

Annual Report 2008



Corporate Information

ABN: 52 107 340 367

Directors

T. J. R. O'Brien AM (Chairman)

D. Bastas

W. J. Jenkins

R. Aston

A. Kumar

R. Seth

Company Secretaries

J. Dal Santo

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 6660

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 Stock 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

All monetary amounts in this report are in Australian dollars unless stated otherwise.
The financial year begins on 1 July and ends on 30 June each year.

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ANNUAL REPORT TO SHAREHOLDERS
for the year ended 30 June 2008

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Review by Chairman and CEO

The Directors are pleased to report another year of solid growth and importantly another year of strategic development as the Company progresses in its goal of becoming a leading multi-national business in generic pharmaceuticals and healthcare products in the Australian and Asian markets.

This past year the Company reported net sales of \$65.6 million, a growth of 20% on the previous year, and a net profit after tax of \$5.2 million before non-recurring items. Non-recurring items of \$1 million consisted primarily of additional tax expenses and tax asset adjustments related to the Strides transaction. This resulted in a reported net profit after tax of \$4.2 million for the 2007/08 financial year.

The Board is also pleased to announce that the Company will issue its maiden dividend of 0.5 cents per share, payable in December 2008. The dividend is a major milestone in the Company's development and has been achieved as the Company enters its fifth year of operations.

On 18 June 2008, the Company's shareholders voted overwhelmingly in support of the acquisition of the Strides Asia business which in turn saw Strides Arcolab Limited emerge as the majority shareholder in the expanded multi-national enterprise that is now known as Ascent Pharmahealth Limited (formerly Genepharm Australasia Limited). From 1 August 2008, Ascent's operations will include sales of pharmaceuticals and complementary health products in Australia and leading Asian markets including; Singapore, Hong Kong, Thailand, Malaysia and Vietnam. The new markets, products and resources of the expanded operations not only bring significant profit growth to the Company but provide new growth opportunities for the Company's existing products and scale for improved cost efficiencies across the total business. The Company expects to realise most of the value associated with the Strides transaction over the medium term, although growth and efficiency gains in the short term are also expected.

Ascent now has an extensive regional reach and product depth, along with a highly experienced sales force and dependable back office operations. The Company's management team has embarked on a strategy of organic growth through innovation and new business development. This strategy will explore and execute initiatives that will build on the Company's operational strengths and market leading products.

The Company will also continue to remain open to further acquisition based growth opportunities. The Australian and Asian pharmaceutical and health markets are expected to go through a period of consolidation over the next few years as a result of the high degree of competition and the tightening credit market for smaller businesses. The Directors and management will continue to adopt a disciplined approach to acquisitions and will only proceed if a strong opportunity exists to enhance shareholder value.

The Australian generic pharmaceutical market has seen significant change in the past year and management anticipates that the effects of these changes will continue to be felt over the course of the next financial year as a new equilibrium is reached post the government's PBS reforms which took effect from 1 August 2008. Management continues to remain optimistic about the Company's prospects in this market due to its supply partnerships with cost effective pharmaceutical manufacturers and the outcome of internal cost management strategies.

On behalf of Ascent we thank you for your ongoing support. The Board would also like to acknowledge the performance and commitment of management and staff during the year and look forward to their continued support.



Thomas J.R. O'Brien (AM)
Chairman



Dennis Bastas
CEO/Managing Director

Business and Industry Overview

THE COMPANY

Ascent Pharmahealth Limited (formerly Genepharma Australasia Limited) is one of Australia's leading suppliers of health products to pharmacy. Throughout 2008, Ascent continued to grow its range of generic pharmaceuticals, consumer skincare and over-the-counter (OTC) medicines while expanding its customer base of Australian pharmacists.

In the year ended 30 June 2008, the Company achieved a solid financial result. Ascent consolidated its operating costs and supply sources to build sustainable earnings growth in coming years based on leading products, best people and cost efficient infrastructure.

OPERATIONAL HIGHLIGHTS

Net sales growth of 20% and EBITDA growth of 57% on the previous corresponding period

Profitability maintained in an increasingly competitive generic pharmaceutical market

Launch of Omeprazole, the second largest selling generic drug on the PBS, contributing to market share and profit growth

Partnerships with leading global generic drug manufacturers continue to provide Ascent with a high value range and market leading offer to Australian pharmacies

FINANCIAL SUMMARY 2008

Net Sales	\$ 65.6 million
EBITDA (before non-recurring items)	\$ 7.5 million
NPAT (before non-recurring items)	\$ 5.2 million
NPAT	\$ 4.2 million



OPERATING PERFORMANCE

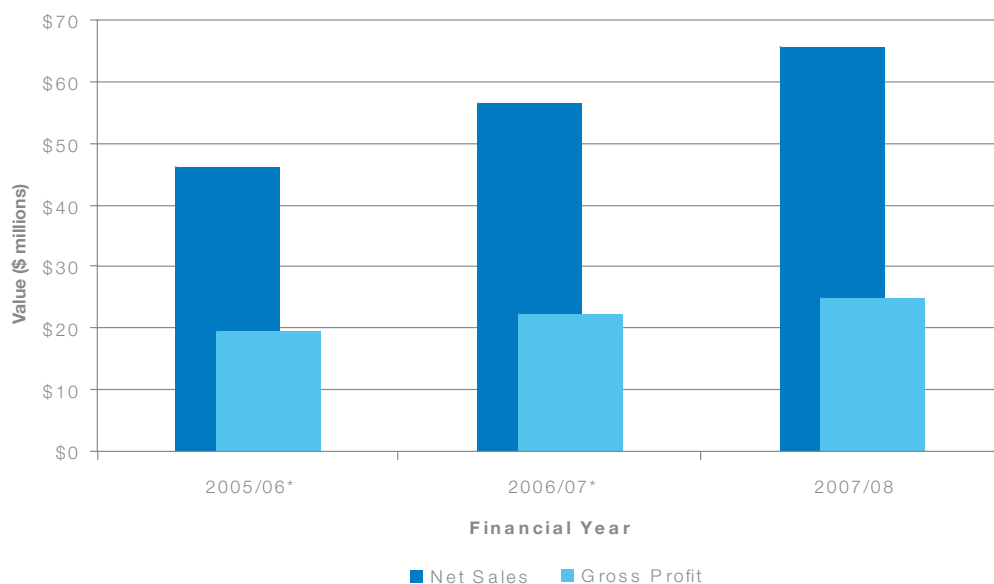
Ascent achieved solid growth in net sales and gross profit in a market where the average price of generic pharmaceuticals dropped by over 10%. This has been due to increased competition and government reforms to the Pharmaceutical Benefits Scheme (PBS).

The Company's growth was primarily led by new generic drug launches and sales growth of the branded prescription and skincare products.

The Company received TGA marketing approval for a number of new generic drugs including:

- Omeprazole; a market leading gastrointestinal drug introduced September 2007, annual PBS value \$137million
- Perindopril; a leading cardiovascular ACE inhibitor introduced August 2007, PBS value of \$80m
- Meloxicam; a leading drug for treatment of arthritis introduced September 2007, PBS sales of \$47m
- Amlodipine; a leading cardiovascular calcium channel blocker introduced May 2008, PBS sales of \$49m

The graph below shows Ascent's growth over the past two years highlighting performance on a pro forma basis against previous corresponding periods.



* Proforma figures for the 2005/06 and 2006/07 financial years assume combined full-year results from Genepharm Australasia and Douglas Pharmaceuticals Australia businesses.



Ascent is well placed for the new financial year. New consumer health strategies, new generic pharmaceutical launches and innovative sales and marketing programs will drive profitable growth.

Brand equity is important in the Company's long term value and derives from the trust established with Australian pharmacists. The "Genepharm" brand will continue to be the face of Ascent's Australian generic pharmaceutical products along with other leading consumer brands like Avene (Skincare), Hairy Lemon (OTC) and Estelle (Private Prescription Medicine). Building on the value and integrity of these established brands, Ascent has developed several new product strategies for the next twelve months.

Ascent's principal medical specialty is dermatology. Over the past year the Company has developed and expanded its range of prescription and consumer dermatological products to create a total range for the treatment and management of acne, psoriasis and eczema. This Genepharm Dermatology range is now promoted by our specialist dermatology sales force to dermatologists, doctors and pharmacists to offer patients a number of contact points for the care of mild to severe skin conditions.

In line with the Company's market leadership in dermatology, Ascent launched its first new range of organic skincare products under the "Dermorganics" brand in July 2008, to meet the growing consumer demand for organic based products. This new brand of skincare developed by the Company is produced by a local Australian manufacturer using certified organic ingredients. It will target the mass market segment for therapeutic skincare and has been enthusiastically embraced by Australian pharmacists where it will be exclusively sold.

In December 2007 management undertook an expense rationalisation program to better align fixed operating costs and sales. This program resulted in a reduced operating cost base that assisted the Company to improve the EBITDA margin from 8% to 11%.

The other key contributor to improved operating margins was a change in the supply source of a number of Ascent's leading generic pharmaceuticals.

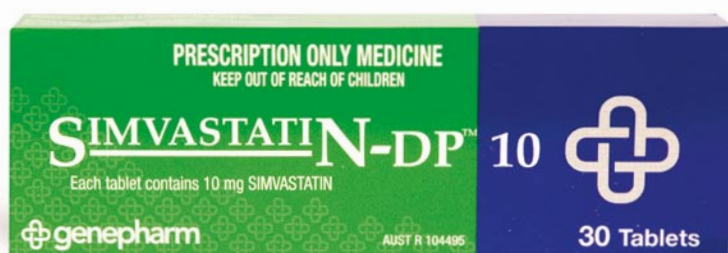


FINANCIAL RESULTS SUMMARY

A\$millions	Reported Results FY-2007/08	Reported Results FY-2006/07	Results FY-2007/08 (before non-recurring items)	Results FY-2006/07 (before non-recurring items)	% Growth	Notes
Net Sales	\$65.6	\$54.6	\$65.6	\$54.6	20%	
Cost of Sales	(\$40.8)	(\$32.8)	(\$40.7)	(\$32.8)		(i)
Gross Profit	\$24.8	\$21.8	\$24.9	\$21.8		
Operating Expenses	(\$17.5)	(\$36.8)	(\$17.3)	(\$17.1)		
EBITDA	\$7.3	(\$15.0)	\$7.5	\$4.7	57%	
Dep'n & Amortisation	(\$1.5)	(\$3.2)	(\$1.2)	(\$0.8)		(ii)
EBIT	\$5.8	(\$18.2)	\$6.3	\$3.9	59%	
Net Interest	(\$0.7)	(\$0.2)	(\$0.7)	\$0.7		
NPBT	\$5.1	(\$18.5)	\$5.5	\$4.6	20%	
Tax	(\$0.9)	\$0.5	(\$0.3)	\$ -		(iii)
NPAT	\$4.2	(\$18.0)	\$5.2	\$4.6	13%	
EPS (cents)	3.0	(13.0)	3.7	3.3		

Notes (non-recurring items FY-2007/08):

- i. \$110,000 – One-off stock provisions related to Strides Asia acquisition
- ii. \$290,000 – One-off costs related to deferred tax asset goodwill adjustment
- iii. \$608,000 – Additional tax expense resulting from Strides Asia acquisition



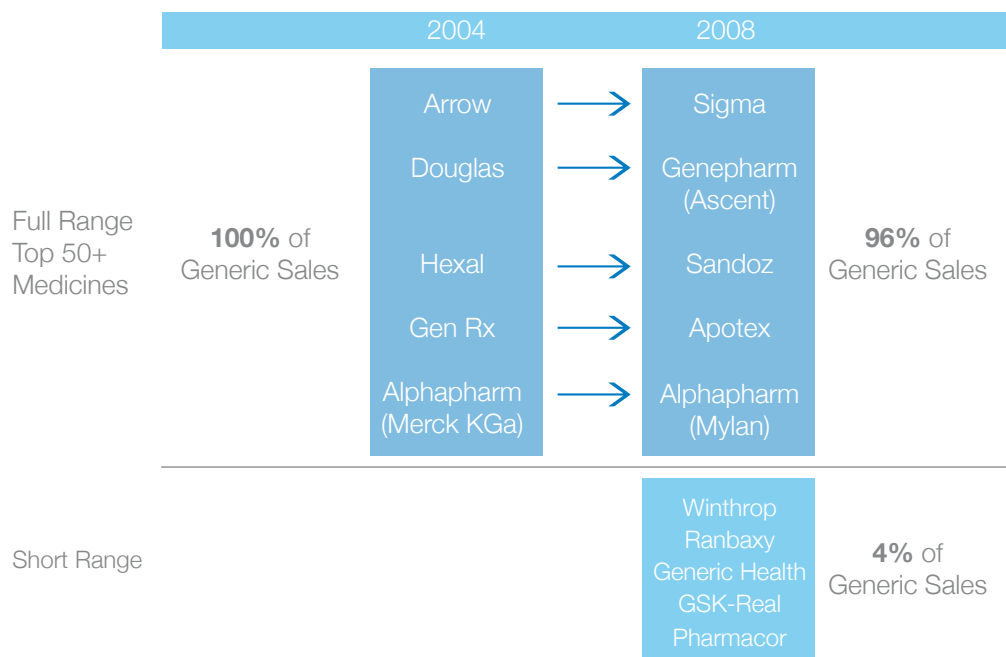
OUTLOOK

During the 2007/08 year Ascent endured downward pricing changes in the Australian generic pharmaceutical market. Market pressures had been anticipated by the Company after the Commonwealth Government announced reforms to the PBS to reduce tax payer funding. The reforms, announced in late 2007, included a 25% cut in the pricing of generic pharmaceuticals sold in Australia. Combined with increased pricing competition in generic pharmaceuticals these factors decreased the net sales value of all the major generic medicines.

