



1 February 2008

Dear Shareholder

**Re Notice of General Meeting and Explanatory Statement
Proposed Sale of Cottman Australia Pty Ltd (and subsidiaries)**

Please find enclosed a notice of General Meeting of Shareholders and Explanatory Statement in relation to the proposed sale of Cottman Australia Pty Ltd to Clifford Hallam Healthcare Pty Limited (CH2), (Project North).

The enclosed documents provide shareholders with adequate information in relation to the transaction that will be subject to formal shareholder approval at the meeting of shareholders to be held on Monday 3 March 2008. Should you be unable to attend this meeting please exercise your shareholder vote by sending your proxy using the proxy form and reply paid envelope that are enclosed.

On behalf of my fellow directors I urge you read the enclosed information memorandum and to vote in favour of the proposed transaction.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Malcolm Cole'.

Malcolm Cole
Chairman

Enclosures.



ADVANCE HEALTHCARE GROUP LIMITED

ABN 19 002 695 589

**NOTICE OF GENERAL MEETING
AND
EXPLANATORY STATEMENT**

The General Meeting is scheduled for 10.30 am on 3 March 2008
At the offices of the Fulcrum Equity Limited, Level 11, 459 Collins Street, Melbourne, Victoria, 3000

This is an important document which should be read in its entirety.
You may wish to consult your professional advisers about its contents.

IMPORTANT INFORMATION

AHG has convened the General Meeting to consider a resolution in relation to the future direction of the group following a strategic review commissioned by the Board.

Shareholders are being asked to approve a resolution that will enable the group to divest the Cottman hospital pharmacy and medical consumables distribution business. This business has for some time been loss making and as such is a considerable drain on cash in the group.

This transaction has the full support of the Board and that of our majority shareholder Fulcrum Equity Limited.

IMPORTANT DATES

Return of Proxies	10.30 am (EDT) / 8.30 am (WDT) on Saturday 1 March 2008
Snapshot Date	12 noon (WDT) on Saturday 1 March 2008
Meeting	10.30 am (EDT) on Monday 3 March 2008

NOTICE OF GENERAL MEETING OF SHAREHOLDERS OF

Advance Healthcare Group Limited

ABN 19 002 695 589

NOTICE IS HEREBY GIVEN that a General Meeting of shareholders of Advance Healthcare Group Limited (AHG) will be held on 3 March 2008 at 10.30am (EDT) at the offices of the Fulcrum Equity Limited, Level 11, 459 Collins Street, Melbourne, Victoria, 3000 for the purpose of transacting the business referred to in this Notice.

BUSINESS

SPECIAL BUSINESS

Proposed sale of Cottman Australia Pty Ltd (and subsidiaries)

Resolution

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

That for the purposes of ASX Listing Rule 11.2, and for all other purposes, approval be granted to the Directors to enter into the Sale and Purchase Agreement for the sale of 100% of the share capital of Cottman Australia Pty Ltd (and subsidiaries) to Clifford Hallam Healthcare Pty Limited ('CH2').

VOTING EXCLUSION

The Company will disregard any votes cast on this resolution by Clifford Hallam Healthcare Pty Limited or an associate of that entity or by anyone who might obtain a benefit (except a benefit solely in their capacity as holder of ordinary securities), if the resolution is passed.

However, the Company will not disregard a vote if:

- a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

POINT AT WHICH VOTING RIGHTS ARE DETERMINED

Regulation 7.11.37 of the Corporations Regulations permits the convener of a meeting to specify a time, not more than 48 hours before the meeting at which a "snapshot" of members will be taken for the purposes of determining member entitlements to vote at the meeting. The directors have passed a resolution to the effect that all shares of the Company that are quoted on the official list of ASX Limited at 12 noon Western Daylight Time on 1 March 2008 shall, for the purposes of determining voting entitlements at the general meeting, be taken to be held by the persons registered as holding them at that time.

QUESTIONS AND COMMENTS

The Chairman will allow a reasonable opportunity for Shareholders at the meeting to ask questions about the proposed resolution and the management of the Company.

By Order of the Board.

