

LIFE PHARMACY LIMITED
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Life Pharmacy Limited (the *Company*) hereby gives notice that the Annual Meeting of Shareholders will be held in the offices of Life Pharmacy Limited, Level 1, Building B, 600 Great South Road, Greenlane, Auckland, New Zealand on 31 August 2009 commencing at 3.00 pm.

The business of the meeting will be:

- (a) to receive and consider certain reporting information relating to the Company;
- (b) to consider, and if thought fit, pass certain resolutions; and
- (c) to consider such other business as may properly be raised at the annual meeting.

REPORTING INFORMATION

To receive and consider the annual report, the financial statements for the year ended 31 March 2009, and the report of the auditors thereon.

RESOLUTIONS

Each of Resolutions 1, 2, 3 and 4(c) to (f) relate to the Company's proposed merger with Pharmacybrands Limited by way of a full takeover offer and other associated transactions. Resolutions 1, 2 and 3 relate to the approval of the merger and associated transactions (including a proposed buy back of partly paid ordinary shares of the Company) and Resolutions 4(c) to (f) relate to the appointment of directors of the Company.

In order for the Company's proposed merger with Pharmacybrands Limited to be approved, **ALL** of Resolutions 1, 2, 3 and 4(c) to (f) must be passed. If any of these resolutions is not passed, the proposed merger will **NOT** be approved and the transaction will **NOT** proceed.

Resolutions 4(a) and (b) relate to the reappointment of directors, one of whom was appointed to the Board after the last meeting of shareholders and the other of whom is resigning and seeking reappointment in accordance with the Company's director rotation policy.

Resolution 5 authorises the board of the Company to fix the auditors remuneration for the ensuing year.

Resolution 1 - Approval of all shareholders to the merger and associated transactions

All shareholders of the Company are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company. Please note that shareholders must pass each of Resolutions 2, 3 and 4(c) to (f) as set out in this Notice of Meeting for this resolution to take effect:

"That Life Pharmacy Limited undertake the proposed merger with Pharmacybrands Limited and all other associated transactions described in the Explanatory Notes including, without limitation, that Life Pharmacy Limited be authorised to issue up to 26,904,646 fully paid ordinary shares in Life Pharmacy Limited to Cape Healthcare Limited on the terms set out and referred to in the Explanatory Notes."

Resolution 2 - Approval of fully paid ordinary shareholders to the merger and associated transactions

The holders of all fully paid ordinary shares of the Company are asked to consider and, if thought fit, pass the following resolution. Please note that shareholders must pass each of Resolutions 1, 3 and 4(c) to (f), as set out in this Notice of Meeting for this resolution to take effect:

"That Life Pharmacy Limited undertake the proposed merger with Pharmacybrands Limited and all other associated transactions described in the Explanatory Notes including, without limitation:

(a) that Life Pharmacy Limited be authorised to purchase up to 8,200,000 partly paid ordinary shares in Life Pharmacy Limited on the terms set out and referred to in the Explanatory Notes; and

(b) that Life Pharmacy Limited be authorised to issue up to 40,699,722 fully paid ordinary shares in Life Pharmacy Limited to shareholders of Pharmacybrands Limited on the terms set out and referred to in the Explanatory Notes."

Resolution 3 - Approval of partly paid ordinary shareholders to the merger and associated transactions

The holders of all partly paid ordinary shares of the Company are asked to consider and, if thought fit, pass the following resolution. Please note that the shareholders must pass each of Resolutions 1, 2 and 4(c) to (f) as set out in this Notice of Meeting for this resolution to take effect:

"That Life Pharmacy Limited undertake the proposed merger with Pharmacybrands Limited and all other associated transactions described in the Explanatory Notes including, without limitation:

(a) that Life Pharmacy Limited be authorised to purchase up to 8,200,000 partly paid ordinary shares in Life Pharmacy Limited on the terms set out and referred to in the Explanatory Notes; and

(b) that Life Pharmacy Limited be authorised to issue up to 40,699,722 fully paid ordinary shares in Life Pharmacy Limited to shareholders of Pharmacybrands Limited on the terms set out and referred to in the Explanatory Notes."

Resolutions 4(a) to (f) - Approval of appointment of directors of the Company

All shareholders of the Company are asked to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company. Please note that, in the case of Resolutions 4(c) to (f), shareholders must pass each of Resolutions 1, 2, 3 and 4(c) to (f) as set out in this Notice of Meeting for these resolutions to take effect:

Resolution 4(a)

"That John Barry Bolland, having been appointed by the Board as a director of Life Pharmacy Limited until the next annual meeting of shareholders in accordance with clause 11.5 of Life Pharmacy Limited's constitution and being eligible for appointment, be appointed as a director of Life Pharmacy Limited."

