



Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Interim report

For the half year ended 31 July 2008

Lodged with the Australian Stock Exchange under Listing Rule 4.2

| <u>Contents</u> | <u>Page</u> |
|--|--------------------|
| Results for announcement to the market | 2 |
| Commentary and analysis | 3-4 |
| Interim report | 6-24 |

Sigma will host a presentation to analysts and media on Monday 22 September 2008 at 11.00am with all presentation material posted to Sigma's website (www.sigmaco.com.au)

For further information, please contact:

| | |
|--|--------------|
| Elmo de Alwis | 0418 377 306 |
| Mark Smith | 0419 135 043 |
| James Barrie | 0417 121 228 |
| Investor.relations@signet.com.au | |

Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Results for announcement to the market

For the half year ended 31 July 2008
compared to prior half year period ended 31 July 2007

| <u>Group Results</u> | | | | <u>\$000</u> |
|---|------|-----|----|---------------------|
| Sales revenue | up | 2% | to | 1,465,830 |
| Total revenue | up | 2% | to | 1,486,478 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | up | 29% | to | 103,315 |
| Earnings before interest and tax (EBIT) | up | 29% | to | 80,452 |
| Profit before tax attributable to members | flat | -% | to | 42,494 |
| Profit after tax attributable to members | up | 1% | to | 30,669 |

| <u>Group Ratios</u> | | | | |
|----------------------------|----|-----|----|------|
| Earnings per share | | | | |
| Basic EPS | up | 12% | to | 3.6c |
| EBIT/Sales margin | up | 26% | to | 5.5% |

| <u>Dividends</u> | Amount per security | Franked amount per security at 30% tax rate |
|--|---------------------|---|
| Interim dividend | 3.0¢ | 100% |
| Interim dividend - previous corresponding period | 3.0¢ | 100% |
| The record date for determining entitlements to the interim dividend | 7 October 2008 | |
| The interim dividend will be paid on | 29 October 2008 | |

Please refer to attached commentary and analysis for explanation of figures shown in this report.

Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Commentary and analysis

The table below provides a summary of the group's financial performance for the half year ending 31 July 2008.

Group Financial Results – Half Year Summary

| Group Results (on a reported basis) | 31 July 2008 \$000 | 31 July 2007 \$000 | Change % |
|---|-----------------------|-----------------------|-------------|
| Sales revenue | 1,465,830 | 1,433,993 | up 2.2% |
| EBITDA | 103,315 | 80,296 | up 28.7% |
| Depreciation and amortisation | 22,863 | 17,951 | up 27.4% |
| Earnings before interest and tax (EBIT) | 80,452 | 62,345 | up 29.0% |
| Net profit after tax (NPAT) | 30,669 | 30,315 | up 1.2% |
| EBIT/Sales (EBIT margin) | 5.5% | 4.3% | up 26.2% |
| Basic EPS | 3.6 | 3.2c | up 12.5% |
| Dividend per share | 3.0c | 3.0c | - % |
| Invested Capital * | 2,118,576 | 1,987,307 | up 6.6% |

* Net Assets excluding external debt, cash and tax balances plus Sigma Rewards debtors

The first half has seen a significant uplift in operating margins, resulting in the Group returning to prior levels of profitability across both operating divisions. The result reflects management's commitment to addressing the key business issues that had confronted Sigma over the past twelve months.

Sigma's performance was also positive in light of the recently introduced reforms to the Pharmaceutical Benefits Scheme ("PBS") and heightened competitor activity. Market shares across key sales channels have been maintained, and the business is well positioned to generate strong returns to shareholders.

Outlook:

The Group reconfirms the full year guidance of Reported Net Profit After Tax to be in the range of \$83 million to \$88 million for the full year ending 31 January 2009. The guidance is based on a number of assumptions, including:

- Stable regulatory environment;
- No major new disruptions to the generics market;
- Continuation of working capital optimisation and additional COGS reduction benefits; and
- Reversal of de-stocking impact.

