



Life Pharmacy Limited

**Prospectus and investment statement
for the offer by Life Pharmacy Limited of
ordinary voting shares**

Dated: 13 August 2009

Important Information

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

All legislation referred to in the prospectus can be viewed online at www.legislation.govt.nz.

Engaging an investment adviser

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to investments offered by 1 or more particular financial institutions; and
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include:

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

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Important dates

Prospectus Registered: 13 August 2009

Offer Opens: 4 September 2009*

Offer Closes: 5 October 2009*
(unless extended in accordance with the provisions of the Takeovers Code)

Shares Allotted,
Statements Posted,
Shares Quoted and
Trading Commences: Within 3 business days of the later of the date the takeover is declared unconditional and the date of receipt of an acceptance from a Pharmacybrands shareholder

* These dates are indicative only and the actual timetable will be as set out in the Takeover Offer Document.

Prospectus Information

This combined prospectus and investment statement is issued by Life Pharmacy Limited (*Life Pharmacy*) in the context of the proposed merger of Life Pharmacy and Pharmacybrands Limited (*Pharmacybrands*). The proposed merger is to be undertaken pursuant to the conditional takeover offer made by Life Pharmacy on the terms set out in the Takeover Offer Document. Under the conditional takeover offer, Pharmacybrands shareholders are offered 39.783 Life Pharmacy Shares for every 1 Pharmacybrands Share (the *Offer*). Any entitlement to a fraction of a Life Pharmacy Share as consideration under the Offer shall be disregarded.

The Offer involves an offer of Life Pharmacy ordinary shares to Pharmacybrands shareholders and accordingly constitutes an offer to the public for the purposes of New Zealand securities legislation. This document has been prepared to comply with New Zealand securities law disclosure requirements (as modified by the Securities Act (Takeovers) Exemption Notice 2001, as subsequently modified). This document is intended to contain, or refer to, all information which could reasonably be expected to be material or relevant to Pharmacybrands shareholders in making a decision whether or not to accept the Offer.

Pharmacybrands will provide to each Pharmacybrands shareholder a target company statement (including a recommendation from the Pharmacybrands board) and an independent advisor's report on the merits of the Offer. Pharmacybrands shareholders should consider and take account of such materials. Note that Life Pharmacy has not commissioned or produced such materials and has no responsibility in respect of those materials.

Name of Issuer

The name of the issuer is Life Pharmacy Limited.

Material Terms and Conditions of the Quoted Securities

Terms and conditions of the ordinary shares in Life Pharmacy Limited are set out at page 9 below.

Other terms of the Offer

All terms of the Offer and the Life Pharmacy Shares, except those rights and obligations implied by law, are set out in this combined Prospectus and Investment Statement, the Takeover Offer Document and Life Pharmacy's constitution, all of which are available for public inspection at the company's registered office, Level 1, Building B, 600 Great South Road, Greenlane, Auckland and free of charge on the company's office website at www.companies.govt.nz.

Annual Report

A copy of Life Pharmacy's most recent annual report for the financial year ended 31 March 2009 is available on request by calling (09) 580 1900, e-mailing invest@lifepharmacy.co.nz, or on the Life Pharmacy website (www.lifepharmacy.co.nz).

Half-Yearly or Interim Reports

No half-yearly or interim reports have been issued relating to the period after that covered in Life Pharmacy's most recent annual report.

Other Material Information

Other than the information referred to, or contained, in this document, there is no other information that could reasonably be expected to be material to the making of a decision by Pharmacybrands shareholders to accept or reject the Offer.

Pharmacybrands merger

As outlined above, this document is produced for the purposes of documenting the offer by Life Pharmacy of Life Pharmacy Shares, in the context of the proposed merger with Pharmacybrands, on the terms specified in the Takeover Offer Document.

Life Pharmacy's view is that the merger with Pharmacybrands 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 achieved 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 of 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 from Pharmacybrands will provide increased value to both groups;
- the opportunity to apply more resources to assist the Guild, the Pharmaceutical Society and other lobby groups to ensure pharmacies can play a greater role in primary care and 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; and
- the strength to represent and defend the pharmacy channel as stronger competition continues to build, especially from other retail and grocery traders.

The exact financial benefits of the proposed merger have not been able to be quantified with precision, by Life Pharmacy. However, there are self-evident synergies in the proposed merger, including the merging of the central offices and the strategic benefits of economies of scale which a merger between the two businesses will create, and the comprehensive regional coverage in New Zealand.

For the purposes of providing Pharmacybrands shareholders with some indication of financial scale and operations of the merged business, set out below is an income statement and balance sheet for the two companies, prepared on a standalone and aggregated basis for the financial year ended 31 March 2009. The combined entity financials do not include the impact of the purchase of partly paid shares or the dividend to Pharmacybrands shareholders prior to the merger.

Pharmacybrands shareholders should note that this data has been prepared by Life Pharmacy, on the basis of publicly available financial information for Pharmacybrands for its financial year ended 31 March 2009. No adjustments have been made to the below numbers for merger costs or benefits, and no adjustment has been made to the below financial information to reflect post-balance date announcements or events. No adjustment has been made for goodwill arising as a consequence of the Merger which is expected to be approximately \$13.3 million.