Resolution 4(b)

"That Andrew John Davidson, having retired as a director of Life Pharmacy Limited and being eligible for reappointment, be appointed as a director of Life Pharmacy Limited."

Resolution 4(c)

"That John Andrew Bagnall, having retired as a director of Life Pharmacy Limited and being eligible for reappointment, be appointed as a director of Life Pharmacy Limited."

Resolution 4(d)

"That Peter Miles Merton be appointed as a director of Life Pharmacy Limited, with effect from the later of: (i) the date Life Pharmacy Limited receives his consent and certificate as to eligibility; or (ii) the date Life Pharmacy Limited's takeover offer for Pharmacybrands Limited is declared unconditional."

Resolution 4(e)

"That William Leo Meaney be appointed as a director of Life Pharmacy Limited, with effect from the later of: (i) the date Life Pharmacy Limited receives his consent and certificate as to eligibility; or (ii) the date Life Pharmacy Limited's takeover offer for Pharmacybrands Limited is declared unconditional."

Resolution 4(f)

"That Ian Geoffrey Stanton Sharp be appointed as a director of Life Pharmacy Limited, with effect from the later of: (i) the date Life Pharmacy Limited receives his consent and certificate as to eligibility; or (ii) the date Life Pharmacy Limited's takeover offer for Pharmacybrands Limited is declared unconditional."

Resolution 5 - Approval of remuneration of auditors

All shareholders of the Company are asked to consider and, if thought fit, pass the following resolution:

"That the Board of Life Pharmacy Limited be authorised to fix the remuneration of the auditor for the ensuing year."

OTHER BUSINESS

To consider such other business as may properly be raised at the annual meeting.

INFORMATION FOR SHAREHOLDERS**Board of Directors' recommendation**

The Board of Directors recommends that you vote in favour of each of the resolutions.

Voting

Shareholders may vote for or against any resolution. Resolutions 1, 4(a) to (f) and 5 require the approval of an ordinary resolution of all of the shareholders of the Company. An ordinary resolution means a resolution approved by a simple majority of the votes of those shareholders entitled to vote and voting on the resolution. Resolution 2 requires the approval, by simple majority of those voting, of the holders of the fully paid ordinary shares in the Company (as a class). Resolution 3 requires the approval, by simple majority of those voting, of the holders of the partly paid ordinary shares in the Company (as a class).

Proxies and representatives

You may exercise your right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in your place. A proxy need not be a shareholder of the Company. A body corporate shareholder may appoint a representative to attend the meeting on its behalf.

A proxy form is attached to this notice. If you wish to vote by proxy you must complete the form and produce it to the Company's share registrar, Computershare Investor Services Limited, Private Bag 92119, Auckland 1142 so as to ensure that it is received at least 48 hours before the meeting.

By order of the Board

Mark Vuksich
Chairperson of the Board
14 August 2009

EXPLANATORY NOTES

INTRODUCTION

As announced on 3 August 2009, the Company has been in discussions with Pharmacybrands Limited (*Pharmacybrands*) in relation to a proposed merger between the two companies (the *Merger*). The Board is now pleased to put the terms of the Merger to shareholders for approval.

Since the Company listed on the NZSX in March 2005, a key objective of the Company has been to expand both its pharmacy investments and franchise operations, and the Company's business plans have been predicated on such growth. To this end, the Company acquired the Care Chemist franchise business in May 2008 and raised capital under a rights issue in September 2008 to fund future growth.

The Merger provides immediate and significant growth opportunities to the Company. Currently the Company has 27 franchise pharmacy stores, 5 operating under the Life Pharmacy brand with the remaining 22 operating under the Care Chemist brand. The Merger will result in the Company having 221 franchise pharmacy stores in total with the addition of 121 Unichem franchises and 73 Amcal franchises to the Company's operations. In addition to these franchise arrangements, the Company will also expand the number of stores in which it has an equity interest from the current 23 to 32 pharmacy stores.

