

AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

ABN 57 000 004 320

AND ITS CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORTS

30 APRIL 2005

05 Annual Financial Report

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320



Directors' Report

The directors present their report together with the financial report of Australian Pharmaceutical Industries Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 April 2005 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status	Experience and special responsibilities
Mr Peter R. Robinson , <i>B.Com</i> Chairman Non-executive director – age 53	Mr Robinson joined Washington H Soul Pattinson and Company Limited in 1978 and was appointed a director of Washington H Soul Pattinson and Company Limited in 1984. Mr Robinson is also Chairman of Clover Corporation Limited and KH Foods Limited and a director of New Hope Corporation Limited and SP Telemedia Limited. Nominee of Washington H Soul Pattinson and Company Limited. Appointed Chairman 8 July 2003. Director since 5 May 2000. Acting Chief Executive Officer from 8 January 2004 to 6 September 2004.
Mr Barry A. Frost , <i>B.Pharm, FPS, FAIPM, Dip.Fin.Plan.</i> Deputy Chairman Independent non-executive director – age 62	Mr Frost is a pharmacist, a Fellow of the Pharmaceutical Society of Australia and a Fellow of the Australian Institute of Pharmacy Management. Member of the Remuneration Committee. Appointed Deputy Chairman 1 July 2001. Director since 20 September 1993.
Mr David J. Fairfull , <i>B.Com, CPA., ACIS., ASIA</i> Non-executive director – age 63	Mr Fairfull is a non-executive director of Washington H Soul Pattinson and Company Limited and has been a director of Washington H Soul Pattinson and Company Limited since 1997. Mr Fairfull is a non-executive director of NBN Group Limited, New Hope Corporation Ltd, SP Telemedia Limited and Stockland Trust Group. Nominee of Washington H Soul Pattinson and Company Limited. Member of the Audit Committee. Director since 5 May 2000.
Mr Robert D. Millner Non-executive director – age 54	Mr Millner is the Chairman of Washington H Soul Pattinson and Company Limited and has been a non-executive director of Washington H Soul Pattinson and Company Limited since 1984. Mr Millner is also Chairman of Brickworks Limited, Choiseul Investments Limited, SP Telemedia Limited, New Hope Corporation Limited and Milton Corporation Limited. Nominee of Washington H Soul Pattinson and Company Limited. Member of the Audit Committee. Director since 5 May 2000.

Mr John W. Murphy, *B.Com, M.Com, CA, FCPA*
Non-executive director – age 52

Mr Murphy is the Managing Director of Investec Wentworth Private Equity Limited and in this capacity is a board director on all of the fund's investments.

Mr Murphy is also a non-executive director of First Wine Fund Limited and Investec Bank (Australia) Ltd.

Nominee of IWPE Nominees Pty Limited and MGB Equity Growth Pty Ltd.

Appointed Chairman of the Remuneration Committee
3 April 2005.

Director since 7 October 2004.

Alternate director – Mr Greg Robinson.

Mr Jeffrey C. Sher, *B.Arts, MBA*.
Executive director – age 46

Mr Sher has more than 20 years' experience in retailing, having been involved with leading brand Priceline since 1993. He was appointed Country Leader of New Clicks Australia – in August 2000, Group Leader of New Price Retail in February 2004 and Group Leader of the Company following the acquisition of New Price Retail. Managing Director and Group Leader since 7 October 2004.

Mr Michael S. Smith, *M.Sc., B.Pharm(Hons),
Diploma of Business Administration*
Independent non-executive director – age 59

Mr Smith is a pharmacist and is President of the Lismore Pharmacists Association.

Appointed Chairman of the Audit Committee 1 July 2001.

Director since 25 August 1981.

Mr Graeme L. Herring, *FCA, B.Com, Dip.Ed*
Independent non-executive director – age 70

Mr Herring was appointed associate director 1 May 1984, director 29 April 1997.

Mr Herring's directorships included Carlton Investments Ltd Group, Amalgamated Holdings Limited Group and Louis Vuitton Australia Pty Limited.

Appointed Chairman of the Remuneration Committee
1 July 2001.

Retired 8 June 2004.

Company Secretary

Mr Christopher J. Gardoll CA, B.Bus was appointed to the position of Company Secretary in October 1998. Mr Gardoll previously held the role of Partner with a major accounting firm for 14 years.

Officers who were previously partners of the audit firm

Mr Gardoll, an officer of the Company during the financial year, was previously a partner of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Company.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year were:

Director	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number attended	Number held*	Number attended	Number held*	Number attended	Number held*
Mr P R Robinson**	14	14	3	4	2	2
Mr B A Frost	14	14	–	–	2	2
Mr D J Fairfull	13	14	3	4	–	–
Mr G L Herring	2	2	–	–	1	1
Mr R D Millner	14	14	3	4	–	–
Mr J W Murphy	6	6	–	–	1	1
Mr M S Smith	14	14	4	4	–	–
Mr J C Sher***	6	6	2	2	1	1

* Number of meetings held during the time the director held office during the year.

** Mr Robinson attended Audit and Remuneration Committee meetings by invitation.

*** Mr Sher attended all Audit and Remuneration Committee meetings by invitation, during the time he held office as Group Leader.

Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Company to the Group Leader and executive management. Responsibilities are delineated by formal authority delegations.

Board processes

To assist in the execution of its responsibilities, the Board has established a number of Board committees including a Nomination Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds eleven scheduled meetings each year, and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Group Leader and Company Secretary. Standing items include the Group Leader's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

Director education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to Company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out on pages 1 and 2 of the Directors' Report.

The composition of the Board is determined using the following principles:

- a minimum of five directors, with a broad range of expertise;
- a majority of non-executive directors;
- a majority of directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;
- a non-executive director as Chairman;
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities; and
- re-election of directors every three years (except for the Group Leader).

Independence of Directors

The Board considers that all directors, other than the Managing Director, are independent of management influence.

An independent director is a director who is not a member of management (a non-executive director) and who:

- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;

- within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another group member;
- is not a material* supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer;
- has no material* contractual relationship with the Company or another group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the director's ability to act in the best interests of the Company.

* – the board considers, 'material', in this context, where any director-related business relationship has represented, or is likely in future to represent the lesser of at least 10% of the relevant segment's or the director-related business's revenue. The Board considered the nature of the relevant industries' competition, and the size and nature of each director-related business relationship, in arriving at this threshold.

As the determination of independence remains a matter for the Board's judgement, the Board confirms that all directors meet the stated requirements for independence as recommended in the guidelines, except that:

- A number of directors have been in office for many years, as disclosed in the Annual Report. The Board does not consider that the independence of a director can be assessed by reference to an arbitrary and set period of time.
- A number of directors are nominee directors for substantial shareholders. Each of these directors, in office at the date of this report, were appointed initially by a resolution of shareholders (prior to the issue of shares to the nominee company) at an Extraordinary General Meeting, or, resigned and were re-elected by shareholders at the Annual General Meeting immediately proceeding their appointment, and have subsequently been re-elected by shareholders, at least every three years.

Nomination Committee

As the Company has a relatively small Board, the full Board is the Nomination Committee and regularly review Board membership. The Nomination Committee oversees the appointment and induction process for directors and Committee members, and the selection, appointment and succession planning process of the Company's Group Leader. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from an external consultant. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The Nomination Committee also conducts an annual review of the performance of the Group Leader and the senior executives reporting directly to him and the results are discussed at a Board meeting.

Credit Committee

In the previous year a Credit Committee reviewed and decided on applications for finance to purchase pharmacy businesses within the approval guidelines set by the Board. The Credit Committee reviews the lending policies to be applied by the Company in respect of loans and bank guarantees.

Due to changes in the method of financing there has been a substantial reduction in the number of finance loans and bank guarantees and the Credit Committee has not been required. The Board now approves loans and bank guarantees for finance to purchase pharmacy business, as required.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Group Leader, senior executives and directors themselves. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the Remuneration Committee during the year were:

Mr J W Murphy (Chairman appointed 5 April 2005) – Non executive

Mr G L Herring (resigned – July 2004) – Independent non-executive

Mr B A Frost – Independent non-executive

The Group Leader is invited to Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages.

The Remuneration Committee meets twice a year and as required. The Committee met twice during the year and Committee members' attendance records are disclosed in the table of Directors' Meetings.

Audit Committee

The Audit Committee has a documented charter, approved by the Board. All members must be non-executive directors with the Chairman being independent. The Chairman may not be the Chairman of the Board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

- Mr M S Smith (Chairman) – Independent non-executive
- Mr R D Millner – Non-executive
- Mr D J Fairfull – Non-executive

The internal and external auditors, the Group Leader and Finance Leader, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met four times during the year and Committee members' attendance records are disclosed in the table of Directors' Meetings. The Group Leader and the Finance Leader declared in writing to the Board that the Company's financial reports for the year ended 30 April 2005 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

The external auditor met with the Audit Committee twice during the year without management being present.