Divisional Earnings Performance

Pharmaceutical Business

| Divisional Results (on a reported basis) | 31 July 2008 \$000 | 31 July 2007 \$000 | Change % |
|---|-----------------------|-----------------------|-------------|
| Sales revenue | 315,902 | 352,681 | down 10.4% |
| Less: intercompany sales | 39,432 | 44,076 | down 10.5% |
| Net external sales | 276,470 | 308,605 | down 10.4% |
| EBITDA | 76,757 | 59,289 | up 29.5% |
| Depreciation and amortisation | 19,885 | 15,430 | up 28.9% |
| Earnings before interest and tax (EBIT) | 56,872 | 43,859 | up 29.7% |
| EBIT/Sales (EBIT margin) | 20.6% | 14.2% | up 44.7% |
| Invested Capital * | 1,567,721 | 1,443,259 | up 8.6% |
| Return on invested capital (annualised) ** | 8.4% | 6.3% | up 34.2% |

* Net Assets excluding external debt, cash and tax balances

** Reported earnings before interest adjusted for interest shield (NOPAT) divided by Invested Capital

The reduction in sales can largely be attributed to the impact of the de-stocking by pharmacists prior to the new PBS reforms being introduced.

With a focus on renegotiating the cost of key licensed generics and efficiency gains from our Dandenong plant investment, the Division exhibited strong EBIT growth. Eleven new generic and OTC products were launched in the first half, and a further nine with current PBS sales of \$140 million due to be launched in the second half. This further demonstrates the long-term value proposition that the pipeline of new generic molecules out of the Arrow acquisition represents to shareholders. Following the acquisition of Orphan Australia in February, integration of this growth opportunity is well advanced and results to date are in line with our expectations. The OTC business remains on track to deliver double digit growth. The relaunch of the Herron brand continues, and is showing encouraging results thus far.

Healthcare Business

| Divisional Results (on a reported basis) | 31 July 2008 \$000 | 31 July 2007 \$000 | Change % |
|---|-----------------------|-----------------------|-------------|
| Sales revenue | 1,189,360 | 1,125,388 | up 5.7% |
| EBITDA | 29,604 | 24,158 | up 22.5% |
| Depreciation and amortisation | 2,803 | 2,371 | up 18.2% |
| Earnings before interest and tax (EBIT) | 26,801 | 21,787 | up 23.0% |
| EBIT/Sales (EBIT margin) | 2.3% | 1.9% | up 16.4% |
| Invested Capital * | 550,855 | 544,048 | up 1.3% |
| Return on invested capital (annualised) ** | 11.3% | 8.3% | up 36.6% |

* Net Assets excluding external debt, cash and tax balances plus Sigma Rewards debtors

** Reported earnings before interest adjusted for interest shield (NOPAT) divided by Invested Capital

Despite the impact on the Division by de-stocking, a continued focus on customer service and generation of supply chain efficiencies has enabled Sigma to report a pleasing result for the Division. Prior market share gains have been consolidated with enhanced EBIT margins. The numbers of Amcal and Guardian stores remains stable, and combined, these two banners represent the 9th largest retail turnover group in Australia.

Shareholder information

Dividends

The Directors of Sigma Pharmaceuticals Limited have declared an interim dividend of 3.0 cents per ordinary share, fully franked and payable on 29 October 2008. This dividend is in proportion with the prior year interim dividend.

Shareholder's Calendar

2009 *

| | | |
|-------|----|---|
| March | 23 | Final profit result and final dividend announcement |
| March | 31 | Ex-dividend date |
| April | 6 | Record Date |
| May | 7 | Final dividend payment |
| May | 12 | Annual General Meeting Melbourne 11am |

* Dates may be subject to change.

Stakeholder Queries

Share Registry Enquires:

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

Telephone (within Australia): 1300 139 653

E-mail: registrars@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

Company Enquiries:

Elmo de Alwis
Managing Director
Locked Bag 268
Croydon VIC 3136
Australia

Telephone: +61 418377306

Fax: +61 3 9839 2810

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

SIGMA PHARMACEUTICALS LIMITED

ABN 15 088 417 403

Registered Office:

96 Merrindale Drive, Croydon VIC 3136



Sigma Pharmaceuticals Limited

ABN 15 088 417 403

Interim report

For the half year ended 31 July 2008

| <u>Contents</u> | <u>Page</u> |
|--|--------------------|
| Directors' report | 7 |
| Auditor's independence declaration | 8 |
| Consolidated income statement | 9 |
| Consolidated balance sheet | 10 |
| Consolidated cash flow statement | 11 |
| Consolidated statement of changes in equity | 12 |
| Condensed notes to the consolidated financial statements | 13 |
| Directors' declaration | 22 |
| Independent review report | 23 |

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 January 2008 and any public announcements made by Sigma Pharmaceuticals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

The directors present their report on Sigma Pharmaceuticals Limited (the Company) and its controlled entities (the Group) for the half year ended 31 July 2008.