The Company believes that the Merger creates an opportunity for the combined organisation to generate greater wealth for shareholders whilst enhancing the services to both pharmacists and consumers compared to the two entities operating independently. The key benefits to these stakeholders will be derived from:

- Synergy benefits from operating one central support office.
- Better purchasing power with suppliers from the combined volumes of both organisations.
- The ability to realise further value from the intellectual property and best practices from both organisations, in particular, the strength of executing marketing programmes based on Life Pharmacy's relationship with high end beauty and fragrance suppliers and the effectiveness of the Life Pharmacy Living Card. Also, the training, development and enhanced professional services provided to Unichem and Amcal pharmacists by Pharmacybrands will provide increased value to both groups.
- The opportunity to apply more resources to assist the Pharmacy Guild, Pharmaceutical Society and other such groups to ensure pharmacy can play a greater role in primary care to deliver a range of new services to enhance the health care of New Zealanders.
- The ability to enhance future opportunities, such as own label product development and expanding into other pharmacy related channels.
- The strength to represent and defend the pharmacy channel as stronger competition continues to build, especially from other retail and grocery traders.

Based on the above advantages, the directors of the Company recommend the shareholders approve the Merger and the associated transactions.

The Merger is intended to be effected by the Company making an offer for all of the issued share capital in Pharmacybrands under the Takeovers Code Approval Order 2000 (the *Takeovers Code*). The key terms of the takeover offer are:

- (i) the Company will offer 39.783 fully paid Life Pharmacy shares for every 1 Pharmacybrands share acquired; and

- (ii) the takeover offer will be conditional upon Life Pharmacy receiving acceptances in respect of a sufficient number of shares in Pharmacybrands that confer 50% or more of the voting rights in Pharmacybrands and certain other usual conditions.

The takeover offer values Pharmacybrands at approximately \$20 million (or \$19.55 per Pharmacybrands share). The shares to be issued by the Company under the offer will have an issue price of \$0.491 per share and will rank pari passu with all other ordinary shares on issue at the date of allotment. This issue price represents a premium of 36.39% to the last sale price of fully paid ordinary shares of the Company quoted on NZSX immediately prior to the announcement to the market of the Merger (\$0.36 per share), and a discount of 18.17% to the last sale price of fully paid ordinary shares in the Company quoted on NZSX as at 5.00 pm on Friday 7 August 2009 (\$0.60 per share).

Under the Merger, the Company will issue up to 40,699,722 shares to the Pharmacybrands shareholders (the *Share Issue*). This will comprise up to approximately 40% of the shares on issue in the Company post Merger. The shares will be issued to each accepting Pharmacybrands shareholder within 3 business days of the later of the date on which their acceptance of the offer is received by the Company and the date on which the takeover offer becomes unconditional.

For the purposes of providing shareholders with some indication of the financial scale and operations of the merged business, set out below is a statement of financial position and performance for the two companies, prepared on a standalone and aggregated basis for the financial year ending 31 March 2009. Note that the statement does not include the impact of the Buy Back (referred to below), the bonus issue recently conducted by the Company or the \$1.2 million fully imputed dividend paid by Pharmacybrands to its shareholders prior to the Merger.

Shareholders should note that this data has been prepared by the Company on the basis of publicly available financial information for the Company and Pharmacybrands for the financial year ending 31 March 2009. No adjustments have been made to the financial information below for merger costs or benefits, and no adjustment has been made to reflect post-balance date announcements or events. No adjustment has been made for goodwill arising as a consequence of the Merger (goodwill of approximately \$13.3 million is expected to arise as a consequence of the Merger). The financial information below should accordingly be read by shareholders with some caution, in light of the basis of preparation as outlined above and mindful of the above limitations and qualifications.

The financial performance information reflected in the below aggregated numbers is not intended to be, and is not, forecast or projected financial information. In the event that the takeover is successful, and the Merger is completed, actual consolidated results for the merged businesses will differ, and potentially materially, from the information set out below.