The below financial information should accordingly be read by Pharmacybrands 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. The historical achievement of a certain level of financial performance is no guarantee that such performance will be achieved in the future.

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	<u>1,069</u>	<u>538</u>	<u>1,607</u>
	7,238	12,622	19,860
Operating (deficit)/surplus before interest and taxation	(809)	1,777	968
Net funding (cost)/benefit	<u>743</u>	<u>461</u>	<u>1,204</u>
Operating surplus before taxation	(66)	2,238	2,172
Taxation benefit/(expense)	<u>127</u>	<u>(529)</u>	<u>(402)</u>
Net surplus	<u>61</u>	<u>1,709</u>	<u>1,770</u>
Statement of Financial Position			
EQUITY			
Capital	46,195	3,894	50,089
Retained (deficit)/surplus	<u>(9,528)</u>	<u>2,805</u>	<u>(6,723)</u>
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	<u>6,410</u>	<u>4,420</u>	<u>10,830</u>
	<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	<u>700</u>	<u>566</u>	<u>1,266</u>
	<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	<u>4,205</u>	<u>0</u>	<u>4,205</u>
	<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.

Answers to important questions

What sort of investment is this?

Life Pharmacy is offering to purchase up to 100% of the ordinary shares of Pharmacybrands. Under the Offer, Pharmacybrands shareholders are being offered the opportunity to sell Pharmacybrands Shares and receive Life Pharmacy Shares in exchange.

Eligible Pharmacybrands shareholders accepting the Offer (*Accepting Pharmacybrands Shareholders*) will receive 39.783 Life Pharmacy Shares for every 1 Pharmacybrands Share. Any entitlement to a fraction of a Life Pharmacy Share as consideration under the Offer shall be disregarded.

The Life Pharmacy Shares to be issued and allotted to Accepting Pharmacybrands Shareholders will be issued as fully paid ordinary shares with an issue price of \$0.491 per share and will rank pari passu with all other fully paid Life Pharmacy ordinary shares on issue at the date of allotment. This effectively values the Pharmacybrands Shares at approximately \$19.55 per share.

This document describes the Life Pharmacy Shares that an eligible Accepting Pharmacybrands Shareholder will receive, the potential returns and risks, and other important matters.

Rights Attaching to Life Pharmacy Shares

Each Life Pharmacy Share gives the holder the right to:

- attend and vote at a meeting of Life Pharmacy shareholders including the right to cast one vote per Life Pharmacy Share on a poll on any resolution including but not limited to a resolution to:
 - appoint or remove a director or auditor;
 - adopt or alter Life Pharmacy's constitution;
 - approve a major transaction;
 - approve the amalgamation of Life Pharmacy under section 221 of the Companies Act 1993; and
 - put Life Pharmacy into liquidation.
- dividends, if any, paid by Life Pharmacy in respect of that Life Pharmacy Share.
- an equal share with other ordinary shareholders in the distribution of surplus assets in any liquidation of Life Pharmacy.
- be sent information concerning Life Pharmacy.
- the other rights as a shareholder conferred by the Companies Act 1993, the Takeovers Code, the NZSX Listing Rules and Life Pharmacy's constitution.

Listing and Trading

Ordinary shares in Life Pharmacy (identical to the Life Pharmacy Shares) are listed on the NZSX under the symbol "LPL". The Life Pharmacy Shares have been accepted for listing by NZX Limited and will be quoted upon completion of the allotment procedures. However, NZX Limited accepts no responsibility for any statement in this combined Prospectus and Investment Statement. Life Pharmacy cannot guarantee the existence of a ready market for the Life Pharmacy Shares. In addition, Life Pharmacy cannot guarantee the price that the Life Pharmacy Shares will trade for on the NZSX.

Allotment Procedures

The relevant number of Life Pharmacy Shares will be issued and allotted to each Accepting Pharmacybrands Shareholder within 3 business days of the later of:

- the date the takeover is declared unconditional; and
- receipt of an acceptance from that Accepting Pharmacybrands Shareholder.

Immediately following the issue and allotment of such Life Pharmacy Shares, a statement of holding of securities (under NZSX Listing Rule 11.2.3) will be posted to the relevant Accepting Pharmacybrands Shareholder, the relevant Life Pharmacy Shares will be quoted on the NZSX and trading in such shares may commence.

Other terms of the Offer

All other terms of the Offer and the Life Pharmacy Shares, except those rights and obligations implied by law, are set out in this combined Prospectus and Investment Statement, the Takeover Offer Document and Life Pharmacy's constitution, all of which are available for public inspection at Life Pharmacy's registered office, Level 1, Building B, 600 Great South Road, Greenlane, Auckland, and free of charge on the Companies Office website at www.companies.govt.nz.

Who is involved in providing it for me?

Names and addresses

The name of the issuer is Life Pharmacy Limited.

Life Pharmacy's registered office is located at Level 1, Building B, 600 Great South Road, Greenlane, Auckland.

Life Pharmacy's activities, prospects and forecast

Since Life Pharmacy listed on the NZSX in March 2005 the company has grown its business to provide retail support to the 50 pharmacies within the group, and in the case of 20 partially owned pharmacy stores, holds a 49% ownership stake of the individual pharmacy companies. Life Pharmacy, as franchisor, operates a franchise network comprising the 27 Life Pharmacy branded stores located in the major metropolitan centres in New Zealand and a further 23 Care Chemist branded stores located in the greater Auckland area.

