

PHARMACYBRANDS LIMITED

TARGET COMPANY STATEMENT

4 September 2009

Prepared pursuant to Rule 46 of the Takeovers Code in relation to a takeover offer by Life Pharmacy Limited.

Pharmacybrands Limited
Target Company Statement

CONTENTS

Statutory Information 1

Schedules

 Schedule 1 10

 Schedule 2 11

 Schedule 3 12

Independent Adviser's Report

1. DATE

1.1 This target company statement ("**Statement**") is dated 4 September 2009.

2. OFFER

2.1 This Statement relates to a full takeover offer by Life Pharmacy Limited ("**Life**") to purchase all of the fully paid ordinary shares in Pharmacybrands Limited ("**Pharmacybrands**") for a purchase price of \$19.55 per share (the "**Offer**") payable by the issue of 39.783 fully paid ordinary shares in Life for every one share in Pharmacybrands acquired.

2.2 The terms of the Offer are set out in the offer document dated 4 September 2009 ("**Offer Document**") which accompanies this Statement.

3. TARGET COMPANY

3.1 The name of the target company is Pharmacybrands Limited.

4. DIRECTORS OF PHARMACYBRANDS

4.1 The directors of Pharmacybrands are:

- (a) Graham Douglas Gyde (Chairman)
- (b) Peter Mervyn John McSweeney
- (c) Peter Miles Merton
- (d) Kenneth Arthur Orr
- (e) Keith Raymond Rushbrook
- (f) Ian Geoffrey Stanton Sharp (Deputy Chair)

5. OWNERSHIP OF EQUITY SECURITIES OF PHARMACYBRANDS

5.1 The only class of equity security on issue in Pharmacybrands is ordinary shares.

5.2 The number, designation and the percentage of ordinary shares in Pharmacybrands held or controlled by the directors and senior officers of Pharmacybrands and their associates are set out in Schedule One.

5.3 Other than as set out in Schedule One, no director or senior officer of Pharmacybrands, and no associate of any director or senior officer of Pharmacybrands, holds or controls any ordinary shares in Pharmacybrands.

5.4 There are no other persons known by Pharmacybrands to hold or control more than 5% of the ordinary shares in Pharmacybrands.

5.5 In the two year period ending on the date of this Statement:

- (a) no ordinary shares in Pharmacybrands have been issued to any directors or senior officers of Pharmacybrands or their associates; and
- (b) no directors or senior officers or their associates have obtained a beneficial interest under any Pharmacybrands employee share scheme or other remuneration arrangement in any ordinary shares in Pharmacybrands.

6. TRADING IN PHARMACYBRANDS EQUITY SECURITIES

- 6.1 There have been no acquisitions or disposals of Pharmacybrands ordinary shares by any director or senior officer of Pharmacybrands or their associates, or any person holding or controlling 5% of the ordinary shares in Pharmacybrands, during the six month period before the latest practicable date before the date of this Statement, being 1 September 2009 (“**Reference Date**”).

7. ACCEPTANCE OF OFFER

- 7.1 The persons who have accepted, or intend to accept, the Offer and the number of securities in respect of which each such person has accepted, or intends to accept, the Offer are set out in Schedule Two.
- 7.2 Other than as disclosed above, no person has agreed conditionally or unconditionally to accept the Offer as of the date of this Statement.

8. OWNERSHIP OF EQUITY SECURITIES OF LIFE

- 8.1 Neither Pharmacybrands, nor any director or senior officer of Pharmacybrands or any of their associates, holds or controls any equity securities in Life.

9. TRADING IN EQUITY SECURITIES OF LIFE

- 9.1 Neither Pharmacybrands, nor any director or senior officer of Pharmacybrands or any of their associates, has acquired or disposed of any equity securities in Life during the six month period before the Reference Date.