LIFE PHARMACY / PHARMACYBRANDS STANDALONE AND AGGREGATED ACCOUNTS

	Life Pharmacy Year Ended 31/03/2009 (\$'000)	Pharmacybrands Year Ended 31/03/2009 (\$'000)	Total Year Ended 31/03/2009 (\$'000)
Statement of Financial Performance			
Operating Revenue			
Operating revenue from activities	6,169	12,084	18,253
Equity accounted earnings of associates	1,069	538	1,607
	<u>7,238</u>	<u>12,622</u>	<u>19,860</u>
Operating (deficit)/surplus before interest and taxation	(809)	1,777	968
Net funding (cost)/benefit	743	461	1,204
Operating surplus before taxation	<u>(66)</u>	<u>2,238</u>	<u>2,172</u>
Taxation benefit/(expense)	127	(529)	(402)
Net surplus	<u><u>61</u></u>	<u><u>1,709</u></u>	<u><u>1,770</u></u>
Statement of Financial Position			
EQUITY			
Capital	46,195	3,894	50,089
Retained (deficit)/surplus	(9,528)	2,805	(6,723)
Total Equity	<u>36,667</u>	<u>6,699</u>	<u>43,366</u>
ASSETS			
Current			
Receivables	8,668	952	9,620
Inventories	0	25	25
Group advances	5,652	0	5,652
Cash & deposits	6,410	4,420	10,830
	<u>20,730</u>	<u>5,397</u>	<u>26,127</u>
Non-current			
Fixed assets	425	229	654
Investments	19,280	3,611	22,891
Deferred taxation	1,425	179	1,604
Loans & advances	0	52	52
Intangible assets	700	566	1,266
	<u>21,830</u>	<u>4,637</u>	<u>26,467</u>
Total Assets	<u>42,560</u>	<u>10,034</u>	<u>52,594</u>
LIABILITIES			
Current			
Trade creditors	1,564	3,335	4,899
Borrowings	4,205	0	4,205
	<u>5,769</u>	<u>3,335</u>	<u>9,104</u>
Non Current			
Unamortised future income	124	0	124
Total Liabilities	<u>5,893</u>	<u>3,335</u>	<u>9,228</u>
Total Liabilities and equity	<u>36,667</u>	<u>6,699</u>	<u>43,366</u>

Notes:

1. The Life Pharmacy accounts do not include the cancellation of the 8.2m partly paid shares or the final instalment of the rights issue.
2. The Pharmacybrands accounts do not include the \$1.2m dividend payable to shareholders prior to the merger.

The Company has prepared and registered a Prospectus and Investment Statement in accordance with the Securities Act 1978, Securities Regulations 1983 and Securities Act (Takeovers) Exemption Notice 2001 in respect of the Share Issue. A copy of this document can be obtained free of charge on the Companies Office website at www.companies.govt.nz.

Cape Healthcare Limited (an entity associated with Peter Merton and The Zuellig Group and which is the majority shareholder of Pharmacybrands, *Cape Healthcare*), and entities associated with each of Ian Sharp, Graham Gyde, Peter McSweeney, Kenneth Orr and Stephen Tatton (directors of Pharmacybrands) have each entered into pre-bid agreements with the Company pursuant to which they have agreed to accept the takeover offer in respect of all of the shares they hold and control in Pharmacybrands, being a total number of shares of 705,285, which represents 68.94% of the issued shares of Pharmacybrands.

If the Merger and associated transactions are not approved by shareholders of the Company:

- the Merger will not proceed;
- accordingly, the synergies and other advantages of the Merger will not be achieved; and
- the Company and Pharmacybrands will remain stand alone competitors.

Prior to completion of the Merger, the Company proposes buying back up to 8,200,000 partly paid ordinary shares in the Company (the *Buy Back Shares*) on a pro rata basis (the *Buy Back*).

There are currently 29,004,631 partly paid ordinary shares on issue, all of which were allotted following the rights issue undertaken by the Company in September 2008. These shares were issued for \$0.40 per share, with \$0.20 per share paid on allotment, and the remaining \$0.20 per share payable on 18 September 2009.

The Company intends to offer \$0.32 per Buy Back Share, therefore the maximum total amount that the Company could pay to partly paid ordinary shareholders under the Buy Back is \$2,624,000. Upon acquisition, the Buy Back Shares will be cancelled by the Company, thereby extinguishing all amounts payable in respect of these shares. The rationale for the Buy Back is set out below.

If you are a partly paid shareholder, a disclosure document in respect of the Buy Back, and an application form detailing your entitlement under the Buy Back, accompanies this Notice of Meeting.

THE RESOLUTIONS

The Company is seeking shareholder approval to the Merger and various other associated transactions. The resolutions to provide such approvals are described in more detail below.

Resolution 1 - Approval of all shareholders of Merger and associated transactions

Resolution 1 is an ordinary resolution of all shareholders of the Company requiring the approval of a simple majority of votes cast at the meeting. All shareholders are entitled to vote on Resolution 1.

Resolution 1 approves the Merger and all associated transactions, including in particular the issue of shares to Cape Healthcare under the Merger.

Prior to the Merger being announced, the Company and Cape Healthcare entered into a pre-bid agreement whereby the Company committed to making, and Cape Healthcare committed to accepting, the takeover offer. Accordingly, Cape Healthcare will acquire 26,904,646 fully paid ordinary shares in the Company under the Merger (the *Cape Healthcare Shares*), which will comprise more than 20%, but less than 50%, of the total voting rights in the Company.