Directors

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

Dr J Stocker, AO
Mr E de Alwis
Mr B Jamieson
Ms L Nicholls, AO
Mr W Scott
Mr D Bayes
Mr D Curlewis

Review of operations

The Group's sales revenue for the half year was \$1,465,830,000 compared with \$1,433,993,000 for the corresponding period in 2007. This is an increase of 2.2%. The Group's earnings before interest and tax for the half year was \$80,452,000 compared with \$62,345,000 for the corresponding period in 2007. This is an increase of 29%. The Group's profit after tax attributable to members of the Company for the half year was \$30,669,000 compared with \$30,315,000 for the corresponding period in 2007.

Effective 22 February 2008, the Group acquired Orphan Holdings Pty Ltd ("Orphan Australia"). Orphan Australia's principle activities are the licensing, marketing and distribution of novel, highly specialised therapeutics from international pharmaceutical and biotech companies for sale in Australia and New Zealand.

The Directors are pleased with the integration of the Orphan business within Sigma's operations and the results to 31 July 2008 include the 5 months of Orphan's post acquisition profit. Details of the provisional acquisition accounting adjustments have been disclosed in note 12 (c).

The six months to 31 July 2008 saw the Group realise some of the benefits associated with prior period investment in rationalisation and restructuring activities. This result is evident from the EBIT contribution to 31 July 2008 as compared to the same period last year.

Further details of the operations of the Group during the half year are set out in the attached financial report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Rounding of amounts

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

Events subsequent to reporting date

Dividends paid or declared by the Company to members since the end of the half year were: An interim dividend of 3.0 cents per share, franked to 100% to be paid to shareholders on 29 October 2008 amounting to \$25,865,834 was declared on 22 September 2008.

On 18 September 2008 the Company successfully refinanced \$700 million of committed debt finance facilities over the next three years.

Signed in accordance with a resolution of the directors, dated 22 September 2008.

Dr John W Stocker AO
Chairman

Elmo de Alwis
Managing Director

Melbourne,
22 September 2008

**Auditor's Independence Declaration
Sigma Pharmaceuticals Limited**

As lead auditor for the review of Sigma Pharmaceuticals Limited for the half year ended 31 July 2008, I declare that to the best of my knowledge and belief, there have been:

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

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

Mary Waldron
Partner
PricewaterhouseCoopers

Melbourne
22 September 2008

Consolidated income statement

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | Refer Note | 31 July 2008 \$000 | 31 July 2007 \$000 |
|---|---------------|--------------------------|--------------------------|
| Sales revenue | 3 | 1,465,830 | 1,433,993 |
| Cost of goods sold | | (1,292,819) | (1,272,844) |
| Gross profit | | 173,011 | 161,149 |
| Other revenue | 3 | 20,648 | 19,235 |
| Warehousing and delivery expenses | | (33,766) | (33,983) |
| Sales and marketing expenses | | (43,109) | (43,364) |
| Administration expenses | | (34,145) | (31,712) |
| Share of net losses from equity accounted investment | | (139) | - |
| Plant rationalisation and restructure costs | | (2,048) | (8,980) |
| Profit before financing costs | | 80,452 | 62,345 |
| Financial income | 5 | 582 | 581 |
| Financial expenses | 5 | (38,540) | (20,440) |
| Net financing costs | 5 | (37,958) | (19,859) |
| Profit before income tax | | 42,494 | 42,486 |
| Income tax expense | 6 | (11,825) | (12,171) |
| Net profit for the half year attributable to members | | 30,669 | 30,315 |
| Earnings per share (EPS) | 8 | Cents | Cents |
| Basic EPS | | 3.6 | 3.2 |
| Diluted EPS | | 3.5 | 3.2 |

Notes appearing on pages 13 to 21 are to be read as part of these consolidated interim financial statements.