The impact of the government's PBS reforms, although not taking effect until 1 August 2008, created uncertainty within Australian pharmacy. This resulted in changed buying patterns of ethical pharmaceuticals, particularly generic drugs, in the second half-year. This resulted in a temporary sales decrease during the period resulting in lower than anticipated annual sales.

Since 1 August 2008 the Company has seen a general return to previous pharmacy purchasing patterns although PBS pricing changes are expected to have a long term impact on the net sales value of generic drugs.

The year also saw Australia's biggest generic company Alphapharm acquired by Mylan (USA). This acquisition completed a cycle of corporate activity in the sector which has seen each of the five major Australian generic pharmaceutical companies change hands over the past four years. This change in ownership has also had a profound effect on the competitive behaviour in the Australian market as previous pricing strategies have been dramatically changed by new managements.



Competitive strength in the Australian pharmacy health market relies heavily on a company's ability to offer range, value and appeal to its customers. Ascent has developed core strengths in these key customer deliverables.

Range: Over the next three years Ascent expects to release over 20 new generic drugs including all the major patent expiring medicines with total PBS value of over \$750 million per annum.

Ascent's range extends beyond generic drugs to key pharmacy consumer health lines such as skincare, analgesics (pain relief), hayfever and vitamin supplements. The Company expects to release a number of innovative products and brand concepts over the next three years aligning the business with key growth segments within the pharmacy retail offer.

Value: In conjunction with breadth of range, the Company has developed supply partnerships that ensure its range of products are cost effective while providing all stakeholders in the supply chain – manufacturers, wholesalers, pharmacists and consumers – competitive and sustainable value propositions.

The Ascent dermatology offer has positioned the Company in a strong position to build further medical specialty ranges. A number of opportunities are currently being reviewed with specialist manufacturers to create similar high value offerings for the Australian and Asian markets.

Appeal: Ascent is strongly committed to a culture of innovation and differentiation increasing the appeal for our customers and consumers of our products and brands. In a highly competitive generic market the Company views innovation and a culture of collaboration as a competitive advantage. This culture is driven by emphasis on building and maintaining relationships that create long term value for all.

Ascent recognises that a large part of the appeal to customers lies in its people. Ascent's management and sales representatives are an experienced group with backgrounds in retail pharmacy, consumer health and wholesale distribution. This team will lead the Company's sales and marketing operations into further expansion in the years to come.

Ascent is focussed on an organic growth path lead by innovation and targeted customer acquisition. As external market forces lead many Australian pharmacists to review long standing relationships and the financial future of their industry, Ascent will pro-actively engage customers to promote the value of its existing range and the opportunity of its new product initiatives.

Over the next three years, Ascent will provide the leadership and innovation that will be required by Australia's pharmacy industry to build a broader value proposition from Australia's growing health market.



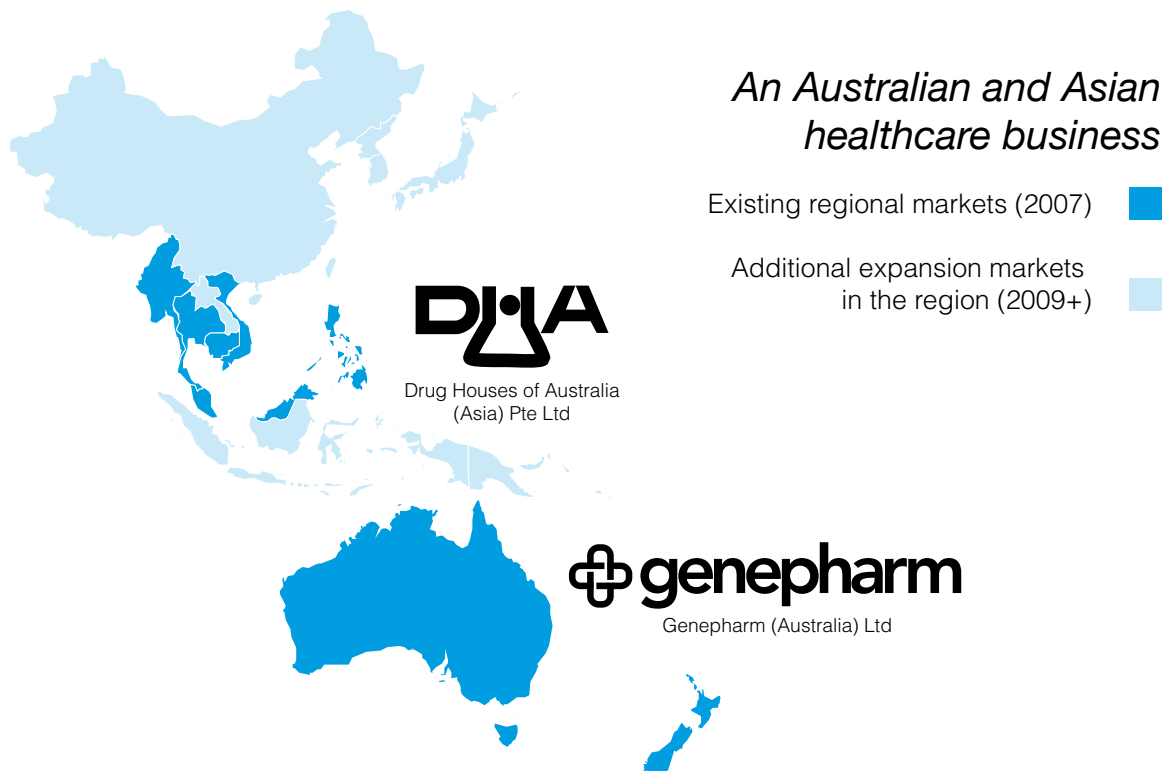
STRIDES ASIA ACQUISITION

In February 2008, the Company announced that it had entered into a Heads of Agreement with Strides Arcolab Limited of India to acquire the Asian businesses of Strides in order for the Company to expand its generic pharmaceutical and health product sales activities across the South East Asian region.

On 18 June 2008, the Company held a General Meeting to approve the Strides acquisition which would also see Strides Arcolab emerge as a majority shareholder in the expanded business. The shareholders voted in favour of the transaction and on 1 August 2008, the Company completed the transaction and took effective control of the Strides Asia businesses.

The transaction will:

- establish Ascent as an Australian and Asian pharmaceuticals business with strong pharmaceutical and healthcare sales channels;
- expand Ascent's product portfolio and provide greater access to leading product development and manufacturing resources;
- increase Ascent's total product sales to over A\$100 million per annum with a pharmaceutical and healthcare range of over 400 products sold in eight countries;
- be immediately earnings per share accretive before synergies;
- diversify Ascent's activities away from the highly competitive Australian pharmaceuticals industry while providing Ascent with immediate access to growing Asian markets;
- provide Ascent with the additional scale and profitability to accelerate new growth opportunities including possible bolt-on acquisitions in Australia and Asia; and
- bring experienced executives into the Ascent leadership team.



Directors' Report

Your directors submit their report for the year ended 30 June 2008.

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".

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.

Names, qualifications, experience and special responsibilities

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

Director and Chairman since April 2004. Mr. O'Brien is also 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, NewZeal Limited and Virtual Communities Limited. He is currently Chairman of CCI Investment Management Limited and Domaines Tatiarra Limited and was formerly Chairman of St Vincents and Mercy Private Hospital Limited and Church Resources and a member of the Board of Mercy Health and Aged Care.

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

Managing Director and CEO on formation of the Company in December 2003, Mr. Bastas was the founding force behind the initial strategy and creation of the Company. 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.

Warren J. Jenkins
(Independent, Non-Executive Director)

Director since February 2007, 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. Mr. Jenkins also currently serves on the Board of Melbourne IVF.

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

Dr. Aston was appointed to the Board on 4 February, 2008 and also serves on the Audit and Risk Management Committee and the Remuneration and Nomination Committee. Dr. Aston brings 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 continues 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.

Arun Kumar B.Com
(Non Executive Director)

Mr. Kumar is the Founder of Strides Arcolab Limited (a listed company on the Bombay Stock Exchange) and has been a director of Strides Arcolab 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. Mr. Kumar gained substantial experience in the international pharmaceutical market and also developed close associations with a large number of international companies. 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 markets for these companies.

Mr. Kumar was appointed to the Board on 31 July 2008 and brings to the business a rich experience and deep knowledge of the international pharmaceutical industry. Mr. Kumar will also serve on the Remuneration and Nomination Committee.

Ravi Seth B.Sc, FCA (India).
(Non-Executive Director)

Mr. Seth obtained his Bachelors Degree in Science in 1981 with specialisations in Mathematics and Statistics and subsequently qualified as a Chartered Accountant with the Institute of Chartered Accountants in India in 1985. During his career spanning 20 years, he worked in a number of industries including Tobacco, Hotels, Financial Services, Real Estate, Media and Pharmaceuticals.

Mr. Seth joined Strides Arcolab Limited in May 2006 as Group CFO where his major focus areas were the creation of a global support infrastructure, fund raising and growth. In March 2008 Mr. Seth became CEO– International Operations of Strides Arcolab Limited with responsibility to run all global operations and Joint Ventures.

Mr. Seth was appointed to the Board on 31 July 2008 and will also serve on the Audit and Risk Management Committee.

Directors' Report

George Rogers (Kip) Harding, B.Com., M.Tax, CA
(Executive Director - Finance and Investment)

Director since the formation of the Company in 2003. Mr. Harding obtained his chartered accounting qualification while working with Touche Ross in Brisbane (now KPMG) and then worked in Australia and abroad in a variety of senior management roles focusing on the financial management of new products and new market strategies. From 1993 to 2002 Mr. Harding was Chief Financial Officer of the Integrated Packaging Group which during his tenure was one of the largest global businesses in the multibillion dollar tertiary packaging sector. Mr. Harding retired as executive director of the Board on 31 January, 2008 but retains the role of General Manager, Finance and Investment.

Achilles N. Vigopoulos, B.A.
(Non-Executive Director)

Director since 2003, Mr. Vigopoulos resigned from the Board on 27 November, 2007.

COMPANY SECRETARIES

Jo-Anne Dal Santo, B.Bus, ACIS, MAICD

Ms. Dal Santo has held the position of Company Secretary since May 2006. Prior to this Ms. Dal Santo held a variety of roles in private industry in accounting and finance and is currently the Managing Director of a forensic accounting support business and is an Associate of the Institute of Company Secretaries Australia.

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 General Manager, 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.

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
T.J.R. O'Brien	897,467	-
D. Bastas	7,535,352	1,200,000
W.J. Jenkins	234,460	-
R. Aston	40,000	-
A. Kumar (1)	138,335,205	-
R. Seth	-	-

(1) Mr. Kumar is a director of Strides Arcolab Limited, a company which ultimately owns 138,335,205 shares in Ascent Pharmahealth Limited. Mr. Kumar does not own shares directly in Ascent Pharmahealth Limited.

Dividends

No dividends were paid during the 2008 financial year. (2007: \$nil). The Directors have recommended a final dividend for the 2008 financial year of 0.5 cents per share (2007: \$nil). This dividend will be paid in December 2008 and will be fully franked.

The total amount of dividend expected to be paid is \$692,625 (2007:\$nil). This amount has not been recognised as a liability in the financial statements which accompany this report.

Shares issued as part of the acquisition of the Strides Australian and Asian business (Strides Asia) on 1 August 2008 and 22 September 2008, are not eligible to participate in this dividend but will be eligible for all future dividend payments.

CORPORATE INFORMATION

Corporate Structure

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

Nature of operations and principal activities

The Company was listed on the Australian Stock Exchange on 10 June 2004. The principal activities of the Group during the course of the financial year were the sale and distribution of generic pharmaceuticals and other health related products to Australian pharmacies and the marketing of those products to consumers and healthcare professionals. The Company also continued to develop and seek market approval for new generic medicines and health products through the Therapeutic Goods Administration ("TGA").