The Audit Committee's charter provides procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The responsibilities of the Audit Committee include reporting to the Board on:

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing corporate risk assessment processes;
- reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 May 2005;
- assessing the performance and objectivity of the internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the year end audit or half year review;
- providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- reviewing the nomination and performance of the external auditor;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- monitoring compliance with internal controls to ensure prompt and appropriate rectification of any deficiencies or breakdowns identified;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results; and
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

Risk management

Overview of the risk management system

The Board oversees the establishment, implementation, and annual review of the Company's risk management system. Management has established and implemented the risk management system for assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The Group Leader and the Finance Leader have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively in all material respects. The risk assessment process covered the whole financial year and the period up to the date of this report for all material operations in the consolidated entity.

Risk profile

The Audit Committee reports to the Board half yearly on the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Major risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, compliance with government regulation, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

Risk management and compliance and control

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is comprehensive. It comprises the Company's internal compliance and control systems, including:

- *Operating unit controls* – Operating units confirm compliance with financial controls and procedures on a half yearly basis;
- *Functional speciality reporting* – Key areas subject to reporting on an exception basis to the Board include treasury and derivatives operations, environmental, legal and insurance matters; and
- *Investment appraisal* – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices, have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in Note 27 to the financial statements;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

Quality and integrity of personnel

Written confirmation of compliance with the Ethical Standards Policies is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. A formal succession plan is being finalised to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Financial reporting

The Group Leader and the Finance Leader have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) is a key current financial reporting project, and the Board has established a formal project, monitored by the Audit Committee, to ensure a smooth transition to a IFRS reporting, beginning with the half-year ending 31 October 2005.

Details of the progress of the implementation project and the expected impact of transition to AIFRS on the financial report for the year ended 30 April, 2005 are included in Note 31.

The consolidated entity is expected to be in a position to fully comply with the reporting requirements of AIFRS for the 30 April 2006 financial year.

Environmental regulation

The consolidated entity's operations are subject to environmental regulation under both Commonwealth and State legislation in relation to its manufacture of pharmaceutical products, retail stores and pharmaceutical, medical and dental distribution facilities.

Pharmaceutical product manufacture – Manufacturing plants operate under licence requirements relating to waste disposal, water and air pollution.

Wholesale distribution – Distribution facilities operate under licence requirements relating to waste disposal, water and air pollution.

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of these environmental requirements as they apply to the consolidated entity.

Assessment of effectiveness of risk management

Internal audit

The internal auditors, Deloitte Touche Tohmatsu assist the Board in ensuring compliance with these internal controls and risk management programs by regularly reviewing the effectiveness of the abovementioned compliance and control systems. The Audit Committee is responsible for approving the program of internal audit visits to be conducted each financial year and for the scope of the work to be performed. An independent review to assess and evaluate the quality of the internal audit function is undertaken once every two years. The Audit Committee is responsible for recommending to the Board the appointment and dismissal of the internal auditors.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board reviews the Ethical Standards policy regularly and processes are in place to promote and communicate these policies.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 30.

Code of conduct

The consolidated entity has advised each director, manager and employee that they must comply with the Ethical Standards Policy. The policy covers the following:

- aligning the behaviour of the Board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- usefulness of financial information by maintaining appropriate accounting policies and practices and disclosure;
- fulfilling responsibilities to customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced;
- employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- responsibilities to the community, such as environmental protection policies, supporting the community activities and sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- conflicts of interest;
- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of the Company's assets;
- compliance with laws; and
- reporting of unethical behaviour.

Trading in Company securities by directors and employees

The key elements of the Trading in Company Securities by Directors and Employees Policy are:

- identification of those restricted from trading – directors and senior executives (all employees from branch manager upwards) may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
 - except during the period between the release of the Company's annual result and fourteen days after the Annual General Meeting;
 - except during the period of 60 days following the issue of half yearly results;
 - except following the release of a prospectus by API relating to the issue of shares in the Company;
 - whilst in possession of price sensitive information not yet released to the market;
- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade; and
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

The policy also details the insider trading provisions of the Corporations Act.

Directors must notify the Company Secretary before they sell or buy shares in the Company. Share dealings by directors are promptly notified to the ASX.

Communication with shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases.

In summary, the Continuous Disclosure policy operates as follows:

- the Group Leader, Finance Leader and Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered, and all senior executives monitor all areas of the group's internal and external environment;
- the full annual financial report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it;
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- the full text of notices of meetings and associated explanatory material are placed on the Company's website; and
- the external auditor is requested to attend the annual general meeting to answer any questions concerning the audit and the content of the auditor's report.

All of the above information, including that of the previous two years, is made available on the consolidated entity's website within one day of public release.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the wholesale distribution of pharmaceutical, medical, dental and allied products; retail operations of the brands Priceline, Priceline Pharmacy, House and Price Attack; manufacture of pharmaceutical medicines and consumer toiletries; and finance origination and retail services to pharmacists.

The Company's activities during the year included:

- the impact of the slow return to production due to the delay in implementing new product validation processes and the subsequent decision to close the manufacturing plant at Kingsgrove and transfer the production to the manufacturing plant in Auckland has caused the Australian plant to incur a loss before tax of \$18.562 million, including closure costs, compared with a loss before tax of \$10.446 million last year;
- the seven months contribution from the acquisition of the New Price Retail on 7 October 2004 of \$17.157 million; and
- the profit on disposal of the Kingsgrove property amounting to \$5.024 million.

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

Review and Results of Operations

The consolidated Statement of Financial Performance, shows a consolidated net profit from ordinary activities of \$29.721 million (2004: \$18.444 million) after income tax of \$14.196 million (2004: \$8.936 million).

The profit from ordinary activities before income tax amounted to \$43.917 million, an increase of 60% on the 2004 year of \$27.380 million. The result was effected by the operating losses of the Kingsgrove manufacturing plant of \$12.768 million before closure costs (2004: \$10.446 million loss) and the inclusion for the first time of the seven months New Price Retail profit before tax of \$17.157 million.

The profit before tax for the year was adversely impacted by a number of significant one off costs amounting to \$2.231 million (2004: \$14.247 million). Individually significant one off costs incurred included, redundancy costs \$3.534 million, provision for manufacturing plant closure costs \$3.721 million and profit on sale of property of \$5.024 million All individually significant expenses are detailed in Note 3 (a).

The revenue growth achieved by the consolidated entity during the year was 16.3% and included the retail revenue of \$255 million for the seven months from the acquisition of the New Price Retail business. The revenue growth in the pharmaceutical medical and dental distribution businesses was 7.8%.

The consolidated entity's net assets increased by 31.1% to \$443.614 million due to the acquisition of the New Price Retail business during the year.

Significant changes in the State of Affairs

The consolidated entity's total assets increased by \$292.485 million to \$1,115.090 million (2004: \$822.605 million) over the year. The increase in total assets principally comprised:

- an increase in the carrying amount of receivables of \$46.832 million, due to an increase in sales and the acquisition of New Price Retail;
- an increase in inventories of \$90.317 million due to sales growth and the acquisition of New Price Retail; and
- an increase in intangibles of \$98.288 million due to the acquisition of the New Price Retail business during the year

The debt to equity ratio (borrowings on shareholders' equity) at 30 April 2005 was 16.6%, down from 21.7% at 30 April 2004 despite an increase in borrowings on the acquisition of the New Price Retail business.

Fully paid ordinary share capital increased during the year as follows:

	2005
	\$000's
– 16 July 2004 – options over 320,000 ordinary shares exercised at an exercise price of \$2.05	656
– 7 October 2004 – issue of 33,500,000 ordinary shares at \$3.05 as consideration for the acquisition of the New Price Retail business	102,175
Increase in fully paid share capital	102,831

The consolidated entity acquired property, plant and equipment totalling \$16.735 million during the year. The increase was due to the upgrading of the consolidated entity's information systems and the acquisition of plant and equipment on the purchase of the New Price Retail business. Proceeds on disposal of non-current assets amounted to \$11.655 million. The assets disposed of were the Kingsgrove manufacturing plant property and plant and equipment used in various business segments. The acquisitions and disposals, with the exception of the transactions noted above, were part of the normal pattern of investing and upgrading required to ensure the consolidated entity's wholesale, retail and manufacturing facilities are keeping pace with facilities management improvements, retail store refurbishments and manufacturing regulatory requirements.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

- Declared and paid during the year:
 - a final 2004 dividend of 6.75 cents per share, franked to 100% at 30% franking credits paid on 2 August 2004 amounting to \$15,109,641;
 - an interim 2005 dividend of 6.25 cents per share, franked to 100% at 30% franking credits paid on 30 January 2005 amounting to \$16,084,160.
- Declared after end of year:
 - a final dividend of 6.75 cents per share, franked to 100% at 30% franking credits to be paid on 1 August 2005 amounting to \$17,370,886.

Events Subsequent To Reporting Date

Since 30 April, 2005 the Company sold its hospital supplies distribution business, Hospital Supplies of Australia ('HSA') into a newly formed joint venture, that is owned 50% by API and 50% by ABN AMRO Capital (Belgium) NV, the private arm of ABN AMRO Bank.