Under rule 7(d) of the Takeovers Code, the issue of the Cape Healthcare Shares requires the approval of an ordinary resolution of the holders of the voting securities of the Company (i.e. a simple majority of votes cast at the meeting by shareholders entitled to vote and voting). The Company is seeking this consent under Resolution 1. The Share Issue, if approved, will be permitted under rule 7(d) of the Takeovers Code as an exception to rule 6 of the Takeovers Code.

The directors recommend approval of the issue of the Cape Healthcare Shares as part of the Merger transaction as they believe that the Merger is in the best interests of the Company.

Rules 16(b)(ii)-(iv) of the Takeovers Code require this Notice of Meeting to contain certain information in relation to the percentage of voting securities Cape Healthcare will hold in relation to the Company following the issue of the Cape Healthcare Shares. As these percentages are dependent on both:

- (a) the degree to which the Buy Back is accepted by the holders of the partly paid ordinary shares in the Company; and
- (b) the extent to which the takeover offer is accepted by the shareholders of Pharmacybrands other than Cape Healthcare,

the Company is unable to calculate the relevant percentages and therefore applied for, and received, an exemption from the Takeovers Panel from rules 16(b)(ii)-(iv) of the Takeovers Code. The Company also applied for, and received on behalf of Cape Healthcare, an exemption from the Takeovers Panel from rule 7(d) of the Takeovers Code. This exemption allows Cape Healthcare to increase its shareholding in the Company (which, as at the date of this Notice of Meeting is nil) to a level greater than 20% of the voting rights of the Company without the Company complying with rules 16(b)(ii)-(iv) of the Takeovers Code.

The above exemptions are conditional on this Notice of Meeting containing, and in approving Resolution 1 shareholders should note, the following disclosures:

1. The maximum number of voting securities that may be allotted to Cape Healthcare on the successful completion of the Share Issue expressed as a percentage of the total voting securities on issue is 35.56% (being 26,904,646 ordinary shares).

2. The maximum percentage of voting securities that may be held or controlled by Cape Healthcare after the allotment of the voting securities in the Company on the successful completion of the Share Issue is 35.56%.
3. The maximum percentage of voting securities that may be held or controlled by Cape Healthcare *and its associates* after the allotment of the voting securities in the Company on the successful completion of the Share Issue is approximately 35.66%.

The above disclosures have been calculated on the basis that there are no changes to the total number of voting securities in the Company on issue between the date of this Notice of Meeting and the expiry of the exemption, other than (and taking account of): (i) the bonus issue of 523,379 ordinary shares to be undertaken by the Company; (ii) the ordinary shares to be issued as a result of the takeover offer giving effect to the Merger (assuming that no Pharmacybrands shareholder accepts the offer other than Cape Healthcare and, in the case of paragraph 3 only, John Hetherington, Helen Jeanine Merton and Miles Everard Vincent Merton who jointly hold 3,000 shares in Pharmacybrands and are associates of Cape Healthcare); the partly paid shares which are to be acquired and cancelled pursuant to the Buy Back (assuming that the Buy back is accepted in full).

The exemption from rule 7(d) of the Takeovers Code granted by the Takeovers Panel does not apply:

1. if there is an increase in Cape Healthcare's voting control in the Company, except as a result of the Share Issue, before completion of the Merger; or
2. to an increase in Cape Healthcare's voting control in the Company if, immediately after completion of the Share Issue under the Merger, the total percentage of voting securities held or controlled by Cape Healthcare is greater than the maximum percentage of voting securities that could be held or controlled by Cape Healthcare Limited as disclosed in this Notice of Meeting.

The exemption is also subject to the condition that there is no change in control of Cape Healthcare before the Share Issue under the Merger.

Note that by exempting Cape Healthcare from rule 7(d) of the Takeovers Code, and the Company from rules 16(b)(ii)-(iv) of the Takeovers Code, the Takeovers Panel is:

- (i) neither endorsing nor supporting the accuracy or reliability of the contents of this Notice of Meeting; and
- (ii) not implying it has a view on the merits of the proposed issue of voting securities to Cape Healthcare under the Share Issue.

As noted in the Explanatory Notes above, the Company has entered into a pre-bid agreement with Cape Healthcare pursuant to which Cape Healthcare has agreed to accept the takeover offer in respect of all of the shares it holds and controls in Pharmacybrands. Cape Healthcare has confirmed to the Company that apart from the pre-bid agreement, it has not entered, and does not intend to enter, into any other agreements or arrangements (whether legally enforceable or not) relating to the allotment, holding or control of the voting securities to be issued to Cape Healthcare under the Merger, or to the exercise of voting rights in the Company.