Over the last year Life Pharmacy has focussed on cost minimisation and margin development and Life Pharmacy stores have continued to show signs of resilience and growth. Life Pharmacy has continued to develop its marketing programme with monthly catalogue distributions, a broader range of television advertising and a greater focus on the Living Card loyalty programme as a mechanism for communicating with and rewarding valued customers. Enrolments for the Living Card loyalty programme have risen to approximately 250,000 members since its introduction 3 years ago.

On 30 May 2008 Life Pharmacy completed its purchase of the Care Chemist franchise business, a franchise pharmacy business with eight Care Chemist branded stores throughout the greater Auckland region. This purchase triggered the start of the franchise growth plan and clearly demonstrates Life Pharmacy's ambition to be a lead player in the pharmacy market and the recognition that pharmacists play a key role in the communities they serve across the country. Since the acquisition of the Care Chemist franchise business by Life Pharmacy, the total number of pharmacies operating under this brand at the end of July 2009 has risen to 23. Life Pharmacy believes that the pharmacies that join the organisation will significantly benefit from belonging to the group through the benefits of a strong health, beauty and wellness operator and franchisor, backed by a strong leadership team, board and cornerstone investor.

On 21 August 2008, Life Pharmacy undertook a capital raising of a three for two renounceable rights issue to existing shareholders. The rights issue raised in excess of \$11.6 million by way of the issue of 29,004,631 partly paid shares (paid to \$0.20 per share on subscription and with the final instalment of \$0.20 per share payable on 18 September 2009) and placed Life Pharmacy in a good position to further invest in the health, beauty and wellness sector in New Zealand. Note that up to 8.2 million of the partly paid shares will be bought back prior to the Offer being completed. Also, a pro-rata bonus issue to

existing Life Pharmacy shareholders of (in aggregate) 523,379 ordinary shares is to be made by Life Pharmacy prior to the Offer being completed.

The merger referred to in the Takeover Offer Document is expected to provide the merged business with a strong platform from which to invest in the future growth of the Group. Life Pharmacy operates in a sector where there is considerable opportunity to grow. Support from Government organisations, suppliers and customers is key to this and more importantly Life Pharmacy believes that this support can be achieved by increasingly leveraging the role that pharmacists play within the communities they serve, supported by strong brands and central office.

What will this cost me?

Accepting Pharmacybrands Shareholders will receive 39.783 Life Pharmacy Shares for every 1 Pharmacybrands Share accepted under the Offer. Any entitlement to a fraction of a Life Pharmacy Share as consideration under the Offer shall be disregarded. There is no cash consideration payable under the Offer.

Under the Takeover Offer Document, Life Pharmacy wishes to acquire 100% of Pharmacybrands voting securities on the terms set out in the Takeover Offer Document.

Accepting the Offer

A Pharmacybrands shareholder who wishes to accept the Offer must complete the Acceptance Form attached to the Takeover Offer Document and ensure it reaches Life Pharmacy, or Computershare Investor Services, prior to 5 p.m. on the closing date of the Offer. Completed application forms should be sent to:

Life Pharmacy Limited
c/- Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
North Shore City 0622

Or

Private Bag 92 119
Auckland Mail Centre
Auckland 1422
New Zealand

Completed application forms may also be lodged with any Primary Market Participant or any other channel approved by NZX in time to enable the application form to be forwarded to Life Pharmacy or Computershare Investor Services prior to 5pm on the closing date of the Offer.

Cooling-Off Period

There is no cooling off period in respect of any Life Pharmacy Shares issued to Accepting Pharmacybrands Shareholders pursuant to the Offer. A valid acceptance of the Offer is full and final.

What are the charges?

Accepting Pharmacybrands Shareholders are not required to pay any charges to Life Pharmacy or any associated person of Life Pharmacy in relation to the Offer.

The expenses of the offer of Life Pharmacy Shares pursuant to this prospectus have been estimated at \$90,000. Life Pharmacy will meet these expenses.

What returns will I get?

Accepting Pharmacybrands Shareholders who become Life Pharmacy shareholders will be entitled to receive or benefit from any dividends paid by Life Pharmacy in the manner described below and to any other returns attaching to the Life Pharmacy Shares. Life Pharmacy shareholders may also benefit from any increase in the market price of their Life Pharmacy Shares if they sell them. The market price of Life Pharmacy Shares may also decrease.

No amount of returns, quantifiable as at the date of this combined Prospectus and Investment Statement and enforceable by Accepting Pharmacybrands Shareholders, has been promised.

Dividend Policy

Life Pharmacy's current dividend policy is that 60% of net profit after tax will be distributed to shareholders by way of a dividend. Dividend payments are not expected to resume until profitability improves. The Board can, however, give no assurance that dividend declarations will be made or as to the levels of future dividends or the levels of imputation credits attaching to dividends. The payment or level of any future dividends is dependent on a number of factors including those stated under the heading 'What are my Risks?' and 'Risks'.

Key factors that determine returns

The returns payable on the Life Pharmacy Shares post merger will be determined by a number of factors, including:

- the financial performance of the Group;
- the performance of Life Pharmacy Shares on the NZSX;
- the dividend policy of the Group;
- the taxation treatment of dividends and returns obtained on the sale of Life Pharmacy Shares.