There were no significant changes in the nature of these activities during the year.

REVIEW AND RESULTS OF OPERATIONS

Sales and Marketing

The Group continued to see growth in the sales performance across all business units this year. Overall net sales increased to \$65.57 million for the financial year ending 30 June 2008, an increase of 20% on the previous corresponding period.

Growth has been achieved in a period when increased competition and government pricing reforms have lowered the price of Pharmaceuticals Benefit Scheme (PBS) pharmaceuticals in the Australian market. The sales growth has been largely achieved through the Group's strategy of building a diversified product portfolio of health products including "over the counter" products and skincare lines which have supported the sales of generic pharmaceuticals.

Margins and Expenses

The Group's gross margins have been affected by increased discounting to stimulate demand during the financial year. This was in response to fierce competition within the generic pharmaceuticals market and has put pressure on profit margins during the financial year. Margin pressure, along with changes in pharmacy buying patterns, means that industry participants will continue to be challenged to improve costs of procurement and supply in order to gain value from the growth in generic drug sales.

The Group has responded to this challenge by significantly improving contribution in the second half-year period of the financial year due to improved productivity and management's focus on consolidating sales activities across the business units. The Group reduced its overall cost base during the year, and this will now provide a sustainable platform for future growth in profit margins.

New Drug Approvals and Product Launches

The Group received TGA marketing approval for a number of new generic drugs this financial year. Key new generic drug approvals this financial year include:

- Omeprazole – A market leading gastrointestinal drug;
- Perindopril – Leading cardiovascular ACE inhibitor;
- Amlodipine – Leading cardiovascular calcium channel blocker; and
- Meloxicam – Leading drug for treatment of arthritis

Acquisition of Strides Asia business

In April 2008 the Company successfully negotiated a Share Purchase Agreement with Strides Arcolab Limited (Strides) to acquire its Australian and Asian operations as at 1 August 2008. Under the terms of the Agreement, the Company acquired Strides' Australian and Asian operations for a purchase consideration of approximately \$61.0 million and existing debt within the business of \$4.1 million. The purchase consideration was payable by way of ordinary shares in Ascent Pharmahealth Limited issued to Strides at a deemed price of \$0.55 per share. The revenue of the combined operations is expected to be approximately \$96 million and this revenue stream is based on a pharmaceutical and healthcare range of over 400 products sold in nine countries across the Asia Pacific region.

Shares issued as consideration for this transaction will be accounted for at their fair value as at the date of issue.

Outlook

The market outlook for generic pharmaceuticals remains strong with PBS reforms creating significant incremental demand through increased generic substitution.

REVIEW OF FINANCIAL CONDITION

Financial Results

The company recorded a net profit after tax ('NPAT') from ordinary activities of \$4.18 million after significant and non-recurring items. The financial result contains once-off adjustments of approximately \$1m NPAT for specific items, including items relating to the Strides Asia acquisition. Net profit after tax (before non-recurring items) was \$5.191m million, up 13% on the previous corresponding period.

Net sales were \$65.56 million with an EBITDA of \$7.35 million (before non-recurring items), up 57% on the previous corresponding period.

Directors' Report

Cashflow Management

The Company restructured its finance facilities during the financial year. The facility was initially utilised to repay the existing convertible notes owed by the Company and now provides sufficient funding flexibility to meet the needs of the company into the foreseeable future. Details of the new facility are set out in the accompanying financial statements.

RISK MANAGEMENT

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks and opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee. Instead, sub-committees will be convened as appropriate in response to issues and risks identified by the Board.

The Board intends to install a number of mechanisms to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which will encompass the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPI's of both financial and non-financial nature; and
- The establishment of committees to report on specific business risks, including for example such matters as environmental issues and occupational health and safety once the plant is operational.

SIGNIFICANT CHANGE IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the company during the 2008 financial year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 1 August 2008 the Company announced the completion of the acquisition of the Strides Asia business. Strides is a major global manufacturer of pharmaceuticals with manufacturing plants located worldwide, including India, Europe and South America. It's Australian and Asian business comprises a drug sales, distribution and manufacturing facility in Singapore and a sales and distribution business across several Asian countries including Hong Kong, Thailand, Malaysia and Vietnam.

The transaction was funded through the issue of 110,909,091 shares to Linkace Limited (a subsidiary of Strides) in two tranches, the first of 83,730,909 shares on 1 August 2008 and the second of 27,178,182 shares on 22 September 2008. Shares issued as consideration for this transaction, will be accounted for at their fair value as at the date of issue. The trading price of the shares in the Company at the time of issue was approximately \$0.20 resulting in a provisional transaction value of \$22m.

The issued shares rank equally with all existing fully paid shares, except they are not eligible to participate in the final dividend declared for the financial year 2008. As a result of this transaction, Strides, through its subsidiary Linkace Limited, owns 55.5% of the shares in Ascent Pharmahealth Limited.

Effective as of 1 August 2008, the company took ownership of the Strides Asia operations and began operating as a multinational generic pharmaceutical and healthcare product business with sales in nine countries across the Asia Pacific region under the brands of *Genepharm* and *Drug Houses of Australia*.

To coincide with completion, the Company changed its name to Ascent Pharmahealth Limited and appointed two additional Board members. These new members, Mr. Kumar and Mr. Seth, hold senior executive positions within Strides and were formally appointed on 31 July 2008.

As at the date of this report, the fair values of the identifiable assets of the Strides Asia business are in the process of being quantified.

ENVIRONMENTAL REGULATION AND PERFORMANCE

There have been no known environmental or regulatory breaches.

OPTIONS

As at the date of this report, there were 4,971,143 unissued ordinary shares under options. Refer to note 26 to the financial statements for further details.

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit & Risk Committee Meetings	Remuneration & Nomination Committee Meetings
Number of meetings held:	14	3	3
Number of meetings attended:			
T.J.R O'Brien	13	3	3
W.J. Jenkins	14	3	3
R.Aston (appointed 4 February, 2008)	6	1	1
D. Bastas	14		
G.R. Harding (resigned 31 January, 2008)	9		
A.N. Vigopoulos (resigned 27 November, 2007)	-		

Committee membership

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

Members acting on the committees of the Board at the date of this report were:

Audit and Risk Management Committee

T.J.R O'Brien (c)
W.J. Jenkins
R. Aston
R.Seth

Remuneration and Nomination Committee

W.J. Jenkins (c)
T.J.R O'Brien
R. Aston
A. Kumar

Notes

(c) Denotes the chairman of the committee.

Directors' Report

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. 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' encompasses the Chief Executive, senior executives, general managers and secretaries of the Company and the Group.

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

(i) Directors

T.J.R O'Brien	Chairman (independent, non-executive)
D. Bastas	Director and Chief Executive Officer
W.J. Jenkins	Director (independent, non-executive)
R. Aston	Director (independent, non-executive) - appointed 4 February, 2008
A.N. Vigopoulos	Director (independent -non-executive) - resigned 27 November, 2007

(ii) Executives

M. Story	Senior Vice President, Operations Development
G.R. Harding ¹	General Manager, Finance and Investment
S.L. Blank	General Manager, Strategy and Development
J. Dal Santo	Company Secretary
B. Renwick	Business Development Manager - resigned 17 August 2007

Other changes of key management personnel between the reporting date and the date the financial report was authorised for issue are as follows:

(i) Directors

A. Kumar	Director (non-executive) - appointed 31 July 2008
R. Seth	Director (non-executive) - appointed 31 July 2008

(ii) Executives

S.L. Blank ²	Company Secretary - appointed 1 July 2008
M. Bisset	Chief Operating Officer - appointed 1 August 2008

¹ G.R. Harding resigned as Director - Finance and Investment on 31 January, 2008 retaining the executive role of General Manager, Finance and Investment from this date.

² S.L. Blank was appointed to the position of Company Secretary on 1 July 2008 and retains the role of General Manager, Strategy and Development

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 a high quality, high performing director and executive team.

Remuneration philosophy

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 '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

Objective

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.

Structure

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 29 November 2006 when shareholders approved an aggregate remuneration of \$250,000 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.

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 30 June 2008 and 30 June 2007 is detailed on page 22 of this report.

Executive remuneration

Objective

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.

Structure

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.

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 page 22 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.

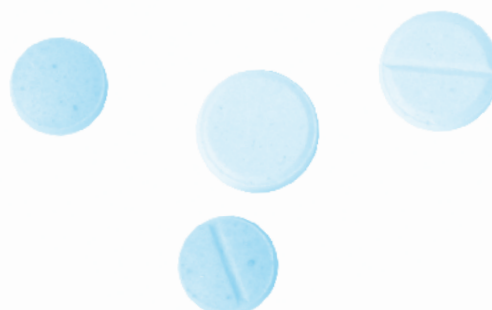
Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As 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 page 22 of the report.

The Chief Executive Officer, Mr. Bastas and the General Manager, Finance and Investment, Mr. Harding, agreed to voluntarily forego a portion of their fixed remuneration salary package for the period 1 January 2008 to 30 June 2008.



Directors' 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.

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.

STI bonus for the 2007 and 2008 financial years

For the 2007 financial year, 100% of the STI cash bonus of \$592,000 as previously accrued in that period was paid in the 2008 financial year. In addition a \$250,000 signing bonus was paid to C.Van Niekerk during the 2007 financial year.

The Remuneration and Nomination Committee will consider the STI payments for the 2008 financial year in September 2008. The maximum cash bonus for the 2008 financial year is \$31,392. This has been accrued on the basis that it is probable that the executives will meet their respective KPI's for the period. Any adjustments between the actual amounts to be paid in September 2008 as determined by the Remuneration and Nomination Committee and the amounts accrued will be adjusted in the 2009 financial year. The minimum of STI cash bonus, assuming that no executives meet their respective KPI's for the 2008 financial year, is nil.

The Chief Executive Officer and the General Manager – Finance and Investments, have both voluntarily foregone any STI bonus payments for the 2008 financial year as announced to the ASX in December 2007.

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner which aligns remuneration with the creation of shareholder wealth. As such LTI grants are made to executives and senior managers who are able to influence the generation of shareholder wealth and thus have an impact on the Group's performance against the relevant long term performance hurdle.

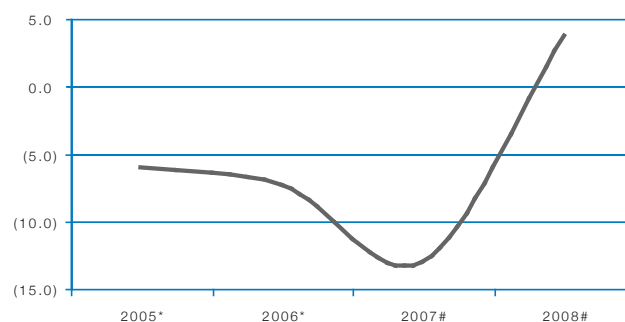
Structure

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 64 and 65 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 which has been delayed due to the acquisition of the Strides Asia business.

Group Performance

Group performance is reflected in the movement of the Group's earnings per share (EPS) over time. Group performance will be a KPI for any SMSOP or LTI program introduced in the future. The graph below shows the Company's basic EPS history over the past four years (including the current period).



* Parent
Consolidated

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 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
- 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.

General Manager, Finance and Investment

The General Manager, Finance and Investment, Mr. Harding, is employed under a rolling contract. The employment contract was renewed on 1 July 2007. Under the terms of the contract:

- Mr. Harding 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 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. Harding's 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. Harding is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- Mr. Harding is entitled to a bonus payment in the event of a material acquisition.

- In the event that a party, including its associated entities, acquires more than 75% of the shares of Ascent Pharmahealth Limited, then Mr. Harding 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.