10. ARRANGEMENTS BETWEEN LIFE (AND LIFE'S ASSOCIATES) AND PHARMACYBRANDS (AND PHARMACYBRANDS' RELATED COMPANIES)

- 10.1 The following are particulars of all agreements or arrangements (whether legally enforceable or not) made, or proposed to be made, between Life or any associates of Life, and Pharmacybrands or any related company of Pharmacybrands in connection with, in anticipation of, or in response to, the Offer:
- (a) Pharmacybrands and Life entered into an exclusivity arrangement on 9 July 2009, under which both companies granted to the other exclusivity in respect of a possible merger transaction for the period commencing on 9 July 2009 and ending on the earlier of the date on which the Offer closes and the date that either party notifies to the other that the proposed transaction is unlikely to proceed or be successful.
 - (b) Pharmacybrands and Life entered into a Confidentiality Deed on 9 July 2009, under which each company agreed to keep confidential the information disclosed to it for the purposes of evaluating a possible merger between the two companies.
 - (c) Pharmacybrands, Life and their respective boards of directors entered into a Merger Agreement dated 1 August 2009 to facilitate the merger between the two companies. Under this agreement, subject to certain conditions: (a) Life agreed to make the Offer and Pharmacybrands agreed to support and facilitate the merger; (b) the boards of directors of both Life and Pharmacybrands agreed to recommend the merger; (c) the parties agreed to certain break fee and cost sharing arrangements; (d) the parties agreed to mutual interim period covenants in relation to the conduct of their respective businesses; and (e) Life Pharmacy agreed to include resolutions to appoint William Meaney, Peter Merton and Ian Sharp in the Life

Pharmacy Notice of Meeting to approve the merger and to appoint Peter Merton as chairman at the first Life Pharmacy Board meeting following completion of the merger.

- (d) Cape Healthcare Limited and Life entered into a Pre-bid Agreement dated 1 August 2009. The material terms of this agreement are detailed in paragraph 11.1 below.

10.2 Other than as described in paragraph 10.1, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Life or any associates of Life, and Pharmacybrands or any related company of Pharmacybrands, in connection with, in anticipation of, or in response to, the Offer.

11. RELATIONSHIP BETWEEN LIFE (AND LIFE'S ASSOCIATES), AND DIRECTORS AND OFFICERS OF PHARMACYBRANDS (AND PHARMACYBRANDS' RELATED COMPANIES)

11.1 The following are particulars of all agreements or arrangements (whether legally enforceable or not) made, or proposed to be made, between Life or any associates of Life, and any of the directors or senior officers of Pharmacybrands or of any related company of Pharmacybrands (including particulars of any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Offer:

- (a) On 1 August 2009, several of the directors of Pharmacybrands or associates of directors (as applicable) entered into a Pre-Bid Agreement pursuant to which Life agreed to make a takeover offer for all the shares in Pharmacybrands, and the directors or their associates agreed to accept the Offer in respect of all the shares they held in Pharmacybrands (each a "**Pre-Bid Agreement**"). The terms of each of the Pre-Bid Agreements are identical in all material respects. The directors or their associates who entered into a Pre-Bid Agreement are named in Schedule Two (the "**Accepting Shareholders**").
- (b) The material terms of each Pre-Bid Agreement are:
- (i) Life agreed to send a takeover notice to Pharmacybrands no later than 21 August 2009 and to make the offer on the terms set out in the agreement no later than 14 September 2009;
 - (ii) each of the Accepting Shareholders irrevocably agree to accept the Offer in respect of all their shares in Pharmacybrands no later than the date which is two business days after the date of despatch of the Offer to Pharmacybrands shareholders or on the business day on which the Offer is received by an Accepting Shareholder (whichever is later); and
 - (iii) unless the agreement is terminated, or the Offer lapses or is withdrawn, each Accepting Shareholder will not dispose of or deal in any way with any of the Pharmacybrands shares held by him, her or it.
- (c) The Merger Agreement (details of which are recorded in paragraph 10.1(c)) contains provisions requiring Life Pharmacy to include resolutions to appoint William Meaney, Peter Merton and Ian Sharp in the Life Pharmacy Notice of

Meeting to approve the merger and to appoint Peter Merton as chairman at the first Life Pharmacy Board meeting following completion of the merger.

