic pharmaceutical range as a result of further Government PBS reforms, in particular the pricing disclosure requirements on generic drugs and the 1 February 2011 PBS price cuts.

The Asian business delivered an 8% increase in net profit after tax in this financial year when compared to the previous financial year. Ascent continues to focus on developing its own sales and marketing infrastructure in the key Asian markets and the registration of pharmaceuticals into these markets. The core strategy is to build on our TGA approved products, and bring a premium generic proposition to the Asian generic pharmaceutical marketplace.

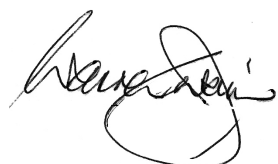
## STRIDES PROPOSAL

In March 2011 shareholders were sent a Scheme Booklet detailing a proposal from Strides Arcolab Limited (Strides) via its subsidiary Linkace Limited to acquire those shares not currently owned by Linkace Limited nor those owned by entities associated with Ascent's Chief Executive Officer, Mr Dennis Bastas, for \$0.40 cash per share.

As detailed in the Scheme Booklet the Independent Directors (Mr Warren Jenkins, Mr Tom O'Brien and until his resignation on 31 August 2010 Mr Roger Aston) spent considerable time during 2010 reviewing Strides' initial offer of \$0.35 per share and negotiating the increased cash offer of \$0.40 per share from Strides (Strides Proposal). The Independent Directors were assisted in this task by Credit Suisse and Clayton Utz and unanimously recommended that shareholders, in the absence of a superior proposal, vote in favour of the offer. KPMG Corporate Finance prepared an independent expert report which was included in the Scheme Booklet and concluded that the Strides Proposal, in the absence of a superior proposal, was fair and reasonable and in the best interests of shareholders.

The Public Scheme Shareholders Meeting and General Meetings were held on Thursday 28 April 2011 and the outcome of the vote is detailed on Ascent's website: [www.ascentpharma.com.au](http://www.ascentpharma.com.au)

The Board of Directors would also like to acknowledge the performance and commitment of management and staff during the year and look forward to their continued success.



Warren Jenkins  
Chairman



Dennis Bastas  
CEO & Managing Director

# Business Overview

## THE COMPANY

Ascent Pharmahealth Limited has developed into a leading Australasian supplier of generic pharmaceuticals and over-the-counter health products.

In the year ending 31 December 2010, the Group achieved a solid sales and profit growth. Ascent continues to experience solid growth in both the Australian and Asian markets with an expansion of its sales force combined with a strong product pipeline the Group remains well positioned to deliver sustainable profit growth.

## OPERATIONAL HIGHLIGHTS

Net profit before tax increased by 34% against the previous corresponding period

Australian business operations achieved a 36% growth in net sales and a 6% gross profit growth against the previous corresponding period

Asian operations delivered a 10% growth in sales and a 15% gross profit growth against the previous corresponding period

Profitability remained steady in a highly competitive marketplace with an EBITDA – Sales ratio of 13.4%

## FINANCIAL SUMMARY 2010

Net Sales	\$ 132.3 million
EBITDA	\$ 17.7 million
NPAT	\$ 12.0 million
EPS	4.8 cents
Operating Cashflow	\$ 12.5 million



# Business Overview (continued)

## OPERATING PERFORMANCE

Ascent achieved solid growth in net sales and gross profit in 2010 across the Company's operations.

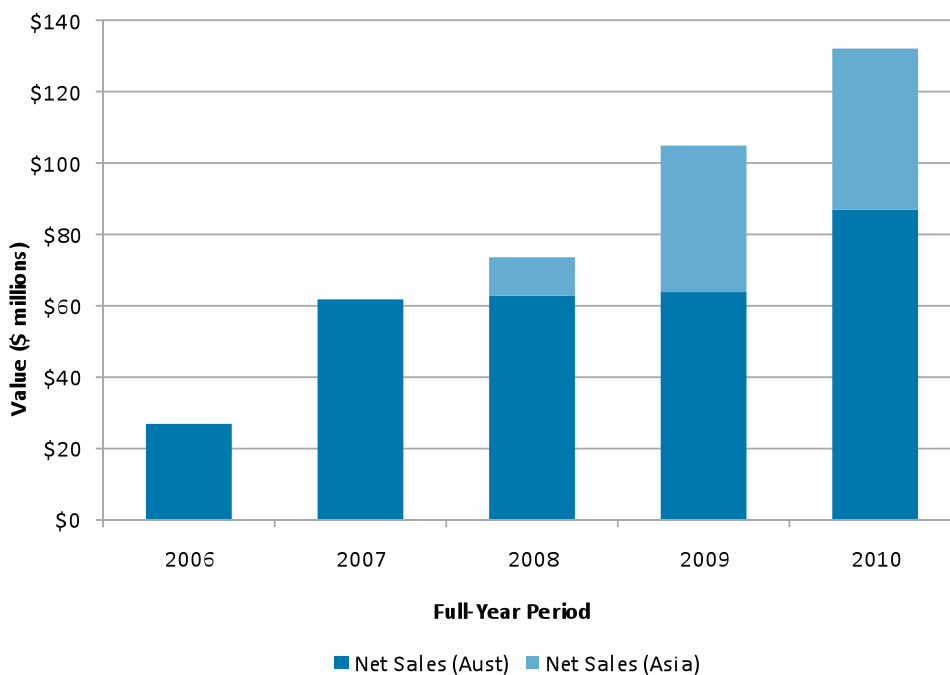
Ascent's Australian generic pharmaceutical sales delivered a 14% increase in sales when compared to the previous corresponding period.

The consumer health and OTC products continued to deliver growth in Australian pharmacy sales contributing a 4% increase in sales on the previous corresponding period.

In Australia the growth in sales was influenced by the Pfizer distribution agreement which saw Ascent promote and distribute a range of Pfizer's branded "Established Products" throughout the year.

The key business operations in the 7 South East Asian countries in which Ascent operates saw a growth in sales, and customers. The Company did successfully register a number of new pharmaceuticals during the year into several of these markets and succeed in a number of new tender contracts.

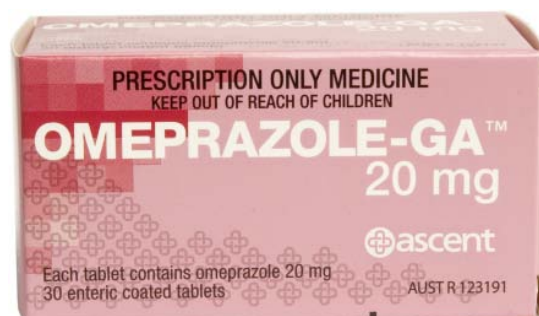
The graph below shows Ascent's growth by full-year periods ending 31 December, highlighting performance by region and the impact of the Asian operations acquired in August 2008. It should also be noted that PBS reform pricing changes took effect from August 2008 impacting Australian net sales growth in the second half-year 2008 and full-year 2009.



# Business Overview (continued)

## FINANCIAL RESULTS SUMMARY

(A\$millions)	Results 2010	Results 2009	% Growth
<b>Net Sales</b>	<b>\$132.3</b>	<b>\$105.1</b>	<b>26%</b>
Cost of Sales	(\$90.8)	(\$67.2)	
<b>Gross Profit</b>	<b>\$41.5</b>	<b>\$37.9</b>	<b>10%</b>
Other Revenue	\$5.9	\$1.8	
Operating Expenses	(\$29.7)	(\$25.7)	
<b>EBITDA</b>	<b>\$17.7</b>	<b>\$14.0</b>	<b>27%</b>
% Sales	13.4%	13.3%	
Dep'n & Amortisation	(\$3.2)	(\$3.1)	
<b>EBIT</b>	<b>\$14.5</b>	<b>\$10.9</b>	<b>33%</b>
Net Interest	(\$0.4)	(\$0.6)	
Forex gain/(loss) on USD Loan Facility	\$0.8	\$0.8	
<b>NPBT</b>	<b>\$14.9</b>	<b>\$11.1</b>	<b>34%</b>
Tax Expense	(\$2.9)	(\$1.9)	
<b>NPAT</b>	<b>\$12.0</b>	<b>\$9.2</b>	<b>30%</b>
EPS (Cents)	4.8c	3.7c	



# Directors' Report

Your directors submit their report for the year ended 31 December 2010.

In this report, Ascent Pharmahealth Limited and its subsidiaries are referred to as "the Group". The parent entity, Ascent Pharmahealth Limited, is referred to as "the Company".

## NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial period were the sale and distribution of generic pharmaceuticals and other health related products in Australia and Asia.

## REVIEW AND RESULTS OF OPERATIONS

### Financial Highlights

The key items of the year under review have been summarised below.

#### *Financial overview*

The Group has achieved growth in both its Australian and Asian operations this period with net sales of \$132.3 million. Total revenue increased 26% when compared to the 12 months ended 31 December 2009.

Net profit from operating activities before tax and interest for the current period of \$14.5 million compared to the 12 months ended of 31 December 2009 of \$10.9 million an increase of 33.5%.

#### *Cash flows from operations*

Operating cash flows for the period was an inflow of \$12.5 million compared to an inflow of \$9.8 million for the 12 months ended 31 December 2009.

### Australian Operations

Ascent's Australian business operations achieved a 36% growth in net sales and a 6% gross profit growth against the previous corresponding period. The sales growth was influenced by the Pfizer distribution agreement which saw Ascent promote and distribute a range of Pfizer's branded "Established Products" throughout the year.

Ascent's Australian generic pharmaceutical sales delivered a 14% increase in sales when compared to the previous corresponding period.

The Company's consumer health and OTC products continued to deliver growth in Australian pharmacy sales contributing a 4% increase in sales on the previous corresponding period.

### Asian Operations

The Company's Asian operations have delivered a 10% growth in sales and 15% gross profit growth when compared to the full year ended 31 December 2009.

The key business operations in the 7 countries in which Ascent Asia operates saw a growth in sales of products although there were a small number of products that were discontinued in government tenders in those markets. The Company did successfully register a number of new pharmaceuticals during the year into several of these markets and succeed in gaining some new tender contracts.

### Non-recurring items

The Company estimates that revenues and expenses that account for \$1.8 million of the reported CY2010 EBITDA (NPAT \$1.4 million) will not recur during CY2011. These items relate to:

- **Closure of Sydney Warehouse:** During 2010 the company decided to close its Sydney warehouse in early 2011 and relocate to new facilities and provided for costs associated with this decision in CY 2010 which will not be continuing in CY2011.
- **Loss of Tender in Singapore:** The Company has been advised that its Singapore subsidiary, Drug Houses of Australia Pte Ltd, was not successful in the renewal of its 12 month tender with the Singapore Government for an anti-hypertensive drug.
- **Renegotiation of the Pfizer Agreement:** The Company is currently renegotiating the terms of its agreement with Pfizer Australia and while it expects to continue the promotion and distribution of Pfizer products in its portfolio, the Company does not expect the profits associated with this service to continue.
- **Independent Board Committee Costs:** The Company has incurred advisor costs in CY2010 in connection with assisting the Independent Board Committee manage and assess the offer by Strides Arcolab Limited, via its wholly owned subsidiary, Linkace Investments Pty Ltd to acquire the minority shares in Ascent. (Further information: ASX announcement 23 December 2010).

Taking into account the above, the Company expects earnings growth in CY2011 to provide a profit result consistent with the CY2010 reported profit result.

## Outlook

Ascent will continue to meet the industry challenges head on, utilising new product launches, regional diversity and new channels to market to deliver profitable organic growth.

A significant challenge facing the Australian pharmaceutical market is the government's pending PBS price reforms proposed for April 2012, which will see pricing for generic pharmaceuticals cut by a minimum of 23% across the board. The Company expects the short term financial impact of these cuts to be partially offset by a number of new generic launches in the next few years.

Ascent continues to be well positioned in the competitive market of generic pharmaceuticals and consumer healthcare products in Australia and Asia, leveraging the solid market position and sales infrastructure that the Ascent group now has in the region.

## DIVIDENDS

No dividends were paid during the financial year. (December 2009: Nil).

## CORPORATE STRUCTURE

Ascent Pharmahealth Limited is a company limited by shares and is incorporated and domiciled in Australia.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Apart from the matters noted under non-recurring items above, there were no significant changes in the state of affairs during the period.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

As announced on 23 December 2010, Ascent Pharmahealth Limited and Strides Arcolab Limited have entered into a Scheme Implementation Agreement under which Linkace Investments Pty Ltd, a company wholly owned by Strides, will acquire the outstanding minority shares in Ascent at a price of \$0.40 per share. The proposal remains subject to a number of conditions, including:

- Ascent shareholder approval of the Scheme;
- ASIC and Court approval of the Scheme; and
- Certain conditions, as set out in the SIA which was attached to the announcement.

As noted in the announcement, it is anticipated that Ascent shareholders will be sent Scheme Documentation in March 2011 containing the basis for the Ascent Board's recommendation and an Independent Expert's Report. Ascent Shareholders will then vote at a Scheme Meeting, expected to be held in April 2011. If the Scheme is approved by shareholders and the Court makes orders approving the Scheme and those orders are lodged with ASIC, the Scheme will become effective and Strides and Ascent will become bound to implement the Scheme. Should the Scheme be implemented, Strides will apply for Ascent to be delisted from the Official List of the ASX immediately after the implementation date.

There have been no other significant events which have occurred after balance date.

## LIKELY DEVELOPMENTS AND EXPECTED RETURNS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

There have been no significant known breaches of environmental regulations.

## OPTIONS

As at the date of this report, there were no unissued ordinary shares under options. Refer to note 26 to the financial statements for further details.

## DIRECTORS

The names and details of the Company's directors in office during the financial period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Warren J. Jenkins, CA**  
(Independent, Non-Executive Chairman)

Mr Jenkins was appointed to the board of Ascent on 7 February 2007 and was appointed chairman on 1 September 2010, following the resignation of former chairman Dr Roger Aston. Mr Jenkins is also Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee. Mr Jenkins has over 30 years experience in the global pharmaceutical industry having held senior executive positions at Smith Kline and Eli Lilly before joining Serono to build its regional Asia-Pacific sales and marketing operations as Regional Vice President, Oceania and Japan. Most recently Mr Jenkins held the position of Vice-President Sales and Marketing Europe & International for Serono.