The acquisition of HSA for net assets by the joint venture was completed on 27 May 2005 along with the concurrent acquisition of Clifford Hallam Pharmaceuticals Pty Limited from Spotless Group Limited for consideration of \$67.5 million.

The Company sold Halas Dental Limited and Shalfoon Bros Limited to Henry Schein, Inc on 16 May 2005 for a maximum consideration of \$19.75 million, which includes a performance earn-out of \$3 million and approximates the book value of Halas Dental Limited and Shalfoon Bros Limited.

For the reporting period beginning on 1 May 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 31 to the financial statements.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

Likely Developments

The consolidated entity will continue to pursue its policy of improving the profitability and market share of each of its major operating businesses during the next financial year.

At the date of this report, there have been several developments in the operations of the consolidated entity that are likely to be finalised in the next year. These include:

- the closure of the Kingsgrove manufacturing plant and the transfer of production to the Company's manufacturing plants in Auckland, New Zealand;
- the development of a private label products program for all API member pharmacies, utilising our significant manufacturing capabilities in Auckland;
- the announcement of the acquisition of a 50% equity ownership interest in Making Life Easy, a mobility and independent living superstore which serves the Australian ageing population with a full range of caring products; and
- the roll out of the new pharmacy store formats for the three compliant franchise brands Priceline Pharmacy, Pharmacist Advice and Soul Pattinson; a focus on building the Chemworld promotional model; and increasing the offer to Independent pharmacists, including API Health Care and IPA.

Further information regarding the business strategies of the consolidated entity and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Directors' Interests

The relevant interest of each director of the consolidated entity, in the share capital of the Company, as notified by the directors to the Australian Stock Exchange in accordance with section 205G(1) of the Corporations Act 2001 at the date of this report is as follows:

	Ordinary Shares	Options over Ordinary Shares
Mr P R Robinson	15,800	–
Mr B A Frost	461,548	–
Mr D J Fairfull	5,000	–
Mr R D Millner	11,000	–
Mr J W Murphy	–	–
Mr J C Sher	1,700,815	–
Mr M S Smith	192,498	–

Options

No options have been granted during the financial year by the Company over unissued ordinary shares.

At the date of this report unissued ordinary shares of the Company under options are:

Exercise period	Exercise price	Number of options at the date of this report
4 June 2005 – 3 June 2007	\$3.45	260,000

During the year the company issued 320,000 shares at an exercise price of \$2.05 as a result of the exercise of options.

There were no amounts unpaid on the shares issued.

All options expire on the earlier of the end of the exercise period or termination of the employee's employment subject to the Board's discretion.

The options issued with an exercise period commencing on 4 June 2005 are able to be exercised conditional upon the consolidated entity achieving a performance hurdle. The performance hurdle is a 7.5% compound growth in EPS over the three year period commencing 31 May 2002 and is able to be achieved up to the end of the exercise period using the EPS compound growth over the most recent three year period. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Remuneration Report

Remuneration policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies locally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

Fixed Remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicle), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the remuneration committee through a process that considers individual segment and overall performance of the consolidated entity. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance Linked Remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan.

Short-term Incentive Bonus

Each year the remuneration committee sets the KPI's (key performance indicators) for the executive directors and senior executives. The KPI's generally include measures relating to the consolidated entity, the relevant segment, and the individual, and include financial, people, customers and strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The financial performance objectives are 'profit before tax' and 'return on capital employed' compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development. Financial and non-financial objectives each account for varying percentages of the maximum STI depending up on the executives role.

At the end of the financial year the remuneration committee assess the actual performance of the consolidated entity, the relevant segment and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results, between 20% for minimum performance and 100% for stretch performance. No bonus is awarded where performance falls below the minimum.

The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the board. This method of assessment was chosen as it provides the committee with an objective assessment of the individual's performance.

Long-term Incentive Bonus

The Board has decided to review the long term incentive remuneration structure which will be undertaken prior to the annual general meeting of shareholders to implement an incentive program to generate the desired outcomes.

Options have previously been issued under the Executive Share Option Plan (made in accordance with the plan approved by shareholders at the 8 December 1997 Extraordinary General Meeting). The most recent issue of options was in July 2002 and at year end 9 current executives remain eligible to receive up to an aggregate of 260,000 options (within a range of 10,000 to 60,000 each) over ordinary shares for consideration of \$3.45 per share. The ability to exercise the options is conditional upon the consolidated entity achieving a performance hurdle which is a 7.5% compound growth in EPS over the three year period commencing 1 May 2002 and is able to be achieved up to the end of the exercise period using the EPS compound growth over the most recent three year period. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Service Agreements

It is the consolidated entity's policy that service contracts for six senior executives, excluding the Group Leader, be unlimited in term but capable of termination on 6 months notice after five years employment and that the consolidated entity retains the right to terminate the contract immediately, by making payment equal to six months' pay in lieu of notice.

The consolidated entity has entered into service contracts with each senior executive, excluding the Group Leader, that provides for the payment of benefits where the contract is terminated by the consolidated entity or the individual. The senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of remuneration paid to the senior executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any changes in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

An employment agreement with Mr Sher, the Group Leader, specifies the duties and obligations he is to fulfill.

Mr Sher's appointment is effective for three years ending 7 October 2007, which at the Board's discretion, may be extended for a further term of two years.

Directors' Report CONTINUED

The agreement between Mr Sher and the Company makes the following provisions in respect of cessation of employment:

- Mr Sher may resign from the Company by the giving of six months written notice;
- The Company may summarily terminate Mr Sher's employment in specified circumstance with immediate effect;
- The Company may terminate Mr Sher's employment by the giving of twelve months written notice and may make a termination payment in lieu of up to twelve months fixed remuneration; and
- Mr Sher will be subject to a twelve month non-compete restriction after cessation of his employment.

Non-executive Directors

Non-executive directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities with additional amounts paid for membership of board committees.

Under the Board's Retirement Scheme, which was approved by shareholders at the 1994 Annual General Meeting, after 10 years service, retiring non-executive directors receive, on a sliding scale capped at \$220,000, benefits up to a maximum of three times the average annual remuneration in the three years preceding retirement. The scheme does not apply to directors first appointed after 9 September 2003.

Directors' and Senior Executives' Emoluments

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest remuneration are:

	Primary			Post-employment		Equity	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
	Salary & fees	Short-term incentives	Non-monetary benefits	Super-annuation contribution	Termination and retirement benefits	Value of options*			
	\$	\$	\$	\$	\$	\$	\$	%	%
Directors									
<i>Non-executive</i>									
Mr P R Robinson	126,999	–	–	11,430	55,950	–	194,379	–	–
Mr D J Fairfull	51,999	–	–	4,680	16,850	–	73,529	–	–
Mr B A Frost	87,000	–	–	7,830	–	–	94,830	–	–
Mr G L Herring Resigned 8 June 2004	9,500	–	–	855	–	–	10,355	–	–
Mr R D Millner	51,999	–	–	4,680	16,550	–	73,229	–	–
Mr M S Smith	57,000	–	–	5,130	3,000	–	65,130	–	–
Mr J W Murphy Appointed 7 October 2004	33,250	–	–	–	–	–	33,250	–	–
<i>Executive</i>									
Mr J C Sher – Group Leader Appointed 7 October 2004	371,407	202,000	42,751	46,559	–	–	662,717	30.5%	–
Total of named directors	789,154	202,000	42,751	81,164	92,350	–	1,207,419		
Executives									
<i>The Company</i>									
Mr C Gardoll – Leader Finance and Administration	233,401	61,719	36,084	57,109	–	10,400	398,713	18.1%	2.6%
Mr P Kelly – CEO Healthcare Distribution	201,499	161,344	46,842	18,135	–	5,200	433,020	38.5%	1.2%
Mr I McDonald – CEO Pharmacy	230,300	103,645	46,391	52,969	–	8,667	441,972	25.4%	2.0%
Mr D Horwood – Chief Information Officer	193,332	42,438	17,240	17,400	–	–	270,410	15.7%	–
Mr D Glance – NSW State Manager	173,641	32,176	26,449	15,628	–	3,467	251,361	14.2%	1.4%
<i>Consolidated</i>									
Mr K Campbell – CEO Healthcare Manufacturing	196,334	19,712	41,608	19,860	–	–	277,514	7.1%	–
Mr P Merton – CEO Propharma	305,821	128,000	34,984	–	–	–	468,805	27.3%	–
Total of named executives	1,534,328	549,034	249,598	181,101	–	27,734	2,541,795		

- Directors retirement benefits are included on an accrual basis, retirement benefits are paid on a prorata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at \$220,000 and does not apply to directors first appointed after 9 September 2003.
- * The value of options is calculated at grant date using the Binomial model. The value is allocated to each reporting period evenly over the period from grant date to vesting date.