- 11.2 Other than as set out above, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Life or any associates of Life, and any of the directors or senior officers of Pharmacybrands or of any related company of Pharmacybrands in connection with, in anticipation of, or in response to, the Offer.
- 11.3 No directors or senior officers of Pharmacybrands are also directors or senior officers of Life, or any related company of Life.
- 12. AGREEMENT BETWEEN PHARMACYBRANDS (AND PHARMACYBRANDS' RELATED COMPANIES), AND DIRECTORS AND OFFICERS OF PHARMACYBRANDS (AND PHARMACYBRANDS' RELATED COMPANIES)**
- 12.1 No agreement (whether legally enforceable or not) has been made, or is proposed to be made, between Pharmacybrands or any related company of Pharmacybrands, and any of the directors or senior officers or their associates of Pharmacybrands or its related companies, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.
- 13. INTERESTS OF DIRECTORS AND OFFICERS AND SUBSTANTIAL SECURITY HOLDERS OF PHARMACYBRANDS IN CONTRACTS OF LIFE (AND LIFE'S RELATED COMPANIES)**
- 13.1 Bay Pharmacies Limited is a party to a Pre-Bid Agreement. P M J McSweeney (a director of Pharmacybrands) is a director of, and shareholder in, Bay Pharmacies Limited and is accordingly interested in that Pre-Bid Agreement.
- 13.2 P M J McSweeney is also a party to a Pre-Bid Agreement in his capacity as a trustee of the Peter McSweeney Investment Trust.
- 13.3 Cape Healthcare Limited is a party to a Pre-Bid Agreement. P M Merton (a director of Pharmacybrands) is a director of, and shareholder in (in his capacity as a trustee of the Pentz Trust), Cape Healthcare Limited and is accordingly interested in that Pre-Bid Agreement.
- 13.4 Feilding Pharmacy Limited is a party to a Pre-Bid Agreement. S H Tatton (a former director of Pharmacybrands) is a director of, and shareholder in, Feilding Pharmacy Limited and is accordingly interested in that Pre-Bid Agreement.
- 13.5 Graham Gyde (2000) Limited is a party to a Pre-Bid Agreement. G D Gyde (a director of Pharmacybrands) is a director of, and shareholder in, Graham Gyde (2000) Limited and is accordingly interested in that Pre-Bid Agreement.
- 13.6 Orrs Kaipara Pharmacies Limited and Orrs Pharmacies Limited are each parties to a Pre-Bid Agreement. K A Orr (a director of Pharmacybrands) is a director of, and a shareholder in, each of these companies and is accordingly interested in the Pre-Bid Agreements to which they are a party.
- 13.7 I G S Sharp (a director of Pharmacybrands) is a party to a Pre-Bid Agreement.
- 13.8 P M Merton, is also a director of, and shareholder in Ebos Group Limited. The Zuellig Group (through its wholly owned subsidiary Elite Investments Limited) is also a shareholder of Ebos Group Limited. Ebos Group Limited's wholly owned

subsidiary, Pharmacy Retailing (NZ) Limited, is a major supplier of products to Life and PM Merton and the Zuellig Group are accordingly interested in the supply contract between ProPharma Limited and Life.

- 13.9 Except as recorded in paragraphs 10.1(c), 11.1(c) and 13.1 to 13.7, no:
- (a) director or senior officer of Pharmacybrands or their associates; nor
 - (b) other person who, to the knowledge of the directors or the senior officers of Pharmacybrands, holds or controls 5% or more of any class of equity securities of Pharmacybrands,
- has any interest in any material contract to which Life, or any related company of Life, is a party.

14. ADDITIONAL INFORMATION

- 14.1 The directors of Pharmacybrands are not aware of any information in Life's Offer Document that is incorrect or misleading.