**Dennis Bastas, B.E., MAICD**  
(Managing Director and Chief Executive Officer)

Managing Director and CEO since the formation of Ascent in December 2003, Mr Bastas was the founding force behind the initial strategy and creation of Ascent. Mr Bastas has extensive senior management experience in business development, retail services and supply chain management with companies including Coles Myer Limited, Mannesmann AG and Village Roadshow Limited.

**Thomas J.R. O'Brien, AM, B.Econ., B.Com. (Hons), FCA, FCPA, FAICD**  
(Independent, Non-Executive Director)

Director and Chairman since April 2004, Mr O'Brien retired as Chairman on 25 May 2009 but continues as a non-executive director. Mr O'Brien is Chairman of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee. Mr O'Brien was Chief Executive Officer in Melbourne for the international accounting firm of Ernst and Young for 12 years and was also National Chairman of Ernst & Young Australia in 1995 and 1996. Mr O'Brien currently serves on a number of boards including Ultrapay Limited, and Virtual Communities Limited. He is currently Chairman of Domaines Tatiarra Limited, Permo-Drive Technologies Limited and NewZeal Limited and was formerly Chairman of CCI Investments Management Limited and St Vincents and Mercy Private Hospital Limited and a member of the Board of Mercy Health and Aged Care.

**Arun Kumar, B.Com.**  
(Non Executive Director)

Mr Kumar was appointed to the board of Ascent on 31 July 2008. Mr Kumar is the founder of Strides, which is listed on the Bombay Stock Exchange and the National Stock Exchange of India. Mr Kumar has been a director of Strides since its inception in 1990. After graduating in Commerce, Mr Kumar began his career in the exports department of Bombay Drug House Ltd., one of the earliest exporters of pharmaceuticals from India in the early 1980's and was soon promoted to head the International Division. In 1985, Mr Kumar started a consultancy firm – Strides Consultants – assisting companies in developing and implementing export strategies. As a consultant to a number of companies, he was instrumental in developing and opening up the export market for these companies. Mr Kumar brings to the business a rich experience and deep knowledge of the international pharmaceutical industry. Mr Kumar also serves on the Remuneration and Nomination Committee.

**T. S. Rangan, B.Com., MBA, MS, M.Phil. and (Ph.D)**  
(Non-Executive Director)

Mr Rangan was appointed to the board of Ascent on 16 November 2009. Mr Rangan joined Strides in April 2008 as its Group CFO. He has over twenty years of experience in leading NYSE listed companies such as Xerox India, Astra Zeneca and Dr. Reddy's Laboratories Ltd. Mr Rangan's qualifications include Master of Philosophy, Master of Science and Master of Business Administration. As part of his doctoral degree, he has carried out a research on Corporate Governance. He was a Government Nominee on the Central Council of the Institute of Cost and Works Accountants of India.

**Dr Roger Aston, B.Sc, Ph.D**  
(Independent, Non-Executive Director)

Dr Aston was appointed to the Board on 4 February 2008 and was appointed chairman on 25 May 2009. He resigned as chairman and as a director on 31 August 2010. He also served on the Audit and Risk Management Committee and the Remuneration and Nomination Committee. Dr Aston brought more than 20 years experience in the pharmaceutical and healthcare industries in senior roles in the United Kingdom, Asia-Pacific and Australia. In conjunction with this appointment, Dr Aston continued to serve as an executive, non-executive director or chairman on a number of boards including Phase III drug development companies Clinuvel Limited and HalcyGen Pharmaceuticals Limited. Previously he founded and was CEO of pSiOncology Pte Limited, a joint venture based in Singapore between Singapore General Hospital, Biotech Research Ventures and pSiMedica Limited.

## COMPANY SECRETARIES

**Stephen L. Blank**, B.Ec. LL.B. LL.M. Grad.Dip. CSP

Mr Blank was appointed Company Secretary on 1 July 2008. Mr Blank also serves as an executive of the Company in his role as Senior Vice President, Strategy and Development. Prior to joining the Company, Mr Blank spent ten years as a private practice corporate lawyer with Deacons and Gadens Lawyers in Australia. After leaving private practice he spent two years as General Counsel of United Petroleum. Mr Blank is an associate of the Institute of Company Secretaries Australia and Barrister and Solicitor of the Supreme Court of Victoria and High Court of Australia and a member of the Law Institute of Victoria.

**Andrew Burgess**, B.Com CA

Mr Burgess was appointed Chief Financial Officer on 27 January 2009 and Company Secretary on 22 July 2009. Prior to joining the company Mr Burgess was Chief Financial Officer and Company Secretary of SterilHealth Limited.

## INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the current directors in the shares and options of Ascent Pharmahealth Limited held directly or by director related entities were:

	Ordinary shares	Options over ordinary shares
D. Bastas	9,557,227	-
T. J. R. O'Brien	897,467	-
W. J. Jenkins	364,644	-
A. Kumar and T.S. Rangan <sup>1</sup>	150,489,600	-

<sup>1</sup> Mr. Kumar is a director and Mr Rangan is Group CFO of Strides Arcolab Limited, a company which ultimately owns 150,489,600 shares in Ascent Pharmahealth Limited. Mr Kumar and Mr. Rangan do not own shares directly in Ascent Pharmahealth Limited.

## DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' meetings	Audit & Risk Committee meetings	Remuneration & Nomination Committee meetings
<b>Number of meetings held:</b>	6	3	1
<b>Number of meetings attended:</b>			
W. J. Jenkins	6	3	1
D. Bastas	6	-	1
T. J. R. O'Brien	6	3	1
A. Kumar	4	-	1
T. S. Rangan	5	2	-
Dr. R. Aston (resigned 31 August 2010)	5	3	1

### Committee membership

As at the date of this report, the company had an Audit & Risk Management Committee and a Remuneration & Nomination Committee comprising members of the Board.

Members acting on the committees of the Board during the year were:

#### Audit & Risk Management Committee

T.J.R. O'Brien (Chairman)  
W.J. Jenkins  
T.S. Rangan  
R. Aston (resigned 31 August 2010)

#### Remuneration and Nomination Committee

W.J. Jenkins (Chairman)  
T.J.R. O'Brien  
A. Kumar  
D. Bastas  
R. Aston (resigned 31 August 2010)

## REMUNERATION REPORT (AUDITED)

This Remuneration Report for the year ended 31 December 2010 outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* (“the Act”) and its Regulations. This information has been audited as required by Section 308 (3C) of the Act. For the purposes of this report key management personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives of the Company and the group receiving the highest remuneration.

For the purposes of this report, the term “executive” includes the Chief Executive Officer (“CEO”), executive directors, senior executives, general managers and secretaries of the Company and the group and the term “director” refers to non-executive directors only.

### Details of key management personnel (KMP) including the five most highly remunerated senior executives of the Company and the Group

#### (i) Directors

W. J. Jenkins	Chairman (non-executive) - appointed Chairman 1 September 2010
D. Bastas	Chief Executive Officer
T. J. R. O’Brien	Director (non-executive)
A. Kumar	Director (non-executive)
T. S. Rangan	Director (non-executive)
Dr. R. Aston	Chairman (non-executive) - resigned as Chairman and a Director 31 August 2010

#### (ii) Executives

A. Heine	General Manager Sales and Marketing
M. Kumar	Regional Director - Asia
M. Story	Senior Vice President, Operations Development
S. L. Blank	Senior Vice President, Strategy and Development
A. Burgess	Chief Financial Officer
M. Bisset	Chief Operating Officer - resigned 19 January 2010

## Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and executives. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality, high performing director and executive team members.

### Remuneration approval process:

The Remuneration and Nomination Committee determines the remuneration of directors, the chief executive officer and senior executives on an annual basis. The Committee also determines the amount of annual bonuses awarded in accordance with achievement of individual and company targets. The Committee then makes a final recommendation to the Board for approval.

### Remuneration strategy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- have a significant portion of executive remuneration based on ‘at risk’ benchmarks; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

## Non-executive director remuneration arrangements

### Remuneration policy

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the company and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 19 November 2008 when shareholders approved an aggregate remuneration of \$350,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive directors are encouraged by the board to hold shares in the company (purchased by the directors on market). It is considered good governance for directors to have a stake in the company on whose board he or she sits.

### Structure

The remuneration of non-executive directors consists of directors' fees and committee fees.

Non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

The remuneration of non-executive directors for the periods ending 31 December 2010 and 31 December 2009 is detailed on pages 11 and 12 of this report.

## Executive remuneration arrangements

### Remuneration policy

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- reward executives for Group, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Remuneration and Nomination Committee considers market levels of remuneration for comparable executive roles and makes recommendations to the Board. It is the Remuneration and Nomination Committee's policy that employment contracts are entered into with all executives. Details of these contracts are provided below.

### Structure

Remuneration consists of the following key elements:

- Fixed remuneration;
- Variable remuneration;
  - o Short Term Incentive ('STI'); and
  - o Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Remuneration and Nomination Committee. The remuneration of executives is detailed on pages 11 and 12 of this report.

## Fixed Remuneration

### Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

### Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of executives is detailed on pages 11 and 12 of this report.

## Variable Remuneration – Short Term Incentive (STI)

### Objective

The objective of the STI programme is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances. STI comprises Bonuses and Material Transaction Incentives.

### Structure

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance. Typically included are measures such as contribution to net profit after tax, customer service, product management and leadership/team contribution. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

On an annual basis, after consideration of performance against KPI's, an overall performance rating is approved by the Remuneration and Nomination Committee. Payments are usually delivered as a cash bonus.

## Material Transaction Incentive (MTI)

### Objective

The objective of the MTI programme is to reward the key executives charged with the Company's inorganic growth strategy to build accretive earnings growth through strategically relevant acquisitions. The total potential MTI available is set at a level so as to provide sufficient incentive to the executive and such that the cost to the Group is reasonable in the circumstances, to develop valuable acquisition opportunities that will be recognised as creating accretive and strategic value for shareholders and adding financial strength to the operations of the Company and will be ultimately approved by the Board and/or shareholders of the Company.

### Structure

Actual MTI payments are granted to specific executives that have responsibility in developing and completing acquisition opportunities. The targets set are only achievable as a result of the Board and/or shareholder approval of the acquisition as being in the interest of the Company. Payments are usually delivered as a cash bonus.

### MTI bonus for the financial periods ended 31 December 2008, 31 December 2009 and 31 December 2010

For the financial year ended 31 December 2008, 100% of the MTI cash bonuses of \$937,000 was accrued as capitalised acquisition costs due to meeting the accounting recognition requirements. In the financial year ended 31 December 2009 \$405,000 of the 2008 MTI cash bonus was paid with the balance paid during the financial year ended 31 December 2010.

No MTI bonuses have been accrued for the financial years ended 31 December 2009 and 31 December 2010.

## Variable Remuneration – Long Term Incentive (LTI)

### Objective

The objective of an LTI plan is to reward executives in a manner which aligns remuneration with the creation of shareholder wealth.

### Structure

LTI grants to executives have in the past been delivered in the form of options under the Senior Managers Share Option Plan (SMSOP). Details of options granted, the value of options, vesting periods and forfeited options under the LTI plan are detailed on pages 71 and 72 of this report. No new LTI options were issued during the financial year. The SMSOP under which LTI options have been delivered in the past has been discontinued.

The Remuneration and Nomination Committee is currently considering the introduction of a new LTI scheme.

### Option holdings of key management personnel

Year ended 31 December 2010	Balance at 1 January 2010	Granted as remuneration	Lapsed/forfeited	Balance at 31 December 2010	Vested and exercisable
<i>Directors</i>					
D. Bastas	600,000	-	(600,000)	-	-
<i>Executives</i>					
S. L. Blank	250,000	-	(250,000)	-	-

Year ended 31 December 2009	Balance at 1 January 2009	Granted as remuneration	Lapsed/forfeited	Balance at 31 December 2009	Vested and exercisable
<i>Directors</i>					
D. Bastas	1,200,000	-	(600,000)	600,000	600,000
<i>Executives</i>					
S. L. Blank	250,000	-	-	250,000	250,000
G. R. Harding	1,000,000	-	(1,000,000)	-	-

## Employment Contracts

### *Chief Executive Officer*

The CEO, Mr. Bastas, is employed under a rolling contract. The employment contract was renewed on 1 July 2007. Under the terms of the contract:

- Mr. Bastas may resign from his position and thus terminate this contract by giving three month's written notice. On resignation any unvested options will be forfeited. On resignation any vested options may be exercised within one month of the resignation date. This date can be extended at the discretion of the Company's Chairman.
- The Company may terminate the employment agreement by providing 24 months written notice or by providing payment in lieu of some or all of the notice period (based on the fixed component of Mr. Bastas' remuneration). On termination on notice by the Company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not vested will be forfeited.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, Mr. Bastas is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- Mr. Bastas is entitled to a bonus payment in the event of a material acquisition (MTI).
- In the event that a party, including its associated entities, acquires more than 75% of the shares of Ascent Pharmahealth Limited, then Mr. Bastas has the right to request that employment be terminated with full payment of termination entitlements.

### *Other Executives (standard contracts)*

All executives have rolling contracts. The company may terminate the executive's employment agreement by providing written notice (varying from individual to individual) or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration).

- On resignation any unvested options will be forfeited. On resignation any vested options may be exercised within one month of the resignation date. This date can be extended at the discretion of the Chairman.
- On termination on notice by the Company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not vested will be forfeited.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any vested or unvested options will immediately be forfeited.