The above executives were considered to be executives as defined by the Corporations Act, for the full financial year. As a consequence of the acquisition of the New Price Retail group during the year, the management structure of the consolidated entity was changed and from 7 October 2004, the above executives, other than Mr C Gardoll, were not defined to be 'specified executives' in accordance with accounting standard AASB 1046. Consequently, the remuneration disclosed at Note 26 to the financial statements for the above executives will differ to the remuneration disclosed above.

Analysis of bonuses included in remuneration

The short term incentive cash bonus for each of the directors and executives fully vests.

Analysis of share based payments

	Options granted		Value yet to vest	
	Number	Date	Minimum	Maximum
Executives				
<i>Company</i>				
Mr C Gardoll	60,000	4 June 2002	Nil	31,200
Mr P Kelly	30,000	4 June 2002	Nil	15,600
Mr I McDonald	50,000	4 June 2002	Nil	26,000
Mr D Glance	20,000	4 June 2002	Nil	10,400

No options vested or were forfeited during the year. The options may vest upon achievement of the hurdle during the period to 30 June 2007.

Analysis of movement in options

There has been no movement in options for executives or directors during the financial year.

Insurance of Directors and Officers

During the year the Company paid a premium in respect of a contract insuring its directors and officers against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The contract covers any past, present or future director, secretary, executive officer or employee of the Company and its controlled entities. Further details have not been disclosed due to confidentiality provisions of the contract of insurance.

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons.

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Profession independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or, jointly sharing risks and rewards.

Directors' Report CONTINUED

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included at page 16.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	Consolidated 2005
	\$
Assurance services	
<i>KPMG Australia</i>	
– Audit and review of financial reports	431,900
– Other assurance services	12,500
	444,400
<i>Overseas KPMG firms</i>	
– Audit and review of financial reports	142,523
	586,923
Other services	
<i>KPMG Australia</i>	
– Taxation services	84,180
	671,103

Rounding Off Of Amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney this 29 day of July 2005.

Signed in accordance with a resolution of the directors:



Peter R. Robinson
Director



Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 April 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'C. Slapp', written over the printed name and title.

KPMG

A handwritten signature in black ink, appearing to read 'C. Slapp', written over the printed name and title.

Cameron Slapp
Partner

Sydney
29 July 2005

Statements of Financial Performance

For the year ended 30 April 2005

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$000's	\$000's	\$000's	\$000's
Revenue from sale of goods	2	3,351,625	2,895,585	1,391,775	1,293,697
Revenue from rendering of services	2	59,616	46,585	33,766	32,580
Other revenues from ordinary activities	2	12,569	1,890	33,778	26,797
Total revenue	2	3,423,810	2,944,060	1,459,319	1,353,074
Cost of sales		(3,040,011)	(2,680,940)	(1,300,710)	(1,207,744)
Warehousing and distribution expenses		(106,940)	(101,355)	(52,131)	(48,479)
Marketing and sales expenses		(119,588)	(51,674)	(16,766)	(19,254)
Administrative and general expenses		(103,021)	(77,303)	(43,400)	(46,407)
Borrowing costs		(10,338)	(5,509)	(8,902)	(5,024)
Share of net profit of associate	25	5	101	–	–
Profit from ordinary activities before related income tax expense	3	43,917	27,380	37,410	26,166
Income tax expense relating to ordinary activities	7	(14,196)	(8,936)	(6,889)	(2,779)
Net profit	20	29,721	18,444	30,521	23,387
Decrease in retained earnings on initial adoption of Revised AASB 1028 'Employee Benefits'	20	–	(296)	–	(139)
Net exchange difference relating to self-sustaining foreign operations	19	3,848	(202)	–	–
Total changes in equity from non-owner related transactions		33,569	17,946	30,521	23,248
Basic earnings per share – ordinary shares	5	12.3¢	8.2¢		
Diluted earnings per share – ordinary shares	5	12.3¢	8.2¢		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 20 to 62.

Statements of Financial Position

As at 30 April 2005

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$000's	\$000's	\$000's	\$000's
Current assets					
Cash assets		31,076	7,557	21	33
Receivables	8	428,797	389,866	213,472	168,386
Inventories	9	322,556	232,239	133,001	101,721
Current tax assets		5,208	5,185	3,913	4,866
Other	10	4,833	2,117	1,508	1,737
Total current assets		792,470	636,964	351,915	276,743
Non-current assets					
Receivables	8	7,901	–	189,919	184,958
Investments accounted for using the equity method	11	754	667	–	–
Other financial assets	12	–	–	201,441	68,808
Property, plant and equipment	13	73,478	52,972	27,790	34,703
Intangible assets	14	215,419	117,131	36,123	36,919
Deferred tax assets		12,291	9,071	9,069	7,425
Other	10	12,777	5,800	12,777	5,800
Total non-current assets		322,620	185,641	477,119	338,613
Total assets		1,115,090	822,605	829,034	615,356
Current liabilities					
Payables	15	567,507	392,473	318,787	193,666
Interest bearing liabilities	16	69,995	71,499	62,920	71,740
Provisions	17	25,802	14,441	7,444	5,610
Total current liabilities		663,304	478,413	389,151	271,016
Non-current liabilities					
Payables	15	350	–	–	6,472
Interest bearing liabilities	16	3,453	2,069	–	–
Deferred tax liabilities		54	1,041	–	573
Provisions	17	4,315	2,674	1,844	1,414
Total non-current liabilities		8,172	5,784	1,844	8,459
Total liabilities		671,476	484,197	390,995	279,475
Net assets		443,614	338,408	438,039	335,881
Equity					
Contributed equity	18	419,499	316,668	419,499	316,668
Reserves	19	4,978	1,130	442	442
Retained profits	20	19,137	20,610	18,098	18,771
Total equity		443,614	338,408	438,039	335,881

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 20 to 62.

Statements of Cash Flows

For the year ended 30 April 2005

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$000's	\$000's	\$000's	\$000's
Cash flows from operating activities					
Cash receipts in the course of operations		3,763,274	3,173,730	1,539,461	1,470,748
Cash payments in the course of operations		(3,614,582)	(3,175,342)	(1,470,601)	(1,611,526)
Dividends and distributions received		–	–	12,154	17,542
Interest received		914	314	10,294	8,856
Borrowing costs paid		(10,338)	(5,509)	(8,902)	(5,024)
Income taxes paid		(11,805)	(13,697)	(11,805)	(1,191)
Net cash provided by/(used in) operating activities	30(ii)	127,463	(20,504)	70,601	(120,595)
Cash flows from investing activities					
Payments for property, plant and equipment		(9,398)	(9,692)	(3,217)	(3,601)
Payments for deferred expenses		(6,977)	(5,568)	(6,977)	(5,568)
Proceeds from sale of property, plant and equipment		11,655	1,576	11,330	399
Payment for the acquisition of controlled entities or businesses (net of cash acquired)	24	(11,261)	–	(31,225)	–
Payment for investments		(24)	(66)	–	–
Payment for intangible asset		–	(253)	–	–
(Repayments of)/proceeds from loans by controlled entities		–	–	(1,166)	81,341
Net cash (used in)/provided by investing activities		(16,005)	(14,003)	(31,255)	72,571
Cash flows from financing activities					
(Repayments of)/proceeds from borrowings		(60,288)	54,414	(5,000)	60,000
Lease payments		(822)	(836)	–	–
Dividends paid		(31,194)	(29,353)	(31,194)	(29,353)
Repayment of depositors loans		(199)	(184)	(199)	(184)
Payments for buy-back of shares		–	(8,753)	–	(8,753)
Proceeds from issue of shares		656	76	656	76
Net cash (used in)/provided by financing activities		(91,847)	15,364	(35,737)	21,786
Net increase/(decrease) in cash held		19,611	(19,143)	3,609	(26,238)
Cash at the beginning of the financial year		(74)	18,893	(11,319)	14,919
Effects of exchange rate fluctuation on the balance of cash held in foreign currencies		543	176	–	–
Cash at the end of the financial year	30(i)	20,080	(74)	(7,710)	(11,319)

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 20 to 62.

Notes to the Financial Statements

For the year ended 30 April 2005

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1. Statement of significant accounting policies

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases. Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Changes in ownership interest

When control ceases, a gain or loss is recognised as the difference between net sales proceeds, if any, and the consolidated carrying amount (including post-acquisition share of profits, goodwill and equity). Any remaining investment is then accounted for at cost if unlisted, or fair value if listed.

Associates

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenue.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Rendering of services

Rendering of services revenue represents fees (including licence and franchise fees) and commissions earned and is recognised as it accrues.

Interest income

Interest income is recognised as it accrues.

Sale of non-current assets

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal (including incidental costs).

Dividends and distributions

Revenue from dividends and distributions from controlled entities are recognised by the parent entity when they are declared by the controlled entities. Revenue from dividends from associates and other investments are recognised when dividends are received.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

1. Statement of significant accounting policies (continued)

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self-sustaining operations;
- relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation; or
- relating to the acquisition of qualifying assets.

Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

(f) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses interest rate swaps and forward foreign exchange contracts to hedge this risk. Derivative financial instruments are not held for speculative purposes.

Hedges

Anticipated transactions

Transactions are designated as a hedge of the anticipated specific purchase of goods or purchase of qualifying assets, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded in the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency exchange rates current at reporting date.

The net amounts receivable or payable under open swaps and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest rate current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

1. Statement of significant accounting policies (continued)

(f) Derivatives (continued)

Net investment in foreign operation

Foreign exchange differences relating to foreign currency transactions hedging a net investment in a self-sustaining foreign operation, together with any related income tax expense/revenue, are transferred to the foreign currency translation reserve on consolidation.

(g) Borrowing costs

Borrowing costs include interest relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowing, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges on borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap. Ancillary costs incurred in connection with the arrangement of borrowings are netted against the relevant borrowings and amortised over the life of the borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction, or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to the borrowing net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(h) Acquisition of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing rate were obtained from an independent financier under comparable terms and conditions. The unwinding of the interest is treated as interest expense.

The cost of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in Note 1(g).

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, the costs are expensed as incurred.

(i) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revisions affects both current and future periods.

1. Statement of significant accounting policies (continued)

(j) Receivables

Trade debtors

The collectibility of debts is assessed at year end and specific provision is made for any doubtful accounts.

Loans receivable

The loans receivable from pharmacy customers are secured, and repayable 3 months after the 8th anniversary (2011) of drawdown, or earlier at the borrower's option. The interest rate is the bank bill rate plus a margin of 1.2%. The interest is payable monthly in arrears.

(k) Inventories

Raw materials, work in progress and finished goods are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of both variable and fixed costs. Fixed costs have been allocated on the basis of normal operating capacity of the production facilities.

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(l) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Associates

In the Company's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

Other entities

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

(m) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

(n) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

To the extent that dividends are proposed by controlled entities incorporated overseas, the consolidated entity has provided for withholding tax.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 24. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions).

1. Statement of significant accounting policies (continued)

(n) Taxation (continued)

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

Under the tax funding agreement, the contributions are calculated on a 'stand-alone basis' so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

(o) Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(p) Intangibles

Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

Brand names

Brand names acquired are included in the financial statements at the lower of cost and recoverable amount.

Independent valuations of brand names are obtained during the year of acquisition and every three years thereafter. Those independent valuations are disclosed in the financial statements. Expenditure incurred in developing, maintaining and enhancing brand names is charged against profits in the year in which it is incurred.

Brand names are not amortised as the directors believe the useful lives of these assets are considered unlimited at this point of time.

The Group's brand names have an unlimited legal life and based on industry experience it is extremely rare for leading brand names to disappear or become commercially or technically obsolete. If an event occurs which results in the diminution in the value of a brand name then the difference between recoverable amount and book value is charged against profits in the year in which the event occurred.

(q) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower value. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

Valuations of land and buildings valued on the cost basis are carried out at least once every three years. Valuations of brand names are carried out in accordance with note 1(p).

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(r) Depreciation and amortisation

Useful lives

All assets, excluding brand names and freehold land, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives taking into account estimated residual values. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation/amortisation rates are reviewed annually for appropriateness and when changes are made, adjustments are reflected prospectively in current and future periods only.

1. Statement of significant accounting policies (continued)

(r) Depreciation and amortisation (continued)

The depreciation/amortisation rates used for each class of asset for the current and previous year are as follows:

Buildings	2.5%
Plant and equipment	10% to 33.3%
Goodwill	5%

(s) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(t) Interest bearing liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in 'Other creditors and accruals'.

(u) Employee entitlements

Wages, salaries and annual leave

The provisions for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the reporting date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Long service leave and director retirement benefits

The provision for employees' entitlements to long service leave and director retirement benefits represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Provisions for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures. Related on-costs have also been included in the liability.

Executive share option plan

The Company grants options to certain executives under an executive share option plan.

The difference between fair value of the options issued and the consideration received, if any, from the executive is expensed.

The fair value of the options or shares issued is recorded in contributed equity.

Superannuation funds

The Company and its controlled entities contribute to several accumulation funds and a defined benefit and defined contribution superannuation fund. Contributions are recognised as an expense as they are made. The Company and its controlled entities have no legal or constructive obligation to fund any deficit. Further information is set out in Note 22

(v) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and the recovery is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable only when the entity:-

- has a legally recognised right to set-off the recovery receivable and the provision, and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

1. Statement of significant accounting policies (continued)

(v) Provisions (continued)

Restructuring and employee termination benefits

A provision for restructuring, including employee termination benefits, related to an acquired entity or operation is recognised at the date of acquisition where:-

- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered by the date of acquisition; and
- a detailed formal plan is developed by the earlier of three months after the date of the acquisition and the completion of the financial report.

The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired. The provision includes liabilities for termination benefits that will be paid to employees of the acquired entity as a result of the restructuring.

Other provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefits have either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for. The liabilities for termination benefits that will be paid as a result of these restructurings have been included in the provision for employee benefits.

(w) Deferred expenditure

Expenditure is recognised as an asset to the extent it is probable that future economic benefits embodied in the expenditure will eventuate and can be measured reliably. Deferred expenditure includes systems re-engineering costs. Deferred expenditure is amortised on a straight line basis over the period in which the related benefits are expected to be realised.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
2. Revenue from ordinary activities				
Sale of goods revenue from operating activities	3,351,625	2,895,585	1,391,775	1,293,697
Rendering of services revenue from operating activities	59,616	46,585	33,766	32,580
Other revenues:				
<i>From operating activities:</i>				
Dividends – related parties	–	–	9,500	13,000
Distribution from trust	–	–	2,654	4,542
Interest – related parties	–	–	10,193	8,647
Interest – other parties	914	314	101	209
<i>From outside operating activities</i>				
Gross proceeds from sale of non-current assets	11,655	1,576	11,330	399
Total other revenues	12,569	1,890	33,778	26,797
Total revenue from ordinary activities	3,423,810	2,944,060	1,459,319	1,353,074
3. Profit from ordinary activities before income tax expense				
(a) Individually significant expenses/(revenue) included in profit from ordinary activities before income tax expense				
Manufacturing plant production losses arising from the voluntary closure	–	10,586	–	–
Redundancy costs	3,534	2,100	1,461	2,100
IT development – salary costs	–	1,561	–	1,561
Profit on sale of land and buildings	(5,024)	–	(5,024)	–
Provision for manufacturing stock write off	1,541	–	–	–
Provision for manufacturing fixed assets write off	2,180	–	–	–
	2,231	14,247	(3,563)	3,661

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

3. Profit from ordinary activities before income tax expense (continued)

(b) Profit from ordinary activities before related income tax expense has been arrived at after charging/(crediting) the following items:

Borrowing costs:

– Other parties	10,338	5,509	8,789	5,024
– Related parties	–	–	113	–

Depreciation of:

– Buildings	608	300	93	81
– Plant and equipment	9,775	7,424	3,909	4,361

Amortisation of goodwill

	5,718	4,894	796	762
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Amortisation of leased plant and equipment

	465	308	–	–
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Net bad and doubtful debts expense including movements in provision for doubtful debts

	126	1,732	633	678
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Operating lease rental expense – minimum lease payments

	35,410	12,084	5,542	6,562
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Net (gain)/loss on sale of plant and equipment

	(4,920)	(70)	(5,202)	(53)
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Net foreign exchange (gain)/loss*

	–	–	(5,584)	2,076
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* The net foreign exchange (gain)/loss in respect of the Company principally relates to a long term loan receivable which on consolidation is taken to the foreign currency translation reserve

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$

4. Auditors' Remuneration

Assurance services

KPMG Australia

– Audit and review of financial reports	431,900	405,775	245,281	222,255
– Other regulatory audit services	–	12,763	–	–
– Other assurance services	12,500	13,700	–	13,700

	444,400	432,238	245,281	235,955
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Overseas KPMG firms

– Audit and review of financial reports	142,523	122,336	–	–
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Other services

KPMG Australia

– Taxation services	84,180	169,617	54,733	152,687
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	671,103	724,191	300,014	388,642
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	Consolidated	
	2005	2004
	\$000's	\$000's

5. Earnings per share

Earnings reconciliation

Net profit, basic and diluted earnings	29,721	18,444
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Weighted average number of shares

	No.	No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	242,588,756	225,357,001
Effect of share options on issue	–	320,000

Weighted average number of ordinary shares used in the calculation of diluted earnings per share	242,588,756	225,677,001
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Classification of securities as potential ordinary shares

Options to purchase ordinary shares not exercised at year end have been included in the determination of diluted earnings per share. Full details of options are set out in Note 22.