Consolidated balance sheet

Sigma Pharmaceuticals Limited

As at 31 July 2008

| | Refer Note | 31 July 2008 \$000 | 31 Jan 2008 \$000 |
|---|---------------|--------------------------|-------------------------|
| Current assets | | | |
| Cash and cash equivalents | 12 | 44,812 | 47,031 |
| Receivables | | 219,099 | 229,250 |
| Inventories | | 292,949 | 349,066 |
| Derivative financial instruments | | 2,067 | 3,439 |
| Prepayments | | 6,110 | 3,143 |
| Total current assets | | 565,037 | 631,929 |
| Non-current assets | | | |
| Derivative financial instruments | | 761 | 1,524 |
| Investments accounted for using the Equity Method | | 1,419 | 1,636 |
| Property, plant and equipment | | 199,533 | 202,427 |
| Intangible assets | | 1,341,518 | 1,195,249 |
| Deferred tax assets | | 32,796 | 34,137 |
| Total non-current assets | | 1,576,027 | 1,434,973 |
| Total assets | | 2,141,064 | 2,066,902 |
| Current liabilities | | | |
| Payables | | 393,642 | 298,938 |
| Interest bearing liabilities | | 221,977 | 33,776 |
| Current income tax liabilities | | 391 | 5,390 |
| Provisions | | 11,487 | 8,197 |
| Total current liabilities | | 627,497 | 346,301 |
| Non-current liabilities | | | |
| Interest bearing liabilities | | 215,000 | 435,000 |
| Deferred tax liabilities | | 97,427 | 81,928 |
| Provisions | | 3,035 | 3,020 |
| Total non-current liabilities | | 315,462 | 519,948 |
| Total liabilities | | 942,959 | 866,249 |
| Net assets | | 1,198,105 | 1,200,653 |
| Equity | | | |
| Issued capital | 9 | 1,074,470 | 1,074,470 |
| Issued capital held by equity compensation plan | | (17,166) | (18,215) |
| Reserves | | 10,482 | 10,663 |
| Retained earnings | | 130,319 | 133,735 |
| Total equity | | 1,198,105 | 1,200,653 |

Notes appearing on pages 13 to 21 are to be read as part of these consolidated interim financial statements.

Consolidated cash flow statement

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | Refer Note | 31 July 2008 \$000 | 31 July 2007 \$000 |
|--|---------------|--------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,645,532 | 1,570,925 |
| Payments to suppliers and employees | | (1,379,996) | (1,486,515) |
| Interest received | | 582 | 581 |
| Finance costs paid | | (39,089) | (22,406) |
| Income taxes paid | | (16,293) | (20,374) |
| Net cash flows from operating activities | 12(b) | 210,736 | 42,211 |
| Cash flows from investing activities | | | |
| Acquisition of subsidiary Orphan Holdings Pty Ltd, net of cash acquired | 12(c) | (131,116) | - |
| Proceeds from sale of property, plant and equipment | | 5,544 | - |
| Return of capital from equity accounted investments | | 150 | - |
| Payments for additions of – | | | |
| Property, plant and equipment | | (4,978) | (20,578) |
| Trademarks and licence fees | | (16,200) | - |
| Development costs | | (1,519) | (3,102) |
| Net cash flows used in investing activities | | (148,119) | (23,680) |
| Cash flows from financing activities | | | |
| Share buyback | | - | (28,146) |
| Proceeds from redemption of shares under Sigma employee share plan | | 1,049 | 1,665 |
| Net proceeds from borrowings | | - | 50,289 |
| Net repayment of borrowings | | (31,799) | - |
| Dividends paid | 7 | (34,086) | (48,670) |
| Net cash flows from used in financing activities | | (64,836) | (24,862) |
| Net increase/(decrease) in cash and cash equivalents | | (2,219) | (6,331) |
| Cash and cash equivalents held at the beginning of the half year | | 47,031 | 49,802 |
| Exchange rate adjustments to cash and cash equivalents held at the beginning of the half year | | - | - |
| Cash and cash equivalents at the end of the half year | 12(a) | 44,812 | 43,471 |

Notes appearing on pages 13 to 21 are to be read as part of these consolidated interim financial statements.

Consolidated statement of changes in equity

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | Refer Note | 31 July 2008 \$000 | 31 July 2007 \$000 |
|--|---------------|-----------------------------------|--------------------------|
| Total equity at the beginning of the half year | | 1,200,653 | 1,344,456 |
| Recognised income/(expense) | | | |
| Exchange differences on translation | | 778 | (44) |
| Movement in fair value of derivatives | | <u>(1,495)</u> | 688 |
| Net income recognised directly in equity | | (717) | 644 |
| Profit for the half year | | <u>30,669</u> | 30,315 |
| Total recognised income and (expense) for the half year | | 29,952 | 30,959 |
| Transactions with equity holders in their capacity as equity holders: | | | |
| Unvested shares held by equity compensation plan | | 1,049 | 1,667 |
| Dividends appropriated | | (34,086) | (48,670) |
| Share-based remuneration plans | | 537 | 630 |
| Share buyback | 9 | <u>-</u> | (46,272) |
| | | (32,500) | (92,645) |
| Total equity at the end of the half year | | 1,198,105 | 1,282,770 |

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

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

1. Basis of financial report preparation and accounting policies

This general purpose financial report for the half year reporting period ended 31 July 2008 has been prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134 *Interim Financial Reporting*.

