

LIFE PHARMACY LIMITED

2008 ANNUAL GENERAL MEETING, 7TH AUGUST 2008

CEO ADDRESS

Good morning ladies and gentlemen. As Liz has said, we are in the middle of one of the most challenging periods for retailers seen in New Zealand in the last 20 years. But challenging times not only bring problems they bring opportunity and this morning I'm going to go into quite some detail to tell you what we have been doing and what we are going to do to create and deliver opportunities for LPL.

So what did the financial year of 2008 bring us? We entered a retail recession in this period. We saw the final tranche in the reduction of dispensing fees from \$15 to \$3 in July 2007. These two events meant that our business was under sales pressure at both extremes of our product portfolio – in the relatively stable end of pharmacy and at the luxury cosmetics and fragrance end as people cut down on discretionary spending.

In the face of this, and a decrease in customer numbers of more than 2%, a reduction in comparable sales of 1% was a creditable performance by our stores. However this led to a reduction in associate earnings from \$760k to \$430k and a net loss for the LPL group of \$570k.

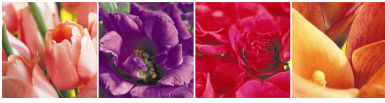
Against this backdrop there were several significant achievements in the last financial year.

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The Tony Ferguson weight management programme achieved up to 6% sales participation in our stores in its first year and we have satisfied more than 8,000 clients with this programme.

It was the first full year of the living card in our business. This loyalty management tool replaced the various fragmented schemes which existed in our stores. I am happy to report that it more than achieved the first year target of 150,000 members.

The first year has seen the card extensively used by our customers with more than 50% of our retail sales involving a Living Card transaction. Our Living Card members spend on average more than double our other customers. The card then has been well accepted and well used but, of course, the first year was both an investment and learning phase for



this sophisticated, modern Customer Relationship Management tool. Having studied its impacts in year one we are now in the process of enhancing its capabilities and reducing the associated costs.

With its CRM capability, the Living Card will play a significant part in retaining customer loyalty and driving sales in the future, as we learn more about the shopping habits of our customers.

In the face of continued adversity in the market place our associate store business managers significantly reduced the variable cost base in their stores. At the centre we re-shaped and - more importantly - refocused our central team from an organisation providing marketing and merchandising services to our stores, to one which uses these tools but is also charged with driving sales through our stores.

But perhaps the most important achievement of the last financial year is that this new team has developed a clear vision, strategy and plan to transform and take the business forward.

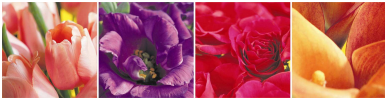
I want to give you some detail of that now.

Our vision is that - across the widest spectrum of health, beauty and wellness products and services - we want to be the biggest retailer in New Zealand. We also want to be recognised by consumers as the best, most innovative retailer in this space. We've set ourselves an ambitious target and time frame in which to achieve store numbers growth.

Our strategy is about four things and the first one of those is achieving scale in store numbers. LPL cannot achieve its objectives without significantly enhanced scale.

The second piece of the strategy is continuing and sustaining growth. Not just in sales and profit but in the continuing development of the products, services, shopping environment and value which contribute to create the customer proposition. Of course, none of the growth will occur unless we continually grow and develop - throughout the organisation - our people.

If you ask any retailer in the world what he wants to create in his business he'll probably say; "differentiation!" We're in competition with every other retailer on the high street for the consumer dollar and we are fortunate that we have the pharmacist as a key competitive advantage. Add to that the service and professional services that are found in pharmacies and we already have a great platform. We want to make much more of that platform as we go forward. We believe that by adding to these two factors a better quality retail offering - with the skills and systems required to operate it - that we can achieve real differentiation and competitive advantage for the LPL group.



The final piece of the strategy is that none of the above can be achieved without investment. We now have a Board and a corner stone investor who are prepared to invest across all aspects of the organisation in order to create a dramatically enhanced business for the future.

Sitting behind this vision and strategy is a plan which talks in detail to the five elements that you see on the screen.

I am not going to go into much detail on this except to say that all aspects of items 2 through 5 go into supporting item one because achieving scale in store numbers is the critical success factor for the business.

However I do want to talk about one key factor recognised in developing this plan.

That is, that our business and the future of our business is firmly and fundamentally anchored by the pharmacy, pharmacy services and dispensing. We see ourselves being significantly involved in all types of pharmacy from the high end pharmacies that we all recognise as Life but including medical centre pharmacies and in particular community pharmacies.

In this regard, the acquisition of Care Chemist in May of this year is pivotal to our growth plan. Not only did it bring to the Life group 8 new stores but – more importantly – it signalled to the market place that Life is serious about community pharmacy and enhancing the role of the pharmacist and pharmacy services in the communities they serve.

The role of Des Adams, founder of Care Chemist Services and Nicolette McDonald, CEO of Care, is vital to our plans. They will continue to play a significant role in Care Chemist bringing the capabilities and values of the company into the wider LPL group.

The teams in LPL and Care Chemist have excellent complementary capabilities and I look forward to them working together to grow the pharmacy sector and enhance the recognition given to pharmacists.

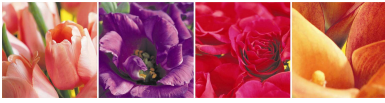
The combined resources of the two businesses will enable the enlarged organisation to offer a well-considered umbrella brand to pharmacies throughout New Zealand.

So to give you an update on progress for the first 4 months of this Financial Year. We now have 38 stores in the group compared to 28 at the end of March. We are in negotiations on a number of fronts and we expect to have another 15 stores in the group by the year end.