Directors' Report

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

Table 1: Remuneration for the year ended 30 June 2008

	Salary and Fees \$	Bonus \$	Non Monetary Benefits \$	Super \$	Options \$	Shares \$	Total \$	Perfor- mance Related %
Non-executive directors								
T.J.R. O'Brien - Chairman	90,000	-	-	8,100	-	-	98,100	-
W.J. Jenkins	68,807	-	-	6,193	-	-	75,000	-
R. Aston (1)	25,000	-	-	-	-	-	25,000	-
Total non-executive directors	183,807	-	-	14,293	-	-	198,100	
Executive director								
D. Bastas - Chief Executive Officer	419,644	-	57,697	50,000	-	-	527,341	-
Other key management personnel								
M. Story – Senior Vice President, Operations Development	304,178	-	14,615	26,141	-	-	344,934	-
G.R. Harding - General Manager, Finance and Investment (3)	306,783	-	32,717	42,913	-	-	382,413	-
S.L. Blank - General Manager, Strategy and Development	217,813	31,392	15,867	18,959	-	-	284,031	11.05
B. Renwick - Business Development Manager (4)	23,492	-	5,538	1,605	(12,122)	-	18,513	-
J. Dal Santo - Company Secretary	11,553	-	24,447	-	-	-	36,000	-
Sub-total executive and other key management personnel	1,283,463	31,392	150,881	139,618	(12,122)	-	1,593,232	
Totals	1,467,270	31,392	150,881	153,911	(12,122)	-	1,791,332	

(1) Appointed 4 February 2008

(2) Appointed 16 July 2007

(3) Resigned as executive director 31 January 2008

(4) Resigned 17 August 2007

Table 2: Remuneration for the year ended 30 June 2007

	Salary and Fees \$	Bonus \$	Non Monetary Benefits \$	Super \$	Options \$	Shares \$	Total \$	Perfor- mance Related %
Non-executive directors								
T.J.R. O'Brien - Chairman	67,500	-	-	30,600	-	-	98,100	-
W.J. Jenkins (1)	22,936	-	-	2,064	-	-	25,000	-
Total non-executive directors	90,436	-	-	32,664	-	-	123,100	
Executive directors								
D. Bastas - Chief Executive Officer	385,675	336,000	36,169	43,710	40,474	-	842,028	39.90
G.R. Harding - Director, Finance and Investment	286,844	256,000	24,960	42,385	33,728	-	643,917	39.76
Other key management personnel								
S.L. Blank - General Manager, Strategy and Development (2)	122,641	-	15,234	12,300	62,842	1,000	214,017	-
K. Jeffs - General Manager, Sales and Marketing (3)	243,011	-	32,910	25,521	(24,892)	-	276,550	-
C. Van Niekerk - General Manager, Operations (4)	164,086	250,000	30,176	13,965	-	-	458,227	-
B. Renwick - Business Development Manager	114,957	25,000	29,347	11,384	11,319	1,000	193,007	12.95
J. Dal Santo - Company Secretary	5,890	-	24,110	-	-	1,000	31,000	-
Sub-total executive and other key management personnel	1,323,104	867,000	192,906	149,265	123,471	3,000	2,658,746	
Totals	1,413,540	867,000	192,906	181,929	123,471	3,000	2,781,846	

(1) Appointed 7 February 2007

(2) Appointed 30 October 2006

(3) Resigned 30 June 2007

(4) Resigned 31 January 2007

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:

- a) the liability does not arise out of conduct involving a lack of good faith; or
- b) 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) a willful breach of duty; or
- b) 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 was \$39,850 (2007: \$39,488).

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.

AUDITOR INDEPENDENCE

The directors received the attached audit independence declaration from the auditor of Ascent Pharmahealth Limited, (refer to page 24).

NON AUDIT SERVICES

The following non audit services were provided by the entity's auditor, Ernst and Young, which are described in note 29. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*:

	\$000
Assurance related and due diligence services	6
	<hr/> 6 <hr/>

Signed in accordance with a resolution of the directors



D. Bastas
Managing Director
Melbourne, 22 September 2008



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Auditor's Independence Declaration to the Directors of Ascent Pharmahealth Ltd

In relation to our audit of the financial report of Ascent Pharmahealth Ltd for the financial year ended 30 June 2008, 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 handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'David Petersen'.

David Petersen
Partner
Melbourne
22nd September 2008

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 fulfill its duties and obligations on behalf of shareholders.

The Company's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations which are:

- 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. Encourage enhanced performance
- Principle 9. Remunerate fairly and responsibly
- Principle 10. Recognise the legitimate interests of stakeholders

The Company's corporate governance practices were in place throughout the year ended 30 June 2008 with the exception of Principle 2 which recommends that the Board be comprised a majority of independent directors. Commentary on the Company's response is given in the relevant section of this statement.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of signing the annual report is included in the Directors' Report on page 13. Directors of Ascent Pharmahealth Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

When applying this definition, the Company had a minority of independent directors at the start of the financial year. During the financial year there has been one Board appointment and two resignations such that at the end of the financial year, the Company was compliant with the guidelines. The independent Directors in office at 30 June 2008 were:

Name	Position
T.J.R. O'Brien	Non-Executive Chairman
W.J. Jenkins	Non-Executive Director
R. Aston	Non-Executive Director

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. In accordance with the definition of independence above, and the materiality thresholds set, the following director of the Company, as at 30 June 2008, is considered to be non independent:

Name	Position
D. Bastas	Managing Director and Chief Executive Officer

Subsequent to the end of the financial year, the company has appointed two additional directors. Both individuals are senior executives within Strides, which, following the acquisition of the Strides Asia business on 1 August 2008, has now become a majority shareholder in the Company. These directors are:

Name	Position
R. Seth	Non - Executive Director
A. Kumar	Non - Executive Director

These two appointments would not be considered independent under the Company's definition due to their relationship with the Strides Group. Whilst this results, as at the date of this statement, in the Board comprising equal numbers of independent and non-independent directors, and therefore not in compliance with Principle 2, the Company considers that the industry experience and specific expertise of all the directors are important attributes in maintaining the efficiency of the Board.

The term in office held by each director in office at the date of this report is:

Name	Term in Office
T.J.R. O'Brien	53 months appointed 6 April 2004
D. Bastas	57 months appointed 10 December 2003
W.J. Jenkins	19 months appointed 7 February 2007
R. Aston	7 months appointed 4 February 2008
R. Seth	1 month appointed 31 July 2008
A Kumar	1 month appointed 31 July 2008

For additional details regarding board appointments, please refer to our website.

Corporate Governance Statement

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Group to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are non-executive directors.

The Committee advises the Board on the appointment of external auditors who clearly 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 in note 29 of the financial statements.

The members of the Audit and Risk Management Committee during the 2008 financial year were:

T.J.R O'Brien (Chairman)
W.J. Jenkins
R. Aston

For details on the number of meetings of the Committee held during the period and the attendees at those meetings refer to page 17 of the Directors' Report.

Following his appointment to the Board on 31 July 2008, Mr. Seth has been appointed as a member of this Committee.

Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee, which operates under a charter approved by the Board. The purpose of the Committee is to provide the Board of the Company with advice and recommendations which enable the Board to:

- (1) 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
- (2) 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 members of the Remuneration and Nomination Committee during the period were:

W.J. Jenkins (Chairman)
T.J.R O'Brien
R. Aston

For details on the number of meetings of the Committee held during the period and the attendees at those meetings refer to page 17 of the Directors' Report.

For details of the amount of remuneration and all monetary and non-monetary components for each specified director and key management personnel, during the 2008 financial year, refer to the Remuneration Report within the Directors Report.

Following his appointment to the Board on 31 July 2008, Mr. Kumar has been appointed as a member of this Committee.

Review of Board Performance

It is the Company's intention that the performance of the Board and key management personnel is reviewed periodically. The company policy is to review the Board at least every 18 months and key management personnel on an annual basis. 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. A performance review of the Board and key management personnel was last conducted in August 2007.



ASCENT PHARMAHEALTH LIMITED

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2008



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Income Statements

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Net sales of goods		65,565	54,575	-	987
Cost of sales		(40,804)	(32,773)	-	(1,011)
Gross profit		24,761	21,802	-	(24)
Other revenue	6	392	720	264	1,494
Sales and marketing expenses		(10,350)	(13,435)	(64)	(3,291)
Distribution expenses		(1,625)	(767)	-	(7)
Corporate affairs expenses		(1,272)	(1,580)	(1,272)	(1,580)
Regulatory affairs expenses		(1,297)	(1,284)	-	(57)
Occupancy expenses		(878)	(809)	(258)	(225)
Administrative expenses		(3,055)	(3,189)	(1,124)	(1,336)
Other expenses	7(a)	(325)	(364)	(35)	(364)
Finance costs	7(b)	(1,227)	(1,087)	(970)	(930)
Impairment of intangible asset and write off of associated net assets and liabilities	7(f)	-	(18,461)	-	(18,461)
Profit / (loss) before income tax		5,124	(18,454)	(3,459)	(24,781)
Income tax (expense) / benefit	8	(941)	492	1,686	2,460
Net profit / (loss) for the period		4,183	(17,962)	(1,773)	(22,321)
Earnings per share (cents per share)	9				
- basic profit / (loss) per share		3.0	(13.0)		
- diluted profit / (loss) per share		2.9	(13.0)		

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

Balance Sheets

AS AT 30 JUNE 2008

	Note	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
ASSETS					
Current Assets					
Cash and cash equivalents	10	2,145	13,460	2	3,608
Trade and other receivables	11	15,580	12,295	27,093	33,253
Inventories	12	11,388	11,577	-	-
Other current assets	13	1,670	609	1,294	168
Total Current Assets		30,783	37,941	28,389	37,029
Non-current Assets					
Investment in subsidiary	14	-	-	44,140	44,140
Plant and equipment	15	1,853	1,411	104	199
Deferred tax assets	8	1,172	1,606	794	1,975
Intangible assets and goodwill	16	61,665	61,701	-	73
Total Non-current Assets		64,690	64,718	45,038	46,387
TOTAL ASSETS		95,473	102,659	73,427	83,416
LIABILITIES					
Current Liabilities					
Trade and other payables	17	12,105	15,651	732	1,299
Interest bearing liabilities	18	2,027	13,209	2,027	13,209
Income tax payable		603	496	603	314
Provisions	19	437	412	163	143
Total Current Liabilities		15,196	29,768	3,525	14,965
Non-current Liabilities					
Interest bearing liabilities	18	5,940	-	5,940	-
Provisions	19	84	81	-	-
Total Non-current Liabilities		6,024	81	5,940	-
TOTAL LIABILITIES		21,175	29,849	9,465	14,965
NET ASSETS		74,277	72,810	63,962	68,451
EQUITY					
Equity attributed to equity holders of the Parent					
Contributed equity	20	96,687	97,053	96,687	97,053
Convertible notes	21	-	2,669	-	2,669
Accumulated losses		(24,927)	(29,110)	(35,242)	(33,469)
Other reserves	22	2,517	2,198	2,517	2,198
TOTAL EQUITY		74,277	72,810	63,962	68,451

The above balance sheet should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2008

Consolidated

	Issued Capital \$'000	Accumu- lated losses \$'000	Convertible Notes \$'000	Other Reserves \$'000	Total \$'000
At 1 July 2006	46,896	(11,148)	-	1,736	37,484
Net loss for the year	-	(17,962)	-	-	(17,962)
Share issue costs	(1,609)	-	-	-	(1,609)
Issue of convertible notes – equity value	-	-	2,669	-	2,669
Share-based payments	-	-	-	462	462
Issue of share capital (note 20)	51,766	-	-	-	51,766
At 1 July 2007	97,053	(29,110)	2,669	2,198	72,810
Net profit for the year	-	4,183	-	-	4,183
Share issue costs	(49)	-	-	-	(49)
Shares bought back	(356)	-	-	-	(356)
Convertible notes repaid – equity value	-	-	(2,669)	301	(2,368)
Share-based payments	-	-	-	18	18
Issue of share capital (note 20)	39	-	-	-	39
At 30 June 2008	96,687	(24,927)	-	2,517	74,277

Parent

	Issued Capital \$'000	Accumu- lated losses \$'000	Convertible Notes \$'000	Other Reserves \$'000	Total \$'000
At 1 July 2006	46,896	(11,148)	-	1,736	37,484
Net loss for the year	-	(22,321)	-	-	(22,321)
Share issue costs	(1,609)	-	-	-	(1,609)
Issue of convertible notes – equity value	-	-	2,669	-	2,669
Share-based payments	-	-	-	462	462
Issue of share capital (note 20)	51,766	-	-	-	51,766
At 1 July 2007	97,053	(33,469)	2,669	2,198	68,451
Net loss for the year	-	(1,773)	-	-	(1,773)
Share issue costs	(49)	-	-	-	(49)
Shares bought back	(356)	-	-	-	(356)
Convertible notes repaid – equity value	-	-	(2,669)	301	(2,368)
Share-based payments	-	-	-	18	18
Issue of share capital (note 20)	39	-	-	-	39
At 30 June 2008	96,687	(35,242)	-	2,517	63,962

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

Cash Flow Statements

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash flows from operating activities					
Receipts from customers		69,077	57,951	-	1,406
Payments to suppliers and employees		(68,498)	(53,696)	(3,010)	(6,613)
Interest received		160	688	32	1,482
Interest paid		(1,387)	-	(1,387)	-
Income taxes paid		(51)	(99)	-	-
Net cash flows (used in)/from operating activities	23	(699)	4,844	(4,365)	(3,725)
Cash flows from investing activities					
Purchase of plant and equipment		(1,019)	(830)	(27)	(135)
Payments for intangible assets		(884)	(1,015)	-	(46)
Receipts for intangible assets		-	-	29	-
Costs associated with the acquisition of a business		(1,368)	(56,207)	(1,368)	(56,207)
Cash from acquired business		-	2,947	-	-
Net cash flows used in investing activities		(3,271)	(55,105)	(1,366)	(56,388)
Cash flows from financing activities					
Proceeds from issue of shares		39	51,692	39	51,692
Transaction costs from issue of shares and convertible notes		(49)	(2,960)	(49)	(2,960)
Shares bought back		(356)	-	(356)	-
Repayment of convertible note		(15,000)	-	(15,000)	-
Proceeds from borrowings		10,000	-	10,000	-
Repayment of borrowings		(2,000)	-	(2,000)	-
Net repayment of loans from controlled entity		-	-	9,470	-
Net cash flows (used in)/from financing activities		(7,366)	48,732	2,104	48,732
Net increase/decrease in cash held		(11,336)	(1,529)	(3,627)	(11,381)
Cash and cash equivalents at beginning of the financial year		13,460	14,989	3,608	14,989
Cash and cash equivalents at end of the financial year	10	2,124	13,460	(19)	3,608

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

1. Corporate information

The financial report of Ascent Pharmahealth Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 22 September 2008.