The interim financial report does not include all the notes of the type normally included within the annual financial report. Accordingly, this report is to be read in conjunction with the Company's annual report for the year ended 31 January 2008, together with any public announcements made by Sigma Pharmaceuticals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements have been prepared in Australian dollars under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. Comparative information has been reclassified where appropriate to enhance comparability.

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period.

New standards and interpretations not yet adopted

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

- AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 are effective for annual 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 the 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. AASB 8 will become mandatory for the Group's 31 January 2010 financial statements. The Group has not yet decided 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.
- Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 are effective for annual reporting periods commencing on or after 1 January 2009. The revised 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 AASBs. The revised AASB 101 will become mandatory for the Group's 31 January 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures. The Group has not yet decided to early adopt the revised AASB 101.
- Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 are effective for annual reporting periods commencing on or after 1 January 2009. The revised AASB 123 removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 31 January 2010 financial statements. The adoption of this accounting standard will not result in a change in accounting policy for the Sigma group as our current accounting policy is in line with the revised AASB 123. The Group has not yet decided to early adopt the revised AASB 123.
- AASB interpretation 13 Customer Loyalty Programmes is effective for annual reporting periods commencing on or after 1 July 2008. The interpretation 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 31 January 2010 financial statements. The Group has not yet determined the potential effect of the interpretation on the Group's financial report.
- AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards are effective for annual reporting periods beginning 1 July 2009. AASB 3 is applied prospectively for all business combinations finalised after 1 January 2009. The revised AASB 3 changes the measurement and recognition requirements in accounting for business combinations.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

1. Basis of financial report preparation and accounting policies (continued)

Estimates

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

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There have been no such revisions in the current financial reporting period. In preparing this consolidated interim financial report the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial report as at and for the year ended 31 January 2008.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

2. Segment information

| | Pharmaceuticals \$'000 | Healthcare \$'000 | Corporate \$'000 | Eliminations and Unallocated \$'000 | Consolidated \$'000 |
|--|---------------------------|----------------------|---------------------|---|------------------------|
| 2008 | | | | | |
| Revenue | | | | | |
| Sales revenue | 276,470 | 1,189,360 | - | - | 1,465,830 |
| Other revenue (excluding interest) | 3,065 | 17,332 | 251 | - | 20,648 |
| External segment revenue | 279,535 | 1,206,692 | 251 | - | 1,486,478 |
| Inter segment revenue ⁽¹⁾ | 39,432 | - | - | (39,432) | - |
| Total segment revenue | 318,967 | 1,206,692 | 251 | (39,432) | 1,486,478 |
| Result | | | | | |
| Segment result before interest and tax | 56,872 | 26,801 | (3,221) | - | 80,452 |
| Net financing costs | | | | | (37,958) |
| Income tax expense | | | | | (11,825) |
| Profit after tax | | | | | 30,669 |
| Net assets | | | | | |
| Segment assets ⁽²⁾ | 1,637,693 | 422,610 | 3,153 | 77,608 | 2,141,064 |
| Segment liabilities ⁽²⁾ | (69,972) | (338,190) | (800) | (533,997) | (942,959) |
| Net assets | 1,567,721 | 84,420 | 2,353 | (456,389) | 1,198,105 |
| Non-cash expenses | | | | | |
| Depreciation and amortisation | 19,885 | 2,803 | 175 | - | 22,863 |
| Other | 1,087 | 3,956 | - | - | 5,043 |
| Total | 20,972 | 6,759 | 175 | - | 27,906 |
| Acquisition of non-current assets | 19,924 | 2,773 | - | - | 22,697 |
| 2007 | | | | | |
| Revenue | | | | | |
| Sales revenue | 308,605 | 1,125,388 | - | - | 1,433,993 |
| Other revenue (excluding interest) | 2,986 | 15,998 | 251 | - | 19,235 |
| External segment revenue | 311,591 | 1,141,386 | 251 | - | 1,453,228 |
| Inter segment revenue ⁽¹⁾ | 44,076 | - | - | (44,076) | - |
| Total segment revenue | 355,667 | 1,141,386 | 251 | (44,076) | 1,453,228 |
| Result | | | | | |
| Segment result before interest and tax | 43,859 | 21,787 | (3,301) | - | 62,345 |
| Net financing costs | | | | | (19,859) |
| Income tax expense | | | | | (12,171) |
| Profit after tax | | | | | 30,315 |
| Net assets | | | | | |
| Segment assets ⁽²⁾ | 1,525,992 | 474,482 | 4,291 | 90,615 | 2,095,380 |
| Segment liabilities ⁽²⁾ | (82,733) | (290,934) | (952) | (437,991) | (812,610) |
| Net assets | 1,443,259 | 183,548 | 3,339 | (347,376) | 1,282,770 |
| Non-cash expenses | | | | | |
| Depreciation and amortisation | 15,430 | 2,371 | 150 | - | 17,951 |
| Other | 4,346 | 629 | 271 | - | 5,246 |
| Total | 19,776 | 3,000 | 421 | - | 23,197 |
| Acquisition of non-current assets | 15,931 | 7,749 | - | - | 23,680 |