## Remuneration of key management personnel (KMP) and the five highest paid executives of the Company and the Group

**Table 1: Remuneration for the year ended 31 December 2010**

	Short term benefits		Long term benefits			Post employment	Share-based payments		Total	Performance related
	Salary and fees	Bonus	Non-monetary benefits	Long service leave	Other	Super	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-executive directors</b>										
W .J. Jenkins <sup>(1)</sup>	88,000	-	-	-	-	7,920	-	-	95,920	-
T. J.R. O'Brien	78,000	-	-	-	5,200	7,020	-	-	90,220	-
A. Kumar	23,000	-	-	-	-	-	-	-	23,000	-
T.S. Rangan	23,000	-	-	-	-	-	-	-	23,000	-
R. Aston <sup>(2)</sup>	65,333	-	-	-	-	5,880	-	-	71,213	-
Total non-executive directors	277,333	-	-	-	5,200	20,820	-	-	303,353	
<b>Executive director</b>										
D. Bastas	471,696	330,000	78,304	12,399	-	91,561	-	-	983,960	34%
<b>Other key management personnel</b>										
S.L. Blank	276,018	56,000	3,982	13,678	-	25,200	-	-	374,878	15%
M. Bisset <sup>(3)</sup>	41,172	-	-	-	-	2,400	-	-	43,572	-
A. Burgess	280,000	80,640	-	902	-	25,200	-	-	386,742	21%
A. Heine	281,121	71,100	-	847	-	25,301	-	-	378,369	19%
M Kumar	211,680	103,278	70,880	-	-	-	-	-	385,838	27%
M. Story	281,122	40,500	40,000	8,487	-	28,901	-	-	399,010	10%
Sub-total executive director and other key management personnel	1,842,809	681,518	193,166	36,313	-	198,563	-	-	2,952,369	
<b>Total</b>	<b>2,120,142</b>	<b>681,518</b>	<b>193,166</b>	<b>36,313</b>	<b>5,200</b>	<b>219,383</b>	<b>-</b>	<b>-</b>	<b>3,255,722</b>	

(1) W. J. Jenkins was appointed chairman on 1 September 2010.

(2) R. Aston retired as chairman and as a director on 31 August 2010.

(3) M. Bisset resigned on 19 January 2010.

**Table 2: Remuneration for the year ended 31 December 2009**

	Short term benefits			Post employ- ment	Long term benefits	Share-based payments		Total	Performance related
	Salary and fees	Bonus	Non- monetary benefits	Super	Long service leave	Options	Shares		
	\$	\$	\$	\$	\$	\$	\$		
<b>Non-executive directors</b>									
R. Aston <sup>(1)</sup>	95,305	-	-	-	-	-	-	95,305	-
T. J.R. O'Brien <sup>(2)</sup>	92,200	-	-	7,830	-	-	-	100,030	-
W .J. Jenkins	81,427	-	-	7,328	-	-	-	88,755	-
A. Kumar	13,417	-	-	-	-	-	-	13,417	-
R. Seth <sup>(3)</sup>	10,676	-	-	-	-	-	-	10,676	-
T.S. Rangan	2,741	-	-	-	-	-	-	2,741	-
Total non-executive directors	295,766	-	-	15,158	-	-	-	310,924	
<b>Executive director</b>									
D. Bastas	470,006	200,000	61,994	50,000	-	-	-	782,000	26%
<b>Other key management personnel</b>									
S.L. Blank	232,607	40,000	19,893	22,725	-	-	-	315,225	13%
M. Bisset	305,047	124,000	14,953	28,800	-	-	-	472,800	26%
A. Burgess	235,151	75,000	-	21,164	-	-	-	331,315	23%
G.R. Harding <sup>(4)</sup>	331,462	-	10,000	23,042	-	-	-	364,504	-
A. Heine	56,151	-	-	5,054	-	-	-	61,205	-
M. Kumar	188,532	61,516	78,838	-	-	-	-	328,886	19%
M. Story	270,021	30,000	40,000	26,100	-	-	-	366,121	8%
Sub-total executive director and other key management personnel	2,088,977	530,516	225,678	176,885	-	-	-	3,022,056	
<b>Total</b>	<b>2,384,743</b>	<b>530,516</b>	<b>225,678</b>	<b>192,043</b>				<b>3,332,980</b>	

(1) R. Aston was appointed chairman on 25 May 2009.

(2) T.J.R. O'Brien retired as chairman on 25 May 2009.

(3) R Seth retired as a director on 16 November 2009.

(4) G.R. Harding resigned on 20 April 2009.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the directors and executive officers for any breach of environmental or discrimination laws by the Company for which they may be held personally liable provided that:

- the liability does not arise out of conduct involving a lack of good faith; or
- the liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

The Company has purchased insurance in respect of a contract insuring all the directors of the Company against legal costs incurred in defending proceedings for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid during the financial year ended 31 December 2010 was \$43,834 (year ended 31 December 2009: \$38,850).

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class order applies.

## NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 29 to the financial statements.

The directors are satisfied that the provision of these non-audit services did not compromise the auditor independence requirements of the *Corporations Act 2001*.

## AUDITOR INDEPENDENCE

The directors received the attached audit independence declaration from the auditor of Ascent Pharmahealth Limited (refer to page 14).

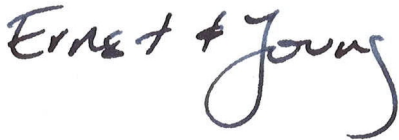
Signed in accordance with a resolution of the directors



D. Bastas  
Managing Director  
Melbourne, 16 March 2011

## Auditor's Independence Declaration to the Directors of Ascent Pharmahealth Limited

In relation to our audit of the financial report of Ascent Pharmahealth Limited for the financial year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Ashley C Butler'.

Ashley C Butler  
Partner  
16 March 2011

# Corporate Governance Statement

The Board of directors of Ascent Pharmahealth Limited (the Company) is responsible for the corporate governance of the company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board is committed to achieving and demonstrating the highest standard of corporate governance. The Board has adopted the following policies and practices, establishing a framework for the Board to fulfil its duties and obligations on behalf of shareholders.

The Company's corporate governance practices are structured to reflect the ASX corporate governance council's corporate governance principles and recommendations (ASX Recommendations). The Company's corporate governance policies are compliant with the ASX Recommendations, except for Recommendation 2.1 (refer to Structure of the Board).

In each section below comments are made in relation to the Company's compliance with each principle of the ASX Recommendations, which are as follows:

- Principle 1: Lay solid foundations for management and oversight
- Principle 2: Structure the board to add value
- Principle 3: Promote ethical and responsible decision-making
- Principle 4: Safeguard integrity in financial reporting
- Principle 5: Make timely and balanced disclosure
- Principle 6: Respect the rights of shareholders
- Principle 7: Recognise and manage risk
- Principle 8: Remunerate fairly and responsibly

Any reference to the Company's website in this Corporate Governance Statement refers to [www.ascentpharmahealth.com.au](http://www.ascentpharmahealth.com.au).

## ROLE OF THE BOARD - SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is ultimately responsible for setting the strategic direction of the Company and overseeing the management processes. The Board aims to create and deliver long-term shareholder value by maximising the performance of the business within an appropriate risk framework.

Whilst there is an ongoing interaction between the Board and management, the Board functions independently of management to establish the policy framework of the Company from which management works to perform the daily functions of the business.

The key governance principles adopted by the Board and the division of responsibilities between the Board and senior executives are set out in the Board Charter published on the Company's website.

### **ASX Recommendations 1.1 and 1.3**

## STRUCTURE OF THE BOARD

The Company has a five member Board comprising four non-executive Directors (including the Chairman) and the Chief Executive Officer.

The independent Directors (which include the Chairman) of the Board are:

Warren J. Jenkins	Non-Executive Chairman
Thomas J. R. O'Brien	Non-Executive Director

The non-independent directors on the board are:

Dennis Bastas	Managing Director and Chief Executive Officer
Arun Kumar	Non-Executive Director
T. S. Rangan	Non-Executive Director

The roles of Chairman and Chief Executive Officer are not exercised by the same individual.

The Company has adopted a definition of "independence" which is consistent with the ASX recommendations, meaning free from any management role, business interest or other relationship that could, or could be perceived to, materially interfere with the exercise of an unfettered and independent judgement.

Applying this definition, the Board currently has two independent and three non-independent Directors and therefore does not comply with ASX Recommendation 2.1. However, the Company considers that the industry experience and specific expertise of the current Directors are important attributes in maintaining the efficiency of the Board.

The Directors together possess a broad range of skills, experience, expertise and qualifications which, together with details of each Director's term in office, are set out in the Directors' Report on page 4.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

### **ASX Recommendations 2.1, 2.2, 2.3 and 2.6.**

## ETHICAL AND RESPONSIBLE DECISION MAKING

### Code of conduct

The Company is committed to upholding sound legal, moral and ethical standards in all of its corporate activities. The Board has adopted a Code of Conduct which applies to all Directors, executives and employees of the Company. The Code of Conduct promotes a set of values which aim to set high standards of ethical behaviour, business practice and compliance with legal obligations for all dealings between employees and with competitors, customers and the community. The Code of Conduct is available on the Company's website.

### Trading Policy

The Board has established a policy relating to trading in Company securities by Directors, senior executives and employees of the Company.

In summary, the Share Trading Policy prohibits the trading of Company shares by relevant persons in possession of non-public price sensitive information. It also prohibits short-term trading and confines, without prior approval, any dealings in Company shares to a period of one month after the release of the full and half year results.

### **ASX Recommendation 3.**

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Board has established an Audit and Risk Management Committee which operates under a charter adopted by the Board. A copy of the Audit and Risk Charter can be viewed on the Company's website.

The current members of the Audit and Risk Management Committee are T. J. R. O'Brien (Chairman of the Audit and Risk Management Committee), W. J. Jenkins and T.S Rangan.

In compliance with the ASX Recommendations, all three members of the Audit and Risk Management Committee are non-executive Directors, the majority of them are independent and the Committee is chaired by T. J. R. O'Brien who is not the Chairman of the Board.

The Audit and Risk Management Committee has instructed management to design and implement a risk management and internal control system to manage Ascent's material business risks. The Board has received reports from management on the effectiveness of the Company's risk management.

The Board annually reviews the insurance policies of the Company and is immediately alerted of any material breakdowns in internal controls.

The Audit and Risk Management Committee advises the Board on the appointment of external auditors who demonstrate quality and independence. The performance of the external auditor is reviewed annually. An analysis of fees paid to the external auditor, including a breakdown of non-audit services, is provided annually in the financial statements (refer Note 29).

The Board also receives assurances from the Chief Executive Officer and the Chief Financial Officer through the Audit and Risk Management Committee that their respective declarations provided in accordance with section 295A of the *Corporations Act 2001* are 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.

### **ASX Recommendations 4 and 7.**

## CONTINUOUS DISCLOSURE AND COMMUNICATIONS TO STAKEHOLDERS

The Board is committed to ensuring that all shareholders, the market and other legitimate stakeholders are informed in a timely manner of material developments that affect the Company. The current practice of the Company is consistent with the ASX Recommendations.

The Board is committed to communicating to shareholders regularly and clearly through the distribution of the annual report, half-yearly report, AGM, ASX announcements and media releases. All Company announcements and other significant briefings made by the Company (except disclosures of a compliance nature) are posted on the Company's website after release to the ASX. The Company Secretary is responsible for communications with the ASX.

The Company encourages shareholders to attend and participate at general meetings and welcomes questions from shareholders at any time. Shareholders questions will be answered within the confines of information that is not market sensitive or already in the public domain.

The external auditor is asked to attend the Annual General Meeting to answer questions concerning conduct, preparation and content of audit reports.

Policies and procedures for disclosure in compliance with the ASX Listing Rules and communications to shareholders are included in the Company's Communications and Continuous Disclosure Policy which can be viewed on the Company's website.

### **ASX Recommendations 5 and 6.**

## PERFORMANCE AND REMUNERATION

The current members of the Remuneration and Nomination Committee are W. J. Jenkins (Chairman of the Remuneration and Nomination Committee), T. J. R. O'Brien and A. Kumar.

The purpose of the Remuneration and Nomination Committee is to provide the Board of the Company with advice and recommendations which enable the Board to:

- consider the appointment, re-election, performance evaluation processes and competencies of the Board and individual Directors;
- set in place remuneration policies which are designed to attract and retain senior managers and directors with the expertise to enhance the performance and growth of the Company; and
- ensure that the level and composition of remuneration packages are fair, reasonable and adequate and, in the case of executive directors and senior managers, display a clear relationship between the performance of the individual and the performance of the Company.

The Remuneration and Nomination Committee considers the remuneration and performance of the Board members, Chief Executive Officer, Directors and senior executives, as well as the structure of fees paid to non-executive Directors. It is the Company's intention that the Remuneration and Nomination Committee review the performance of the Board at least once every 18 months and Directors or executives on an annual basis. The Remuneration and Nomination Committee provides its final recommendation to the Board for approval.

Details of meeting attendances and the amount of remuneration, including monetary and non-monetary components, for each Director and senior executive are set out in the Directors Report.

The performance criteria against which the Directors and key management personnel are assessed are aligned with the financial and non-financial objectives of the Company.

### **ASX Recommendations 1.2, 1.3, 2.4, 2.5 and 8.**

# Financial Report

## ASCENT PHARMAHEALTH LIMITED FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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**Income Statement**  
**For the year ended 31 December 2010**

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
Sales of goods		132,308	105,053
Cost of sales		(90,774)	(67,123)
<b>Gross Profit</b>		41,534	37,930
Other income	6	5,542	1,848
Sales and marketing expenses		(14,467)	(12,925)
Distribution expenses		(4,892)	(4,024)
Corporate affairs expenses		(2,846)	(2,356)
Regulatory affairs expenses		(2,414)	(1,923)
Occupancy expenses		(1,331)	(1,267)
Administrative expenses		(6,309)	(6,025)
Finance costs	7	(184)	(139)
Loss on derivatives		(115)	-
Share of profits of associates and joint ventures	14	403	-
<b>Profit before income tax</b>		14,921	11,119
Income tax (expense)/benefit	8	(2,959)	(1,942)
<b>Net profit for the period</b>		11,962	9,177
Basic earnings per share (cents per share)		4.8	3.7
Diluted earnings per share (cents per share)		4.8	3.7

The above income statement should be read in conjunction with the accompanying notes.