ADVANCE HEALTHCARE GROUP LIMITED

Karen Brown

Company Secretary

Dated 1 February 2008

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of shareholders of the Company in connection with the proposed resolution brought forward. The purpose of this Explanatory Statement is to provide information that the Board believes to be material to Shareholders in deciding whether or not to pass that resolution. The Explanatory Statement should be read in conjunction with the accompanying Notice of General Meeting. This Explanatory Statement contains important information. You should read all of this Explanatory Statement before making any decision on how to vote on the resolution.

RESOLUTION: APPROVE SALE OF COTTMAN AUSTRALIA PTY LTD (AND SUBSIDIARIES)

A. Introduction

Advance Healthcare Group Limited (ASX Code: AHG) has operated its business via two distinct business lines namely the hospital pharmacy and medical consumables distribution operated through *Cottman Australia Pty Ltd* (and its subsidiaries) ('Cottman') and the retail & internet pharmacy business operated through the corporate pharmacy licence *Pharmeasy*.

Shareholders will be aware that the Cottman group has made losses in recent years with the loss in the six months to 30 June 2007 totaling A\$4.6 million (12 months to 31 December 2006 A\$9.2 million). In the wake of these losses your Board commissioned management to undertake a thorough strategic review of all options for the business.

As a result of this review process, the Board has approved the proposal to put to shareholders the resolution to approve the proposed sale of Cottman to Clifford Hallam Healthcare Pty Limited (ACN 001 655 554) ('CH2') ("the Resolution") at a general meeting to be held on 3 March 2008.

Directors Recommendation

The Directors of the Company unanimously recommend that shareholders vote in favour of the Resolution.

The Directors' recommendations are based on the following reasons:

- (a) the directors have considered a number of options to recapitalise the Company over recent months and, at the date of the Notice of Meeting, consider that the proposed sale is the best and most viable option to address the Company's financial requirements and to enable the Company to move forward; and
- (b) their analysis of the commercial advantages, disadvantages and potential risks associated with the proposed sale indicates that this action represents the most positive outcome for all shareholders.

The purpose of this explanatory statement is to enable shareholders to assess the merits of the proposed sale of Cottman to CH2 for the purposes of voting on the Resolution.

B. The Transaction

It is proposed that the Company sell 100% of the share capital in Cottman to CH2 for A\$8 million.

A Sale and Purchase Agreement has been signed by the parties subject to AHG shareholder approval and formal approval by the Australian Competition & Consumer Commission (which is the responsibility of CH2).

A summary of the key terms of the Sale and Purchase Agreement are as follows:

- Advanced Healthcare Group Limited will sell 100% of the issued share capital in Cottman Australia Pty Ltd. (and subsidiaries). The subsidiaries of Cottman are L J Cottman (WA) Pty Ltd and Surgical Buyers Australia Pty Ltd.
- The purchase price of A\$8.0 million will be paid by way of A\$1.0 million deposit on signing of the sale and purchase agreement and \$7.0 million paid at completion of the transaction expected to be on or around 4 March 2008;
- Conditions Precedent to the transaction include:
 - AHG Shareholder approval of the transaction,
 - Australian Competition and Consumer Commission (ACCC) approval of the transaction, and
 - Satisfactory completion of further Due Diligence post signing of the Sale and Purchase Agreement;
- A comprehensive Tax Indemnity has been provided to the Buyer in relation to all tax matters of the group up to the date of completion; and
- AHG will provide CH2 with a standard set of Warranties in relation to the divestment of Cottman including a standard disclosure letter pertaining to all information provided to the buyer as part of the complete transaction process.

C. Rationale for the Transaction

During the strategic review process it became apparent to management that there were limited options available in relation to restructuring the Cottman business. The limitations are due primarily to a concentrated and highly competitive market environment particularly in relation to the distribution of hospital specific medicines. By way of background a brief summary of our business and key market observations are set out below.

The Business of Cottman Australia

The business of Cottman is the distribution and sale of hospital specific medicines to public and private hospitals and the sale of medical consumable products to Aged Care Facilities, Nursing Homes, General Practitioners, Medical Centres and Industrial Markets. The business has its origins in Western Australia and has successfully expanded to service both South Australia and Northern Territory. There is also a small medical consumable business conducted in Victoria.