⁽¹⁾ Inter-segment transactions are on an arm's length basis.

⁽²⁾ Assets and liabilities shown against each segment exclude deferred tax assets, current and deferred tax liabilities and assets and liabilities that relate to the Group's financing activity.

Detail of segments

Pharmaceuticals – includes contract manufacture for Australian and overseas pharmaceutical companies and the manufacture, sale and marketing of Sigma, Arrow, Herron and other allied products. The results of Orphan Australia have been included within the Pharmaceuticals segment from 22 February 2008, the effective date of the acquisition.

Healthcare – includes wholesale and distribution to pharmacy of prescription and over the counter products, management of banner groups, and the development and provision of private label products.

Corporate – includes corporate head office costs and all items associated with the New Zealand operations.

Geographical segments

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

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | 31 July 2008 \$000 | 31 July 2007 \$000 |
|--|--------------------------|--------------------------|
| 3. Revenue | | |
| Sales revenue | <u>1,465,830</u> | <u>1,433,993</u> |
| Other revenue | | |
| Commissions and fees | 3,493 | 3,244 |
| Membership revenue | 5,664 | 6,398 |
| Marketing services and promotional revenue | 9,096 | 7,824 |
| Rental and other trading revenue | <u>2,395</u> | <u>1,769</u> |
| Total other revenue | <u>20,648</u> | <u>19,235</u> |

4. Income statement disclosure

Profit before interest and income tax expense has been arrived at after including –

Amortisation

| | | |
|-----------------------------|---------------|---------------|
| IP licence agreement | 4,752 | 4,752 |
| Trademarks and licence fees | 8,543 | 6,307 |
| Brand names | 477 | 336 |
| Development costs | <u>1,030</u> | <u>527</u> |
| Total amortisation | <u>14,802</u> | <u>11,922</u> |

Depreciation

| | | |
|---------------------------|--------------|--------------|
| Buildings | 1,528 | 883 |
| Plant and equipment | <u>6,533</u> | <u>5,146</u> |
| Total depreciation | <u>8,061</u> | <u>6,029</u> |

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | 31 July 2008 \$000 | 31 July 2007 \$000 |
|--|--------------------------|--------------------------|
| 5. Net financing costs | | |
| Financial income | | |
| Interest revenue – non-related parties | 582 | 581 |
| Total financial income | <u>582</u> | <u>581</u> |
| Financial expenses | | |
| Interest expense – Sigma Rewards | 15,267 | 10,682 |
| Interest expense – non-related parties | 23,273 | 11,724 |
| | <u>38,540</u> | <u>22,406</u> |
| Less interest capitalised | - | (1,966) |
| Total financial expenses | <u>38,540</u> | <u>20,440</u> |
| Net financing costs | <u>37,958</u> | <u>19,859</u> |
| 6. Income tax expense | | |
| The prima facie income tax expense reconciles to income tax provided as follows – | | |
| Prima facie income tax expense calculated at 30% | 12,748 | 12,746 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income:- | | |
| Non-deductible amortisation | 580 | 584 |
| Other items | (509) | (828) |
| Amounts (over)/ under provided in prior years | (994) | (331) |
| Income tax expense | <u>11,825</u> | <u>12,171</u> |
| Income tax expense/(benefit) comprises - | | |
| Current expense/(benefit) | 12,150 | 11,962 |
| Deferred expense/(benefit) | 669 | 540 |
| Adjustments for current income tax of prior periods | (994) | (331) |
| Income tax expense | <u>11,825</u> | <u>12,171</u> |

7. Dividends

| | | |
|--|---------------|---------------|
| Dividends paid during the half year | <u>34,086</u> | <u>48,665</u> |
|--|---------------|---------------|

| | | |
|---|---------------|---------------|
| Dividends not recognised at the end of the half year | <u>25,866</u> | <u>26,879</u> |
|---|---------------|---------------|

Since the end of the half year the directors have declared a fully franked interim dividend of 3.0 cents per ordinary share (2007: 3.0 cents).