**Statement of Comprehensive Income**  
**For the year ended 31 December 2010**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net profit for the period</b>	11,962	9,177
Other comprehensive income:		
Foreign currency translation	(1,645)	(8,237)
Income tax on items of other comprehensive income	-	-
<b>Other comprehensive (loss) for the period, net of tax</b>	(1,645)	(8,237)
<b>Total comprehensive income for the period</b>	10,317	940

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position  
As at 31 December 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents	10	4,949	7,653
Trade and other receivables	11	30,714	23,303
Inventories	12	20,943	15,692
Other current assets	13	3,695	1,096
<b>Total current assets</b>		<b>60,301</b>	<b>47,744</b>
<b>Non-current assets</b>			
Receivables		-	39
Investment in associates and joint ventures	14	403	-
Plant and equipment	15	2,787	3,301
Capital works in progress	16	4,768	-
Intangible assets and goodwill	17	87,651	88,963
Deferred tax assets	8	1,342	2,024
<b>Total non-current assets</b>		<b>96,951</b>	<b>94,327</b>
<b>Total assets</b>		<b>157,252</b>	<b>142,071</b>
<b>Current liabilities</b>			
Trade and other payables	18	26,417	21,609
Interest bearing loans and borrowings	19	4,833	3,551
Derivative financial instruments	20	115	-
Income tax payable	8	2,259	1,118
Provisions	21	938	391
<b>Total current liabilities</b>		<b>34,562</b>	<b>26,669</b>
<b>Non-current liabilities</b>			
Other payables	18	253	-
Interest bearing loans and borrowings	19	5,254	8,570
Deferred tax liabilities	8	2,208	2,281
Provisions	21	254	147
<b>Total non-current liabilities</b>		<b>7,969</b>	<b>10,998</b>
<b>Total liabilities</b>		<b>42,531</b>	<b>37,667</b>
<b>Net assets</b>		<b>114,721</b>	<b>104,404</b>
<b>Equity</b>			
Contributed equity	22	118,175	118,175
Reserves	23	(3,022)	1,140
Accumulated losses		(432)	(14,911)
<b>Total equity</b>		<b>114,721</b>	<b>104,404</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity  
For the year ended 31 December 2010

Consolidated

	Contributed equity \$'000	Accumulated losses \$'000	Other Reserves \$'000	Total \$'000
<b>At 1 January 2010</b>	118,175	(14,911)	1,140	104,404
Profit for the period	-	11,962	-	11,962
Other comprehensive (loss) / income	-	-	(1,645)	(1,645)
Total comprehensive income for the period	-	11,962	(1,645)	10,317
Transfer reserves to accumulated losses	-	2,517	(2,517)	-
<b>Transactions with owners in their capacity as owners</b>	-	-	-	-
<b>At 31 December 2010</b>	118,175	(432)	(3,022)	114,721
<b>At 1 January 2009</b>	118,175	(24,088)	9,377	103,464
Profit for the period	-	9,177	-	9,177
Other comprehensive (loss) / income	-	-	(8,237)	(8,237)
Total comprehensive income for the period	-	9,177	(8,237)	940
<b>Transactions with owners in their capacity as owners:</b>	-	-	-	-
<b>At 31 December 2009</b>	118,175	(14,911)	1,140	104,404

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**Statement of Cash Flows**  
**For the year ended 31 December 2010**

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		144,116	101,306
Payments to suppliers and employees		(130,080)	(89,967)
Interest received		93	47
Interest paid		(495)	(755)
Income taxes paid		(1,158)	(864)
<b>Net cash flows from operating activities</b>	24	<b>12,476</b>	<b>9,767</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(1,005)	(1,270)
Purchase of intangible assets		(2,223)	(1,020)
Purchase of capital works in progress		(3,484)	-
Payments for loans		(2,760)	-
Payment for loans to related entities		(2,915)	-
Repayment of loans from related entities		-	593
Acquisition of subsidiaries, net of cash acquired		-	(1,610)
Payments in respect of acquisitions in prior periods		(574)	(589)
<b>Net cash flows used in investing activities</b>		<b>(12,961)</b>	<b>(3,896)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		286	3,690
Repayment of borrowings		(3,501)	(3,666)
Transaction costs paid		(711)	-
<b>Net cash flows from / (used in) investing activities</b>		<b>(3,926)</b>	<b>24</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(4,411)</b>	<b>5,895</b>
Net foreign exchange differences		(116)	(560)
Cash and cash equivalents at the beginning of the period		7,626	2,291
<b>Cash and cash equivalents at the end of the period</b>	10	<b>3,099</b>	<b>7,626</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## 1. Corporate information

The financial report of Ascent Pharmahealth Limited (the Company) for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 16 March 2011.

The financial report comprises the consolidated financial statements of Ascent Pharmahealth Limited and its subsidiaries (the Group) as at 31 December 2010.

Ascent Pharmahealth Limited is a company limited by shares and incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange, under the ASX code APH. The ultimate parent of Ascent Pharmahealth Limited is Strides Arcolab Limited which is incorporated in India and owns 60.33% of the ordinary shares.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

## 2. Summary of significant accounting policies

### Basis of preparation

Ascent Pharamhealth Limited ('the Company') is a company domiciled in Australia. The financial report includes the financial statements of the Company and its subsidiaries (together referred to as the 'Consolidated entity') and the consolidated entity's interest in associates.

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

### (a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

## (b) New accounting standards and interpretations

### Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2010:

- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2] effective 1 January 2010
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] effective 1 January 2010
- AASB 3 Business Combinations (revised 2008) effective 1 July 2009
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5] effective 1 July 2009
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 effective 1 July 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

### Annual Improvements Project

In May 2009 and June 2010 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment.

- AASB 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in note 5.
- AASB 107 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.
- AASB 136 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

# Notes to the Financial Statements (continued)

## Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2010 are outlined in the table below:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	Some of these amendments may have an impact on the Group, however the Group has not yet assessed the impact.	1 January 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.	1 January 2013	Some of these amendments may have an impact on the Group, however the Group has not yet assessed the impact.	1 January 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <p>(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other.</p> <p>(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other.</p> <p>(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.</p>	1 January 2011	These amendments will not impact the disclosure made by the Group	1 January 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p>	1 January 2011	These amendments will not impact the Group	1 January 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	<p>Limits the scope of the measurement choices of non-controlling interest to instruments that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of NCI are measured at fair value.</p> <p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), in a consistent manner i.e., allocate between consideration and post combination expenses.</p> <p>Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.</p> <p>Clarifies that the revised accounting for loss of significant influence or joint control (from the issue of IFRS 3 Revised) is only applicable prospectively.</p>	1 July 2010	These amendments will not impact the Group	1 January 2011

# Notes to the Financial Statements (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	These amendments will not impact the Group	1 January 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	<p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued as payment of a debt should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>	1 July 2010	These amendments will not impact the Group	1 January 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	<p>This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p> <p>These amendments have no major impact on the requirements of the amended pronouncements.</p>	1 January 2011	These amendments will not impact the Group	1 January 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 January 2011	These amendments will not impact the Group	1 January 2012

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Ascent Pharmahealth Limited and its subsidiaries as at 31 December 2010 and the comparative period for the year to 31 December 2009. Interests in equity associates are equity accounted and are not part of the consolidated group (refer note 2(d) below).

#### Subsidiaries

Subsidiaries are those entities over which the Group has power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration is goodwill or a discount on acquisition.

### (d) Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of an associate's profits or losses is recognised in the statement of comprehensive income, and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "share of profit of an associate" in the income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group, for the purposes of equity accounting by the Group, are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### (e) Interest in a joint venture

The Group has an interest in a joint venture that is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with Australian equivalents to IFRSs.

The Group has elected to equity account its interest in the jointly controlled entity in accordance with Note 2(d).

# Notes to the Financial Statements (continued)

## (f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Types or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments."

## (g) Foreign currency translation

### (i) Functional and presentation currency

Both the functional and presentation currency of Ascent Pharmahealth Limited and its Australian subsidiary is Australian dollars (\$). The Singapore subsidiaries' functional currency is Singapore dollars which is translated to presentation currency (see below).

### (ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

### (iii) Translation of subsidiaries functional currency to presentation currency

The results of the Singapore subsidiaries are translated into Australian Dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in Singapore subsidiaries are taken to the foreign currency translation reserve. If a Singapore subsidiary were sold, the proportionate share of the exchange differences would be transferred out of equity and recognised in the income statement.

## (h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

## (i) Trade and other receivables

Trade receivables, which generally have 45-90 day terms, are recognised at invoiced value less an allowance for impairment.

Collectability of trade receivables is regularly reviewed by management. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when management determines that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or overdue debts are factors considered by management when determining impairment. The amount of an impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

## (j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Net realisable value is the estimated net selling price in the ordinary course of business.

## (k) Plant and equipment

Plant and equipment and leasehold improvements are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes expenditure that is directly attributable to the acquisition of the item.

Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Plant and equipment	3-15 years
Leasehold improvements	4-10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

### **Derecognition**

An item of plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

## (l) Capital works in progress

Items of plant and equipment, leasehold improvements and intangible assets that are under construction at balance date are classified as capital works in progress. These items are not depreciated or amortised until they are installed ready for use.

## (m) Goodwill and intangibles

### **Goodwill**

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and assumed. If the consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units. Impairment losses recognised for goodwill are not subsequently reversed.

### **Intangibles**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. Where amortisation is charged on assets with finite useful lives the expense is taken to the income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

## Notes to the Financial Statements (continued)

A summary of the policies applied to the Group's intangible assets is as follows:

	<b>Dossier costs and Licences</b>	<b>Trademarks</b>	<b>Supply agreements</b>	<b>Customer relationships and contracts</b>
Useful lives	Finite	Indefinite <sup>1</sup>	Finite	Finite
Amortisation method	Dossier costs amortised straight line over period of expected benefits to a maximum of 5 years. Licences amortised over the period of the licence agreement. Amortisation method reviewed each financial year end.	No amortisation	Amortised on straight line basis over period of expected future benefit of 7 years.	Amortised on straight line basis over period of expected future benefit of 5 to 7 years.
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired
Impairment testing	Tested annually for assets not available for use or more frequently if an indication of impairment exists	Tested annually or more frequently if an indication of impairment exists	Tested annually or more frequently if an indication of impairment exists	Tested annually or more frequently if an indication of impairment exists

<sup>1</sup> The Group has determined that the registered Trademarks have no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. Thus, the assets have indefinite useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value amount may not be recoverable.

## (n) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are secured and are usually paid between 30 and 90 days of recognition.

## (o) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loan and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## (p) Derivative financial instruments

The Group uses derivative financial instruments (including forward currency contracts) to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Held for trading derivative assets and liabilities are classified as current in the statement of financial position. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

## (q) Impairment of non-financial assets other than goodwill and intangibles

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

## (r) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### (i) Sale of goods

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of a sales invoice at the time of delivery of the goods to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed.

### (ii) Interest revenue

Revenue is recognised as interest accrues using the effective method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

# Notes to the Financial Statements (continued)

## (s) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

### Employee leave benefits

#### (i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Contributions to superannuation plans are charged to the income statement as the contributions are paid or become payable.

#### (ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## (t) Share-based payment transactions

### Senior Manager Share Option Plan (SMSOP)

A senior manager share option plan had been established whereby the Group may, at the discretion of the Board of Directors, grant options over ordinary shares to executive directors, executives and certain members of staff. This plan has now been discontinued and all outstanding options have lapsed. There have been no new issues of share options during the period ended 31 December 2010.

The cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26.

In valuing equity-settled transactions, no account is taken of any performance or market conditions, given only service conditions are applied.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period) ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

## (u) Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## (v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## (w) Earnings per share

Basic earnings per share is calculated as the net profit attributable to members of the parent, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares, adjusted for any bonus elements.

Diluted earnings per share is determined by dividing the net profit attributable to members of the parent, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus elements.

## (x) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits 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 credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference 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 or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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 allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

# Notes to the Financial Statements (continued)

## (y) Parent entity financial information

The financial information for the parent entity Ascent Pharmahealth Limited, disclosed in note 31, has been prepared on the same basis as the consolidated financial statements, except as set out below:

### *Investment in subsidiaries*

In the Company's financial statements, investments in subsidiaries are carried at cost less, where applicable, accumulated impairment losses.

### *Tax consolidation regime*

The Company and its wholly owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is Ascent Pharmahealth Limited.

The Company, and the members of the tax-consolidated group, recognise their own current tax expense/income and deferred tax assets and liabilities arising from temporary differences using the 'stand-alone taxpayer' 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.

In addition to its current and deferred tax balances, the Company also recognises the current tax liabilities or assets, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from members of the tax-consolidated group as part of the tax-consolidation arrangement. Assets or liabilities arising under tax funding agreements with members of the tax-consolidated group are recognised as amounts receivable or payable from the other entities within the tax-consolidated group.

### *Nature of tax funding agreement*

The Company, as the head entity in the tax-consolidated group, in conjunction with other members of the tax-consolidated group has entered into a tax funding agreement which sets out the tax funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding agreement requires payment to/from the head entity equal to the current tax liability/asset assumed by the head entity, resulting in the head entity recognising an intercompany receivable/payable equal to the amount of the tax liability/asset assumed.

The agreement requires wholly-owned subsidiaries to make contributions to the Company for tax liabilities arising from external transactions during the year. The contributions are calculated as if each subsidiary continued to be a stand-alone taxpayer in its own right. The contributions are payable annually and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authority.

### 3. Financial risk management objectives and policies

The Group's principal financial instruments during the period comprised short term and long term debt, receivables and cash. The Group has various other financial assets and liabilities and trade payables, which arise from its operations. The risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Risk management is undertaken in accordance with the Group's financial risk policies. The Group's overall risk management program focuses on minimising the potential adverse effects of the unpredictability of the financial markets on the financial performance of the company. The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis of interest rate and foreign exchange rate exposure and ageing analysis for credit risk.

The Group held the following financial instruments as at 31 December 2010:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	4,949	7,653
Trade and other receivables	30,714	23,303
	<u>35,663</u>	<u>30,956</u>
<b>Financial liabilities</b>		
Trade and other payables	26,417	21,609
Interest bearing loans and borrowings	10,087	12,121
Derivative financial instruments	115	-
	<u>36,619</u>	<u>33,730</u>
<b>Net exposure</b>	<u>(956)</u>	<u>(2,774)</u>

#### (a) Market Risk

##### Interest rate risk

The Group's exposure to the risk of changes in market interest relates primarily to fluctuations in the short-term deposit rates and borrowing rates. At reporting date the Group had the following assets and liabilities exposed to variable interest rate risk.