Accordingly, the business operates in two distinct segments being hospital pharmacy distribution and the medical consumables business. The hospital distribution business is characterised as a high volume low margin / distribution fee business while the medical consumables business enjoys better margins but at lower volumes.

Overall gross margin is tight and operating costs are, by nature, largely fixed. Following the loss of business that occurred in 2006 (that has not been able to be recovered) the high infrastructure cost has meant that the overall business continues to operate at a loss on a month to month basis.

Further, the business is subject to a high level of competitive intensity with the two national hospital pharmacy operators continuing to slowly erode Cottmans market share. By contrast the medical consumables business is very much state based with a number of smaller operators (including agents) in both WA and SA/NT respectively. With lower overhead structures (than Cottman) it is our view that these well established smaller players are able to, selectively, undercut our margin position and win business.

Market Information & Observations

The market and business of hospital pharmacy distribution has changed significantly in recent years driven by competitor rationalisation and customer aggregation particularly as it relates to private hospital operators.

The private hospital sector has been subject to significant operator site aggregation and amalgamation activities in recent years. Major players have developed national footprints and are driving efficiency in buying both for pharmacy and medical consumables through centralised purchasing and procurement contracting.

The major competitors to the Cottman business in our respective markets are Symbion Healthcare Limited (Symbion) and Clifford Hallam Healthcare (known as CH2).

Symbion has maintained a strong and competitive position in WA, SA & NT which is historical given the Adelaide origins of Symbion (as F.H. Faulding & Co) and the first expansion of its broad pharmacy distribution business (including hospital pharmacy) was into WA. This business expanded over time and the company is widely recognised as a leading national pharmacy distributor servicing both hospital and retail pharmacy respectively.

CH2 is a recent amalgamation of Clifford Hallam Healthcare previously owned and operated by Spotless Australia and Hospital Services of Australia operated by Australian Pharmaceutical Industries (API). This amalgamated business has enabled the newly named CH2 to rationalise operations in the Eastern States and through national distribution arrangements with private hospital operators in both pharmaceuticals and medical consumables has grown its market shares in our markets of WA, SA & NT.

The public hospital sector is a major customer group for Cottman. While we have continued to enjoy historically strong support from and trading relationships with the public hospital sector the loss of exclusive supply arrangements in mid 2007 with major pharmaceutical companies has led to the loss of a unique market position for Cottman. Consequently Cottman is now forced to 'share' sales of major products with both Symbion and CH2 where once Cottman sole supply arrangements existed.

Summary Observations

Private hospital customers are seeking supply chain partners with national distribution capability and the ability to service their operations in multiple states across Australia. This is currently a deficiency in the Cottman offer compared to both CH2 and Symbion.

Public hospital pharmacy customers take the approach of 'sharing' out their requirements across the supply chain service providers to Cottman, CH2 and Symbion along with many smaller distributors who have eaten into the traditional 'core' business of Cottman. In

the light of this type of customer behaviour it is unlikely that Cottman will be able to restore itself to its previously held market position in WA.

In light of the above information extracted as part of the strategic review process management explored various options for the Cottman business. A brief outline of the options and relevant comments are set out below.

Continue the business 'as is' with substantial restructure

This restructure option of divestment of the WA pharmaceutical supply business calls for a sharp reduction in staff numbers by up to 40% and also includes the relocation of the WA business from the Balcatta facility to a new smaller warehouse location. This option involved significant restructure costs through redundancies, relocation of the business and potential loss of sales due to business disruption.

This option if implemented would be expected to deliver the business to profitability within 12 months but on a permanently lower sales base for the business overall. Given the outlook of continuing pressure on margins this option would be unlikely to deliver a sustainable operating margin for the business in the longer term.

Outsource Warehouse & Distribution functions

While the financial model in relation to this option proved sound the difficulty is in finding a suitable third party warehouse & logistics partner. Ultimately the ideal partner is an existing competitor to Cottman and as such management perceived that any such arrangement would lead to a gradual erosion of the sales base.