6. Dividends

Dividends recognised by the Company are:

	Cents per share	Total amount \$000's	Date of payment	Percentage franked
2005				
Interim 2005 ordinary	6.25	16,084	30 January 2005	100%
Final 2004 ordinary	6.75	15,110	2 August 2004	100%
		31,194		
2004				
Interim 2004 ordinary	6.25	14,047	30 January 2004	100%
Final 2003 ordinary	6.75	15,306	1 August 2003	100%
		29,353		

Subsequent to reporting date

Since 30 April 2005 the directors have declared a final ordinary dividend of 6.75 cents per share (fully franked) to be paid on 1 August 2005. The total of this dividend is \$17,370,886. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 April 2005.

	The Company	
	2005	2004
	\$000's	\$000's

6. Dividends (continued)

Dividend franking account

30% franking credits available to shareholders of the Company for subsequent financial years

	25,674	13,519
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The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at year end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end; and
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
7. Taxation				
Income tax expense				
Prima facie income tax expense calculated at 30% (2004: 30%) on the profit from ordinary activities	13,175	8,214	11,223	7,850
Increase in income tax expense due to:				
Amortisation of goodwill	1,715	1,468	239	229
Imputation gross up		–	–	–
Effect of higher rate of tax on overseas income	124	292	–	–
Payment for income tax benefit under a tax funding agreement	–	–	2,564	2,164
Sundry items	528	141	373	24
Decrease in income tax expense due to:				
Interest deduction	(1,185)	(989)	–	–
Non-assessable profit on disposal of land and buildings	(669)	–	(669)	–
Non assessable dividend and distribution income	–	–	(3,646)	(5,263)
Income tax benefit related to the current and deferred tax transactions of the wholly owned subsidiaries in the tax consolidated group	–	–	(2,564)	(2,164)
Income tax expense on profit from ordinary activities	13,688	9,126	7,520	2,840
Income tax under/(over) provided in prior year	508	(190)	(631)	(61)
Income tax expense attributable to profit from ordinary activities	14,196	8,936	6,889	2,779
8. Receivables				
Current				
Trade debtors	406,751	392,027	197,426	168,792
Less: Provision for doubtful trade debtors	(6,095)	(4,656)	(2,643)	(2,010)
	400,656	387,371	194,783	166,782
Other debtors	28,141	2,495	18,689	1,604
	428,797	389,866	213,472	168,386
Non-current				
Loans to controlled entities	–	–	189,919	184,958
Loans receivable from pharmacy customers	7,901	–	–	–
	7,901	–	189,919	184,958

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
9. Inventories				
Raw materials – at cost	6,831	7,679	–	–
Work in progress – at cost	219	450	–	–
Finished goods – at cost	323,453	228,953	134,911	103,770
Less: Provision for obsolescence	(7,947)	(4,843)	(1,910)	(2,049)
	315,506	224,110	133,001	101,721
	322,556	232,239	133,001	101,721

10. Other assets**Current**

Prepayments	4,833	2,117	1,508	1,737
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Non-current

Deferred expenditure – Business Transformation Project	12,777	5,800	12,777	5,800
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The Business Transformation Project relates to a major project to implement the enterprise information system throughout certain businesses within the consolidated entity. This project will be substantially completed during the year ending 30 April 2006 and amortisation will commence from the time the project is installed and ready for use.

11. Investments accounted for using the equity method

Associates	25	754	667	–	–
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12. Other financial assets

Non-current

Controlled entities:

– Unlisted shares and units at cost	–	–	201,441	68,808
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	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
13. Property, plant and equipment				
Freehold land – at cost	2,011	6,052	621	4,771
Buildings – at cost	8,732	9,148	1,885	3,735
Less: accumulated depreciation	(2,197)	(854)	(423)	(554)
	6,535	8,294	1,462	3,181
Plant and equipment – at cost	128,997	81,042	43,528	41,311
Less : accumulated depreciation	(70,034)	(46,081)	(19,932)	(16,364)
	58,963	34,961	23,596	24,947
Leased plant and equipment – at capitalised cost	4,330	2,417	–	–
Less: accumulated amortisation	(1,431)	(1,465)	–	–
	2,899	952	–	–
Capital works in progress – at cost	3,070	2,713	2,111	1,804
	73,478	52,972	27,790	34,703

Valuation of land and buildings

Directors valuations were carried out as at 30 April 2005 and were on the basis of the open market value of the properties concerned in their existing use. The valuations determined a value of \$8,987,000 which compares to a carrying value at 30 April 2005 of \$8,546,000. As land and buildings are recorded at cost, the valuation has not been brought to account.

	Consolidated 2005	The Company 2005
	\$000's	\$000's

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:

Freehold land

Carrying amount at the beginning of year	6,052	4,771
Additions	–	–
Disposals	(4,150)	(4,150)
Net foreign currency translation difference	109	–
Carrying amount at the end of the year	2,011	621

Buildings

Carrying amount at the beginning of year	8,294	3,181
Additions	200	–
Disposals	(1,796)	(1,626)
Depreciation	(608)	(93)
Net foreign currency translation differences	445	–
Carrying amount at the end of the year	6,535	1,462

	Consolidated 2005	The Company 2005
	\$000's	\$000's
13. Property, plant and equipment (continued)		
Reconciliations (continued)		
<i>Plant and equipment</i>		
Carrying amount at the beginning of year	34,961	24,947
Additions	7,827	2,910
Additions through entity acquired	25,230	–
Transfer from capital works in progress	1,075	–
Disposals	(646)	(352)
Depreciation	(9,775)	(3,909)
Net foreign currency translation differences	291	–
Carrying amount at the end of the year	58,963	23,596
<i>Leased plant and equipment</i>		
Carrying amount at the beginning of year	952	–
Additions through entity acquired	2,554	–
Disposals	(143)	–
Amortisation	(465)	–
Net foreign currency translation differences	1	–
Carrying amount at the end of the year	2,899	–
<i>Capital works in progress</i>		
Carrying amount at the beginning of year	2,713	1,804
Additions	1,371	307
Transfer to plant and equipment	(1,075)	–
Net foreign currency translation difference	61	–
Carrying amount at the end of the year	3,070	2,111

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

14. Intangible assets

Brand names – at cost	112,500	37,500	23,881	23,881
Goodwill – at cost	131,505	100,985	20,755	20,755
Less: Accumulated amortisation	(28,586)	(21,354)	(8,513)	(7,717)
	102,919	79,631	12,242	13,038
	215,419	117,131	36,123	36,919

An independent valuation of the Soul Pattinson brand, with a carrying value of \$37.5 million, was carried out as at 30 April 2004 by Ernst and Young Corporate Finance Pty Ltd. The independent valuation determined a valuation of \$37.7 million.

An independent valuation of the Priceline, House and Price Attack brands, with carrying values of \$61.5 million, \$2.0 million and \$11.5 million respectively was carried out by Ernst and Young Corporate Finance Pty Ltd. That valuation was carried out as at the 6 September 2004 acquisition date of these brands and forms the basis for their carrying values.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
15. Payables				
Current				
Trade creditors	543,756	369,018	308,152	188,431
Other creditors and accruals	23,751	23,455	10,635	5,235
	567,507	392,473	318,787	193,666
Non-current				
Other creditors and accruals	350	–	–	–
Amounts owing to controlled entities	–	–	–	6,472
	350	–	–	6,472
16. Interest bearing liabilities				
Current				
Bank overdrafts – unsecured	10,996	7,631	7,731	11,352
Bank bills – unsecured	58,000	63,000	55,000	60,000
Customer deposits – unsecured	189	388	189	388
Lease liabilities	810	480	–	–
	69,995	71,499	62,920	71,740
Non-current				
Bank term loan – secured	1,964	2,069	–	–
Lease liabilities	1,489	–	–	–
	3,453	2,069	–	–

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

16. Interest bearing liabilities (continued)**Financing arrangements**

The consolidated entity has access to the following lines of credit:

Total facilities available:

Bank overdraft	26,798	26,344	20,000	20,000
Bank term loan	1,964	2,069	–	–
Bill acceptance facility	247,352	142,826	235,000	120,000
Standby letters of credit	100	100	100	100
	276,214	171,339	255,100	140,100

Facilities utilised at balance date:

Bank overdraft	10,996	7,631	7,731	11,352
Bank term loan	1,964	2,069	–	–
Bill acceptance facility	58,000	63,000	55,000	60,000
Standby letters of credit	–	–	–	–
	70,960	72,700	62,731	71,352

Facilities not utilised at balance date:

Bank overdraft	15,802	18,713	12,269	8,648
Bank term loan	–	–	–	–
Bill acceptance facility	189,352	79,826	180,000	60,000
Standby letters of credit	100	100	100	100
	205,254	98,639	192,369	68,748

Bank overdraft

The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of \$20,000,000 to entities in the Australian Pharmaceutical Industries Limited Group. The facility is subject to set off arrangements between the Group companies. Interest on bank overdrafts is charged at prevailing market rates.

Bank term loan

The non-current bank term loan is payable on or before 30 September 2006. The facility is secured by a mortgage over property and a floating charge over the assets of a controlled entity.

Bill acceptance facility

The bill acceptance facility amount in current liabilities represents the portion of the consolidated entity's bills payable within one year. Bank bills of \$58,000,000 bear interest at varying rates, based on the roll over period of the bills and the bank prime rate.