The interim dividend was declared on 22 September and is payable on 29 October 2008 with a record date for determining entitlements to the dividend of 7 October 2008.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | 31 July 2008 Cents | 31 July 2007 Cents |
|------------------------------|--------------------------|--------------------------|
| 8. Earnings per share | | |
| Basic EPS | 3.6 | 3.2 |
| Diluted EPS | 3.5 | 3.2 |

| | 2008 No. '000s | 2007 No. '000s |
|---|-------------------|-------------------|
| Weighted average number of shares | | |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share. | 852,143 | 943,887 |
| Weighted average number of ordinary shares on issue adjusted for the dilutive effect of outstanding share rights and options used in the calculation of diluted earnings per share. | 868,477 | 960,824 |

| | 31 July 2008 \$000 | 31 July 2007 \$000 |
|---|--------------------------|--------------------------|
| 9. Issued capital | | |
| Issued capital at the beginning of the half year | 1,074,470 | 1,225,633 |
| Share buyback | - | (46,272) |
| Issued capital at the end of the half year | 1,074,470 | 1,179,361 |

Share buyback

During the 2007/2008 financial year, the Company announced that as part of its ongoing capital management strategy it would undertake an on-market share buyback of up to 9.9% of Sigma's issued ordinary shares. The share buy-back commenced 18 July 2007 and the last tranche of shares bought back was on 20 December 2007. A total of 94,624,357 shares were bought back during the financial year ended 31 January 2008 at a total cost of \$151.2 million. The average price paid per share was \$1.60.

| | 31 July 2008 Cents | 31 July 2007 Cents |
|---|--------------------------|--------------------------|
| 10. Net tangible asset backing | | |
| Net tangible asset backing per ordinary share | (16.6) | 8.8 |

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

| | 31 July 2008 \$000 | 31 Jan 2008 \$000 |
|--|--------------------------|-------------------------|
| 11. Contingent assets and liabilities | | |
| Contingent liabilities existed at the end of the half year in respect of – | | |
| Pharmacist guarantees ⁽¹⁾ | 2,327 | 3,955 |
| Sigma Rewards guarantee ⁽²⁾ | 15,000 | 14,600 |
| Other guarantees | 4,175 | 2,740 |
| | <u>21,502</u> | <u>21,295</u> |

1. Sigma provides financial guarantees to a number of banks in relation to the borrowings of individual pharmacists. These borrowings relate to the financing of pharmacies. Sigma is therefore exposed to the financial viability of such pharmacies and the risk of their financial failure.
2. Amount represents a bank guarantee in respect of financing payment obligations under the Sigma Rewards program to ensure the finance charge abides by the credit rating agency's requirements.

| | 31 July 2008 \$000 | 31 July 2007 \$000 |
|--|--------------------------|--------------------------|
| 12. Cash flow statements | | |
| (a) Reconciliation of cash and cash equivalents | | |
| Cash and cash equivalents | <u>44,812</u> | <u>43,471</u> |

The Group holds an investment of \$44,435,124 at 31 July 2008 (31 January 2008: \$41,369,221) in two Notes in relation to its Sigma Rewards debtors program. The Group also holds an investment of \$2,955,000 (31 January 2008: 2,568,000) in the Gateway Pharmacy Finance program. The above investments are classified within cash and cash equivalents on the basis that they are readily convertible to cash within 3 months.

