



**LIFE PHARMACY LIMITED
ANNUAL MEETING
Thursday, 31 August 2009
At 3.00 pm**

Chairman's Address

One of the duties of a Chairman is to ensure that shareholders are kept informed about the Board's composition and performance and about any significant contributions made by its individual members.

In that regard I would like to specifically acknowledge two Directors of Life Pharmacy, for the substantial contribution that they have made to the Company over time.

The first is Liz Coutts, who chaired the company from its listing in 2005. Earlier this month Liz stepped down as Chair and resigned as a Director. During her tenure Liz showed tremendous dedication in terms of both her role on the Board of Life and also in providing support and guidance to the Central Office and individual Pharmacists. She has lead the organisation through significant change over the past four years including the opening of six new stores, the sale of one store, the capital placements to both Warren Flaunty and LPL Trustee Limited and of course the successful rights issue undertaken last year and the agreement with Care Chemists. Liz worked on the proposed merger right up to the date of the announcement, helping to secure this future growth opportunity, and in doing so, showing her continued dedication and passion for the company. The Board appreciates the important contribution that she has made to the company over this time period.

The second person that I wish to acknowledge is Neil Webber, who has also been a Director of the Company since its listing in February 2005. As a Pharmacy owner in a number of the Life branded stores and as a PIMS member Neil has provided considerable insight not only from the perspective of a pharmacy operator but also from his wealth of general business experience. Neil has decided not to offer himself for re-election as a Director of Life in the new merged entity, but has agreed to continue to provide support to the new Board as an alternate director to myself. I would like to thank Neil for his contribution to the Board and also for his support as a close colleague and friend. His experience in the pharmacy industry spans some 30 years, and we are pleased that, while he will not be a member of the Board, he will continue to support the business through his investment in LPL itself and in a number of Life Pharmacy stores. I ask that you join with me and demonstrate your appreciation of Neil's efforts on behalf of all of us.

Thank you.

Now I would like to briefly review what has been a momentous period in the history of Life Pharmacy Limited.

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The last 12 months has been a period of significant change for the Company. In an environment where the economic climate has deteriorated to a level not seen in recent times, the board, management and stores in LPL has had to respond quickly. I am pleased to update you on some of the progress made over the past 12 months.

Overall, profitability in the group has improved year on year, recording a profit of \$61,000 from April 2008 to March 2009 compared to a loss of \$570,000 in the previous year.

Our performance to March this year was driven by three factors:

- The first is an improvement in the profitability of our associate stores resulting from a continued focus on cost management. The investments we have made in systems and processes are now beginning to pay off commercially.
- The second driver of profit was the very strong and well executed marketing programme. It included increased catalogue numbers and further benefits from the Living Card loyalty programme, which now has over 250,000 members and is now beginning to deliver on its promise.
- The third is the strong focus within the parent company on cost management, with much of the previous year's overheads being reduced. Despite the stronger marketing programme our costs in this area have declined year-on-year through better focus and more targeted consumer marketing.

In the current year, Life Pharmacy stores continue to show strong sales growth with total sales year-to-date being 5% ahead of sales for the same period last year. Our sales growth in key categories has outperformed the competition, which in this environment is very commendable.

We are continuing to invest in the Care Chemist franchise and at the date of this meeting the total number of stores that belong to the Care Chemist group is now 24, an increase of 16 since we acquired Care Chemist 15 months ago. One of the key benefits of the Care Chemist brand is the focus on delivering dispensary and health related products to the customers they serve across their communities. As a retail-focused brand, Life Pharmacy has typically placed less emphasis on this area, so the work we are doing to transfer knowledge across the two brands is beginning to bring benefits to the wider group.

During the year the company undertook a rights issue to raise additional capital for growth. This was a very successful exercise, with the company raising in excess of \$11m. LPL Trustee Limited, backed by Andrew Bagnall, fully supported the rights issue to the extent allowable under its option agreement. The Board, management and pharmacies continue to appreciate Andrew's involvement in the company. His experience and vision along with his financial commitment have enabled LPL to make considerable progress over the past two years.