The financial report comprises the consolidated financial statements of Ascent Pharmahealth Limited and its subsidiary (the Group) as at 30 June each year.

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 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

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has been prepared on the basis of historical cost.

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 as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

Except for the amendments arising from AASB 2007-4: *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*, which the Group has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008. These are outlined below.

- AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 are effective for reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has decided not to early adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

- Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* introduces as a financial statement (formerly "primary statement") the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASB's. The revised AASB 101 will become mandatory for the Group's 30 June 2009 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2009 financial statements. The adoption of this accounting standard will not result in a change in accounting policy for the Group as the current accounting policy is in line with the revised AASB 123.
- AASB interpretation 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customers can redeem credits for awards such as free or discounted goods or services. AASB Interpretation 13 will become mandatory for the Group's 30 June 2009 financial statements. The Group has not yet determined the potential effect of the interpretation on the Group's financial report.

Adoption of new accounting standard

The Group has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 July 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profits or the financial position of the entity.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Ascent Pharmahealth Limited and its subsidiaries as at 30 June 2008 and the comparative period to 30 June 2007.

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 intercompany 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 purchase method of accounting. The purchase method involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see note (d)).

(d) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

(f) 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 (\$).

(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 balance sheet date.

All exchange differences in the consolidated financial report are recognised in the income statement.

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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 Cash Flow Statement, 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 balance sheet.

(h) 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. Any impairment losses are recognised in the Income Statement within "finance expenses". Subsequent recoveries of amounts written off are credited against finance expense in the Income Statement.

(i) 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

(j) 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 – 5 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 property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

(k) Goodwill, intangibles and impairment

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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 assessed 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.

Dossier Costs and Licences

Dossier costs and licences are expensed as incurred except where future benefits are expected to exceed those costs. Where dossier costs are deferred, costs are amortised over their expected useful lives of a period of 2 to 10 years commencing from the time benefits are first realised. Unamortised costs are reviewed at each reporting date. Any amount determined to be no longer recoverable is written off.

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

Dossier Costs and Licences

Useful lives

Finite

Amortisation method used

Dossier costs are amortised on a straight-line basis over the period of expected future benefits to a maximum of five years

Licences are amortised over the period of the licence agreement

Internally generated or acquired

Acquired

Impairment testing

Annually for assets not available for use and more frequently when an indication of impairment exists.

The amortisation method is reviewed at each financial year end.

Trademarks

Useful lives

Indefinite

Amortisation method used

No amortisation

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists¹

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.

Supply agreements

Useful lives

Finite

Amortisation method used

Amortised on a straight-line basis over the period of expected future benefit of seven years

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists

¹ 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 amortization 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.

(l) 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 and 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.

(m) 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 an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) Redeemable convertible notes

The component of the redeemable convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On the issuance of the redeemable convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transactions costs. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the redeemable convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

(o) 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 is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer.

(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.

(p) 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 balance sheet 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 their 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.

(q) Share-based payment transactions

Senior Manager Share Option Plan (SMSOP)

A senior manager share option plan has 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.

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).

Loyalty Reward Program (Wealth Option Winners – "WOW")

A pharmacy loyalty program share option plan has been established where the Group may, at the discretion of the Board, grant options over the ordinary shares in the Company to Eligible Participants. The options are issued for a term of 3 years and are exercisable at varying dates. Pharmacies enrolled in the loyalty reward program accumulate points from purchasing the Group's products. The obligation to provide rewards to customers arising from these points is provided as points are accumulated. The provision is based on the present value of the expected direct cost of providing the rewards.

The cost of these equity-settled transactions 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.

The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, at the grant date of the award (vesting date). The cumulative expense recognised for all equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the current best estimate of the number of awards that will vest, taking into account all information available at balance date.

No expense is recognised for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer note 9).

(r) Leases

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

(s) 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.

(t) Earnings per share

Basic 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, 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.

(u) Income tax

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 balance sheet 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 balance sheet 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

Unrecognised deferred income tax assets are reassessed at each balance sheet 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 balance sheet 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.

Tax consolidation legislation

Ascent Pharmahealth Limited and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation as of 13 July 2006.

The head entity, Ascent Pharmahealth Limited, and the controlled entity in the tax consolidation group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation group.

(v) Other taxes

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

- i) 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
- ii) 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 balance sheet.

Cash flows are included in the Cash Flow Statement 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.

3. Financial Risk Management Objectives and Policies

The Group's principal financial instruments during the financial year comprised short term and long term debt, convertible notes and cash and short-term deposits. 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 risks 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 and the parent entity held the following financial instruments as at 30 June 2008:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial Assets				
Cash and cash equivalents	2,145	13,460	2	194
Trade and other receivables	15,580	12,295	27,093	1,146
	17,725	25,755	27,095	36,861
Financial Liabilities				
Trade and other payables	12,105	15,651	732	1,299
Interest bearing loans and borrowings	7,967	13,209	7,967	13,209
	20,072	28,860	8,699	14,508
Net Position	(2,347)	(3,105)	18,396	22,353

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 balance date the Group had the following assets and liabilities exposed to Australian variable interest rate risk:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial Assets				
Cash at bank and on hand	2,145	3,643	2	8
Short term deposits	-	9,817	-	3,600
	2,145	13,460	2	3,608
Financial Liabilities				
Trade and other payables	7,967	-	7,967	-
Interest bearing loans and borrowings	-	13,209	-	13,209
	7,967	13,209	7,967	13,209
Net Position	(5,822)	251	(7,965)	(9,601)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. Financial Risk Management Objectives and Policies (continued)

As at 30 June 2008, 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.

As at 30 June 2007, the group had borrowings in the form of convertible notes. The convertible notes were issued for a period of five years at a coupon interest rate of 3% per annum compounding daily. The convertible notes were redeemed on 17 August 2007. As the convertible notes were of a fixed interest rate, there was no exposure to variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposure in existence at the 30 June 2008.

	Post tax Profit Higher/(Lower)		Equity Higher / (Lower)	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Consolidated				
+1% (100 basis points)	(41)	69	(41)	69
-1% (100 basis points)	41	(69)	41	(69)
Parent				
+1% (100 basis points)	(56)	25	(56)	25
-1% (100 basis points)	56	(25)	56	(25)

The year on year movement in the sensitivity analysis is explained by the replacement of fixed rate convertible bonds with variable rate loans during the financial year

Foreign currency risk

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

The Group does not use derivative instruments to 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 assets and liabilities exposed to foreign currencies:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial Liabilities				
Trade and other payables	3,008	2,495	-	-
Net Position	(3,008)	(2,495)	-	-

3. Financial Risk Management Objectives and Policies (continued)

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

	Post tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Consolidated				
AUD/USD appreciates 5%	68	50	68	50
AUD/EUR appreciates 5%	172	86	172	86
AUD/USD depreciates 5%	(68)	(50)	(68)	(50)
AUD/EUR depreciates 5%	(172)	(86)	(172)	(86)

There is no significant movement in the analysis year on year. The cash flows of the parent entity are conducted wholly in Australian dollars and therefore there is no foreign exchange risk.

Price Risk

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

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.

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 balance date are included in the relevant notes to the accounts.

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.

During the year to 30 June 2008, the Group has negotiated a banking facility with its principal lender, comprising a long term facility and a working capital facility. The Group considers its financial arrangements are sufficient to meet the Group's financial requirements for the foreseeable future.

Risk Exposures and Responses

The table below reflects the remaining contractual maturities of the Group's and parent entity's financial liabilities.

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
6 months or less	13,132	28,860	1,759	14,508
6-12 months	1,603	496	1,603	314
1-5 years	6,000	-	6,000	-
Over 5 years	-	-	-	-
Total	20,735	29,356	9,362	14,822

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. Financial Risk Management Objectives and Policies (continued)

Maturity Analysis

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

Year ended 30 June 2008	Consolidated			
	< 6 months \$'000	6-12 months \$'000	1-5 years \$'000	Total \$'000
Financial Assets				
Cash and cash equivalents	2,145	-	-	2,145
Trade and other receivables	15,580	-	-	15,580
	17,725	-	-	17,725
Financial Liabilities				
Trade and other payables	12,105	-	-	12,105
Interest bearing loans and borrowings	1,000	1,000	6,000	8,000
	13,105	1,000	1,000	20,105
Net maturity	4,620	(1,000)	(6,000)	(2,380)

Year ended 30 June 2008	Parent			
	< 6 months \$'000	6-12 months \$'000	1-5 years \$'000	Total \$'000
Financial Assets				
Cash and cash equivalents	2	-	-	2
Trade and other receivables	-	6,250	17,536	23,786
	2	6,250	17,536	23,788
Financial Liabilities				
Trade and other payables	732	-	-	732
Interest bearing loans and borrowings	1,027	1,000	6,000	8,027
	1,759	1,000	6,000	8,759
Net maturity	(1,757)	5,250	11,536	15,029

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.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes for the financial statements.

i. 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.

ii. 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 16.

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 26. 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(p), 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 balance 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.

5. Segment information

Business segments

The Group operates in one business segment, distributing and marketing pharmaceutical and ancillary products.

Geographic segments

The Group's activities are conducted entirely within Australia.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

6. Other revenue

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Interest	160	688	32	1,482
Other	232	32	232	12
	392	720	264	1,494

7. Expenses

(a) Other expenses

Goodwill expense arising from recognition of deferred tax asset	290	-	-	-
Professional fees – acquisition related	-	289	-	289
Shares issued to staff – no cost	35	75	35	75
	325	364	35	364

(b) Finance costs

Interest	886	924	886	922
Bank charges	284	155	84	8
Bad debts written off	57	8	-	-
	1,227	1,087	970	930

(c) Depreciation and amortisation

Depreciation of fixed assets	577	325	122	113
Amortisation of distribution agreement	-	2,404	-	2,404
Amortisation of dossier costs and licences	460	342	44	110
Amortisation of supply agreement	169	169	-	-
	1,206	3,240	166	2,627

(d) Lease payments and other expenses

Minimum lease payments – operating leases	1,214	970	191	188
	1,214	970	191	188

(e) Employee benefits expense

Wages and salaries	8,121	7,224	980	1,371
Superannuation costs	678	581	110	109
Share-based payment expense	10	193	10	193
Other employee benefits expense	556	1,055	21	231
	9,365	9,053	1,121	1,904

(f) Impairment of intangible asset and write off of associated net assets and liabilities

Impairment of distribution agreement and distribution rights	-	16,697	-	16,697
Impairment of dossier costs	-	1,936	-	1,936
	-	18,633	-	18,633
Other associated net assets, liabilities and costs	-	(172)	-	(172)
	-	18,461	-	18,461

8. Income tax

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Income tax expense				
The major components of income tax expense are:				
Income Statement				
<i>Current income tax</i>				
Current income tax charge	691	654	(2,546)	(1,649)
Goodwill adjustment	(290)	-	-	-
Adjustments in respect of current income tax of previous years	106	-	(321)	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	434	(1,146)	1,181	(811)
Income tax expense (benefit) reported in the income statement	941	(492)	(1,686)	(2,460)
(b) Amounts charged or credited directly to equity				
<i>Current income tax related to items charged or credited directly to equity</i>				
Equity raising costs	-	(1,318)	-	(1,318)
Income tax benefit reported in equity	-	(1,318)	-	(1,318)
(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 (loss) before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit (loss) before tax	5,124	(18,454)	(3,459)	(24,781)
At the Parent entity's statutory income tax rate of 30% (2007: 30%)	1,537	(5,536)	(1,038)	(7,434)
GAPE relationship write-off	-	4,952	-	4,952
Amortisation of distribution agreement	-	721	-	721
Equity-based benefits	16	139	16	139
Interest on convertible notes	23	150	23	150
Gain on convertible notes	(65)	-	(65)	-
Amortisation of licences	-	81	-	-
Goodwill expenses	87	-	87	-
Write back of deferred tax liability	(290)	-	(290)	-
Prior period (overs)/unders	(236)	-	(235)	-
Recognition of previously unrecognised tax losses	-	(1,232)	-	(1,232)
Other	(131)	233	(184)	244
Aggregate income tax expense (benefit)	941	(492)	(1,686)	(2,460)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

8. Income tax (continued)

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(d) Recognised deferred tax assets and liabilities				
Deferred income tax at 30 June 2008 relates to the following:				
<i>(i) Deferred tax assets</i>				
Doubtful debts	15	10	-	-
Valuation for inventory for tax purposes	1,058	215	-	-
Accelerated depreciation	-	19	-	-
Investment costs	-	111	-	111
Employee entitlement provisions	156	105	49	43
Equity raising costs	554	817	554	817
Losses recognised for offset against future taxable income	-	892	-	892
Other	206	165	191	134
Gross deferred tax assets	1,989	2,334	794	1,997
Set off of deferred tax liabilities	817	728	-	22
Net deferred tax assets	1,172	1,606	794	1,975
<i>(ii) Deferred tax liabilities</i>				
Dossier costs	411	228	-	22
Foreign currency balances	-	19	-	-
Licences	406	481	-	-
Gross deferred tax liabilities	817	728	-	22

(e) Tax consolidation

Ascent Pharmahealth Limited and its 100% owned Australian resident subsidiary 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 entity in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

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.