15. RECOMMENDATION

- 15.1 Keith Rushbrook, being the only director who has not (or whose associates have not) entered into a Pre-Bid Agreement, recommends that shareholders accept the Offer.
- 15.2 Each of the other directors of Pharmacybrands (or their associates) have entered into Pre-Bid Agreements. Acknowledging their pre-commitments to the Offer, these directors also recommend that shareholders accept the Offer.
- 15.3 In forming their assessment of Life's Offer, the Directors of Pharmacybrands have taken into account a range of factors as outlined below:
- (a) The independent adviser to Pharmacybrands, Simmons Corporate Finance Limited, has assessed the full underlying value of Pharmacybrands as \$16.48 to \$19.24 per share and has assessed the value of 39.783 fully paid Life Pharmacy shares (the consideration for each Pharmacybrand's share under the Offer) as in the range of \$19.89 to \$22.28.
 - (b) The independent adviser's report also identifies other advantages of accepting Life's Offer including liquidity and potential dividend stream.
 - (c) Director shareholders controlling approximately 68% of the voting rights in Pharmacybrands have entered into lock-up agreements with Life, thereby committing to accept the Life Offer and as a result it is unlikely that any competing offer will arise during the Offer period.
 - (d) Over the past two years Pharmacybrands has been looking to expand its operations by acquiring interests in stores in a partnership arrangement with a pharmacist who has a majority stake in the business, and by adding additional franchisee stores. This offer effectively adds 20 new associate companies with ownership of 23 partnership stores, 2 joint venture stores and 28 franchisee stores to the portfolio without the need for any cash outlay.
 - (e) There is the opportunity for the combined organisation to enhance the services to both pharmacists and consumers compared to the two entities operating independently. The exact benefits have not been costed with

precision but there are self evident synergies, such as economies of scale, better coverage in the market and better purchasing power. The key benefits will be derived from:

- (i) cost savings from operating one central support office;
- (ii) better purchasing power with suppliers through critical mass;
- (iii) the ability to provide an enhanced range of services by the combined businesses with an increased focus on professional services, training, store systems and processes, as well as the ability to focus on prestige cosmetics;
- (iv) the ability to recognise further value from the intellectual property and best practices of both organisations;
- (v) the opportunity to apply more resources to assist the Pharmacy Guild, Pharmaceutical Society and other such groups to ensure pharmacies can play a greater role in primary care by delivering a range of new services;
- (vi) the ability to maximise new opportunities such as own label product development and expansion into other pharmacy-related channels; and.
- (vii) strength to represent and defend the pharmacy channel as stronger competition continues to build, especially from other retail and grocery traders.

15.4 As detailed in paragraphs 11 and 13 above, the following directors (or former directors) of Pharmacybrands (or entities associated with them) have agreed to accept the Offer pursuant to Pre-Bid Agreements, and are therefore interested in the Offer:

- (a) P M J McSweeney.
- (b) P M Merton.
- (c) S H Tatton (former director).
- (d) G D Gyde.
- (e) K A Orr.
- (f) I G S Sharp.

16. ACTIONS OF PHARMACYBRANDS

16.1 There are no material agreements or arrangements (whether legally enforceable or not) of Pharmacybrands and its related companies entered into as a consequence of, in response to, or in connection with the Offer (other than those described in paragraphs 10 and 11).

16.2 There are no negotiations underway, as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:

- (a) an extraordinary transaction (such as a merger, amalgamation, or reorganisation) involving Pharmacybrands or any of its related companies; or
- (b) the acquisition or disposition of material assets by Pharmacybrands or any of its related companies; or
- (c) an acquisition of equity securities by, or of, Pharmacybrands or any related company of Pharmacybrands; or
- (d) a material change in the equity securities on issue, or policy related to distributions, of Pharmacybrands.