The above comments and the descriptions referred to are of a general nature only. They do not constitute legal advice. Pharmacybrands shareholders considering the Offer should consult their own tax advisors concerning the tax consequences of owning Life Pharmacy Shares, in light of their particular situation.

Neither Life Pharmacy nor any other person guarantees the return of capital or the amount of any returns in relation to the offer of Life Pharmacy Shares made pursuant to the Offer.

It is not possible to specify the exact dates, if any, upon which returns will be payable to Accepting Pharmacybrands Shareholders who become Life Pharmacy shareholders. The amount and timing of the payment of dividends (if any) is determined entirely at the discretion of the Board.

The information above should be read in conjunction with the information set out below under "What are my risks?". Certain events could reduce or eliminate the returns intended to be derived from the Life Pharmacy Shares.

What are my risks?

The principal risks to eligible Pharmacybrands shareholders who accept the Offer and become Life Pharmacy shareholders, are that they might not be able to recoup their original investment or might not receive the returns that they expect. This could happen in a number of circumstances, including that:

- Life Pharmacy may not have funds available to pay dividends or may choose not to pay dividends during a particular period. Possible reasons for this could include a deterioration in the financial performance or position of the Group;
- trading in Life Pharmacy Shares may affect the secondary market price for Life Pharmacy Shares due to interest rate movements, supply and demand and for other reasons;
- the price at which the Life Pharmacy Shares trade may be lower than the effective price you paid for them;
- there may be no ready market for Life Pharmacy Shares;
- Life Pharmacy may become insolvent or be placed in receivership or liquidation;
- the operational and financial performance of the Group may be worse than expected; or
- in the event of change in company tax rates, individual income tax rates, or the way existing rates affect investors' taxable income, such changes may impact on the return to investors.

Some risk factors are specific to the Group's business activities and some are more of a general nature. These may, individually or in combination, affect the future operating performance of the Group and the value of an investment in Life Pharmacy Shares.

Many factors will affect the price of the Life Pharmacy Shares including overall economic conditions, the operational and financial performance of the Group, changes in government policies and movements in interest rates. An investor in Life Pharmacy Shares will also face the business risks faced by the Group.

Risks

General Integration Risk

There is a general integration risk as to whether the combined companies will achieve a well integrated business, deliver cost synergies and meet the expectations of their franchisees. The market response to the merger and any change in competitor behaviour is unknown.

Expansion Risk

The ability of Life Pharmacy post merger to achieve growth targets will in part depend on the expanded and integrated systems and resources of Life Pharmacy and Pharmacybrands being able to support and maintain such growth.

Pharmacy Competition

Life Pharmacy's ability to maintain and grow its franchise base, and acquire direct interests in additional pharmacy businesses, faces competition from other pharmacy businesses, other investors and the opportunity for pharmacies to operate as independent pharmacies.

Franchisees leaving the Brand

Life Pharmacy and Pharmacybrands are both dependent upon maintaining the number of franchisees operating within each of the brands within the two organisations. The dependency on franchisee numbers provides significant scale in a number of areas across the organisations including purchasing power with suppliers, economies of scale for marketing and communications programmes and the ability to invest in new initiatives and services. If a number of franchisees leave either Life Pharmacy or Pharmacybrands then there is a risk that the above benefits will not be achieved and will adversely affect the profitability of the combined organisation.

Culture Integration Risk

Life Pharmacy and Pharmacybrands are currently separate and independent companies. Upon merger there is a risk that the cultural differences between the companies will reduce the ability of the Group (post merger) to achieve its growth targets. For example, Life Pharmacy and Pharmacybrands are currently competitors and employees may find it difficult to alter their attitudes towards a competing brand, employees may not be content with their new positions in the Group post merger and current franchisees will have to adapt to operating within a larger organisation.

Goodwill on Acquisition

Life Pharmacy currently expects that the merger with Pharmacybrands will be accounted for under NZIFRS such that Pharmacybrands will become a subsidiary of Life Pharmacy. If the consideration for Pharmacybrands is in excess of the carrying value of the assets in Pharmacybrands then there is a risk that the goodwill on acquisition of Pharmacybrands, estimated at \$13.3m could be impaired. Any impairment of investments in associates and subsidiaries are recognised in full in the period in which the impairment is tested.

Retention of Pharmacists

Retention of key personnel across the organisation remains a key issue in retail environments and none so important as the pharmacy sector where the expert advice from the Pharmacist and shop floor colleagues continues to be one of the biggest drivers of competitive advantage in the channel. Both organisations place great emphasis on attracting talent into their pharmacies through sponsoring and attending pharmacy colleges throughout New Zealand Universities and both have corporate recruitment strategies in place for key job roles.

In recent years there was a significant drain on pharmacy talent in New Zealand. However, due to law changes in the UK closing down the opportunity for New Zealand pharmacists to register in the UK, this issue has now passed and as a result the current labour market for well qualified pharmacists in New Zealand is strong.

A key barrier to entry for many young pharmacists is the inability to get into pharmacy ownership, based on the consistently high EBIT multiples being commanded for good pharmacies throughout the country and the difficulty and risk in setting up green field sites. One of the key advantages in the model of both Life Pharmacy and Pharmacybrands compared to other groups and independent pharmacies throughout the country is the opportunity for pharmacists to obtain a part share in pharmacy ownership by being part of the group.