9. Earnings per share

	Consolidated	
	2008 cents per share	2007 cents per share
Basic earnings per share	3.0	(13.0)
Diluted earnings per share	2.9	(13.0)

Basic earnings per share

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

	Consolidated	
	2008 \$'000	2007 \$'000
Earnings – net profit/(loss) after tax for the period	4,183	(17,962)
	2008 No '000	2007 No. '000
Weighted average number of ordinary shares	138,819	137,662

Diluted earnings per share

	Consolidated	
	2008 \$'000	2007 \$'000
Earnings – net profit/(loss) after tax for the period	4,183	(17,962)
	2008 No '000	2007 No. '000
Weighted average number of ordinary shares	143,790	137,662

The weighted average number of ordinary shares for the purposes of diluted earnings has been calculated based on the share options in existence during the year. The share options are considered to be potential ordinary shares. These options have been included in the determination of diluted earnings per share on the basis that each share option will convert to one ordinary share. The effect of these option plans is not included in the calculation of diluted earnings per share for the 2007 financial year because they would be anti-dilutive in accordance with AASB 133 para 43.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

10. Current assets – cash and cash equivalents

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash at bank and on hand ¹	2,145	3,643	2	8
Short-term deposits ²	-	9,817	-	3,600
	2,145	13,460	2	3,608

¹ Cash at bank earns interest at floating rates based on daily bank deposit rates.

² Short-term deposits are made for varying periods of between 1 day and 1 month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

For the purposes of the Cash Flow statement, cash and cash equivalents comprise the following at 30 June 2008.

Cash at bank and on hand	2,145	3,643	2	8
Short term deposits	-	9,817	-	3,600
Bank Overdrafts (note 18)	(21)		(21)	-
	2,124	13,460	(19)	3,608

11. Current assets – trade and other receivables

Trade debtors	15,093	12,243	-	2
Provision for impairment of receivables	(56)	(35)	-	-
	15,037	12,208	-	2
Amounts receivable from controlled entities	-	-	27,090	33,251
Other receivables	543	87	3	-
	15,580	12,295	27,093	33,253

All trade debtors 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.

Amounts receivable to the Company from controlled entities of the Group are considered to be repayable in full.

Impaired receivables

As at 30 June 2008, current trade receivables of the group with a nominal value of \$56,188 (2007: \$34,862) were impaired. The amount of the provision was \$56,188 (2007: \$34,862). 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:

	Consolidated	
	2008 \$'000	2007 \$'000
0 days to 90 days overdue	10	-
Over 90 days overdue	46	35
	56	35

11. Current assets – trade and other receivables (continued)

As at 30 June, trade receivables of \$661,395 (2007: \$536,504) 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:

	Consolidated	
	2008 \$'000	2007 \$'000
0 days to 30 days overdue	420	341
30 to 60 days overdue	241	195
60-90 days overdue	-	-
Over 90 days overdue	-	-
	661	536

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

	Consolidated	
	2008 \$'000	2007 \$'000
At start of financial year	35	-
Provision relating to acquired company	-	27
Provision for impairment recognised during the year	57	8
Receivables written off during the year as uncollectible	(36)	-
At end of financial year	56	35

The creation and release of the provision 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.

12. Current Assets – inventories

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Finished goods on hand and in transit	11,687	11,992	-	-
Provision for obsolete stock	(299)	(415)	-	-
	11,388	11,577	-	-

Inventory expense

Inventories recognised as an expense for the year ended 30 June 2008 totalled \$40,580,531 (2007: \$30,345,159) for the Group and \$nil (2007: \$1,020,496) for the Company. This expense has been included in the cost of sales line item as a cost of inventories.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

13. Current assets – other

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Deposits	79	31	20	31
Prepayments	374	578	57	137
Acquisition costs	1,217	-	1,217	-
	1,670	609	1,294	168

14. Non-current assets – investment in subsidiary

Investment in controlled entity (note 24) - at cost	-	-	44,140	44,140
	-	-	44,140	44,140

15. Non-current – plant and equipment

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

	Consolidated		
	Plant and Equipment \$'000	Leasehold Improve- ments \$'000	Total \$'000
Year ended 30 June 2008			
At 1 July 2007 net of accumulated depreciation and impairment	1,172	239	1,411
Additions	537	482	1,019
Depreciation charge for the year	(447)	(130)	(577)
At 30 June 2008 net of accumulated depreciation and impairment	1,262	591	1,853
At 30 June 2008			
Cost or fair value	2,586	1,043	3,629
Accumulated depreciation and impairment	(1,324)	(452)	(1,776)
Net carrying amount	1,262	591	1,853
Year ended 30 June 2007			
At 1 July 2006, net of accumulated depreciation and impairment	198	80	278
Additions	751	124	875
Acquisition of a subsidiary	442	141	583
Depreciation charge for the year	(219)	(106)	(325)
At 30 June 2007, net of accumulated depreciation and impairment	1,172	239	1,411
At 30 June 2007			
Cost or fair value	2,049	561	2,610
Accumulated depreciation and impairment	(877)	(322)	(1,199)
Net carrying amount	1,172	239	1,411

15. Non-current – plant and equipment (continued)

Reconciliation of carrying amounts at the beginning and end of the period (continued)

	Parent		
	Plant and Equipment \$'000	Leasehold Improve- ments \$'000	Total \$'000
Year ended 30 June 2008			
At 1 July 2007 net of accumulated depreciation and impairment	130	69	199
Additions	20	7	27
Depreciation charge for the year	(46)	(76)	(122)
At 30 June 2008 net of accumulated depreciation and impairment	104	-	104
At 30 June 2008			
Cost or fair value	216	166	382
Accumulated depreciation and impairment	(112)	(166)	(278)
Net carrying amount	104	-	104
Year ended 30 June 2007			
At 1 July 2006, net of accumulated depreciation and impairment	198	80	278
Additions	69	68	137
Acquisition of a subsidiary	(103)	-	(103)
Depreciation charge for the year	(34)	(79)	(113)
At 30 June 2007, net of accumulated depreciation and impairment	130	69	199
At 30 June 2007			
Cost or fair value	196	159	355
Accumulated depreciation and impairment	(66)	(90)	(156)
Net carrying amount	130	69	199

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

16. Non-current assets – intangible assets and goodwill

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

	Consolidated					
	Dossier Costs and Licence Agreements \$'000	Supply Agreement \$'000	Trade- Marks \$'000	Goodwill \$'000	Distribution Agreement and Distribution Rights \$'000	Total \$'000
Year ended 30 June 2008						
At 1 July 2007 net of accumulated amortisation	2,749	1,017	6,400	51,535	-	61,701
Additions	884	-	-	-	-	884
Amortisation	(460)	(170)	-	-	-	(630)
Goodwill expense	-	-	-	(290)	-	(290)
At 30 June 2008 net of accumulated amortisation and impairment	3,173	847	6,400	51,245	-	61,665
At 30 June 2008						
Cost (gross carrying amount)	4,265	1,185	6,400	51,245	-	63,095
Accumulated amortisation and impairment	(1,092)	(338)	-	-	-	(1,430)
Net carrying amount	3,173	847	6,400	51,245	-	61,665
Year ended 30 June 2007						
At 1 July 2006 net of accumulated amortisation	2,074	-	-	-	19,101	21,175
Additions	1,173	-	-	-	-	1,173
Acquisition of a subsidiary	1,825	1,186	6,400	51,535	-	60,946
Disposals	(45)	-	-	-	-	(45)
Impairment	(1,936)	-	-	-	(16,697)	(18,633)
Amortisation	(342)	(169)	-	-	(2,404)	(2,915)
At 30 June 2007 net of accumulated amortisation and impairment	2,749	1,017	6,400	51,535	-	61,701
At 30 June 2007						
Cost (gross carrying amount)	3,380	1,186	6,400	51,535	-	62,501
Accumulated amortisation and impairment	(631)	(169)	-	-	-	(800)
Net carrying amount	2,749	1,017	6,400	51,535	-	61,701

A description of each intangible asset is provided in section (b) of this note.

16. Non-current assets – intangible assets and goodwill (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period (continued)

	Parent		
	Dossier Costs and Licence Agreements \$'000	Distribution Agreement and Distribution Rights \$'000	Total \$'000
Year ended 30 June 2008			
At 1 July 2007 net of accumulated amortisation	73	-	73
Transfer to subsidiary	(29)	-	(29)
Amortisation	(44)	-	(44)
At 30 June 2008 net of accumulated amortisation and impairment	-	-	-
At 30 June 2008			
Cost (gross carrying amount)	-	-	-
Accumulated amortisation and impairment	-	-	-
Net carrying amount	-	-	-
Year ended 30 June 2007			
At 1 July 2006 net of accumulated amortisation	2,074	19,101	21,175
Additions	45	-	45
Impairment	(1,936)	(16,697)	(18,633)
Amortisation	(110)	(2,404)	(2,514)
At 30 June 2007 net of accumulated amortisation and impairment	73	-	73
At 30 June 2007			
Cost (gross carrying amount)	150	-	150
Accumulated amortisation and impairment	(77)	-	(77)
Net carrying amount	73	-	73

A description of each intangible asset is provided in section (b) of this note.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

16. Non-current assets – intangible assets and goodwill (continued)

(b) Description of the Group's intangible assets

- (i) *Distribution Agreement and Distribution Rights*
Distribution agreement and distribution rights are carried at cost less accumulated impairment and accumulated impairment losses. These assets have been assessed as having a finite life and were being amortised using a straight-line method over a period of 10 years. In June 2007 these assets were reviewed by the Group and found to be fully impaired.
- (ii) *Dossier Costs and Licence Agreements*
Dossier costs and licence agreements are expensed as incurred except where future benefits are expected, beyond reasonable doubt. Where dossier costs and licence agreements are deferred, costs are amortised over their useful lives of a period of 2 to 10 years commencing from the time future benefits are first realised. Unamortised costs are reviewed at each reporting date. Any amount determined to be no longer recoverable is written off.
- (iii) *Supply Agreement*
The supply agreement has been acquired through a business combination and is carried at fair value less any accumulated impairment losses. This intangible asset has been determined to have a finite useful life of 7 years and is being amortised accordingly.
- (iv) *Trademarks*
The trademarks have been acquired through a business combination and are carried at fair value less any accumulated impairment loss. This intangible asset has been determined by the Group to have an indefinite useful life.
- (v) *Goodwill*
After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis and whenever there is an indication of impairment.

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

Description of the cash generating units and other relevant information

Goodwill acquired through business combinations is tested for impairment at the cash generating unit level, which is the consolidated entity.

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 17% and cash flows beyond the 5-year period are extrapolated using a 2.5% growth rate applied to cash flows in the terminal period.

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

- sales growth rate used during budget period;
- gross margins; and
- 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.

Gross margins – based on average values achieved historically and adjusted for any expected changes in supplier pricing and known PBS changes to wholesale pricing.

Discount rate – discount rates reflect management's estimate of the time value of money and the risks specific to the cash generating unit.