17. EQUITY SECURITIES OF PHARMACYBRANDS

17.1 There are currently 1,023,045 Pharmacybrands ordinary shares on issue. These ordinary shares are all fully paid. Shareholders have in respect of each Pharmacybrands ordinary share:

- (a) the right to an equal share in dividends authorised by the board of directors of Pharmacybrands;
- (b) the right to an equal share in distribution of surplus assets of Pharmacybrands;
- (c) subject to Pharmacybrands' constitution, the right to participate in any further issues of equity securities by Pharmacybrands; and
- (d) subject to Pharmacybrands' constitution, the right to cast one vote on a show of hands or the right to cast one vote on a poll (for each share held) on any resolution, including the resolution to:
 - (i) appoint or remove the director or auditor;
 - (ii) alter Pharmacybrands' constitution;
 - (iii) approve a major transaction by Pharmacybrands;
 - (iv) approve an amalgamation involving Pharmacybrands (other than an amalgamation of a wholly owned subsidiary); and
 - (v) put Pharmacybrands into liquidation.

18. FINANCIAL INFORMATION

18.1 Every person to whom the Offer is made is entitled to obtain from Pharmacybrands a copy of its most recent annual report (being the annual report for the period ended 31 March 2009) by making a written request to:

Vivek Singh
 Chief Financial Officer
 Pharmacybrands Limited
 Private Bag 11-906
 Ellerslie
Auckland

or

Alan Wham
 Chief Executive Officer
 Pharmacybrands Limited
 Private Bag 11-906
 Ellerslie
Auckland

vivek.singh@pbl.co.nz

alan.wham@pbl.co.nz

18.2 There are no known material changes to the financial or trading position, or prospects, of Pharmacybrands since the 2009 annual report. The financial performance of Pharmacybrands while better than budget year to date is expected to be countered by the transaction costs associated with the Life Offer.

18.3 There is no other information about the assets, liabilities, profitability, and financial affairs of Pharmacybrands that could reasonably be expected to be material to the making of a decision by Pharmacybrands shareholders to accept or reject the Offer.

19. INDEPENDENT ADVICE ON MERITS OF THE OFFER

19.1 Simmons Corporate Finance Limited, as independent adviser, has prepared a report under Rule 21 of the Takeovers Code. A full copy of this report accompanies this Statement.

20. ASSET VALUATION

20.1 This Statement (including the Simmons Corporate Finance Report) does not contain a valuation of any asset of Pharmacybrands.

21. PROSPECTIVE FINANCIAL INFORMATION

21.1 The independent adviser's report prepared by Simmons Corporate Finance refers to prospective financial information of Pharmacybrands. The principal assumptions on which the prospective financial information is based are set out in section 4.5 of the report.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER OFFER

22.1 All the information that Pharmacybrands has as to the number of its equity securities that have been disposed of in the 12 months ending on the Reference Date, and the consideration for the dispositions, is set out in Schedule Three.

23. OTHER INFORMATION

23.1 There is no other information not required to be disclosed elsewhere in this Statement (including the Simmons Corporate Finance report) that could reasonably be expected to be material to the making of a decision by the Pharmacybrands' shareholders to accept or reject the Offer.

24. APPROVAL OF TARGET COMPANY STATEMENT

24.1 This Statement has been approved by the board of directors of Pharmacybrands.

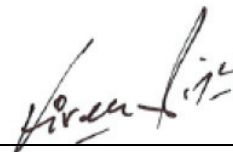
25. CERTIFICATE

25.1 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by Pharmacybrands under the Takeovers Code.

SIGNED BY:



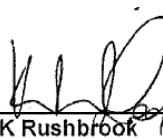
A Wham
Chief Executive Officer



V Singh
Chief Financial Officer



G Gyde
Chairman



K Rushbrook
Director

SCHEDULE ONE

(Paragraph 5.2)

Name of Director / Senior Officer	Ordinary shares held or controlled by Director / Senior Officer		Ordinary shares held or controlled by Associates of Director / Senior Officer	
	Number	Percentage	Number	Percentage
G D Gyde	1,500 ¹	0.15%	-	
P M J McSweeney	11,500 ²	1.12%	1,000 ³	0.10%
P M Merton	676,285 ⁴	66.11%	3,000 ⁵	-
K A Orr	12,000 ⁶	1.17%	-	-
I G S Sharp	2,500	0.24%	-	-

¹ G D Gyde is the sole shareholder and director of Graham Gyde (2000) Limited which holds 1,500 ordinary shares in Pharmacybrands.