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	4,949	7,653
	<u>4,949</u>	<u>7,653</u>
<b>Financial liabilities</b>		
Interest bearing loans and borrowings	10,087	12,121
	<u>10,087</u>	<u>12,121</u>
<b>Net exposure</b>	<u>(5,138)</u>	<u>(4,468)</u>

As at 31 December 2010, the Group had not entered into any arrangements to hedge all or part of the interest rates exposure arising from cash balances held or from the Group's commercial borrowing and overdraft facilities. The Group constantly reviews its interest rate exposure and, within this review, consideration is given to alternative hedging positions including a mix of variable and fixed interest rates.

# Notes to the Financial Statements (continued)

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

Year ended 31 December 2010	Less than 1 year \$'000	Over 1 year and under 5 years \$'000	Total \$'000	Weighted average interest rate
<b>Consolidated</b>				
<b>Financial assets</b>				
Cash assets at floating rate	4,949	-	4,949	1.35%
<b>Financial liabilities</b>				
Loans at variable rate	(4,833)	(5,254)	(10,087)	4.19%

Year ended 31 December 2009	Less than 1 year \$'000	Over 1 year and under 5 years \$'000	Total \$'000	Weighted average interest rate
<b>Consolidated</b>				
<b>Financial assets</b>				
Cash assets at floating rate	7,653	-	7,653	1.0%
<b>Financial liabilities</b>				
Loans at variable rate	(3,551)	(8,570)	(12,121)	4.0%

The following sensitivity analysis is based on the interest rate risk exposure in existence as at 31 December 2010:

	Post tax profit higher/(lower)		Equity higher/(lower)	
	2009	2010	2009	2010
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
+1% (100 basis points)	(44)	(29)	(44)	(29)
-1% (100 basis points)	44	29	44	29

The movements in post tax profit are due to higher / lower interest costs from variable rate debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt, relationships with finance institutions and the level of debt that is expected to be renewed.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next twelve months from reporting date.

## Foreign currency risk

The Group has transactional currency exposures when it makes purchases of inventory in currencies other than Australian dollars. These transactions are in Euro, US Dollar, Swiss Francs and Singaporean dollars.

The Group uses forward exchange contracts to partially hedge the foreign currency exposure. Foreign currency liabilities are translated at the prevailing rate on the day the liability is extinguished.

At balance date the Group had the following financial assets and liabilities exposed to foreign currencies:

	<b>Consolidated</b>									
	<b>31 December 2010</b>					<b>31 December 2009</b>				
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>USD</b>	<b>EURO</b>	<b>CHF</b>	<b>SGD</b>	<b>Total</b>	<b>USD</b>	<b>EURO</b>	<b>CHF</b>	<b>SGD</b>	<b>Total</b>
<b>Financial assets</b>										
Cash and cash equivalents	405	312	-	-	717	2,377	-	-	-	2,377
Trade and other receivables	697	101	-	-	798	982	699	-	-	1,681
	1,102	413	-	-	1,515	3,359	699	-	-	4,058
<b>Financial liabilities</b>										
Trade and other payables	(952)	(967)	(46)	(2)	(1,967)	(1,108)	(3,994)	(47)	(9)	(5,158)
Interest bearing liabilities	(4,074)	-	-	(252)	(4,326)	(6,127)	-	-	(36)	(6,163)
	(5,026)	(967)	(46)	(254)	(6,293)	(7,235)	(3,994)	(47)	(45)	(11,321)
<b>Net exposure</b>	(3,924)	(554)	(46)	(254)	(4,778)	(3,876)	(3,295)	(47)	(45)	(7,263)

The following sensitivity analysis is based on significant foreign currency risk exposure in existence at the reporting date. The analysis has been based on an equal percentage movement in the Australian dollar, relative to all the foreign currencies listed above.

	<b>Post tax profit higher/(lower)</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated</b>		
AUD/USD appreciates 5%	138	136
AUD/EUR appreciates 5%	19	116
AUD/CHF appreciates 5%	2	2
AUD/SGD appreciates 5%	9	1
AUD/USD depreciates 5%	(138)	(136)
AUD/EUR depreciates 5%	(19)	(116)
AUD/CHF depreciates 5%	(2)	(2)
AUD/SGD depreciates 5%	(9)	(1)

# Notes to the Financial Statements (continued)

Significant assumptions used in foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on management's forecasted movements in exchange rates.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next twelve months from reporting date.
- The translation of the net assets in subsidiaries with a functional currency other than AUD has not been included in the sensitivity analysis as part of the equity movement.

There has been a reduction in net exposure of \$2.485 million in the analysis year on year.

The parent company has an USD loan facility of USD \$4.15 million.

## Price risk

The Group's exposure to commodity and equity risk is minimal.

## (b) Credit risk

Credit risk arises from the financial assets of the Group. The Group's main exposure to credit risk arises from a potential default of a customer or counterparty. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risks are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk is minimal.

There is no significant concentration of credit risks within the Group. The exposures of the financial assets at reporting date are included in the relevant notes to the accounts. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The future pattern of losses is not expected to be significantly different to prior periods given the stability of clients and similar credit quality of the client base.

### (c) Liquidity risk

The Group's policy is to ensure there is sufficient access to funds to support short and long term needs. The Group manages liquidity risk by continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are only invested in assets which are highly liquid and with short maturity profiles.

#### Non derivative financial instruments

##### *Risk Exposures and Responses*

The table below reflects the remaining contractual maturities of the Group's financial liabilities:

The tables below include future interest payments or receipts.

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
6 months or less	29,915	23,855
6-12 months	1,617	1,682
1-5 years	5,630	8,994
<b>Total</b>	<b>37,162</b>	<b>34,531</b>

##### *Maturity analysis*

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and cash outflows.

<b>Year ended</b> <b>31 December 2010</b>	<b>Over 6 months and under 12 months</b>			
	<b>Less than 6 months</b>	<b>12 months</b>	<b>1-5 years</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated</b>				
<b>Financial assets</b>				
Cash and cash equivalents	4,949	-	-	4,949
Trade and other receivables	30,714	-	-	30,714
	<b>35,663</b>	<b>-</b>	<b>-</b>	<b>35,663</b>
<b>Financial liabilities</b>				
Trade and other payables	(26,417)	-	(253)	(26,670)
Interest bearing loans and borrowings	(3,498)	(1,617)	(5,377)	(10,492)
	<b>(29,915)</b>	<b>(1,617)</b>	<b>(5,630)</b>	<b>(37,162)</b>
<b>Net maturity</b>	<b>5,748</b>	<b>(1,617)</b>	<b>(5,630)</b>	<b>(1,499)</b>

The Group has a net deficiency in the maturity of its financial assets and liabilities as noted above. The risk associated with the financial liquidity of the Company is mitigated by the expected future operating cash flows of the Group. The Group has undrawn facilities available as disclosed in note 19(e).

# Notes to the Financial Statements (continued)

## Derivative financial instruments

The table below details the liquidity risk arising from the derivative liabilities held by the Group at balance date. The gross settled derivatives comprise forward exchange contracts that are used to hedge future purchase commitments.

<b>Year ended 31 December 2010</b>	<b>Less than 6 months \$'000</b>	<b>Over 6 months and under 12 months \$'000</b>	<b>1-5 years \$'000</b>	<b>Total \$'000</b>
<b>Consolidated</b>				
<b>Derivative liabilities – gross settled</b>				
Inflows	1,339	-	-	1,339
Outflows	(1,454)	-	-	(1,454)
<b>Net maturity</b>	<b>(115)</b>	<b>-</b>	<b>-</b>	<b>(115)</b>

## (d) Fair value

The Group uses various methods in estimating the fair value of financial instruments. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments, as well as the methods used to estimate the fair values are summarised in the table below:

	Year ended 31 December 2010				Year ended 31 December 2009			
	Quoted Market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non -market observable inputs (Level 3)	Total	Quoted Market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non-market observable inputs (Level 3)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>								
Derivative instruments								
Foreign exchange contracts	-	1,339	-	1,339	-	-	-	-
<b>Financial liabilities</b>								
Derivative instruments								
Foreign exchange contracts	-	(1,454)	-	(1,454)	-	-	-	-

For financial instruments not quoted on active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

#### *Net fair values*

Recognised financial instruments:

Cash and cash equivalents - the carrying amount approximates fair value

Trade and other receivables - the carrying amount approximates fair value

Trade and other payables - the carrying amount approximates fair value

Interest bearing loans and borrowings - the carrying amount approximates fair value

# Notes to the Financial Statements (continued)

## 4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

### (a) Significant accounting judgements

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

### (b) Significant accounting estimates and assumptions

#### *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 17.

#### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, with the assumptions detailed in note 27. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

#### *Long service leave provision*

As discussed in note 2(s), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

#### *Allowance for impairment loss on trade receivables*

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. Due to the large number of debtors, this assessment is based on supportable past collection history and historical write-offs of bad debts.

#### *Rebates provision*

Certain wholesale customers claim rebates for sales made to end customers. The Group provides for these claims based on unprocessed claims received and on estimated claims based on the wholesalers' stockholdings of qualifying products.

#### *Make good provision*

The make good provision on termination of leased premises has been assessed based on the requirements in the lease and quotes from external contractors.

## 5. Operating segments

### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are used by the chief executive officer in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the operations and the business and regulatory environment in the respective regions. Discrete financial information about each of these operating businesses is reported to the chief executive officer on a monthly basis.

The reportable segments are based on aggregated operating businesses in each region determined by the similarity of the business and regulatory environment and the products produced and/or sold in each region as these represent the Group's major risk profiles and have the most effect on the rates of return.

#### *Types of products and services*

- **Australian operations**

Australian operations comprise the distribution of locally sourced and imported prescription generic and dermatological pharmaceuticals and specialised consumer personal care products to doctors, pharmacists and other healthcare customers either direct or through wholesalers.

- **Asian operations**

Asian operations comprise the manufacture and importation of pharmaceuticals and related products to supply customers in the Singapore market, including hospitals and pharmacists, and export customers.

- **Unallocated**

The unallocated segment comprises the operating costs of the Group head office in Australia. Unallocated assets predominantly comprise receivables, fixed assets and deferred tax assets. Unallocated liabilities predominantly comprise borrowings on behalf of the Group, payables and provisions for corporate employee benefits.

### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below:

- **Inter-entity sales**

Inter-entity sales are made between the Australian and Asian businesses under terms similar to external transactions.

- **Inter-entity funding**

External funding is held in the unallocated segment. Inter-entity transactions are either settled in cash or included in inter-entity loan accounts which are interest free and have no set repayment terms.

- **Income tax expense**

The tax expense in each segment is based on the taxable income of the segment. There is a tax funding agreement in place between the Australian and unallocated segments under which the tax liability of the Australian segment is transferred to the unallocated segment via the inter-entity loan accounts.

### Major customers

- The Group has no customers whose individual revenues each exceed 10% of the total sales to external customers.

#### *Analysis of sales revenue by product*

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Product</b>		
Pharmaceuticals	116,868	90,020
Over the counter products	15,440	15,033
<b>Total sales to external customers</b>	132,308	105,053

# Notes to the Financial Statements (continued)

## Segment reporting for the year ended 31 December 2010

	<b>Australian operations</b>	<b>Asian operations</b>	<b>Unallocated</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sales to external customers	87,034	45,274	-	-	132,308
Other income from external customers	5,414	-	35	-	5,449
Inter-segment sales	-	716	-	(716)	-
<b>Total segment revenue</b>	<b>92,448</b>	<b>45,990</b>	<b>35</b>	<b>(716)</b>	<b>137,757</b>
<b>Segment net profit before tax</b>	<b>9,791</b>	<b>8,668</b>	<b>(3,538)</b>	<b>-</b>	<b>14,921</b>
Tax (expense)/benefit	(2,884)	(1,178)	1,103	-	(2,959)
<b>Net profit after tax</b>	<b>6,907</b>	<b>7,490</b>	<b>(2,435)</b>	<b>-</b>	<b>11,962</b>
Interest revenue	56	36	1	-	93
Interest expense	-	(19)	(477)	-	(496)
Foreign exchange (gain)/loss (USD loan)	-	-	793	-	793
Depreciation	(835)	(397)	(14)	-	(1,246)
Amortisation	(876)	(1,069)	-	-	(1,945)
Impairment of intangible assets	(441)	-	-	-	(441)
Share of net profit of associates and joint ventures	403	-	-	-	403
<b>Segment assets</b>	<b>109,064</b>	<b>42,723</b>	<b>5,465</b>	<b>-</b>	<b>157,252</b>
<b>Segment liabilities</b>	<b>(20,329)</b>	<b>(8,626)</b>	<b>(13,576)</b>	<b>-</b>	<b>(42,531)</b>
<b>Investment in associate and joint venture</b>	<b>403</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>403</b>
<b>Capital expenditure disclosure:</b>					
Plant and equipment	(230)	(775)	-	-	(1,005)
Intangibles	(2,223)	-	-	-	(2,223)
Capital works in progress	-	-	(3,484)	-	(3,484)
<b>Cash flow disclosure:</b>					
Operating cash flow	7,955	7,051	(2,530)	-	12,476
Investing cash flow	(7,021)	(775)	(5,165)	-	(12,961)
Financing cash flow	-	286	(4,212)	-	(3,926)

## Segment reporting for the year ended 31 December 2009

	<b>Australian operations</b>	<b>Asian operations</b>	<b>Unallocated</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sales to external customers	63,766	41,287	-	-	105,053
Other income from external customers	1,504	297	-	-	1,801
<b>Total segment revenue</b>	<b>65,270</b>	<b>41,584</b>	<b>-</b>	<b>-</b>	<b>106,854</b>
<b>Segment net profit before tax</b>	<b>6,865</b>	<b>7,797</b>	<b>(3,543)</b>	<b>-</b>	<b>11,119</b>
Tax (expense)/benefit	(1,734)	(855)	647	-	(1,942)
<b>Net profit after tax</b>	<b>5,131</b>	<b>6,942</b>	<b>(2,896)</b>	<b>-</b>	<b>9,177</b>
Interest revenue	34	13	61	(61)	47
Interest expense	-	(55)	(627)	55	(627)
Foreign exchange (gain)/loss (USD loan)	-	-	812	-	812
Depreciation	(707)	(364)	(20)	-	(1,091)
Amortisation	(777)	(1,249)	-	-	(2,026)
Other non-cash expenses	-	-	-	6	6
<b>Segment assets</b>	<b>97,225</b>	<b>42,977</b>	<b>1,869</b>	<b>-</b>	<b>142,071</b>
<b>Segment liabilities</b>	<b>(14,720)</b>	<b>(9,057)</b>	<b>(13,890)</b>	<b>-</b>	<b>(37,667)</b>
<b>Capital expenditure disclosure:</b>					
Plant and equipment	(745)	(525)	-	-	(1,270)
Intangibles	(957)	-	(63)	-	(1,020)
<b>Cash flow disclosure:</b>					
Operating cash flow	5,992	5,697	(1,922)	-	9,767
Investing cash flow	(1,675)	(2,162)	(59)	-	(3,896)
Financing cash flow	-	(27)	51	-	24

# Notes to the Financial Statements (continued)

## (a) Segment revenue reconciliation to the statement of comprehensive income

	Consolidated	
	2010	2009
	\$'000	\$'000
Total segment revenue	138,473	106,854
Inter-segment sales elimination	(716)	-
Interest revenue	93	47
<b>Total revenue</b>	<b>137,850</b>	<b>106,901</b>

Revenue by external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers. The company does not have external revenues from external customers that are attributable to any foreign country other than as shown.