Reliance on Financial Position/Earnings

The ability of Life Pharmacy to have confidence in the financial position and earnings of Pharmacybrands is based on the due diligence undertaken by Life Pharmacy management with support from both Ernst & Young (Financial) and Chapman Tripp (legal). Such due diligence, however, is of limited scope and cannot be relied upon to guarantee Pharmacybrands' financial position or any assumed level of earnings. Whilst every effort has been made to understand the likely future earnings of Pharmacybrands, Life Pharmacy cannot provide investors with certainty around the underlying earnings of Pharmacybrands or the achievement of synergy benefits.

Retail Competition

Life Pharmacy and its associated pharmacies face material competition from other pharmacies, cosmetic and fragrance retailers (including major department stores, supermarkets and duty-free stores), retailers of over-the-counter products that compete on price (cut-price pharmacy chains and mail-order pharmacy sales) and other retail providers. This competition could impact on trading margins of Life Pharmacy and its associated pharmacies and affect Life Pharmacy's financial performance.

Trading Risk

As with any retail business, the financial performance of Life Pharmacy and its associated pharmacies depends on trading margins being maintained, and costs being controlled. Any reduction of such margins or increase in such costs could have a material adverse effect on Life Pharmacy's financial performance.

Economic factors that impinge upon disposable income, such as high interest rates and a weak labour market, could adversely affect consumer spending on health and beauty products.

Merchandising Trends

Life Pharmacy's continued success depends on its ability to anticipate and respond to changing consumer appetites and merchandising trends. Any changes in these trends or Life Pharmacy's responsiveness to them could negatively impact on Life Pharmacy's performance.

Product Liability Risk

Life Pharmacy, along with most retail outlets, has exposure to potential product failure or misuse from the range of products it sells to customers through the Life Pharmacy outlets. Any adverse event of this nature could impact Life Pharmacy's brand and reputation resulting in a decline in performance across the Life Pharmacy group.

This risk is further exacerbated in pharmacy operations where controlled drugs are dispensed from the pharmacist for the customer and restricted (pharmacy only) medicines are available for customer purchase. Whilst regulatory controls, standard operating procedures and the Government (Medsafe) licensing programme are in place to minimise this risk, the adverse impact on Life Pharmacy of any such event could adversely affect the financial performance of the company.

Seasonality / Promotional Risk

Life Pharmacy sales are heavily dependent upon customer trends that are seasonal in nature and are also affected by promotionally sensitive product ranges. This makes it difficult to fully understand the underlying performance trends in fast moving consumer goods retail businesses and as a result may have an adverse impact on store performance through stock mismanagement and variability in monthly / weekly performance.

Brand Risk

Brands are a key asset of Life Pharmacy. In the event that any of these brands are tarnished or in any way lose their market appeal for consumers, Life Pharmacy's operating and financial performance could be materially adversely affected.

Funding Risk

There are various covenants and undertakings in Life Pharmacy's banking arrangements which need to be complied with. Failure to comply with the terms of the banking arrangements could result in such facilities being cancelled, which would have a material adverse effect on the financial position of Life Pharmacy. Life Pharmacy's existing bank loan facilities expire at the end of September 2009 and Life Pharmacy will therefore have to enter into negotiations with its bank in order that such facilities may be renewed going forward. The terms on which any new loan facilities are granted to Life Pharmacy may not necessarily be as favourable as the terms of the current facilities.

Regulatory Risk

The pharmacy industry is exposed to government regulatory policies and funding arrangements that could have a direct or indirect bearing on Life Pharmacy's business operations or product and service offerings. Any changes in the regulatory environment may affect Life Pharmacy's ability to meet its business objectives.

Changes to the subsidies applied by Pharmac to dispensary goods, and any erosion of prescription dispensing fees that are negotiated periodically between the District Health Boards and the Pharmacy Guild (acting on behalf of all registered pharmacists), could endanger margins earned by Life Pharmacy pharmacies on sale of prescription products.

The regulatory environment for pharmacy ownership remains partially deregulated under the Medicines Act 1981. This Act requires that at all times more than 50% of the share capital of a company operating a pharmacy is owned by a pharmacist or pharmacists, and effective control of the company is vested with that pharmacist or those pharmacists. Regulatory change in either direction (full deregulation or returning to full regulation) will have an impact on Life Pharmacy's future franchise and pharmacy ownership model.

Care Chemist Payment Obligations

Pursuant to Life Pharmacy's acquisition of the Care Chemist franchise network, Life Pharmacy has varying future obligations to make payments to the vendor of that business in respect of certain numbers of new Care Chemist franchisees that are contracted during the period of three years from settlement of that transaction (which took place in May 2008).

Put and Call Options

Life Pharmacy has in place call options in respect of the 51% shareholding in each associate pharmacy store company held by the pharmacist owners, and put options in respect of the 51% shareholding in all but two associate pharmacy store companies held by the pharmacist owners. The option is only exercisable upon legislative changes reducing or removing the limitations on non-pharmacist ownership and control of pharmacies. If Life Pharmacy or the pharmacist chooses to exercise their respective call option or put option, it/they must do so to the maximum extent permitted by law, however, Life Pharmacy may elect to defer the exercise date of the put option for up to 12 months after receipt of an exercise notice from the relevant pharmacist.