² The total of 11,500 ordinary shares held or controlled by P M J McSweeney is comprised as follows:

(a) 500 ordinary shares held in his capacity as a trustee of the Peter McSweeney Investment Trust.

(b) 11,000 ordinary shares held by Bay Pharmacies Limited. P M J McSweeney holds 52.63% of the shares in Bay Pharmacies Limited in his personal capacity, and the other 47.37% in his capacity as a trustee of the Peter McSweeney Investment Trust.

³ The total of 1,000 ordinary shares held or controlled by associates of P M J McSweeney is comprised as follows:

(a) 500 ordinary shares held by A Candy, T M Magill, J McSweeney and K McSweeney in their capacities as trustees of the Kerry McSweeney Family Trust. T M Magill is an associate of P M J McSweeney by virtue of them being joint trustees of the Peter McSweeney Investment Trust. J McSweeney and K McSweeney are associates of P M J McSweeney by virtue of family relationships.

(b) 500 ordinary shares held by T M Magill, G B Short and L W Shorf in their capacities as trustees of the Grant Short Family Trust. T M Magill is an associate of P M J McSweeney by virtue of them being joint trustees of the Peter McSweeney Investment Trust.

⁴ P M Merton holds 49% of the shares in Cape Healthcare Limited in his capacity as trustee of the Pentz Trust. Cape Healthcare Limited holds 66.11% of the ordinary shares in Pharmacybrands.

⁵ 3,000 ordinary shares held by John Hetherington, Helen Jeanine Merton and Miles Everard Vincent Merton as trustees of the Merton Family Trust. The trustees of the Merton Family Trust are associates of Peter Merton by virtue of family relationships.

⁶ The total of 12,000 ordinary shares held or controlled by K A Orr is comprised as follows:

(a) 4,500 ordinary shares held by Orrs Pharmacies Limited. K A Orr holds 37.5% of the shares in Orrs Pharmacies Limited in his personal capacity, and another 15% in his capacity as a trustee of his family trust partnership.

(b) 7,500 ordinary shares held by Orrs Kaipara Pharmacies Limited. Orrs Pharmacies Limited (of which K A Orr is a shareholder) holds 20.83% of the shares in Orrs Kaipara Pharmacies Limited and KA Orr holds 41.67 in of the shares in Orrs Kaipara Pharmacies Limited in his personal capacity.

SCHEDULE TWO

(Paragraph 7.1)

Name of shareholder(s)	Number of shares in respect of which shareholder(s) has accepted or intends to accept the offer
Bay Pharmacies Limited	11,000
Cape Healthcare Limited	676,285
Feilding Pharmacy Limited	1,500
Graham Gyde (2000) Limited	1,500
P M J McSweeney T M Magill	500
Orrs Kaipara Pharmacies Limited	7,500
Orrs Pharmacies Limited	4,500
I G S Sharp	2,500

SCHEDULE THREE**(Paragraph 22)**

Name	Number	Designation	Acquisition or Disposal	Consideration per share (\$)	Date
Orrs Kaipara Pharmacies Limited (company associated with Kenneth Orr, Director)	1,500	Ordinary	Acquisition from Harris and Cameron Pharmacy Limited	Not disclosed	7 August 2008
Orrs Kaipara Pharmacies Limited (company associated with Kenneth Orr, Director)	1,500	Ordinary	Acquisition from Pharmacy 547 Limited	Not disclosed	9 September 2008
Rosemary Langham and Carol Campbell	3,937	Ordinary	Acquisition from Medi-Centre Pharmacy Limited	Not Disclosed	7 August 2008