Accordingly it was agreed by management that this option would not deliver a long term benefit for shareholders but rather cause a slow demise of the business over time.

Close the Business

This option was considered carefully by management as it would result in an immediate cessation of the loss making business. This benefit would however be offset by the fixed costs of closing the business and liquidation of Cottman's assets. In relation to this later item industry experience shows that in most cases the asset liquidation would not realise the book / carrying value of many assets owned and operated by Cottman. Further, this option would not generate any positive cash flows for Advanced Healthcare Group Limited.

Seek out a trade sale partner

This final option became the only 'live' alternative for the business. Accordingly management assessed the appropriateness of other existing market participants for a potential Sale and Purchase transaction. After considerable internal discussion and evaluation CH2 were assessed as having the best 'fit' for a possible transaction.

D. Sale of Cottman Australia Pty Ltd & Subsidiaries ('Project North')

Transaction Process

CH2 was approached by senior management and responded positively to the advance from AHG. After establishing confidentiality the transaction parameters and potential timeline for the sale and purchase transaction in relation to the sale of Cottman Australia Pty Ltd and subsidiaries (Project North) were confirmed by the parties.

Since that time CH2 have undertaken detailed due diligence on Project North. Additional information has been provided as required by CH2. On the basis of the due diligence undertaken a price for the business has been agreed between the parties.

The Sale and Purchase Agreement has been signed subject to approval by Advance Healthcare Group Limited shareholders and Australian Competition & Consumer Commission approval (which is the responsibility of CH2).

Financial Implications of the proposed transaction

Income

In the proposed Project North transaction the sale price of A\$8.0 million reflects the carrying value of Net Assets excluding the working capital debt facility and transaction costs associated with the termination of this facility. Accordingly there is no material gain or loss on the sale transaction.

Following completion of Project North it is anticipated that the Corporate Head Office function of AHG will be restructured. This will result in 'one off' restructure costs of A\$0.5 million.

After both the sale transaction and head office rationalisation are completed it is anticipated that the residual business will have an annualised loss of A\$0.9 million (before financing costs of A\$0.5 million). This compares to a reported loss for the consolidated group of A\$ 4.6 million for the six months ended 30 June 2007 (that included financing costs of A\$1.6 million).

As outlined in previous announcements strategies for the residual business are being finalised and will be subject to separate future announcements.

Funding Considerations

Proceeds from the sale will be insufficient to enable full satisfaction of the existing finance facility with GE Capital Finance Pty Limited and therefore the AHG Board has requested financial support from the Company's major shareholder Fulcrum Equity Limited ACN 008 949 219 (Fulcrum). Fulcrum has confirmed that it will provide adequate financial support to enable the payment in full of the working capital finance facility.

In consideration for this additional funding to AHG, Fulcrum will be granted a fixed and floating charge over the remaining assets of AHG.

Pro forma Balance Sheet Pre and Post Project North transaction

Set out below is a 'snap shot' of the pro forma AHG balance sheet pre and post the Project North transaction. The Project North transaction is being completed at the carrying value (equal to fair value) of Net Assets. Accordingly total net assets remain virtually unchanged post transaction.

Post the Project North transaction funding to AHG will be primarily from related parties amounting to A\$6.2 million.

Balance Sheet	Pre Divestment	Post Divestment
	\$'000	\$'000
ASSETS		
Current Assets		
Cash and cash equivalents	2,361	169
Trade and other receivables	8,550	50
Inventories	6,189	80
Prepayments	374	61
Total Current Assets	<u>17,474</u>	<u>360</u>
Non-current Assets		
Receivables	269	19
Plant and equipment	830	82
Total Non-current Assets	<u>1,099</u>	<u>101</u>
TOTAL ASSETS	<u>18,573</u>	<u>461</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	11,311	2,775
Interest-bearing loans and borrowings	15,342	6,161
Provisions	433	64
Total Current Liabilities	<u>27,086</u>	<u>9,000</u>
Non-current Liabilities		
Trade and other payables	318	318
Provisions	27	5
Total Non-current Liabilities	<u>345</u>	<u>323</u>
TOTAL LIABILITIES	<u>27,431</u>	<u>9,323</u>
NET ASSETS/(LIABILITIES)	<u>(8,858)</u>	<u>(8,862)</u>

Strategies currently under review include initiatives that will address the net asset deficiency of AHG going forward.