Now I would like to look to the Company's future.

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As you are aware, the Board has reached agreement with the majority owners of Pharmacybrands to bring both organisations together. I am delighted with the very good progress we have made on this front, which has now reached the point where the resolutions approving the merger are to be proposed during this meeting.

The Boards of both companies recommend the proposed merger and have identified a number of key benefits in bringing the two organisations together. These include the ability to accelerate growth in both franchisee and partnership store numbers, the ability to achieve cost savings in both pharmacies and central office from combined purchasing power and from operating a single central office and the ability to enhance the range of services provided by combining the strengths of both organisations. As the integration of the two organisations starts to take shape a number of other opportunities will inevitably follow, such as the opportunity to develop and extend own label products and provide more resource to the bodies representing the pharmacy channel like the Guild and the Pharmaceutical Society.

The strength of the combined group will put the company in a far stronger competitive position in a market that continues to evolve. In particular, with the Warehouse committed to rolling out pharmacies throughout New Zealand we need to ensure we are well established and ready to represent and defend the pharmacy channel in this country. That requires a financially secure organisation of good size with a national footprint, supported by strong marketing programmes and by industry leading IT capability.

The details of the merger with Pharmacybrands were presented in the Notice of Meeting and further details are to be found in the Independent Appraisal Report included in the mailing to each shareholder.

In summary the main terms of the proposed merger with Pharmacybrands are as follows:

- We are offering to purchase 100% of the share capital in Pharmacybrands.
- For every Pharmacybrands share held we will offer 39.783 fully paid ordinary shares in Life Pharmacy.
- In order for the transaction to go ahead we need acceptance from over 50% of Pharmacybrands shareholders.
- Under the offer the majority shareholder in Pharmacybrands (Cape Healthcare Limited) will be allotted 26.9m LPL shares.
- Life Pharmacy undertakes a 1 for 100 taxable bonus issue.
- Life Pharmacy will acquire 8.2m of its partly paid shares on a pro rata basis for 32 cents per share.
- And this offer is, of course, subject to your approval today.

As indicated as part of the merger the Company is to buy back, for 32 cents per share, 8.2m of the partly paid Life Pharmacy shares on issue. The rationale for this is simple.

The rights issue that was undertaken last year raised in excess of \$11m for the purpose of creating a fund for future growth and acquisitions. As the proposed merger with



Pharmacybrands is a share swap, the company does not require all of this of cash at this point in time.

If the merger goes ahead and the buy-back of the partly paid shares is completed both LPL Trustee Limited (backed by Andrew Bagnall) and Cape Healthcare Limited (backed by Peter Merton and Zuellig) will have similar shareholdings in the combined entity of approximately 27% each. Overall, existing Life Pharmacy shareholders will own approximately 32% of the combined organisation and existing Pharmacybrands shareholders will own the remaining 14%.

Your Board believes that this proposed merger with Pharmacybrands is an exciting opportunity for the combined company to be in a better position to generate greater wealth for shareholders than can be achieved by continuing as two separate entities, whilst also enhancing the services to both Pharmacists and the consumer.

Before I move on to the more formal matters of the meeting, I would finally like to spend some time thanking the current Board members, central office and pharmacists in the group for all they have done over the past twelve months. As mentioned previously there have been a significant number of changes in the past twelve months including Philip Ingham's decision to resign as CEO for personal reasons in January of this year. As a consequence a significant amount of work became the responsibility of our remaining central office executives. In particular, I would like to take this opportunity to acknowledge the outstanding contribution our CFO, Craig Wilson has made since Philip left the Company.

The continued levels of commitment and loyalty that our colleagues throughout the business have shown have been outstanding. Our financial performance has been the best in a number of years and is only further testament to the superior levels of service and advice we provide to our customers and the support infrastructure that sits behind this.