

## **ASX Announcement**

### **Hospital supplies distribution transactions**

- Hospital Supplies of Australia (HSA) sold to a newly formed Joint Venture to create a new stand-alone hospital supplies business
- API to own 50% of the Joint Venture
- The Joint Venture acquires Clifford Hallam Pharmaceuticals Pty Ltd for \$67.5 million cash
- API focusing on core retail-led brands business, divesting non-core assets

21 April 2005: Integrated healthcare services company Australian Pharmaceutical Industries Limited ("API") has announced it has agreed to sell its hospital supplies distribution business, Hospital Supplies of Australia ("HSA"), into a newly established Joint Venture, initially owned 50% by API and 50% by ABN AMRO Capital (Belgium) NV, the private equity arm of ABN AMRO Bank.

HSA will be sold to the Joint Venture for an enterprise value equal to the net tangible assets of HSA at the completion date, currently estimated at \$35 million. The consideration will be paid as a combination of shares in the Joint Venture and cash.

The Joint Venture has concurrently entered into an agreement to acquire Clifford Hallam Pharmaceuticals Pty Ltd ("CHP"), the hospital supplies distribution business of Spotless Group Limited, for \$67.5 million cash.

The sale of HSA is conditional on the completion of the Joint Venture's acquisition of CHP. Subject to the satisfaction of regulatory (ACCC and FIRB) and standard bank conditions precedent, both transactions are targeted to complete by 27 May 2005.

Following the acquisition of HSA and CHP, the Joint Venture will be a major distributor of hospital supplies in Australia, with revenues of approximately \$760 million (\$480 million from CHP and \$280 million from HSA) for the year ending 30 June 2005.

The Joint Venture's services will include the distribution of pharmaceuticals, medical consumables and other healthcare products to hospitals, medical centers and aged care facilities in all states of Australia, as well as Norfolk Island and the South Pacific.

Commenting on the transaction, Jeff Sher, Group Leader of API said: "This is an exciting transaction for both API and the Joint Venture. We believe the Joint Venture creates the best potential to maximize value for API shareholders from HSA while maintaining API's exposure to the growth and

synergy opportunities expected from a combination of HSA and CHP. Establishment of a stand alone HSA/CHP business will also allow API management to focus on growing API's core retail brands and pharmacy distribution business."

The establishment of the Joint Venture follows API's Strategic Review, the results of which were announced on 8 December 2004. The Strategic Review identified the need to rationalise API's range of activities given the company's focus on a retail-led strategy.

The Board of API believes that the transaction delivers the following key benefits for API and the newly established Joint Venture:

- value creation through synergies and working capital benefits expected to flow from the merger of HSA and CHP;
- release of working capital for use in the core API business;
- creation of a separate stand alone structure with a single business and management focus;
- provides API with flexibility regarding its ongoing interest in the hospital supplies distribution business;
- further enables API management to focus on the company's retail-led strategy; and
- is immediately earnings per share positive (pre-goodwill) for API shareholders.

"This transaction demonstrates that while our emphasis is on the pharmacy channel - retail, distribution and manufacturing- and tightening our focus on a core offering in health, beauty and lifestyle products, we will seek to maximize the value and benefits for both our shareholders and businesses such as HSA as we tighten our focus," Mr Sher said.

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