Under Listing Rule 9.2.1, the terms and conditions of the Merger must be approved by ordinary resolution. This is because the Merger is a "material transaction", and is one of a related series of

transactions which includes the Buy Back, a transaction with a “related party”. This requirement for approval is technical in nature, as: (i) the Merger is not itself a related party transaction; (ii) as confirmed by Listing Rule 9.2.4(b), Listing Rule 9.2.1 does not apply to the Buy Back by itself; and (iii) although the two transactions are arguably a related series of transactions, the Buy Back has not influenced the Company’s decision to undertake the Merger. Nevertheless, the Company is seeking the approval required under Listing Rule 9.2.1 under Resolution 1, but has obtained two waivers from the Listing Rules in respect of such approval.

Listing Rule 9.3.1 precludes any “related party” to the transactions the subject of resolution under Listing Rule 9.2.1 from voting on that resolution. In this case, Listing Rule 9.3.1 would prevent LPL Trustee Limited from voting on Resolution 1. The Company has sought, and obtained, a waiver from Listing Rule 9.3.1 to allow all shareholders of the Company to vote on the resolution.

Listing Rule 9.2.5(b) requires that the Notice of Meeting be accompanied by an Appraisal Report in respect of the Merger. The Company has sought, and obtained, a waiver from Listing Rule 9.2.5(b).

Resolutions 2 and 3 – Separate class approvals of Merger and associated transactions

Resolution 2 requires the approval of a simple majority of votes cast at the meeting by the holders of fully paid ordinary shares of the Company (as a class). All holders of fully paid ordinary shares of the Company are entitled to vote in respect of Resolution 2. The holders of partly paid ordinary shares of the Company are not entitled to vote in respect of Resolution 2.

Resolution 3 requires the approval of a simple majority of votes cast at the meeting by the holders of partly paid ordinary shares of the Company (as a class). All holders of partly paid ordinary shares of the Company are entitled to vote in respect of Resolution 3. The holders of fully paid ordinary shares of the Company are not entitled to vote in respect of Resolution 3.

Resolutions 2 and 3 each approve the Merger and all associated transactions, including in particular the Buy Back and Share Issue.

Approval of the Buy Back

In accordance with clause 5.1(a) of the Company’s constitution and Listing Rule 7.6.5, the Company proposes to undertake the Buy Back as it no longer requires the funds for the purposes for which they were raised in September 2008. The capital raised under the rights issue was to fund future expansion and acquisition opportunities of the Company. As the consideration payable under the Merger is fully paid ordinary shares in the Company, the Company wishes to return some of the capital raised to shareholders. The Buy Back will also result in a reduction in the percentage shareholding of LPL Trustee Limited, which currently holds 93.3% of the partly paid shares, in the Company meaning that following the Merger, the two largest shareholders (LPL Trustee Limited and Cape Healthcare Limited) will hold similar shareholdings. Details of the likely shareholding in the Company post-Merger are set out in the Independent Advisers Report prepared by Deloitte in respect of the allotment of shares to Cape Healthcare under the Merger which accompanies this Notice of Meeting.

Under Listing Rule 7.6.5, the terms and conditions of the Buy Back must be approved by separate resolutions of the holders of both the fully paid ordinary shares and partly paid ordinary shares in the Company (each passed by a simple majority of votes). Accordingly, the Company is seeking the consent of both classes of shareholders under Resolutions 2 and 3 pursuant to Listing Rule 7.6.5 in order to undertake the Buy Back.

It is noted that the partly paid shares are held as follows:

Holder	Holding
LPL Trustee Limited (an associated person of Andrew Bagnall, a director of the Company)	27,068,975 (93.33%)
Other directors of the Company or associated persons of those directors	166,000 (0.57%)
Other holders	1,769,656 (6.10%)
Total	29,004,631 (100%)

As required by Listing Rule 6.2.2(c), an Appraisal Report prepared by Deloitte in respect of the Buy Back accompanies this Notice of Meeting as it is likely that more than 50% of the partly paid ordinary shares to be acquired under the Buy Back will be shares held by directors or “associated persons” of a director. Shareholders should consider this Appraisal Report when deciding how to vote on Resolutions 2 and 3.

Approval of the Share Issue

In accordance with clause 4.1 of the Company’s constitution and Listing Rule 7.3.1(a), the Company proposes to undertake the Share Issue as part of the Merger.