A key enabler in delivering our plan is to take charge of our own future in product buying and distribution, rather than share this function with our key competitor. In this regard, as you know, we resigned from the Pharmacy Brands Distribution Centre earlier this year and

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our exit will take effect at the end of October. I am happy to report that our plans for replacing the PDC are currently on track.

For the first four months of the year, despite very difficult trading conditions our stores have achieved growth on a comparable basis. Not only is this a very positive performance but, in the last quarter's market measurement of pharmacy growth, Life had grown at three times the rate of competitor pharmacies in total health categories and more than held its own in total beauty categories.

On the back of this positive sales performance and the cost reduction mentioned earlier our associate store profits are significantly ahead of last year. This has been achieved by some excellent efforts in stores and by providing increased promotional support from the centre.

Notwithstanding this, costs in the centre are broadly in line with last year.

There's no question that the objective is challenging - particularly given the current trading environment.

And there's no question that achieving our objectives will require investment. But, there's no standing still in today's business world. There's only moving forward or drifting ever further back. We are focused on continuous growth and improvement across all aspects of our business and we are focused on creating opportunity out of every problem.

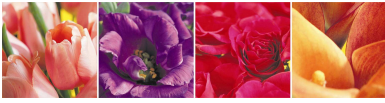
If we can add to this the whole organisation acting as one team to actively and aggressively seek out the scale growth required, then I have no doubt that we can achieve our objectives.

Before I finish I'd like to thank the Board and Andrew Bagnall for their unswerving support. I would also like to separately thank Liz Coutts for her unstinting efforts on behalf of everyone associated with the Company.

I'd like to thank the management team and all my colleagues at Central Office who have shown great energy and commitment during a period of change.

And lastly, and in particular, I want to thank all our Business Managers, Retail Managers and all our store colleagues. We have fantastically committed and hardworking store teams out there and we don't get to thank them often enough.

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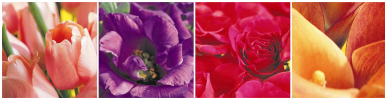
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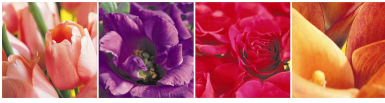
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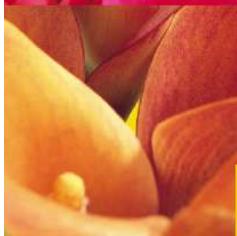
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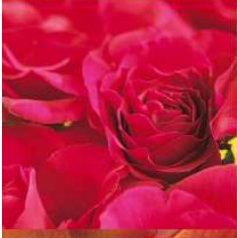
7 August 2008



Financial Performance 2007/8

- Entered Retail Recession
- Dispensing Fees \$15 → \$3
- Associate Comparable store sales down 1%
- Associate earnings \$0.43 million
- Net loss \$0.6 million

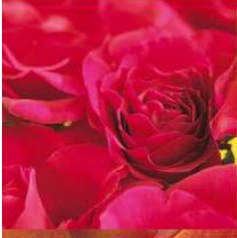




2007/8 Achievements

- 2 New Albany stores
 - Profit year 1

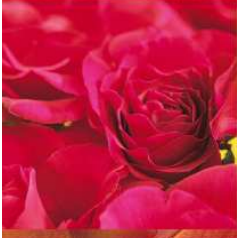




- Tony Ferguson Weight Management
 - Up to 6% of Sales



Over 8000 happy clients



2007/8 Achievements

- Living Card
 - 150,000 members year 1
 - Start up investments
 - Further enhancements
 - Cost reductions
 - CRM capability





2007/8 Achievements

- Reduced Store Operating Cost
- Built and Re-Focused C.O. team
 - Driving Sales
- Developed Vision, Strategy, Plan





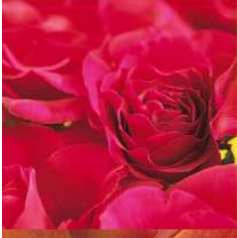
LPL Vision
200+ by 2011

**“New Zealand’s biggest,
most innovative health,
beauty and wellness
retailer”**



Strategy

- Scale
- Growth
 - Profitability
 - Sales
 - Customer proposition
 - Our people
- Differentiation
 - Pharmacist
 - Service
 - Retail offer, skills and systems
- Investing for the future



Strategic Plan

1. Growth in franchisee numbers - 200 by 2011
2. Format development to deliver enhanced & sustainable store profitability
3. Sales & Profit growth through enhancing store performance
4. Infrastructure investment to facilitate effective & efficient business processes
5. Build public & employee relations profile to enhance LPL's credible reputation with all stakeholders



Anchored in Dispensary

- All market segments
 - High end retail
 - Community pharmacy
 - Medical centre pharmacy





- Acquisition Highly Significant
- Signal to Market
- Growth plan substantially focused on Community Pharmacy
- Enhancing the role of the Pharmacist and Pharmacy service in the community



2008/9 Y.T.D 4 Months

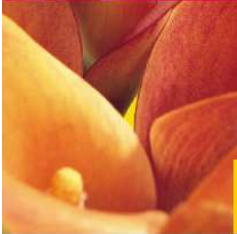
- Currently 38 stores
- Expect another 15 by year end
- Supply chain strategy on track
- Despite recession, comparable store sales positive
- Store profits ahead significantly
- Promotional Support from Centre significantly increased
- Central Costs in line with L.Y



Future

- Objective big
- Requires Investment
- No standing still
- Continuous Growth and Improvement
- Opportunities not Problems
- One Team acting actively and aggressively to achieve scale growth





Thank You