17. Current liabilities – trade and other payables

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade payables ¹	10,390	11,322	601	194
Other payables ¹	1,046	3,945	180	1,146
GST ²	669	384	(49)	(41)
Carrying amount of trade and other payables ³	12,105	15,651	732	1,299

¹ Trade payables and other payables are non-interest bearing and are generally settled on 30 to 90 day terms.

² The net of GST payable and GST receivable is paid to or received from the relevant taxation body on a monthly basis as appropriate.

³ Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

18. Interest bearing liabilities

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Convertible Notes	-	12,324	-	12,324
Convertible Notes – issue costs	-	(27)	-	(27)
Convertible Notes – accrued interest	-	912	-	912
Loans	1,978	-	1,978	-
Bank overdraft	21	-	21	-
Accrued interest	28	-	28	-
	2,027	13,209	2,027	13,209
Non-current				
Loans	5,940	-	5,940	-
	5,940	-	5,940	-

(a) Fair Values

The carrying amount of the Group's current and non-current 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

18. Interest bearing liabilities (continued)

(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.

(d) Financing Arrangements

During the current year the Group negotiated a new finance facility and used this facility to fund the repayment of the convertible notes, and to provide ongoing funding for the business. The details of this facility are:

Commercial Advance:	\$10,000,000
Working capital overdraft facility	\$5,000,000

Interest

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

Repayment

The Commercial advance is repayable in 10 equal installments at the end of each half and full financial year. The working capital overdraft facility is repayable on demand.

Unused facility

As at 30 June 2008, the unused portion of the facility was:

Commercial Advance	\$nil
Working capital overdraft facility	\$5,000,000

Covenants

The financial covenants set out in the facility are:

- (i) Interest rate cover ratio to be greater than 3 times
- (ii) Consolidated debt ratio to be less than 3 times
- (i) Minimum net worth to be greater than \$70,000,000 as at 30 June 2008
- (ii) EBITDA for the year ending 30 June 2008 to be greater than \$6,000,000

19. Provisions

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Employee entitlements – annual leave	437	412	163	143
	437	412	163	143
Non-current				
Employee entitlements – long service leave	84	81	-	-
	84	81	-	-

20. Contributed equity

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Issued capital				
Ordinary shares fully paid	96,687	97,053	96,637	97,053
Total share capital	96,687	97,053	96,637	97,053

Fully paid ordinary shares carry 1 vote per share and carry the right to dividends.

(b) Movement in ordinary shares on issue		No. of Shares	Issue Price	\$'000
At 1 July 2006		87,492,000	-	46,896
Equity raising via Renounceable Rights Issue	(i)	51,691,600	\$1.00	51,691
Transaction costs of Renounceable Rights Issue	(ii)	-	-	(1,609)
Share issued to staff	(iii)	74,728	\$1.00	75
At 1 July 2007		139,258,328	-	97,053
Share buy-back	(iv)	(809,577)	\$0.44	(356)
Options exercised – Loyalty program	(v)	76,243	-	39
Transaction costs of the issue of equities	(vi)	-	-	(49)
At 30 June 2008		138,524,994	-	96,687

- (i) On 13 July 2006 the Company acquired Douglas Pharmaceuticals Australia Limited and this acquisition was funded by a share placement in 2006 and a Renounceable Rights Issue.
- (ii) The transaction costs represent the costs associated with the share placement and the Renounceable Rights Issue, net of tax impact.
- (iii) 74,243 \$1 shares were issue to staff for \$nil consideration.
- (iv) During the period the Company announced that as part of its ongoing capital management strategy it would undertake an on-market share buy back of up to 10,000,000 (7.18%) of the Company's issued ordinary shares. The share buy-back commenced on 6 November 2007 and the last tranche of shares bought back was on 27 November 2007. A total of 809,577 shares were bought back during the period at a total cost of \$356,010. The average price paid per share was \$0.44.
- (v) During the period 71,112 options at 50 cents and 5,131 options at 55 cents were exercised pursuant to the Pharmacy Loyalty Program Share Options Plan.
- (vi) The transaction costs represent the costs of initiating the share buyback and the issue of shares, or exercise of options, under the Pharmacy Loyalty program.

	Parent 2008 \$'000	Parent 2007 \$'000
(c) Dividends		
Dividends proposed and paid during the financial year	-	-

Dividends not recognised at year end

Since the end of the financial year the directors have recommended the payment of a final dividend of 0.5 cents per shares fully franked based on tax at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 December 2008 out of retained profits, but not recognised as a liability at the year end is \$692,625 (2007: \$nil).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

21. Convertible notes – equity value

	Consolidated \$'000	Parent \$'000
At 1 July 2006	-	-
Issue of convertible notes	2,669	2,669
At 1 July 2007	2,669	2,669
Redemption of convertible notes	(2,368)	(2,368)
Transfer to other reserves	(301)	(301)
At 30 June 2008	-	-

On 17 August 2007 the convertible noteholder exercised its rights of redemption in full under the terms of the Convertible Note Deed. The fair value of the equity component of the convertible notes, at the date of redemption was \$2,368,248. The residual balance of the convertible notes reserve has been transferred to other reserves. (refer note 22).

22. Other Reserves

	Consolidated			
	Employee Equity Benefits Reserve \$'000	Loyalty Program Equity Benefits Reserve \$'000	Convertible Notes Reserve \$000	Total \$000
At 1 July 2006	1,644	92	-	1,736
Recognition of share-based payment expense	193	269	-	462
At 1 July 2007	1,837	361		2,198
Recognition of share-based payment expense	10	8	-	18
Transfer- residual convertible notes reserve	-	-	301	301
At 30 June 2008	1,847	369	301	2,517

	Parent			
	Employee Equity Benefits Reserve \$'000	Loyalty Program Equity Benefits Reserve \$'000	Convertible Notes Reserve \$000	Total \$000
At 1 July 2006	1,644	92	-	1,736
Recognition of share-based payment expense	193	269	-	462
At 1 July 2007	1,837	361	-	2,198
Recognition of share-based payment expense	10	8	-	18
Transfer – residual convertible notes reserve	-	-	301	301
At 30 June 2008	1,847	369	301	2,517

Nature and purpose of reserves

Employee equity benefits reserve

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to executive directors, senior managers and certain members of staff. The employee equity benefits reserve is used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. Refer to note 26 for further details of these plans.

Loyalty Program Equity Benefits Reserve

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to Eligible Participants of the Company's loyalty program (refer note 26).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

23. Cash flow statement reconciliation

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(a) Reconciliation of net profit after tax to net cash flows from operations				
Net profit (loss)	4,183	(17,962)	(1,773)	(22,321)
Adjustments for:				
Impairment and write-off of intangible assets	-	18,461	-	18,461
Depreciation on non current assets	577	325	122	113
Amortisation of intangible assets	629	2,915	44	2,514
Goodwill expense	290	-	-	-
Share capital issued and options expensed	18	537	18	537
Gain on settlement of convertible notes	(216)	-	(216)	-
Incremental interest expense on convertible note	88	-	88	-
Interest on convertible note	(501)	924	(501)	922
Other items	-	14	1	50
Changes in assets and liabilities				
(Increase)/decrease in related party receivable	-	-	(3,313)	(5,144)
(Increase)/decrease in inventories	189	(4,362)	-	1,870
(Increase)/decrease in trade and other receivables	(3,285)	(2,056)	-	1,434
(Increase)/decrease in deferred tax assets	585	(789)	1,181	(1,158)
(Increase)/decrease in other current assets	155	(160)	242	46
(Decrease)/increase in current tax liability	107	215	289	314
(Decrease)/increase in trade and other payables	(3,546)	6,724	(567)	(1,351)
(Decrease)/increase in provisions	28	58	20	(12)
Net cash from operating activities	(699)	4,844	(4,365)	(3,725)
(b) Non-cash financing and investing activities				
Convertible notes issue	-	15,000	-	15,000
Share-based payments	18	462	18	462
Issue of shares to employees	-	75	-	75
	18	15,537	18	15,537

24. Related party disclosure

(a) Subsidiary

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

Name	Country of incorporation	% Equity Interest		Investment (\$'000)	
		2008	2007	2008	2007
Genepharm Australia Limited	New Zealand	100	100	44,140	44,140

(b) Ultimate parent

Ascent Pharmahealth Limited is the ultimate Australian parent company. From 1 August 2008 the ultimate parent company of the Group is Strides Arcolab Limited, which was incorporated in India and owns approximately 55% of Ascent Pharmahealth Limited.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid are included in Remuneration report on pages 18 to 22.

(d) Transactions with related parties

During the year Ascent Pharmahealth Limited paid Futuristic Planning Pty Ltd, a related entity of W.J. Jenkins, the sum of \$nil (2007: \$55,000) in relation to consulting services provided to Genepharm (Australia) Limited.

During the year Ascent Pharmahealth Limited paid Nautic Blue Project Management Services, a related entity of J. Dal Santo, the sum of \$361,323 (2007: \$394,165) in payment for professional services related to activities undertaken by the company and other contracted third parties during the year. These activities included predominantly transactional services related to the due diligence process of the Strides Asia acquisition, preparation of the annual and half year reports and other reports required by the Australian Stock Exchange and other services related to the financial and reporting requirements of the Company.

(e) Loans to subsidiaries

The Company has a receivable owing from the subsidiary of \$27,089,628 (2007: \$33,250,796). The majority of this loan is in relation to the payment of debts owed to Douglas Holdings International Limited on the acquisition of Douglas Pharmaceuticals Australia Limited (now Genepharm Limited) on 13 July 2006.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

25. Key management personnel

(a) Details of key management personnel

(i) Directors

T.J.R. O'Brien	Chairman (independent, non-executive)
D. Bastas	Director and Chief Executive
W.J. Jenkins	Director (independent, non executive)
R. Aston	Director (independent, non executive)- appointed 4 February 2008
A.N. Vigopoulos	Director (independent, non executive)- resigned 27 November 2007

(ii) Executives

M. Story	Senior Vice President, Operations Development
G.R. Harding	General Manager – Finance and Investment – resigned as Executive Director, 31 January 2008
S.L. Blank	General Manager – Strategy and Development
B Renwick	Business Development Manager – resigned 17 August 2007
J. Dal Santo	Company Secretary

(b) Compensation of key management personnel

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Short-term employee benefits	1,649	2,475	1,037	1,447
Post-employment benefits	154	181	107	119
Share-based payment	(12)	126	-	75
	1,791	2,782	1,144	1,641

(c) Shareholdings of key management personnel (consolidated)

Shares held in Ascent Pharmahealth Limited

	Balance 1 July 2006	Net Change during the year	Balance 30 June 2007	Net Change during the year	Balance 30 June 2008
<i>Directors</i>					
T.J.R O Brien	604,000	293,467	897,467	-	897,467
D. Bastas	6,880,000	-	6,880,000	584,492	7,464,492
W. Jenkins	-	-	-	234,640	234,640
Dr.. R. Aston	-	-	-	40,000	40,000
<i>Executives</i>					
M. Story	-	-	-	-	-
G.R Harding	3,040,000	-	3,040,000	-	3,040,000
S. L. Blank	20,000	884	20,884	20,000	40,884
J. Dal Santo	-	884	884	-	884

25. Key management personnel (continued)

(d) Option holdings of key management personnel

30 June 2008	Balance at 1 July 2007	Granted as Remuneration	Net Change Other		Balance at 30 June 08	Not Vested & Not Exercisable	Vested and Exercisable
<i>Director</i>							
D. Bastas	1,800,000	-	(600,000)	(1)	1,200,000	-	1,200,000
<i>Executives</i>							
G.R. Harding	1,500,000	-	(500,000)	(2)	1,000,000	-	1,000,000
S.L. Blank	250,000	-	-		250,000	-	250,000
B. Renwick	300,000	-	(300,000)	(3)	-	-	-

30 June 2007	Balance at 1 July 2006	Granted as Remuneration	Net Change Other		Balance at 30 June 2007	Not Vested & Not Exercisable	Vested and Exercisable
<i>Director</i>							
D. Bastas	1,800,000	-	-		1,800,000	-	1,800,000
<i>Executives</i>							
G.R. Harding	1,500,000	-	-		1,500,000	-	1,500,000
S.L. Blank	-	250,000	-		250,000	250,000	-
B. Renwick	-	300,000	-		300,000	200,000	100,000
K. Jeffs	1,050,000	-	(1,050,000)	(4)	-	-	-

(1) Options lapsed 1 March, 2008. The fair value of these lapsed options was \$221,056.

(2) Options lapsed 1 March, 2008. The fair value of these lapsed options was \$184,213.

(3) Resigned 17 August, 2007 - options forfeited

(4) Resigned 30 June, 2007 - options forfeited. The Chairman has agreed at his discretion to maintain 700,000 vested options.