Under Listing Rule 7.3.1(a), the terms and conditions of the Share Issue must be approved by separate resolutions of the holders of both the fully paid ordinary shares and partly paid ordinary shares in the Company (passed by a simple majority of votes). Accordingly, the Company is seeking the consent of both classes of shareholders under Resolutions 2 and 3 pursuant to Listing Rule 7.3.1(a) in order to undertake the Share Issue.

Listing Rule 9.3.1 precludes any person voting on a resolution to issue shares under Listing Rule 7.3.1 if it is the person to whom the issue will be made. In this case, Listing Rule 9.3.1 would prevent any shareholder of the Company who is also a shareholder of Pharmacybrands (irrespective of the size of this shareholding) from voting on Resolutions 2 and 3. The Company has sought, and obtained, a waiver from Listing Rule 9.3.1 to allow all shareholders of the Company to vote on the resolutions.

As required by rule 16(h) of the Takeovers Code, an Independent Adviser’s Report prepared by Deloitte in respect of the allotment of securities to Cape Healthcare accompanies this Notice of Meeting. Shareholders should consider this Independent Adviser’s Report when deciding how to vote on Resolutions 2 and 3.

Resolution 4(a) to (f) - Approval of appointment of directors

Resolutions 4(a) to (f) are ordinary resolutions of the shareholders of the Company requiring the approval of a simple majority of votes cast at the meeting for each resolution. All shareholders are entitled to vote on Resolutions 4(a) to (f).

Under section 153 of the Companies Act 1993 and in accordance with clause 11.4 of the Company’s constitution, the approval of an ordinary resolution of the holders of the voting securities of the Company (i.e. a simple majority of votes cast at the meeting by shareholders entitled to vote and voting) is required in respect of the appointment of each director.

The Company currently has six directors and is permitted under the Company's constitution to have a maximum of eight directors. Neil Webber will retire at this annual meeting of shareholders and does not seek re-election to the Board of directors of the Company. Accordingly, should all of Resolutions 4(a) to (f) be passed by those shareholders entitled to vote, the Company will have seven directors, namely:

Peter Merton (chairman)
Andrew Davidson (independent director)
Ian Sharp (independent director)
Andrew Bagnall
John Bolland
William Meaney
Mark Vuksich

Resolutions 4(a) to (f) will be voted upon separately as required under Listing Rule 3.3.13 and section 155 of the Companies Act 1993.

Resolution 4(a)

John Bolland, who was appointed as a director of the Company on 31 October 2008 pursuant to clause 11.5 of the Company's constitution to fill a casual vacancy in the Board, such appointment being effective until the next annual meeting of the Company, offers himself for election as a director of the Company.

John Bolland's career includes 14 years at Ernst & Young, where he had partner level responsibility in Corporate Finance and Audit & Business Advisory. Prior to that he held a senior role for an international reinsurance broker based in London. John's current focus is on developing emerging growth-based companies. He is a member of the NZICA.

Resolution 4(b)

Clause 11.6 of the Company's constitution, consistent with Listing Rule 3.3, requires one-third of the directors, or if the number is not a multiple of three, then the number nearest to a third, to retire from office at the annual meeting of shareholder each year. The directors to retire shall be those directors who have been longest in office since they were last elected. In this instance, the directors required to retire at this annual meeting of shareholders are Neil Webber and Andrew Davidson.

Neil Webber will retire at this annual meeting of shareholders and does not seek re-election to the Board of directors of the Company.

Andrew Davidson, who was first appointed as a director of the Company on 4 March 2005 and last appointed as a director of the Company on 26 July 2007, will retire at this annual meeting of shareholders and, being eligible, offers himself for re-election. The Board has determined that Andrew Davidson is an independent director, in terms of the Listing Rules.

Andrew Davidson has had more than 30 years' experience in local and international food retailing. He is currently a director and CEO of Lighthouse Ventures Limited, a multi-faceted food marketing company operating in international markets. He is also a director of Old Fashioned Foods Limited and Barnardos New Zealand. Prior to his current role, Andrew was deputy director of Westfield New Zealand where he was responsible for the management of 11 shopping centres and a commercial property portfolio which had over 1,200 retail tenants. Andrew was previously CEO of Woolworths New Zealand Limited from 1998 to 2002. Woolworths was New Zealand's third largest grocery retailer with turnover of \$1.5 billion and over 10,000 employees and Andrew played a key part in the \$690 million sale of the Woolworths business to Foodland Australia Limited. During this time he

was also a member of The Dairy Farm International operating committee, one of Asia's largest retailers. Andrew has been a member of a number of industry boards and was a founding board member and trustee of The Kids Help Line Foundation.