With the exception of two call options, the consideration payable by Life Pharmacy on exercise of the call option or put option may be either cash or ordinary shares in Life Pharmacy and the value to be attributed to each share in a pharmacy company is to be agreed between Life Pharmacy and the selling pharmacist shareholder.

The impact of legislative changes allowing total non-pharmacy ownership and control of pharmacies may result in a funding requirement for all (or part) of the consideration payable to the individual pharmacist shareholders.

Dependence on Key Personnel

Life Pharmacy and its associated pharmacies will continue to rely on their respective key personnel. The loss of key personnel could materially impact on the future performance of the business.

Franchisee / Affiliate Operational Risk

Life Pharmacy runs a franchise business and has direct 49% minority interests in a number of associate pharmacies. Life Pharmacy's ability to influence these businesses is limited. Life Pharmacy does not participate in the day to day running of these businesses and instead relies on the franchisees and majority holders. Life Pharmacy also has a 50% investment in LPL Investments Limited, the company that operates the two Life Pharmacy outlet stores in Onehunga and Te Rapa. The performance of these businesses will affect the performance of Life Pharmacy. In addition, failure of these businesses to comply with Life Pharmacy's procedures and standards could adversely impact customer loyalty, tarnish Life Pharmacy's brand and reputation and impact negatively on the operating and financial performance of Life Pharmacy as a result.

Performance of Stores

The majority of Life Pharmacy stores operate in mall-based locations where premises are leased from landlords who offer lease terms that have fixed obligations. The typical cost of leases of this type are high in comparison to non-mall based locations and with the fixed nature of these costs any impact on trading in these locations may have a greater impact on the stores operating performance.

On rare occasions Life Pharmacy has provided temporary financial support to specific Life Pharmacy stores which have experienced trading problems (for example, immediately following the start up and commencement of trading of the store). Such support may be chosen to be provided by Life Pharmacy to specific stores in the future.

Franchisee / Affiliate Credit Risk

Life Pharmacy makes advances from time to time to its associated pharmacies and accordingly takes a credit risk in terms of the repayment of those advances. Inability to collect such advances could affect the financial position of Life Pharmacy.

Pharmacybrands/Propharma supply contract

Pharmacybrands is a party to a long term supply contract with Pharmacy Retailing (NZ) Limited (trading as Propharma), pursuant to which the parties have agreed that Propharma will supply products and management and distribution services to Pharmacybrands for a period of ten years from 1 July 2007. The fact that Pharmacybrands is contracted to Propharma for such a period and that its ability to procure products or services from other suppliers may be limited, could materially impact on the future performance of the Pharmacybrands business.

Tax Losses

Life Pharmacy has existing tax losses recorded as an asset on its balance sheet. Life Pharmacy's ability to utilise these tax losses depends on Life Pharmacy maintaining the necessary shareholder continuity and generating taxable profits against which to off-set the losses.

Impairment Risk

Life Pharmacy's investment in associates is recognised in the Life Pharmacy group's financial statements by using the equity method and comprises the share of net assets acquired and the goodwill on acquisition. The investment carrying value is tested for impairment bi-annually using an internal discounted cash flow model on a value in use basis. The model is based on an eight year cash flow cycle to coincide with a typical store refit cycle, using the approved store budgets as the first year. Subsequent cash flows for the next seven years are forecast on an individual associate store basis taking into account inflation and likely growth rates of that particular store and its location. The discount rate applied is 11.46% on the unleveraged post-tax forecast cash flows, including working capital movements and capital expenditure.

Any adverse changes in the actual performance of the associates in the first year, or future rates of growth, will reduce the calculated recoverable amount and this may result in the recognition of further impairment losses and a further write-down of the carrying amount of the investment in associates. The sensitivities in the impairment model are as follows:

- a movement of a positive 1% in the discount rate would decrease the calculated recoverable amount of the investment in associates by \$2,500,000;
- a movement of a reduction of 1% in the discount rate would increase the calculated recoverable amount of the investment in associates by \$3,000,000;
- a movement of a positive 1% in retail sales would increase the calculated recoverable amount of the investment in associates by \$2,770,000; and
- a movement of a reduction of 1% in retail sales would decrease the calculated recoverable amount of the investment in associates by \$2,770,000.

Interest Rate Risk

Life Pharmacy is currently repaying bank debt that is subject to changes in interest rates. Life Pharmacy's bank debt facility is on-lent to individual associate pharmacy stores whose interest rate policy is mirrored with Life Pharmacy. Any interest rate risk is therefore limited to 49% of Life Pharmacy's ownership on an individual store basis, but will affect the performance of the store(s).

Any change in interest rate will affect Life Pharmacy's weighted average cost of capital and therefore the individual store valuations.

Indirect Exchange Rate Risk

Life Pharmacy purchases the majority of its products and services in New Zealand dollars. Whilst Life Pharmacy has no direct exchange rate risk a significant number of suppliers that provide product to its stores are overseas domiciled and therefore they may be affected by currency risk causing price variability in New Zealand. Other major retailers may be less affected by this risk (e.g. fast moving consumer goods retailers such as supermarkets) due to their stronger buying power and foreign exchange policies.