E. Ongoing Funding for AHG

As noted above restructuring plans for the continuing AHG business are being reviewed. It is anticipated that a further funding request will be made to Fulcrum to support the residual business through this restructure and transition period.

F. Concluding Remarks

While the business is capable of restructure, the long term returns are considered to be marginal at best and the Project North divestment is a significant opportunity to exit a mature low margin business operating in a highly competitive and regulated environment. The outcome of this divestment will be to significantly reduce AHG's exposure to further losses and drain on cash reserves.

The divestment will enable AHG to pursue other new business development initiatives that are currently subject to review.

Voting by Proxy

Please complete your name and address as it appears on the share register. Shareholders sponsored by a broker should advise their broker of any changes. Please note that you cannot change ownership of your shares using this form.

1.1 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your Proxy and vote on your behalf. A proxy need not be a shareholder.

1.2 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite the item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy will vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

1.3 Appointment of a Second Proxy

If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company secretary, Ms Karen Brown on (+61 8) 9227 1186) or you may copy this form.

To appoint a second proxy you must:

- 1 Indicate that you wish to appoint a second proxy by marking the box.
- 2 On each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form.
- 3 Return both forms together in the same envelope.

1.4 Authorised Signature/s

You must sign this form as follows in the spaces provided:

Joint Holding: In the case of joint holders the proxy form may be signed by any one holder.

Power of Attorney: If signed under a Power of Attorney, you must have already lodged it with the registry, or alternatively, attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.

Companies: A Director can sign jointly with another Director or a Company Secretary, a sole Director who is also a sole Company Secretary can also sign. A sole Director of a corporation without a Company Secretary can sign, pursuant to s204A of the *Corporations Act*. Please indicate the office held by signing in the appropriate space.

If a representative of the corporation is to attend the meeting and a proxy form is not used, then an appropriate "Certificate of Appointment of Representative" should be produced prior to admission. A form of the certificate may be obtained from the company secretary.

1.5 Lodgement of Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting. Documents may be lodged by posting, delivery or facsimile to the Company.

Registered office of: Advance Healthcare Group Limited	19 Ledger Road BALCATTWA WA 6021 PO Box 613 BALCATTWA WA 6914 Facsimile: 9240 2900
---	--

PROXY FORM

ADVANCE HEALTHCARE GROUP LTD

ABN 19 002 695 589

The Company Secretary

Advance Healthcare Group Ltd

Postal Address:

PO Box 613
BALCATTA WA 6914

Facsimile: +61 8 9240 2900

I/We of
(name of shareholder) *(address of shareholder)*

being a member/members of ADVANCE HEALTHCARE GROUP LIMITED hereby appoint :

..... of
(name of proxy) *(address of proxy)*

and/or failing him

..... of
(name of proxy) *(address of proxy)*

or failing that person then the **CHAIRMAN** of the meeting as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held on 3 March 2008, at the offices of the Fulcrum Equity Limited, Level 11, 459 Collins Street, Melbourne, Victoria, 3000 at 10.30 am and at any adjournment of the meeting.

If you wish to direct the Proxy how to vote, place a cross in the appropriate boxes below:

	For	Against	Abstain
Resolution 1 – Proposed sale of Cottman Australia Pty Ltd (and subsidiaries)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

If you do not wish to direct your proxy how to vote, please place a mark in the box.

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest. The Chairman intends to vote **for** the resolution set out in the Notice.

This Proxy is appointed to represent 100% of my voting right, or if 2 proxies are appointed Proxy 1 represents ____% and Proxy 2 represents ____ % of my total votes.

My total voting right is _____ shares.

This section **must** be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Security Holder 1

Sole Director and
Sole Company Secretary

Security Holder 2

Director

Security Holder 3

Director/Company Secretary

Contact Name

Contact daytime telephone

Date