	Consolidated	
	2010	2009
	\$'000	\$'000
Australia	108,781	76,503
Singapore	17,381	16,406
Malaysia	5,263	7,384
Hong Kong	2,216	2,427
Other foreign countries	4,116	4,134
<b>Total segment revenue</b>	<b>137,757</b>	<b>106,854</b>

## 6. Other income

	Consolidated	
	2010	2009
	\$'000	\$'000
Interest	93	47
Contracted services	4,926	1,443
Other	523	358
	<b>5,542</b>	<b>1,848</b>

## 7. Expenses

### (a) Finance costs

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest	496	627
Bank charges	446	265
Bad debts written-off	-	38
Borrowing costs	35	21
Foreign exchange (gains)/losses (USD loan)	(793)	(812)
	184	139

### (b) Depreciation, amortisation and impairment

Depreciation	1,246	1,091
Amortisation of customer relationships	1,068	1,249
Amortisation of dossier costs and licences	707	607
Amortisation of supply agreement	170	170
	3,191	3,117
Impairment of intangible assets included in Regulatory affairs expenses	441	-

### (c) Lease payments

Minimum lease payments – operating leases	1,249	1,345
	1,249	1,345

### (d) Employee benefits expense

Wages and salaries	13,342	12,743
Superannuation expense	986	905
Other employee benefits expense	1,286	1,433
	15,614	15,081

# Notes to the Financial Statements (continued)

## 8. Income tax

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax expense</b>		
The major components of income tax expense are:		
Income statement		
<i>Current income tax</i>		
Current income tax charge	3,652	1,515
Adjustment in respect of current income tax of previous years	6	(49)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(699)	771
Adjustment in respect of deferred income tax of previous years	-	(295)
Income tax expense/(benefit) reported in the income statement	2,959	1,942

### **(b) Amounts charged or credited directly to equity**

*Current income tax related to items charged or credited directly to equity*

Equity raising costs	-	-
Income tax benefit reported in equity	-	-

### **(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate**

A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Group's applicable income tax rate is as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
At the statutory income tax rate of 30% (2009: 30%)	4,476	3,336
Foreign tax rate adjustment (Singapore:17%; 2009: 17%)	(1,127)	(1,013)
Capital allowances	(213)	(322)
Tax exemption	(41)	(68)
Prior period (overs) / unders	6	(25)
Non-deductible expenditure	(21)	34
Share of profits of associates and joint ventures	(121)	-
Aggregate income tax expense	2,959	1,942

**(d) Recognised deferred tax assets and liabilities**

Deferred income tax relates to the following:

*(i) Deferred tax assets*

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Doubtful debts	68	26
Valuation of inventory for tax purposes	86	985
Employee entitlement provisions	247	183
Equity raising costs	226	479
Accrued expenses	539	325
Other	176	26
Gross deferred tax assets	1,342	2,024
Set-off of deferred tax liabilities	(2,208)	(2,281)
Net deferred tax assets/(liabilities)	(866)	(257)

*(ii) Deferred tax liabilities*

Dossier costs	(990)	(620)
Accelerated depreciation	(238)	(136)
Intangibles	(654)	(916)
Licences	(269)	(334)
Unrealised FX	(57)	(275)
Gross deferred tax liabilities	(2,208)	(2,281)

**(e) Tax consolidation**

Ascent Pharmahealth Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 13 July 2006. Ascent Pharmahealth Limited is the head entity of the tax consolidated group.

The head entity and the controlled entities in the tax consolidated group recognise their own current tax expense/income and deferred tax assets and liabilities arising from temporary differences using the 'stand-alone taxpayer' 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.

In addition to its current and deferred tax balances, the head entity also recognises the current tax liabilities or assets, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from members of the tax-consolidated group as part of the tax-consolidation arrangement. Assets or liabilities arising under tax funding agreements with members of the tax-consolidated group are recognised as amounts receivable or payable from the other entities within the tax-consolidated group.

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payments to / from the head entity to be recognised via an inter-entity receivable/(payable) which is at call. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

# Notes to the Financial Statements (continued)

## 9. Earnings per share

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>cents per share</b>	<b>cents per share</b>
Basic earnings per share	4.8	3.7
Diluted earnings per share	4.8	3.7

### Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and fully diluted earnings per share are as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Earnings – net profit after tax	11,962	9,177

	<b>2010</b>	<b>2009</b>
	<b>number of shares</b>	<b>number of shares</b>
Weighted average number of ordinary shares	249,439,547	249,439,547

The share options in existence during the year are not considered dilutive because the exercise price exceeded the average market price of ordinary shares during the year.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

## 10. Current assets – cash and cash equivalents

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and on hand	4,949	7,653
	4,949	7,653

Cash at bank earns interest at floating rates based on daily bank deposit rates.

For purposes of the statement of cash flows, cash and cash equivalents comprise the following:

Cash at bank and on hand	4,949	7,653
Bank overdrafts (Note 19)	(1,850)	(27)
	3,099	7,626

## 11. Current assets – trade and other receivables

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	27,392	22,993
Allowance for impairment loss	(264)	(125)
	27,128	22,868
Amounts receivable from related entities	-	16
Other receivables	3,586	419
	30,714	23,303

All trade receivables are unsecured and the Group does not hold collateral in relation to these debts apart from a standard retention of title clause. In most cases the fair value of the retention title approximates the carrying value of the trade debt.

### Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

As at 31 December 2010, current trade receivables of the Group with a nominal value of \$263,934 (31 December 2009: \$125,015) were impaired. The amount of the allowance was \$263,934 (31 December 2009: \$125,015). The individually impaired receivables mainly relate to customers which 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:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
0 days to 90 days overdue	-	-
Over 90 days overdue	264	125
	264	125

As at 31 December 2010, trade receivables of \$2,330,314 (31 December 2009: \$1,274,116) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and management expects these receivables to be fully collectible. The ageing analysis of these trade receivables is as follows:

0 days to 30 days overdue	1,266	676
31 days to 60 days overdue	674	262
61 days to 90 days overdue	352	135
Over 90 days overdue	38	201
	2,330	1,274

# Notes to the Financial Statements (continued)

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

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of period	125	107
Provision for impairment recognised	140	28
Receivables written-off as uncollectible	-	-
Foreign currency translation difference	(1)	(10)
Balance at end of period	264	125

The creation and release of the allowance for impaired receivables has been included in finance expenses 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 (unless impaired).

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. Refer to note 3 for more information on the risk management policy of the Group.

## **Related party receivables**

For terms and conditions of related party receivables refer to note 26.

## 12. Current assets – inventories

Finished goods on hand and in transit	21,323	16,319
Provision for obsolete stock	(380)	(627)
Total inventories at the lower of cost and net realisable value	20,943	15,692

## **Inventory expense**

Inventories recognised as an expense for the year ended 31 December 2010 totalled \$89,973,216 (year ended 31 December 2009: \$66,366,259) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

## 13. Current assets – other

Deposits	281	608
Prepayments	499	488
Loans to associated entities and joint ventures	2,915	-
	3,695	1,096

## 14. Non-current assets – investment in associates and joint ventures

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest in joint ventures	403	-

The consolidated entity has the following equity accounted investments

Name of associate or joint venture	Investment type	Principal activity	Incorporated	Reporting date	Ordinary share ownership interest (%)	
					2010	2009
Central Healthcare Services Pty Ltd	Joint venture	Pharmaceuticals wholesaling	Victoria	30 June	50	-
Eris Pharmaceuticals (Australia) Pty Ltd	Associate	Pharmaceuticals distribution	Victoria	31 December	25	-

Movement in the aggregate carrying amount of the Group's investment in joint venture

Investments acquired during the period	-	-
Share of profits after income tax	403	-
Balance at the end of the period	403	-

Aggregate financial information related to equity accounted investments

### (a) Central Healthcare Services Pty Ltd

	<b>2010</b>
	<b>\$'000</b>
<b>Extracts from associates' statement of financial position</b>	
Current assets	28,588
Non-current assets	5,072
Current liabilities	29,833
Non-current liabilities	3,424
Net assets	403
Share of associates' net assets	403
<b>Extracts from associates' statement of comprehensive income</b>	
Revenue	73,279
Net profit	403
Share of associates, net profit	403

# Notes to the Financial Statements (continued)

## Share of commitments relating to associates

With effect from 1 July 2010 Ascent Pharmacy Services Pty Ltd ('APS'), a wholly owned subsidiary of Ascent Pharmahealth Limited, established a 50% joint interest in Central Healthcare Services Pty Ltd ('CHS') with the owners of Central Hospital Supplies, a Victorian based pharmaceutical wholesaling business providing services to hospitals and retail pharmacies. In addition since December 2009 Central Hospital Supplies have distributed Ascent's products to its Victorian customers.

CHS acquired the Central Hospital Supplies business on 1 July 2010. Under the sale agreements Ascent has guaranteed up to \$5.4 million of the purchase price should CHS not have sufficient funds to meet the payments as and when they fall due. As Ascent has an option to own 100% of CHS, it is equity accounting for 100% of the profit of CHS.

### (b) Eris Pharmaceuticals (Australia) Pty Ltd

Eris Pharmaceuticals ("Eris") was founded in October 2009 with Ascent issued 25% of the equity for nil value.

Eris is seeking to promote and sell generic pharmaceuticals sourced from Ascent in targeted European and Middle Eastern countries. At 31 December 2010 Eris had yet to record any sales.

## 15. Non-current assets – plant and equipment

### Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated		
	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
<b>Year ended 31 December 2010</b>			
At 1 January 2009 net of accumulated depreciation and impairment	2,747	554	3,301
Additions	1,182	1	1,183
Disposals	(240)	(130)	(370)
Depreciation charge for the year	(1,085)	(161)	(1,246)
Foreign currency translation difference	(81)	-	(81)
At 31 December 2010 net of accumulated depreciation and impairment	2,523	264	2,787
<b>At 31 December 2010</b>			
Cost	5,547	1,133	6,680
Accumulated depreciation and impairment	(3,024)	(869)	(3,893)
Net carrying amount	2,523	264	2,787
<b>Year ended 31 December 2009</b>			
At 1 January 2009 net of accumulated depreciation and impairment	2,974	537	3,511
Additions	1,067	203	1,270
Depreciation charge for the year	(911)	(180)	(1,091)
Foreign currency translation difference	(383)	(6)	(389)
At 31 December 2009 net of accumulated depreciation and impairment	2,747	554	3,301
<b>At 31 December 2009</b>			
Cost	5,243	1,342	6,585
Accumulated depreciation and impairment	(2,496)	(788)	(3,284)
Net carrying amount	2,747	554	3,301

## 16. Non-current assets – capital works in progress

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Computer software <sup>(1)</sup>	2,667	-
Dossier costs	1,292	-
Leasehold improvements	809	-
<b>Total capital works in progress</b>	<b>4,768</b>	<b>-</b>

(1) Computer software work in progress is subject to a legal dispute refer note 28.

## 17. Non-current assets – intangible assets and goodwill

### (a) Reconciliation of carrying amounts at the beginning and end of the year

	<b>Consolidated</b>					
	<b>Dossier costs and licence agreements</b>	<b>Supply agreement</b>	<b>Trademarks</b>	<b>Goodwill</b>	<b>Customer relationships and contracts</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Year ended 31 December 2010</b>						
At 1 January 2009 net of accumulated depreciation and impairment	3,498	592	9,247	71,285	4,341	88,963
Additions	2,084	-	97	-	-	2,181
Disposals	(96)	-	-	-	-	(96)
Amortisation	(707)	(169)	-	-	(1,068)	(1,944)
Impairment	(426)	-	(15)	-	-	(441)
Foreign currency translation difference	-	-	(96)	(756)	(160)	(1,012)
<b>At 31 December</b>						
2010 net of accumulated depreciation and impairment	4,353	423	9,233	70,529	3,113	87,651
<b>At 31 December 2010</b>						
Cost	6,889	1,185	9,233	70,529	5,625	93,461
Accumulated amortisation and impairment	(2,536)	(762)	-	-	(2,512)	(5,810)
<b>Net carrying amount</b>	<b>4,353</b>	<b>423</b>	<b>9,233</b>	<b>70,529</b>	<b>3,113</b>	<b>87,651</b>

# Notes to the Financial Statements (continued)

	<b>Consolidated</b>					<b>Total \$'000</b>
	<b>Dossier costs and licence agree- ments \$'000</b>	<b>Supply agreement \$'000</b>	<b>Trade- marks \$'000</b>	<b>Goodwill \$'000</b>	<b>Customer relation- ships and contracts \$'000</b>	
<b>Year ended 31 December 2009</b>						
At 1 January 2009 net of accumulated depreciation and impairment	2,917	762	9,589	72,680	6,936	92,884
Acquired on acquisition of subsidiaries	-	-	-	3,782	-	3,782
Additions	1,188	-	316	-	-	1,504
Amortisation	(607)	(170)	-	-	(1,249)	(2,026)
Foreign currency translation difference	-	-	(658)	(5,177)	(1,346)	(7,181)
<b>At 31 December</b>						
2009 net of accumulated depreciation and impairment	3,498	592	9,247	71,285	4,341	88,963
<b>At 31 December 2009</b>						
Cost	5,494	1,185	9,247	71,285	5,845	93,056
Accumulated amortisation and impairment	(1,996)	(593)	-	-	(1,504)	(4,093)
Net carrying amount	3,498	592	9,247	71,285	4,341	88,963

## (b) Description of the Group's intangible assets

A description of each intangible asset is provided in note 2(m).