Risk of price movement on NZSX

The price of the Life Pharmacy Shares once listed on the NZSX may rise or fall due to numerous factors, which may affect the market performance of Life Pharmacy, including:

- general economic conditions, including inflation rates and interest rates;
- variations in the general market for listed stocks, internationally, or for New Zealand stocks and bonds in particular;
- changes to government policy, legislation or regulations; and
- general operational and business risks.

No assurances can be made that Life Pharmacy Shares' market performance will not be adversely affected by any such market fluctuations or factors.

Liquidity and realisation risk

There can be no guarantee that the current market in the ordinary shares in Life Pharmacy (identical to the Life Pharmacy Shares) will continue or that their price will increase. There may be relatively few or many potential buyers of the Life Pharmacy Shares on the NZSX at any time. This may increase the volatility of the market price of the Life Pharmacy Shares. It may also affect the prevailing market price at which Life Pharmacy Shareholders are able to sell their Life Pharmacy Shares. This may result in Life Pharmacy Shareholders receiving a market price that is less or more than the price that the Life Pharmacy Shareholders originally paid.

Pharmacybrands shareholders should seek professional guidance from their sharebrokers, solicitors, accountants and other professional providers before deciding whether to accept the Offer.

Consequences of insolvency and/or winding up

In the event of Life Pharmacy becoming insolvent, holders of fully paid Life Pharmacy shares will not be liable to anyone for payment of any money. In the event of Life Pharmacy's insolvency, Life Pharmacy shareholders' claims will rank equally together, but will rank behind any secured or unsecured creditors which Life Pharmacy Limited might have. Any assets remaining after the payment of secured and unsecured creditors, and of any payment to the holders of any Life Pharmacy securities ranking ahead of Life Pharmacy Shares, will be distributed to Life Pharmacy shareholders in proportion to their respective holdings and may not be sufficient to repay Life Pharmacy shareholders in full.

No Further Payment

No Accepting Pharmacybrands Shareholder shall be liable to pay any money or provide any other consideration in respect of the Life Pharmacy Shares other than as described above under the heading "What will this cost me?".

Can the investment be altered?

Alteration of securities

The full terms of the Offer are set out in this combined Prospectus and Investment Statement, and in the Takeover Offer Document. The terms of the Offer set out in those documents cannot be altered after an acceptance has been submitted without the consent of Pharmacybrands shareholders. These terms are described under the headings "What sort of investment is this?" and "What will this cost me?" above.

The rights attaching to the Life Pharmacy Shares are governed by the Companies Act 1993 and the constitution of Life Pharmacy. That constitution may only be altered by a special resolution of Life Pharmacy Shareholders, subject to the rights of interest groups under the Companies Act 1993, or in certain circumstances by Court Order. In addition, section 117 of the Companies Act 1993 restricts Life Pharmacy from taking any action which affects the rights attached to the Life Pharmacy Shares unless that action has been approved by a special resolution of the Life Pharmacy Shareholders whose rights are affected by the action. Under certain circumstances, a Life Pharmacy Shareholder whose rights are affected by a special resolution may require Life Pharmacy to purchase its Life Pharmacy Shares.

How do I cash in my investment?

Under the Companies Act 1993, the Life Pharmacy Shares could be cancelled by Life Pharmacy under a reduction of capital, share buy-back or other form of capital reconstruction. Subject to this, neither Life Pharmacy shareholders, Life Pharmacy, nor any other person has any right to terminate, cancel, surrender or otherwise make or obtain payment of the returns from the Life Pharmacy Shares, other than as referred to in this document under the section titled "What returns will I get?".

Selling or transferring Life Pharmacy shares

Life Pharmacy shareholders are entitled to sell and/or transfer their Life Pharmacy shares at any time in accordance with Life Pharmacy's constitution and the terms of issue, but subject to applicable securities laws and regulations, the Takeovers Code, the NZX Listing Rules, and the Overseas Investment Regulations. No charges are payable to Life Pharmacy or any associated person of Life Pharmacy on any such sale, although a Life Pharmacy shareholder may be liable to pay charges to other persons such as brokerage fees.

Accepting Pharmacybrands Shareholders should not attempt to sell their Life Pharmacy Shares until they know how many Life Pharmacy Shares have been allotted to them. None of Life Pharmacy, nor its respective directors, officers or employees or any other person, accept any liability or responsibility if any Accepting Pharmacybrands Shareholder attempts to sell or otherwise deal with the Life Pharmacy Shares before receiving a New Zealand FASTER statement recording the number of Life Pharmacy shares allotted to that Accepting Pharmacybrands Shareholder.

Life Pharmacy shares are quoted on the NZSX (see above at page 9). Transactions in Life Pharmacy shares are able to be made by contacting an NZX firm and supplying the appropriate FASTER identification number (FIN), along with the common shareholder number (CSN) for the relevant Life Pharmacy shares, in the case of a sale. Except as approved by Life Pharmacy or as required under the NZX Listing Rules, no transfers of Life Pharmacy shares will be registered if registration (together with the registration of all contemporaneous transfers) would result in either the purchaser or the seller holding less than 1000 Life Pharmacy shares, unless the Life Pharmacy shareholder is selling their entire holding.