Standby letters of credit

The standby letter of credit facility is a committed facility, available to be drawn down over the next year.

Finance lease facility

The consolidated entity's lease liabilities are secured by the leased assets. In the event of default, the assets revert to the lessor.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

17. Provisions**Current**

Employee entitlements	19,207	13,993	6,431	5,610
Restructuring	2,180	–	–	–
Employee termination benefits	3,596	–	966	–
Other	819	448	47	–
	25,802	14,441	7,444	5,610

Non-current

Employee entitlements	3,602	1,877	1,131	617
Directors' retirement scheme	713	797	713	797
	4,315	2,674	1,844	1,414

Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee and directors' retirement benefits, are set out below:

Employee termination benefits

Carrying amount at beginning of year	–	–
Increase through acquisition of controlled entity	650	–
Provisions made during the year	3,534	1,461
Payments made during the year	(588)	(495)
Carrying amount at end of year	3,596	966

Restructuring

Carrying amount at beginning of year	–	–
Provisions made during the year	2,180	–
Payments made during the year	–	–
Carrying amount at end of year	2,180	–

Other

Carrying amount at beginning of year	448	–
Provisions made during the year	868	47
Payments made during the year	(497)	–
Carrying amount at end of year	819	47

Number of employees

The number of employees at year end was 5,105 (2004: 1,987).

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

18. Contributed equity**Issued and paid-up capital**

257,346,455 (2004: 223,526,455) ordinary shares, fully paid	419,499	316,668	419,499	316,668
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Movements in ordinary share capital

Balance at the beginning of the financial year	316,668	325,345	316,668	325,345
Shares issued				
– 33,500,000 shares issued as consideration for the New Price Retail business (i)	102,175	–	102,175	–
– 320,000 (2004: 40,000) ordinary share options were exercised at an exercise price of \$2.05 (2004: \$1.90) under the Executive Share Option Plan	656	76	656	76
– No shares were bought back during the current accounting period (2004: 3,269,148 shares were bought back at prices ranging between \$2.55 and \$2.74) (ii)	–	(8,753)	–	(8,753)
	419,499	316,668	419,499	316,668

(i) On 7 October 2004, 33,500,000 shares were issued at \$3.05 each as consideration for the acquisition of Synapse Finance Pty Ltd ('New Price Retail'). New Price Retail is a retailer of health, beauty and lifestyle products and services throughout Australia.

(ii) On 11 August 2003 the Company advised the Australian Securities & Investment Commission that it had entered into an on market share buy back scheme, the period of the buy back to be from 25 August 2003 to 24 August 2004. The Company bought back 3,269,148 shares in the period from 25 August 2003 to 30 April 2004 representing 1.44% of ordinary shares issued at 25 August 2003. The total consideration of shares bought back was \$8,753,000, including incidental costs. The consideration was allocated against share capital.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of a winding up of the company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

19. Reserves

Capital profits	75	75	–	–
Asset revaluation	442	442	442	442
Foreign currency translation	4,461	613	–	–
	4,978	1,130	442	442

Movements during the year

Foreign currency translation reserve

Balance at beginning of year	613	815	–	–
Net gain on translation of assets and liabilities of overseas controlled entities	188	1,305	–	–
Net gain/(loss) on translation of Company loans to overseas controlled entities, net of income tax expense	3,660	(1,507)	–	–
Balance at end of year	4,461	613	–	–

Nature and purpose of reserves fund

Capital profits

Upon disposal of revalued assets, any related revaluation increment standing to the credit of the asset revaluation reserve is transferred into the capital profits reserve.

Asset revaluation

The asset revaluation reserve includes the net revaluation increments and decrements arising from the previous revaluation of non-current assets. The entire balance of the asset revaluation reserve is not available for future asset write-downs as a result of the consolidated entity using the deemed cost election for land and buildings when adopting AASB 1041.

Foreign currency translation reserves

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

20. Retained profits

Retained profits at beginning of year	20,610	16,509	18,771	9,570
Net profit attributable to members	29,721	18,444	30,521	23,387
Net effect on initial adoption of:				
<i>Revised AASB 1028 'Employee Benefits'</i>	–	(296)	–	(139)
<i>AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'</i>	–	15,306	–	15,306
Dividends	(31,194)	(29,353)	(31,194)	(29,353)
Retained profits at end of year	19,137	20,610	18,098	18,771

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
Guarantee of bank facilities to controlled entities	–	–	20,000	20,000
Guarantee of bank accounts of pharmacy customers	77,767	87,347	72,758	84,179
Guarantee of trading accounts of pharmacy customers	63,057	66,048	63,057	66,048
Contingent liability payable on termination of director under a service contract	1,662	–	1,662	–
Guarantee for property rentals	22,792	–	–	–
Contingent liability for potential ClubCard voucher redemptions	1,198	–	–	–
	166,476	149,795	157,477	170,227

These guarantees are not secured.

The Company has strict controls over the approval of guarantees of bank accounts of pharmacy customers and takes security over the assets of the relevant pharmacy.

The guarantees at balance date relating to trading accounts paid by pharmacy customers have subsequently been paid to third parties with no liability to the Company.

The guarantee for property rentals represents guarantees on franchisee leases of premises.

The contingent liability for potential ClubCard voucher redemptions represents the value of vouchers issued and not redeemed or provided for. A provision has been recognised for potential voucher redemptions based on historical redemption notes.

Potential deferred consideration is payable in respect of the acquisition of the New Price Retail business. The deferred consideration will be calculated approximately three years from the acquisition date and will be the amount by which the API share price then exceeds \$3.00, multiplied by 20,000,000.

22. Employee entitlements

Executive share option plan

The Company has an executive share option plan approved at an extraordinary general meeting on 8 December 1997. The plan provides for executives to receive options over ordinary shares as determined by the directors. At 30 April 2005, 9 executives held 260,000 options (2004 : 14 executives – 720,000 options).

Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options are exercised. The exercise price of the options, determined in accordance with the rules of the plan, is based on the last published price of the Company's shares traded immediately preceding the date of granting the option. No options have been issued during the year ended 30 April 2005.

The ability to exercise the options granted on 28 June 1999 and 30 August 1999, was conditional on the consolidated entity achieving a performance hurdle. To reach the performance hurdle, the growth in API's Accumulation Index compared with growth in the All Industries Accumulation Index over a minimum of three years from the date the options were granted had to be 80% of the median for 50% of the options to be exercisable, up to 120% of the median, on a pro rata basis, for 100% of the options to be exercisable. All options issued with grant dates of 28 June 1999 and 30 August 1999 achieved the maximum performance hurdle.

The options issued with a grant date of 2 June 2002, with an exercise period commencing on 4 June 2005, are able to be exercised conditional upon the consolidated entity achieving a performance hurdle. The performance hurdle is a 7.5% compound growth in earnings per share ('EPS') over the three year period commencing 1 May 2002 and is able to be achieved up to the end of the exercise period of 30 April 2007, using the EPS compound growth over the most recent three year period. The performance hurdle was not achieved at 30 April 2005, being the first of three qualifying periods.

The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at the close of trading on the day the shares are issued. The market value of API shares on the day the options were exercised was \$2.52.

22. Employee entitlements (continued)

Executive share option plan (continued)

The amounts recognised as issued ordinary share capital in relation to executive share options exercised during the financial year were \$656,000 (2004: \$76,400).

Details of options over unissued ordinary shares at the beginning and end of the reporting date and movements during the year are set out below:

Grant date	Expiry date	Exercise price	Options at the beginning of the year	Options exercised and shares issued during the year	Options forfeited during the year	Options at the end of the year
28 June 1999	27 June 2004	\$1.93	30,000	–	30,000	–
30 August 1999	29 August 2004	\$2.05	320,000	320,000	–	–
4 June 2002	3 June 2007	\$3.45	370,000	–	110,000	260,000
			720,000	320,000	140,000	260,000

Employee share ownership plan

The Employee Share Plan ('ESP') was approved by shareholders at an extraordinary general meeting on 8 December 1997. The ESP is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. Full-time employees are entitled up to \$1,000 of free shares and part-time employees on a pro-rata basis. Shares issued under the ESP rank equally with other fully paid ordinary shares.

To be eligible, an employee must have been employed by an entity in the consolidated entity continuously for a minimum period of 6 months. Shares are issued in the name of the participating employee only and cannot be disposed of or transferred until the earlier of three years from the date of issue or on the date their employment from the consolidated entity ceases. The ESP has no conditions that could result in a recipient forfeiting ownership of shares.

The ESP complies with current Australian Tax legislation, enabling permanent employees to have up to \$1,000 of free shares in respect of an employee share scheme, excluded from their assessable income.

During the year ended 30 April 2005, no shares were issued pursuant to the Employee Share Plan. (2004: nil).

Superannuation funds

The Company and its controlled entities contribute to employee superannuation funds. Employer contributions to the consolidated entity's defined contribution fund exceed the amount specified in legislation. Employee contributions are based on various percentages of their gross salaries.