(b) Reconciliation of net profit after income tax expense to net cash flows from operating activities

| | | |
|---|----------------|---------------|
| Net profit after income tax expense | 30,669 | 30,315 |
| Depreciation expense | 8,061 | 6,029 |
| Amortisation expense | 14,802 | 11,922 |
| Share-based payments expense | 537 | 630 |
| Loss/(profit) on sale of property, plant and equipment | (211) | 14 |
| (Decrease)/increase in current income taxes payable | (5,557) | (7,958) |
| (Decrease)/increase in net deferred taxes payable | 1,089 | (245) |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in inventories | 61,420 | 11,810 |
| (Increase)/decrease in trade, other debtors and prepayments | 8,089 | (31,072) |
| Increase/(decrease) in trade, other creditors, employee entitlements and other provisions | 91,837 | 20,766 |
| Net cash flows from operating activities | <u>210,736</u> | <u>42,211</u> |

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

12. Cash flow statements continued

(c) Entities acquired during the half year

Effective 22 February 2008, the Group acquired Orphan Holdings Pty Ltd ("Orphan"). Orphan's principal activities are the licensing, marketing and distribution of novel, highly specialised therapeutics from international pharmaceutical and biotech companies for sale in Australia and New Zealand.

Details of the provisional fair values of the identifiable net assets acquired in respect of the Orphan acquisition, together with Orphan's carrying amounts immediately prior to acquisition, are detailed below. In accordance with AASB 3 'Business Combinations' the Group has 12 months from acquisition date to make adjustments to these provisional values.

| | Carrying Value \$000 | Fair Values Recognised on Acquisition \$000 |
|---|-------------------------|---|
| Currents assets | | |
| Cash and cash equivalents | 1,482 | 1,482 |
| Receivables | 5,163 | 5,163 |
| Inventory | 4,230 | 5,303 |
| Prepayments | 289 | 289 |
| Total current assets | 11,164 | 12,237 |
| Non-current assets | | |
| Property, plant and equipment | 221 | 221 |
| Development costs | 263 | 263 |
| Distribution agreements | - | 47,222 |
| Customer relationships | - | 13,059 |
| Brand names | - | 3,589 |
| Deferred tax assets | 353 | 353 |
| Total non-current assets | 837 | 64,707 |
| Total assets | 12,001 | 76,944 |
| Current liabilities | | |
| Payables | 6,162 | 6,162 |
| Current income tax liabilities | 558 | 558 |
| Provisions | 175 | 175 |
| Total current liabilities | 6,895 | 6,895 |
| Non-current liabilities | | |
| Deferred tax liabilities | 84 | 16,812 |
| Provisions | 239 | 239 |
| Total non-current liabilities | 323 | 17,051 |
| Total liabilities | 7,218 | 23,946 |
| Net Assets | 4,783 | 52,998 |
| Fair value of net assets acquired | | 52,998 |
| Goodwill arising on acquisition | | 79,600 |
| | | 132,598 |
| | | 31 July 2008 \$000 |
| Consideration | | |
| Cash purchase | | 130,733 |
| Costs associated with the acquisition | | 1,865 |
| Total consideration | | 132,598 |
| Cash acquired | | (1,482) |
| Net cash outflow on acquisition, as disclosed in cash flow statement | | 131,116 |

During the period 22 February 2008 to 31 July 2008, Orphan contributed revenues of \$17,052,000 and net profit of \$1,334,000 to the Group (including the amortisation of identified intangibles). If the acquisition had occurred on 1 February 2008, the beginning of the Group's interim period, management estimates that the Group's results would not have been materially impacted.

Condensed notes to the consolidated financial statements

Sigma Pharmaceuticals Limited

For the half year ended 31 July 2008

13. Events subsequent to reporting date

An interim dividend of 3.0 cents per share, franked to 100% to be paid to shareholders on 29 October 2008 amounting to \$25,865,834 was declared on 22 September 2008.

On 18 September 2008 the Company successfully refinanced \$700 million of committed debt finance facilities over the next three years.

Directors' declaration

Sigma Pharmaceuticals Limited

In the opinion of the Directors of Sigma Pharmaceuticals Limited:

- a) the financial statements and notes set out on pages 9 to 21 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*,
and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 July 2008 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date, and
- b) there are reasonable grounds to believe that Sigma Pharmaceuticals Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Dr John W Stocker AO
Chairman

Elmo de Alwis
Managing Director

Melbourne
22 September 2008

Independent auditor's review report to the members of Sigma Pharmaceuticals Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sigma Pharmaceuticals Limited, which comprises the balance sheet as at 31 July 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Sigma Pharmaceuticals Limited Group (the consolidated entity). The consolidated entity comprises both Sigma Pharmaceuticals Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 July 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sigma Pharmaceuticals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers
ABN 52 780 433 757

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 July 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

Mary Waldron
Partner

Melbourne
22 September 2008