The market for selling

At the date of the Takeover Offer Document it is the opinion of Life Pharmacy that there is an established market for the sale of Life Pharmacy shares listed on the NZSX (see above at page 9). Life Pharmacy shareholders would be able to sell their Life Pharmacy shares at any time provided a buyer can be found. The amount a Life Pharmacy shareholder receives from the sale of their Life Pharmacy shares may differ from what they effectively paid for them. Any enquiries about selling Life Pharmacy shares should be directed to an investment adviser.

Who do I contact with enquiries about my investment?

Enquiries in relation to Life Pharmacy shares can be directed to:

Life Pharmacy Limited
Level 1, Building B,
600 Great South Road,
PO Box 17 141,
Greenlane,
Auckland 1051

Phone: +64 9 580 1900
Fax: +64 9 580 1907
E-mail: invest@lifepharmacy.co.nz

Is there anyone to whom I can complain if I have problems with the investment?

Complaints about the Life Pharmacy Shares can be directed to:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
North Shore City 0622

Or

Private Bag 92 119
Auckland Mail Centre
Auckland 1422
New Zealand

Phone: 09 488 8700
Fax: 09 488 8787

There is no ombudsman to whom complaints can be made concerning the Life Pharmacy Shares.

What other information can I obtain about this investment?

All currently available material information about the Life Pharmacy Shares is contained or referred to in this combined Prospectus and Investment Statement, and the Offer Document. Copies of this combined Prospectus and Investment Statement, and the Takeover Offer Document, can be obtained free of charge by written request to:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
North Shore City 0622

Or

Private Bag 92 119
Auckland Mail Centre
Auckland 1422
New Zealand

A copy of this combined Prospectus and Investment Statement, and the Takeover Offer Document, is filed on a public register, which may be inspected at the Companies Office of the Ministry of Economic Development. The Companies Office may charge a fee for inspections of certain documents. Alternatively, the documents are available free of charge at the Companies Office website at www.companies.govt.nz. A copy of the most recent financial statements of Life Pharmacy may also be obtained from the Companies Office at the above sources or on the Company's website (www.lifepharmacy.co.nz).

Life Pharmacy shareholders will receive periodic statutory reports including an annual report containing Life Pharmacy Limited's annual audited financial statements in respect of each financial year.

Life Pharmacy will announce any material information that may arise on the NZX website at www.nzx.com.

The materials specified by Regulation 23A of the Securities Regulations may be obtained, free of charge, by requesting the information in writing from:

Life Pharmacy Limited
Level 1, Building B
600 Great South Road
Greenlane, Auckland
Attention: Company Secretary

This Offer Document has been signed by each of the Directors of Life Pharmacy Limited or his authorised agent in writing:

John Andrew Bagnall

Mark Steven Vuksich

John Barry Bolland

Neil William Webber

Andrew John Davidson

Glossary

Accepting Pharmacybrands Shareholders	eligible Pharmacybrands shareholders who accept the Offer
Board	board of directors of Life Pharmacy
Directors	directors of Life Pharmacy
EBIT	earnings before interest and taxes
FASTER	the NZX's Fully Automated Screen Trading and Electronic Registration system through which NZX Firms are able to trade securities
Group	Life Pharmacy and its subsidiaries
Life Pharmacy	Life Pharmacy Limited
Life Pharmacy Shares	fully paid ordinary shares in the capital of Life Pharmacy which are to be issued pursuant to the Offer
Merger	the acquisition of up to 100% of the Pharmacybrands Shares by Life Pharmacy pursuant to the Takeover Offer Document
NZ IFRS	New Zealand Equivalents to International Financial Reporting Standards
NZSX	the New Zealand Stock Market operated by NZX
NZSX Listing Rules	the NZSX listing rules as published by NZX from time to time
NZX	NZX Limited or the New Zealand Stock Market, as the context requires
NZX Firm	a firm of accredited brokers registered with NZX
Offer	the offer of Life Pharmacy shares made pursuant to the Takeover Offer Document
Pharmacybrands	Pharmacybrands Limited
Pharmacybrands Shares	fully paid ordinary shares in the capital of Pharmacybrands Limited
Primary Market Participant	any company, firm, organisation or corporation designated as a Primary Market Participant from time to time by NZX pursuant to the NZX Participant Rules
Share Registrar	Computershare Investor Services Limited
Takeover Offer Document	the takeover offer document in respect of Pharmacybrands Shares to be sent by Life Pharmacy

Directory

Registered Office

Life Pharmacy Limited
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Telephone: +64 9 580 1900
Facsimile: +64 9 580 1907
E-mail: invest@lifepharmacy.co.nz

Website

www.lifepharmacy.co.nz

Auditors

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland City
Auckland

Legal Advisers

Chapman Tripp
Level 35, 23-29 Albert Street
Po Box 2206
Auckland 1140

Bankers

ANZ National Bank Limited
The National Bank Tower
209 Queen Street
Auckland City
Auckland

Board

A J Davidson
Independent Director

J A Bagnall
Non-Executive Director

J B Bolland
Non-Executive Director

M S Vuksich MPS
Non-Executive Director & Chairman

N W Webber MBA, MPS
Non-Executive Director

Company Secretary

J H Greenwood BCom, FCA
Life Pharmacy Ltd
PO Box 17 141
Greenlane
Auckland

Share Registrar & Investors Enquiries

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Level 2, 159 Hurstmere Road
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Private Bag 92119
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