Other transactions with key management personnel and their related parties

Refer note 24 (d)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

26. Share based payment plans

(a) Senior Manager Share Option Plan (SMSOP)

A senior manager share option plan has been established where the Company may, at the discretion of the Board, grant options over its ordinary shares to executive directors, senior managers and certain members of staff. The options, issued for nil consideration, are granted in accordance with guidelines established by the Board. The options are issued for a term of three years and are exercisable at varying dates. The options cannot be transferred and will not be quoted on the ASX.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of, and movements in, share options issued during the year.

	2008			2007		
	No.	WAEP \$	WAFV \$	No.	WAEP \$	WAFV \$
Outstanding at the beginning of the year	5,690,000	1.47	0.33	5,970,000	1.49	0.33
- granted	-	-	-	250,000	1.00	0.25
- lapsed	(1,100,000)	1.20	0.37	-	-	-
- forfeited	(840,000)	1.72	0.16	(530,000)	1.58	0.37
Balance at end of year	3,750,000	1.50	0.34	5,690,000	1.47	0.33
Exercisable at end of year	3,750,000	1.50	0.34	4,963,334	1.44	0.35

The fair value of the options issued under the SMSOP are estimated at the date of grant using the Binomial Valuation Method. The following table gives the assumptions made in determining fair value of options granted during the year ended 30 June 2007. No options were issued during the year ended 30 June 2008.

	2008	2007
Dividend per share (cents)	-	3.05 - 5.50
Expected volatility (%)	-	35.0%
Risk free interest rate (%)	-	6.13%
Expected life of the options (years)	-	1.9
Option exercise price (\$)	-	\$1.00
Share price at grant date (\$)	-	\$1.01

When calculating the expected life of the options it is assumed the options will be exercised at the mid-point between vesting date and the expiry date. The expected volatility rates used reflect the assumption that historical volatility is indicative of future trends and may not necessarily be the actual outcome.

26. Share based payment plans (continued)

Other than the assumptions outlined above no other features of the options granted were incorporated into the measurement of fair value.

During the year ended 30 June 2008 no options were exercised over ordinary shares.

The weighted average contractual life for the share options outstanding as at 30 June 2008 is 1.21 years (2007: 2.10 years).

(b) Pharmacy Loyalty Programme Share Options Plan

A pharmacy loyalty programme share option plan has been established where the Company may, at the discretion of the Board, grant options over its ordinary shares of to Eligible Participants. The options are issued for a term of three years and are exercisable at varying dates. The options cannot be transferred and will not be quoted on the ASX.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of, and movements in, share options issued during the year.

	2008			2007		
	No.	WAEP \$	WAFV \$	No.	WAEP \$	WAFV \$
Balance at beginning of year	1,233,823	0.53	0.29	148,282	0.50	0.61
- adjustments to opening balance (note 1)	(224,280)	0.53	0.29	(52,979)	0.50	0.61
- converted to shares	(76,243)	-	-	-	-	-
- granted (note 2)	187,843	0.55	0.00	1,138,520	0.53	0.26
Balance at end of year	1,121,143	0.67	0.27	1,233,823	0.53	0.29
Exercisable at end of year	1,121,143	0.67	0.27	1,233,823	0.53	0.29

Note 1. The scheme is subject to lodgement of Entitlement and Application forms by entitlement holders. As such, no options have been physically granted by the end of the financial year. The cost of the options, although not yet granted, has been taken into account in the financial reports for the years ended 30 June 2008 and 2007.

Note 2. In valuing the cost of the options a maximum number of options are assumed to be taken up each semester under the terms of the scheme. Once Entitlement and Application forms have been lodged the number of options is adjusted to reflect the total number applied for.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

26. Share based payment plans (continued)

The fair value of the options issued under the plan is estimated at the date of grant using the Binomial Valuation Method. The following table gives the assumptions made in determining fair value of options granted during the years ending 30 June 2008 and 2007.

	2008	2007
Dividend per share (cents)	0.0 - 0.50	0.0 - 6.1
Expected volatility (%)	35.0% - 40.0%	35.0% - 40.0%
Risk free interest rate (%)	6.44% - 6.71%	6.18% - 6.44%
Expected life of options (years)	0.75	1.0
Option exercise price (\$)	\$0.50 - \$0.55	\$0.50 - \$0.55
Share price at grant date (\$) *	\$0.17	\$0.52 - \$1.00

When calculating the expected life of the options it is assumed the options will be exercised at the mid-point between vesting date and the expiry date. The expected volatility rates used reflect the assumption that historical volatility is indicative of future trends and may not necessarily be the actual outcome.

Other than the assumptions outlined above no other features of the options granted were incorporated into the measurement of fair value.

The weighted average contractual life for the share options outstanding as at 30 June 2008 is 0.85 years (2007: 1.76 years).

(c) Advisory Board Share Option Scheme

On 15 November 2004 options were issued over ordinary shares, vesting on 1 December 2005 and exercisable up to 1 December 2008. At the end of the year there were 100,000 unissued ordinary shares in respect of which options were outstanding under this scheme.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of, and movements in, share options issued during the year.

	2008			2007		
	No.	WAEP \$	WAFV \$	No.	WAEP \$	WAFV \$
Balance at beginning of year	100,000	1.00	0.16	100,000	1.00	0.16
- granted	-	-	-	-	-	-
- forfeited	-	-	-	-	-	-
Balance at end of year	100,000	1.00	0.16	100,000	1.00	0.16
Exercisable at end of year	100,000	1.00	0.16	100,000	1.00	0.16

The fair value of the options issued under the scheme is estimated at the date of grant using the Binomial Valuation Method. No additional options were granted during the years ending 30 June 2008 and 2007 under the scheme.

During the year ended 30 June 2008 no options were exercised over ordinary shares.

The weighted average contractual life for the share options outstanding as at 30 June 2008 is 0.42 years (2007: 1.42 years).

27. Fair value and interest rate risk

(a) Fair values

All assets and liabilities recognised in the balance sheet, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

(b) Interest rate risk

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

Year ended 30 June 2008	less than 1 year \$'000	Over 1 year and under 5 years \$'000	Total \$'000	Weighted Average Interest Rate
Consolidated				
Financial Assets				
Cash assets at floating rate	2,145	-	2,145	6.0%
Financial Liabilities				
Loans at variable rate	(2,027)	(5,940)	(7,967)	8.8%
Parent				
Financial Assets				
Cash assets at floating rate	2	-	2	6.1%
Financial Liabilities				
Loans at variable rates	(2,027)	(5,940)	(7,967)	8.8%
Year ended 30 June 2007				
Consolidated				
Financial Assets				
Cash assets at floating rate	13,460	-	13,460	5.6%
Financial Liabilities				
Convertible Loans at fixed rate	(15,000)	-	(15,000)	3.0%
Parent				
Financial Assets				
Cash assets at floating rate	3,608	-	3,608	5.6%
Financial Liabilities				
Loans at variable rates	(15,000)	-	(15,000)	3.0%

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. Commitments and contingencies

	Consolidated		Parent	
	2008	2007	2008	2007
(a) Operating Leases – (Non cancellable)	\$'000	\$'000	\$'000	\$'000
Minimum lease payments				
- not later than one year	532	655	-	95
- later than one year but less than five years	861	1,393	-	-
	1,393	2,048	-	95
The non-cancellable operating leases represent rental premises and have lease terms of between two to five years.				
(b) Operating Leases - cancellable				
Minimum lease payments				
- not later than one year	71	79	59	71
- later then one year	141	282	129	257
- more than five years	45	-	-	-
	257	361	188	328

29. Remuneration of Auditor

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

	Consolidated		Parent	
	2008	2007	2008	2007
(a) Audit services provided by Ernst & Young	\$'000	\$'000	\$'000	\$'000
Audit and review of financial statements	168	211	168	211
(b) Other services in relation to the entity and any other entity in the group				
- tax advice	-	2	-	2
- due diligence	6	36	6	36
	174	249	174	249

30. Events after balance sheet date

On 1 August 2008 the Company announced the completion of the acquisition of the Strides' Asia business. Strides is a major global distributor of pharmaceuticals with manufacturing plants located worldwide, including India, Europe and South America. Its Australian and Asian business comprises a drug sales, distribution and manufacturing facility in Singapore and a sales and distribution business across several Asian countries including Thailand and Vietnam.

The transaction was funded through the issue of 110,909,091 shares to Linkace Limited (a subsidiary of Strides) in two tranches, the first of 83,730,909 shares on 1 August 2008 and the second of 27,178,182 shares on 22 September 2008. Shares issued as consideration for this transaction, will be accounted for at their fair value as at the date of issue. The trading price of the shares in the Company at the time of issue was approximately \$0.20 resulting in a provisional transaction value of \$22m.

The issued shares rank equally with all existing fully paid shares, except they are not eligible to participate in the final dividend declared for the financial year 2008. As a result of this transaction, Strides, through its subsidiary Linkace Limited, owns more than 50% of the shares in Ascent Pharmahealth Limited.

Effective as of 1 August 2008, the company took ownership of the Strides Asia operations and began operating as a multinational generic pharmaceutical and healthcare product business with sales in 9 countries across the Asia Pacific region under the brands of Genepharm and Drug Houses of Australia.

To coincide with completion, the Company changed its name to Ascent Pharmahealth Limited and appointed two additional Board members. These new members, Mr. Kumar and Mr. Seth, hold senior executive positions within Strides and were formally appointed on 31 July 2008.

As at the date of this report, the fair values of the identifiable assets of the Strides Asia business are in the process of being quantified.

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 Company and of the consolidated entity are in accordance with the Corporations Act 2001 (Cth), including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with the Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
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 (Cth) for the financial year ending 30 June 2008.

On behalf of the Board



D. Bastas
Managing Director
Melbourne, 22 September 2008

Independent auditor's report to the members of Ascent Pharmahealth Ltd

Report on the Financial Report

We have audited the accompanying financial report of Ascent Pharmahealth Ltd, which comprises the balance sheet as at 30 June 2008, income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider 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 met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included on page 24. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

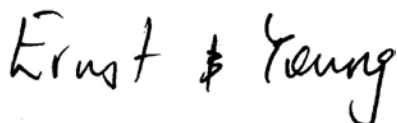
1. the financial report of Ascent Pharmahealth Ltd is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Ascent Pharmahealth Ltd and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 22 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Ascent Pharmahealth Ltd for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'David Petersen'.

David Petersen
Partner
Melbourne
22nd September 2008

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 24 September 2008.

(a) Distribution of equity securities

(i) Ordinary share capital

249,434,085 fully paid ordinary shares are held by 2,459 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends with the exception of 110,909,091 shares issued to Linkace Limited on 1 August 2008 and 22 September 2008 which are not eligible to participate in any dividends declared for the 2008 financial year.

(ii) Options

4,971,143 Options are held by 1,339 individual option holders.

Options do not carry a right to vote.

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

	Fully paid ordinary shares	Options
1 - 1,000	254,445	326,432
1,001 - 5,000	2,269,036	598,782
5,001 - 10,000	4,141,844	148,849
10,001 - 100,000	25,175,120	147,080
100,000 and over	217,593,640	3,750,000
	<hr/>	<hr/>
	249,434,085	4,971,143
	<hr/>	<hr/>
Holding less than a marketable parcel:	717,380	

(b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Listed ordinary shares	
	Number of shares	Percentage of ordinary shares
Linkace Limited	138,335,205	55.46%

ASX Additional Information

(c) Twenty largest shareholders

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Linkace Limited	138,335,205	55.46%
2	I-Investments Pty Ltd	7,535,352	3.02%
3	Mr Ravichandra Papanna	6,527,000	2.62%
4	ANZ Nominees Limited Cash Income Account	5,806,867	2.33%
5	Caslano Holdings Pty Ltd	4,545,584	1.82%
6	Bora Bora Holdings Pty Ltd	3,040,000	1.22%
7	HSBC Custody Nominees (Australia) Limited	2,544,805	1.02%
8	Berne No 132 Nominees Pty Ltd	2,384,558	0.96%
9	Perpetual Trustee Company Ltd	2,300,000	0.92%
10	Tynong Pastoral Co Pty Ltd	2,243,667	0.90%
11	Idameneo (No 123) Pty Ltd	2,220,423	0.89%
12	Mr Stuart James Hercules	2,210,000	0.89%
13	Geneparm Asia Pacific Enterprises Limited	2,160,000	0.87%
14	Pelaro Trading Limited	2,160,000	0.87%
15	Relio Holdings Limited	2,160,000	0.87%
16	Tofino Enterprises Limited	2,160,000	0.87%
17	Mandriola Investments Limited	1,880,000	0.75%
18	Annamaki Pty Ltd The Belladonna Family Account	1,494,533	0.60%
19	Almargen Pty Ltd	1,000,000	0.40%
20	Sanjean Pty Ltd	950,000	0.38%
		<u>193,657,994</u>	<u>77.64%</u>