Resolution 4(c)

Andrew Bagnall, who was appointed as a director pursuant to clause 11.3(b) of the Company's constitution by LPL Trustee Limited has agreed to resign as an LPL Trustee Limited appointed director of the Company at the annual meeting, subject to Resolutions 1, 2, 3 and 4(c) to (f) each being duly passed, but offers himself for election as a director of the Company to be approved by shareholders generally.

Andrew Bagnall has been a director and, through LPL Trustee Limited, the major shareholder of the Company since 2007. Prior to that Andrew Bagnall was managing director and, through related entities, the cornerstone shareholder of the listed company Gullivers Travel Group Limited. Andrew Bagnall graduated from Otago University in 1969 and completed his MBA at Michigan State University in 1972.

Resolutions 4(d), (e) and (f)

Pursuant to the proposed Merger, it is proposed that three additional directors, Peter Merton, William Meaney and Ian Sharp be appointed as directors of the Company. The Board has determined that Ian Sharp is an independent director in terms of the Listing Rules.

Peter Merton

Peter Merton (BPharm) has worked in the retail, manufacturing, distribution and wholesale areas of the pharmacy industry in New Zealand, Asia and Africa since the early eighties. In 1987 he joined Zuellig Pharma and worked for them in both New Zealand and the Philippines. His last management role was as Chief Executive of PRNZ (Propharma and Healthcare Logistics) which he finished at the end of 2008. He was involved in the ownership of PRNZ, a business which was sold to EBOS Group Limited in 2007. He has served at various times on the Pharmacybrands Board since 1998 and was actively involved in the merger of Amcal and Unichem 5 years ago. He currently serves as a director on the EBOS Group Limited Board.

Following completion of the Merger, the Company will appoint Peter Merton as executive chairman of the Company.

William L. Meaney

William L. Meaney is the Chief Executive Officer of The Zuellig Group (previously known as Interpacific). Zuellig is a US\$12 billion diversified pan-Asian group based in Hong Kong, whose primary activities include: pharmaceutical distribution, pharmaceutical manufacturing under licence, animal feed manufacturing, agricultural and construction machinery and real estate.

Prior to his appointment at Zuellig, Bill worked in a number of turnaround situations, including as the Chief Commercial Officer at Swiss International Airlines in Zurich, Executive Vice President at South African Airways in Johannesburg, and Chief Executive Officer of South African Vaccine Producers, a parastatal pharmaceutical manufacturer based in Johannesburg. Prior to his taking on leadership roles in international groups, Bill was a strategic consultant with Strategic Planning Associates (now part of Oliver Wyman) based in London and in Geneva where he worked in a variety of industries.

Bill also serves on the board of Moksha8, a private pharmaceutical company controlled by TPG. He has a Bachelor of Science degree in Mechanical Engineering from Rensselaer in Troy, New York and

an MBA from Carnegie Mellon University in Pittsburgh, Pennsylvania. Bill holds both United States of America and Irish nationality.

Ian Sharp

Ian Sharp is a director and shareholder in CHB Apothecary Limited which operates Amcal Pharmacy Waipukurau. Ian has been a qualified pharmacist for 32 years and a pharmacy owner for 28 years, in which time has seen the amalgamation of two pharmacies into his current business.

A member of the advisory committee for both the Amcal group and the now combined Pharmacybrands, Ian is also a trustee of the CHB Mayoral Health Taskforce and has been a member of the Pharmacybrands Board since 2004 and currently holds the position of deputy chairman.

The Board has determined that Ian Sharp is an independent director, in terms of the Listing Rules.

Resolution 5 - Approval of remuneration of auditor

Resolution 5 is an ordinary resolution requiring the approval of a simple majority of votes cast at the meeting by shareholders entitled to vote and voting. All shareholders are entitled to vote in respect of Resolution 5.

Pursuant to section 200 of the Companies Act 1993, KPMG Auckland has been reappointed as auditors of the Company to hold office from the conclusion of this annual meeting to conclusion of the next annual meeting. As such, KPMG is authorised to audit the Company's financial statements for the period ending 31 March 2010.

Section 197(a) of the Companies Act 1993 requires the remuneration of the auditors be set by the Company at the annual meeting of shareholders or in such other manner as determined at the annual meeting of shareholders.

The Company is seeking the consent of shareholders, in line with past practice, to allow the board of directors set the level of remuneration of the auditors for the ensuing year.