**(c) Impairment tests for goodwill and intangibles with indefinite useful lives**

*Description of the cash generating units and other relevant information*

Goodwill and intangibles with indefinite useful lives acquired through business combinations are tested for impairment at the cash generating unit levels, which are the Australian operations and the Asian operations.

The trademarks, dossiers and licences have been individually tested for impairment.

The recoverable amount of the intangible assets have been determined based on a value in use calculation using cash flow projections based on financial forecasts provided by senior management over a 5 year period. The pre-tax discount rate applied to cash flow projections is 15.9% for Australian Operations and 13.8% for Asian Operations. Cash flows beyond the 5-year period are extrapolated using a 2.5% growth rate applied to cash flows in the terminal period.

*Carrying amount of goodwill and intangibles allocated to each of the cash generating units*

The carrying amount of goodwill and intangibles allocated to the Australia segment and to the Asian segment are significant in comparison with the total carrying amounts of goodwill and intangibles.

	Australian segment		Asian segment		Total	
	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount of goodwill	51,245	51,245	19,284	20,040	70,529	71,285
Carrying amount of intangibles	11,574	10,806	5,548	6,872	17,122	17,678

*Key assumptions used in value in use calculations for the Australian and Asian segments for 31 December 2010 and 31 December 2009:*

The calculation of value in use is most sensitive to the following assumptions:

- Sales growth rate used during the budget period
- Gross margins
- Discount rate

**Sales growth rate estimates** – based on management’s assessment of sales growth, incorporating expected changes in market share, new products relating to recently acquired dossiers and licences relating to future products and regulatory changes in the Australian and Asian segments.

**Gross margins** – based on average values achieved historically and adjusted for any expected changes in supplier pricing and known Pharmaceutical Benefits Scheme (PBS) changes to wholesale pricing in the Australian segment.

**Discount rate** – discount rates reflect the Company’s estimate of the time value of money, the risks specific to each cash generating unit and the differing tax rates in the Australian and Asian segments.

*Sensitivity to changes in assumptions*

With regard to the assessment of the value in use of the Australian segment and the Asian segment, the Company believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed their recoverable amounts.

# Notes to the Financial Statements (continued)

## 18. Trade and other payables

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Trade payables	16,032	13,633
Payables to related entities	3,159	2,418
Other payables	6,947	5,036
GST	279	522
Carrying amount of trade and other payables - current	26,417	21,609
<b>Non-current</b>		
Accruals	253	-
Carrying amount of trade and other payables – non-current	253	-

Trade payables and other payables are non-interest bearing and are generally settled on 30 to 90 day terms.

The net of GST payable and GST receivable is paid to or received from the relevant taxation body on a monthly basis as appropriate.

### (a) Fair value

Due to the short term nature of trade and other payables, their carrying value is assumed to approximate their fair value.

## 19. Interest bearing loans and borrowings

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Hire purchase	99	6
Loans	2,883	3,516
Bank overdraft	1,850	27
Accrued interest	1	2
Total current	4,833	3,551
<b>Non-current</b>		
Hire purchase	141	-
Loans	5,113	8,570
Total non-current	5,254	8,570

### (a) Fair values

The carrying amounts of the Group's current and non-current interest bearing loans and borrowings approximate fair value.

### (b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in Note 3.

### (c) Assets pledged as security

All tangible and intangible assets are pledged as security for current and non-current interest bearing liabilities. The terms and conditions relating to the financial assets are as follows:

- Cash and cash equivalents are pledged against any bank overdraft on an ongoing, floating basis for the term of the facility.
- Receivables, plant and equipment and intangible assets (including trademarks) are pledged against the commercial advance and overdraft facility on a floating basis for the term of the facility.

# Notes to the Financial Statements (continued)

## (d) Financing arrangements

The Group's finance facility comprises:

Commercial advance	\$ 3,000,000
Working capital overdraft facility	\$ 2,000,000
Foreign currency term loan	USD 4,150,000
AUD term loan	\$4,000,000

### Interest

The interest charged on the AUD facility is variable and based on BBSY plus a commercial lending margin. The interest charged on the USD facility is variable and based on LIBOR plus a commercial lending margin.

### Repayments

The AUD term loan is repayable in 2 instalments of \$1.0 million at the end of each half and full financial year and \$2.0 million at 30 June 2012. The foreign currency term loan is repayable in 3 instalments of USD 0.45 million at the end of each half and full financial year and a final payment of USD 2.8 million on 13 August 2012. The working capital overdraft facility is repayable on demand.

### Unused facility

As at 31 December 2010, the unused portion of the facility was:

Commercial advance	\$ 3,000,000
Working capital overdraft facility	\$ 150,000

### Covenants

The financial covenants set out in the facility are:

- (i) An interest rate cover ratio in each half year
- (ii) A consolidated debt ratio in each half year
- (ii) A minimum net worth; and
- (iv) A minimum EBITDA for each quarter annualised.

During the current and previous financial periods there were no defaults or breaches on any of the loans.

## 20. Derivative financial instruments

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current liabilities</b>		
Forward currency contracts	115	-
	115	-

### (a) Instruments used by the Group

The Group's Australian and Singapore subsidiaries purchase a number of products in EURO. In order to protect against exchange rate movements and to manage inventory costing, the Group has entered into forward currency contracts to purchase EURO. These contracts are hedging highly probable forecasted purchases and they are timed to mature when payments are scheduled to be made. The cash flows are expected to occur within three months from 1 January 2011 and the profit and loss within cost of sales will be affected over the next twelve months.

The Group considers the forward currency contracts to be economic hedges which do not satisfy the requirements for hedge accounting.

At balance date, the details of outstanding contracts are:

	<b>Notional amounts</b>		<b>Average exchange rate</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>		
<b>Sell AUD / buy Euro</b>				
Sell AUD maturity 0-12 months	86	-	0.6964	-
<b>Sell SGD / buy Euro</b>				
Sell SGD maturity 0-12 months	29	-	1.8256	-

### (b) Interest rate risk

Information regarding interest rate risk exposure is set out in note 3.

### (c) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations at the maturity of the contracts. This arises on derivative financial instruments with unrealised gains. The Group only deals with its prime lender to mitigate this risk.

# Notes to the Financial Statements (continued)

## 21. Provisions

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Annual leave	453	391
Make-good	395	-
Onerous contract	90	-
Total current	938	391
<b>Non-current</b>		
Long service leave	254	147
Total non-current	254	147
Total	1,192	538

### (a) Movement in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	<b>Make-good provision</b>	<b>Onerous contract provision</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>At 1 January 2009</b>	-	-	-
Arising during the year	-	-	-
Utilised	-	-	-
<b>At 31 December 2009</b>	-	-	-
Arising during the year	395	90	485
Utilised	-	-	-
<b>At 31 December 2010</b>	395	90	485

## 22. Contributed equity

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares, fully paid	118,175	118,175
Total share capital	118,175	118,175

Fully paid ordinary shares carry one vote per share and carry the right to dividends

### Movement in ordinary shares on issue

	<b>Number of shares</b>	<b>Value \$'000</b>
<b>At 31 December 2009</b>	249,439,547	118,175
	-	-
<b>At 31 December 2010</b>	249,439,547	118,175

### Franking credit balance

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
The amount of franking credits available for the subsequent financial year are:		
Franking account balance at the end of the financial year at 30% (2009: 30%)	578	563
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	997	-
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
The amount of franking credits available for future reporting periods	1,575	563

### Capital management

When managing capital (debt and equity), management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly reviewing the capital structure to take advantage of favourable costs of capital and may change the amount of dividends to be paid to shareholders, return capital to shareholders or issue new shares to maintain an appropriate capital structure to meet the company's objectives.

Management review the level of debt in the Group regularly to ensure compliance with banking covenants whilst achieving the optimal return to shareholders.

# Notes to the Financial Statements (continued)

## 23. Other reserves

	Consolidated				Total
	Employee equity benefits reserve	Loyalty program equity benefits reserve	Convertible notes reserve	Foreign currency translation reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 January 2009</b>	1,847	369	301	6,860	9,377
Foreign currency translation	-	-	-	(8,237)	(8,237)
<b>At 31 December 2009</b>	1,847	369	301	(1,377)	1,140
Transfer to retained earnings	(1,847)	(369)	(301)	-	(2,517)
Foreign currency translation	-	-	-	(1,645)	(1,645)
<b>At 31 December 2010</b>	-	-	-	(3,022)	(3,022)

### Nature and purpose of reserves

#### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 24. Cash flow statement reconciliation

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit / (loss)	11,962	9,177
Adjustments for:		
Depreciation	1,246	1,091
Amortisation of intangible assets	1,944	2,026
Impairment of intangible assets	441	-
Amortisation of borrowing costs	35	21
Net foreign exchange (gains)/losses	(879)	(893)
Transaction costs	711	-
Net fair value change on derivatives	115	-
Equity share of profits of associates and joint ventures	(403)	-
Changes in net assets and liabilities:		
(Increase)/decrease in trade and other receivables	(4,549)	(2,821)
(Increase)/decrease in inventories	(5,462)	(1,819)
(Increase)/decrease in other current assets	(102)	(204)
(Increase)/decrease in other non-current assets	39	(39)
(Increase)/decrease in deferred tax assets	682	645
Increase/(decrease) in trade and other payables	4,008	641
Increase/(decrease) in payables to related entities	917	1,258
Increase/(decrease) in tax payable and deferred tax liabilities	1,118	789
Increase/(decrease) in provisions	653	(105)
<b>Net cash from operating activities</b>	<b>12,476</b>	<b>9,767</b>
<b>(b) Non-cash financing and investing activities</b>	<b>Nil</b>	<b>Nil</b>

# Notes to the Financial Statements (continued)

## 25. Related party disclosure

### (a) Subsidiaries

The consolidated financial statements include the financial statements of Ascent Pharmahealth Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest		Parent's investment \$'000	
		2010	2009	2010	2009
Ascent Pharmaceuticals Limited	New Zealand	100	100	44,140	44,140
Ascent Pharma Pty Ltd	Australia	100	100	-	-
Pharmasave Australia Pty Ltd	Australia	100	-	-	-
Ascent Pharmacy Services Pty Ltd	Australia	100	-	-	-
Ascent Pharmahealth Asia Private Limited	Singapore	100	100	29,654	24,109
Drug Houses of Australia Pte Ltd	Singapore	100	100	-	-
Ascent Pharmahealth Hong Kong Limited	Hong Kong SAR, China	100	100	-	-
Ascent Pharmahealth Malaysia Sdn Bhd	Malaysia	100	100	-	-
Ascent Pharmahealth Brunei Sdn Bhd	Brunei	100	100	-	-
				<hr/> 73,794	<hr/> 68,249

### (b) Ultimate parent

The ultimate parent company of the Group is Strides Arcolab Limited, which is incorporated in India.

### (c) Key management personnel

Details relating to key management personnel, including remuneration paid are included in Remuneration Report on pages 6 to 12.

**(d) Transactions with subsidiaries**

During the financial year ended 31 December 2010 Ascent Pharmahealth Asia Private Limited, a subsidiary of Ascent Pharmahealth Limited, purchased inventory from the ultimate parent company, Strides Arcolab Limited, in the sum of \$13,697,460 (31 December 2009: \$10,433,397). The balance owing to Strides Arcolab Limited at 31 December 2010 was \$2,243,219 (31 December 2009: \$ 1,969,132). Ascent Pharmahealth Asia Private Limited also purchased inventory from Quantum Life Sciences Pte Ltd, a subsidiary of Strides Arcolab Limited, in the sum of \$1,032,611 (31 December 2009: \$ 932,296). The balance owing to Quantum Life Sciences Pte Ltd at 31 December 2010 was \$Nil (31 December 2009: \$ 266,966).

At 31 December 2010 Ascent Pharmahealth Asia Private Limited has a receivable from Linkace Limited, a subsidiary of Strides Arcolab Limited, of \$56,663 (31 December 2009: \$ 58,885).

During the year ended 31 December 2010 Ascent Pharmaceuticals Limited, a subsidiary of Ascent Pharmahealth Limited, paid Strides Arcolab Limited \$298,437 for reimbursement of product development costs (31 December 2009: \$ 119,138) and paid \$1,292,232 for the development and testing of dossiers which is included in capital works in process in note 16. Ascent Pharmahealth Limited purchased inventory from Strides Arcolab Limited in the sum of \$1,042,637. The balance owing to Strides Arcolab Limited at 31 December 2010 was \$346,863.

At 31 December 2010 Ascent Pharmahealth Limited has a receivable from Strides Arcolab Limited of \$70,683 (31 December 2009: \$ Nil).

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at period end are unsecured, interest free and settlement occurs in cash.

**(e) Transactions with associates**

Central Healthcare Services Pty Ltd ('CHS'), an associated entity of the Group, has a distribution arrangement with the Group under which it distributes products and collects monies on behalf of the Group. At 31 December 2010 Ascent Pharmahealth Limited has a receivable from CHS of \$985,176 and Ascent Pharmaceuticals Limited has a receivable from CHS of \$1,807,727.

At 31 December 2010 Ascent Pharmahealth Limited has a receivable from Eris Pharmaceuticals (Australia) Pty Ltd of \$122,464 for initial funding of the business.

# Notes to the Financial Statements (continued)

## 26. Key management personnel

### (a) Details of key management personnel

#### (i) Directors

W.J. Jenkins	Chairman (independent, non-executive) – appointed as Chairman 1 September 2010
D. Bastas	Director and Chief Executive
T.J.R. O'Brien	Director (independent, non-executive)
W.J. Jenkins	Director (independent, non-executive)
A. Kumar	Director (non-executive)
T.S. Rangan	Director (non-executive)
Dr. R. Aston	Director (independent, non-executive) – resigned as a director and Chairman 31 August 2010

#### (ii) Executives

M. Story	Senior Vice President, Operations Development
S.L. Blank	Senior Vice President, Strategy and Company Secretary
A. Burgess	Chief Financial Officer and Company Secretary
A. Heine	General Manager Sales and Marketing
M. Kumar	Regional Director - Asia
M. Bisset	Chief Operating Officer – resigned 19 January 2010

### (b) Compensation of key management personnel

	Consolidated	
	2010	2009
	\$'000	\$'000
Short-term employee benefits	3,001	3,141
Long-term employee benefits	36	-
Post-employment benefits	219	192
	<u>3,256</u>	<u>3,333</u>

**(c) Shareholdings of key management personnel**

Number of shares held in Ascent Pharmahealth Limited:

	<b>Balance at 1 January 2009</b>	<b>Net change during the year</b>	<b>Balance at 31 December 2009</b>	<b>Net change during the year</b>	<b>Balance at 31 December 2010</b>
<i>Directors</i>					
T.J.R. O'Brien	897,467	-	897,467	-	897,467
D. Bastas	7,885,352	1,546,875	9,432,227	125,000	9,557,227
W. Jenkins	364,644	-	364,644	-	364,644
Dr. R. Aston <sup>(2)</sup>	40,000	-	40,000	-	40,000
A. Kumar and T.S.Rangan <sup>(1)</sup>	138,335,205	4,674,395	143,009,600	7,480,000	150,489,600
<i>Executives</i>					
M. Story	-	63,050	63,050	(63,050)	-
S. L. Blank	40,884	-	40,884	-	40,884
A. Burgess	-	-	-	-	-
M.Kumar	-	-	-	-	-
A.Heine	-	-	-	-	-
M.Bisset <sup>(3)</sup>	288,904	-	288,904	-	288,904

(1) A. Kumar is a director and T.S. Rangan is Group CFO of Strides Arcolab Limited, a company which ultimately owns 150,489,600 shares in Ascent Pharmahealth Limited. They do not own shares directly in Ascent Pharmahealth Limited.

(2) At date of resignation 31 August 2010.

(3) At date of resignation 19 January 2010.

**(d) Option holdings of key management personnel**

<b>Year ended 31 December 2010</b>	<b>Balance at 1 January 2010</b>	<b>Granted as remuneration</b>	<b>Lapsed / forfeited</b>	<b>Balance at 31 December 2010</b>	<b>Vested and exercisable</b>
<i>Directors</i>					
D. Bastas	600,000	-	(600,000)	-	-
<i>Executives</i>					
S. L. Blank	250,000	-	(250,000)	-	-
<b>Year ended 31 December 2009</b>	<b>Balance at 1 January 2009</b>	<b>Granted as remuneration</b>	<b>Lapsed / forfeited</b>	<b>Balance at 31 December 2009</b>	<b>Vested and exercisable</b>
<i>Directors</i>					
D. Bastas	1,200,000	-	(600,000)	600,000	600,000
<i>Executives</i>					
G.R. Harding	1,000,000	-	(1,000,000)	-	-
S. L. Blank	250,000	-	-	250,000	250,000

**(e) Other transactions with key management personnel and their related parties**

Refer Note 25 (d)

# Notes to the Financial Statements (continued)

## 27. Share based payment plans

### (a) Senior management share option plan (SMSOP)

A senior manager share option plan had been established where the Company may, at the discretion of the Board of Directors, grant options over its ordinary shares to executive directors, senior managers and certain members of staff. This plan has now been discontinued. There have been no new issues of share options during the periods ended 31 December 2010 and 31 December 2009. The options, issued for nil consideration, were granted in accordance with guidelines established by the directors of Ascent Pharmahealth Limited. The options were issued for a term of three years and are exercisable at varying dates. The options cannot be transferred and are not quoted on the ASX.

The following table illustrates the number and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of, and movements in, share options during the year.

	Year ended 31 December 2010			Year ended 31 December 2009		
	Number	WAEP \$	WAFV \$	Number	WAEP \$	WAFV \$
Balance at beginning of the period	850,000	1.71	0.22	2,850,000	1.59	0.30
Granted	-	-	-	-	-	-
Lapsed	(850,000)	1.71	0.22	(1,500,000)	1.39	0.37
Forfeited	-	-	-	(500,000)	2.00	0.21
Balance at end of the period	-	-	-	850,000	1.71	0.22
Exercisable at end of the period	-	-	-	850,000	1.71	0.22

During the year ended 31 December 2010 no options were exercised over ordinary shares.

## 28. Commitments and contingencies

Commitments	Consolidated	
	2010	2009
	\$'000	\$'000
<b>(a) Operating leases -non-cancellable</b>		
Minimum lease payments:		
- not later than 1 year	1,790	1,613
- later than 1 year but less than 5 years	6,258	889
- later than 5 years	6,019	-
	<u>14,067</u>	<u>2,502</u>
<b>(b) Operating leases - cancellable</b>		
Minimum lease payments:		
- not later than 1 year	41	71
- later than 1 year but less than 5 years	30	76
	<u>71</u>	<u>147</u>
<b>(c) Software support</b>		
- not later than 1 year	167	-
- later than 1 year but less than 5 years	167	-
	<u>334</u>	<u>-</u>

The non-cancellable operating leases represent rental premises and have lease terms of between 2 and 5 years.

### Contingent Liabilities

#### (a) Litigation with software vendor

Ascent Pharmahealth Limited ('Ascent') entered into contracts with a software vendor to supply the relevant software and install an ERP and CRM system. In August 2010 Ascent sent a letter of dispute to the vendor claiming that the vendor had not delivered the project on time or within budget and had failed to deliver the project and that Ascent must be reimbursed all fees paid to date, and would not be paying any further fees. In October 2010 the vendor issued a material breach notice to Ascent alleging failure to pay fees in accordance with the contracts. In November 2010 Ascent filed a writ and statement of claim in the Victorian Supreme Court against the vendor alleging failure to deliver the project. The matter is now scheduled for mediation by the end of March 2011.

#### (b) Alleged patent violation

The Group derives the majority of its revenue from the sale of generic pharmaceuticals. Operating in this segment the Group is occasionally subject to litigation where the Originator seeks to have patents upheld to protect the life of its products against a generic competitor.

At balance date Ascent Pharmaceuticals Limited ('APL'), a subsidiary of Ascent Pharmahealth Limited, has been joined to proceedings against a generic manufacturer in relation to a generic pharmaceutical that APL licenses from the manufacturer. The manufacturer is the primary respondent and a number of other generic distributors who license the product in Australia have also been joined to the proceeding.

The Originator has been unsuccessful in upholding its patent claims for the same product in other jurisdictions, including the United Kingdom. A final hearing on this matter is not expected before late 2011 and as at balance date the outcome remains uncertain. Accordingly, no liability has been recognised in the accounts at balance date.

# Notes to the Financial Statements (continued)

## 29. Remuneration of auditor

During the financial year the following fees were paid or payable for services provided by the auditor of the company, Ernst & Young Australia, its related practices and non- related audit firms.

	Consolidated	
	2010	2009
	\$'000	\$'000
(a) Audit services		
Audit and review of financial reports of the entity	192	180
(b) Other services in relation to the entity and any other entity in the Group		
Other assurance services	70	41
Total fees paid or payable to Ernst & Young Australia	262	221

During the financial year the following fees were paid or payable for services provided by non Ernst & Young audit firms.

(a) Audit services for overseas subsidiaries		
Audit and review of financial reports of the entities	119	106

## 30. Events after balance sheet date

### **Proposal to acquire the remaining shares in Ascent Pharmahealth Limited by Strides Arcolab Limited:**

As announced on 23 December 2010, Ascent Pharmahealth Limited and Strides Arcolab Limited have entered into a Scheme Implementation Agreement under which Linkace Investments Pty Ltd, a company wholly owned by Strides, will acquire the outstanding minority shares in Ascent at a price of \$0.40 per share. The proposal remains subject to a number of conditions, including:

- Ascent shareholder approval of the Scheme;
- ASIC and Court approval of the Scheme; and
- Certain conditions, as set out in the SIA which was attached to the announcement.

As noted in the announcement, it is anticipated that Ascent shareholders will be sent Scheme Documentation in March 2011 containing the basis for the Ascent Board's recommendation and an Independent Expert's Report. Ascent Shareholders will then vote at a Scheme Meeting, expected to be held in April 2011. If the Scheme is approved by shareholders and the Court makes orders approving the Scheme and those orders are lodged with ASIC, the Scheme will become effective and Strides and Ascent will become bound to implement the Scheme. Should the Scheme be implemented, Strides will apply for Ascent to be delisted from the Official List of the ASX immediately after the implementation date.

## 31. Ascent Pharmahealth Limited information

### (a) Summary financial information

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

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Statement of financial position</b>		
Total current assets	23,165	23,887
Total assets	102,514	99,466
Total current liabilities	8,251	5,000
Total liabilities	13,534	13,896
<b>Net assets</b>	<b>88,980</b>	<b>85,570</b>
Equity		
Contributed equity	118,175	118,175
Reserves	-	2,517
Accumulated losses	(29,195)	(35,122)
<b>Total equity</b>	<b>88,980</b>	<b>85,570</b>
<b>Income statement</b>		
Profit before income tax	2,307	1,440
Income tax benefit	1,103	647
<b>Net profit for the period</b>	<b>3,140</b>	<b>2,087</b>
<b>Total comprehensive income for the period</b>	<b>3,410</b>	<b>2,087</b>

### (b) Contingent liabilities of Ascent Pharmahealth Limited

Details of contingent liabilities that have been disclosed for Ascent Pharmahealth Limited are included in note 28.

# Directors' Declaration

In accordance with a resolution of the directors of Ascent Pharmahealth Limited, I state that:

1. In the opinion of the directors:
  - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Ascent Pharmahealth Limited are in accordance with the *Corporations Act 2001*, including:
    - (i) Giving a true and fair view of its financial position as at 31 December 2010 and of their performance for the year ended on that date; and
    - (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*; and
  - (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a); and
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 31 December 2010.

On behalf of the Board



D. Bastas  
Managing Director  
Melbourne, 16 March 2011

## Independent auditor's report to the members of Ascent Pharmahealth Limited

### Report on the financial report

We have audited the accompanying financial report of Ascent Pharmahealth Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls 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 controls. 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.

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

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

## Opinion

In our opinion:

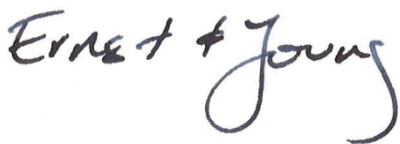
- a. the financial report of Ascent Pharmahealth Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

## Report on the remuneration report

We have audited the Remuneration Report included on pages 6 to 12 of the directors' report for the year ended 31 December 2010. 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.

## Opinion

In our opinion, the Remuneration Report of Ascent Pharmahealth Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Ashley C Butler', written in a cursive style.

Ashley C Butler  
Partner  
Melbourne  
16 March 2011

# ASX Additional Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 15 March 2011.

## (a) Distribution of equity securities

### (i) Ordinary share capital

249,439,547 fully paid ordinary shares held by 1,878 individual shareholders.  
All issued ordinary securities carry one vote per share and carry the rights to dividends.

### (ii) Options

All options have lapsed.  
Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class of share is:

	<b>Number of shareholders</b>
1-1,000	338
1,001 - 5,000	545
5,001 - 10,000	339
10,001-100,000	553
100,001and over	103
	<hr/>
	1,878
	<hr/>
Holding less than a marketable parcel	358

## (b) Substantial shareholders

### Listed ordinary shares

	<b>Number of ordinary shares</b>	<b>Percentage of ordinary shares</b>
Linkace Limited	150,489,600	60.33%

(c) **Twenty largest shareholders**

		<b>Listed ordinary shares</b>	
		<b>Number of ordinary shares</b>	<b>Percentage of ordinary shares</b>
1	Linkace Limited	150,489,600	60.33%
2	JP Morgan Nominees Australia Limited	10,477,878	4.20%
3	I-Investments Pty Ltd	8,010,352	3.21%
4	Mr Ravichandra Papanna	6,527,000	2.62%
5	HSBC Custody Nominees (Australia) Limited	3,596,792	1.44%
6	UBS Nominees Pty Ltd	3,084,752	1.24%
7	Pan Australian Nominees Pty Limited	3,000,000	1.20%
8	Perpetual Trustee Company Limited	2,300,000	0.92%
9	Tynong Pastoral Co Pty Ltd	2,243,667	0.90%
10	Brispot Nominees Pty Ltd	2,220,938	0.89%
11	Mr Stuart James Hercules	2,210,000	0.89%
12	Mandriola Investments Limited	1,880,000	0.75%
13	Futura Investments Pte Ltd	1,546,875	0.62%
14	Annamaki Pty Ltd The Belladonna Family Account	1,494,533	0.60%
15	Geneparm Asia Pacific Enterprises Limited	1,160,000	0.47%
16	Canamat Pty Ltd	1,050,000	0.42%
17	HSBC Custody Nominees (Australia) Limited	1,000,000	0.40%
18	Mr Leslie Gordon Ryan and Mrs Coral Valda Ryan	1,000,000	0.40%
19	Knightsbrook Pty Ltd	910,000	0.36%
20	Mr Alastair Galloway	834,476	0.33%
		<hr/>	<hr/>
		205,036,863	82.19%