Employer contributions to the consolidated entity's defined benefit fund are based on actuarial recommendations. Actuarial assessments are performed on the consolidated entity's defined benefit fund every three years and the last assessment was carried out by Mr Doug Drysdale BSc FIA FIAA of Professional Financial Solutions as at 1 July 2002. The assessment concluded that there was no funding shortfall. In the event of the funds' termination, or voluntary or compulsory termination of employment of each employee of the Company and controlled entities, sufficient assets were available to meet all benefits payable.

22. Employee entitlements (continued)
Superannuation funds (continued)

The accrued benefits, fund assets at net market value and vested benefits of the fund are as follows:

		Fund assets at net market value	Total accrued benefits	Excess/(Deficit)	Total vested benefits
		\$000's	\$000's	\$000's	\$000's
API Executive Superannuation Fund	2005	10,929	12,080	(1,151)	9,939
	2004	10,540	12,080	(1,540)	10,171

Accrued benefits are benefits which the fund is presently obliged to pay at some future date, as a result of membership of the fund. Vested benefits are benefits which are not conditional upon the continued membership of the fund or any factor, other than resignation from the fund. Fund assets and vested benefits have been extracted from the most recent financial statements of the fund, at 30 June 2004. Accrued benefits have been obtained from the most recent financial statements of the fund but are based on actuarial reviews performed at 1 July 2002.

The trustees of the fund have advised the directors that a review of the financial position of the fund at 30 April 2005 indicated that estimated net assets of the fund were \$143,000 in excess of estimated accrued benefits at that date. The directors are not aware of any changes in circumstances since 30 April 2005 which would have a material impact on the overall financial position of the fund. The consolidated entity will continue to contribute in accordance with actuarial recommendations.

Details of contributions to the above fund are as follows:

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
Employer contributions to the fund	1,576	2,154	1,127	1,685
Employer contributions payable to the fund at balance date	-	-	-	-

23. Commitments
Non-cancellable operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

Within one year	49,726	13,533	7,913	7,911
One year or later but no later than five years	116,434	29,781	23,106	21,485
Later than five years	35,399	25,375	17,257	22,525
	201,559	68,689	48,276	51,921

The consolidated entity leases property and plant under non-cancelable operating leases expiring from two to twelve years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's

23. Commitments (continued)***Finance lease payment commitments***

Finance lease commitments are payable:

Within one year	942	515	–	–
One year or later and no later than five years	1,668	–	–	–
	2,610	515	–	–
Less future finance charges	(311)	(35)	–	–
	2,299	480	–	–
Lease liabilities provided for in the financial statements:				
Current	810	480	–	–
Non-current	1,489	–	–	–

The consolidated entity leases plant and equipment under finance leases expiring within five years. At the end of the lease term the consolidated entity has the option to purchase the leased equipment at a price considered to be a bargain purchase option.

24. Controlled entities*Particulars in relation to controlled entities*

	Consolidated entity interest	
	2005 %	2004 %
Thrift Chemist Merchandising Pty Limited	100	100
Healthcare Logistics Pty Limited	100	100
Australian Pharmaceutical Industries (Queensland) Pty Limited	100	100
API Victoria Pty Limited	100	100
Amed Supplies Australia Pty Limited	100	100
Soul Pattinson (Manufacturing) Pty Limited	100	100
Healthcare Manufacturing Group Pty Limited	100	100
Pharmacists of Australia Medicines Pty Limited	100	100
API Financial Services Australia Limited	100	100
Pharma-Pack Pty Limited	100	100
API (Canberra) Pty Limited	100	100
Canberra Pharmaceutical Supplies Trust	100	100
Zuellig Australia Pty Limited	100	100
Stevens Australia Pty Limited	100	100
Dental Forum Australasia Pty Limited	100	100
Halas Dental Limited	100	100
Shalfoon Bros Limited	(i) 100	100
Stevens KMS Equities Limited	(i) 100	100
API Healthcare Nominees (NZ) Limited	(i) 100	100
API Healthcare Holdings (NZ) Unit Trust	(i) 100	100
API Healthcare Holdings (NZ) Limited	(i) 100	100
PSM Healthcare Limited	(i) 100	100
Pharmaceutical Sales and Marketing Limited	(i) 100	100
Garrett Investments Limited	(i) 100	100
Healthcare Manufacturing Group Limited	(i) 100	100
Pharmacy Retailing (NZ) Limited	(i) 100	100
Propharma Limited	(i) 100	100
Community Pharmacy Limited	(i) 100	100
Community Distributors Limited	(i) 100	100
Healthcare Logistics Limited	(i) 100	100
The Medicine Shoppe Limited	(i) 100	100
Synapse Finance Pty Ltd	100	–
New Price Retail Finance Pty Ltd	100	–
New Price Retail Pty Ltd	100	–
Pricemart Pty Ltd	100	–
New Price Retail Services Pty Ltd	100	–
You Pay Less Pty Ltd	100	–
Price Attack Properties Pty Ltd	100	–
Price Attack Franchising Pty Ltd	100	–
Priceline Unit Trust	100	–
Second Priceline Unit Trust	100	–
House Unit Trust	100	–
Priceline Properties Limited	100	–
Eight-First Tribute Pty Ltd	100	–

(i) These controlled entities are incorporated in New Zealand and carry on business predominantly in New Zealand.

All other controlled entities are incorporated and carry on business predominantly in Australia.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
24. Controlled entities (continued)				
<i>Acquisition of controlled entities</i>				
During the year the consolidated entity purchased 100% of the voting shares Synapse Finance Pty Ltd. Details of this acquisition are as follows:				
Consideration (shares issued in the Company)	102,175	–	102,175	–
Consideration (cash)	26,917	–	26,917	–
Costs of acquisition (cash)	4,308	–	4,308	–
Cash acquired	(19,964)	–	(19,964)	–
Net consideration	113,436	–	113,436	–
Fair value of net assets of entities acquired:				
Property, plant and equipment	27,784	–	27,784	–
Goodwill – at cost	23,974	–	23,974	–
Goodwill – accumulated amortisation	(1,514)	–	(1,514)	–
Brand names	75,000	–	75,000	–
Deferred tax assets	3,718	–	3,718	–
Inventories	75,042	–	75,042	–
Receivables	24,442	–	24,442	–
Prepayments	1,125	–	1,125	–
Current tax asset	1,436	–	1,436	–
Bank loans	(55,000)	–	(55,000)	–
Payables	(59,212)	–	(59,212)	–
Lease liabilities	(2,641)	–	(2,641)	–
Deferred tax liability	(14)	–	(14)	–
Employee entitlements	(7,250)	–	(7,250)	–
	106,890	–	106,890	–
Goodwill on acquisition	6,546	–	6,546	–
	113,436	–	113,436	–

Synapse Finance Pty Ltd was acquired on 7 October 2004 and the operating results of the entity from that date have been included in the consolidated operating profit.

An employee termination provision of \$650,000 was established for certain employees within the acquired entities.

	Ownership interest Consolidated		Investment carrying amount Consolidated	
	2005	2004	2005	2004
	%	%	\$000's	\$000's

25. Investments accounted for using the equity method

Pharmacybrands Limited	50	50	754	667
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(The principal activity of the company is owner and operator of pharmacy banner groups in New Zealand)

	Consolidated	
	2005	2004
	\$000's	\$000's

Results of associates

Share of associates profit from ordinary activities before income tax	7	150
Share of associates income tax expense relating to profit from ordinary activities	(2)	(49)
	5	101

Share of post-acquisition retained profits and reserves attributable to associates

Share of associates retained profits at the beginning of the financial year	177	76
Share of net profit from ordinary activities of associates	5	101
Share of associates retained profits at the end of the financial year	182	177

Movement in carrying amount of investments

Carrying amount of investments in associates at the beginning of the financial year	667	234
Additional investment in associate	24	66
Acquisition fair value adjustment	–	290
Share of associates net profit	5	101
Net foreign currency translation difference	58	(24)
Carrying amount of investments in associates at the end of the financial year	754	667

Share of associates operating lease commitments payable:

Within one year	248	346
One year or later and no later than five years	55	250
	303	596

26. Remuneration of directors and executives

Directors

The following persons held the position of director of Australian Pharmaceutical Industries Limited during the financial year:

Non-executive Directors

Mr Peter R Robinson	Chairman	
Mr Barry A Frost	Non-executive director and Deputy Chairman	
Mr David J Fairfull	Non-executive director	
Mr Graeme L Herring	Non-executive director	Resigned 8 June 2004
Mr Robert D Millner	Non-executive director	
Mr John W Murphy	Non-executive director	Appointed 7 October 2004
Mr Michael S Smith	Non-executive director	

Executive director

My Jeffery C Sher	Executive director/Group Leader	Appointed 7 October 2004
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Executives

The following persons were the nine executives with the greatest authority for the strategic direction and operational management of the consolidated entity (specified executives) during the financial year:

Mr Simon Burrow	Leader	Marketing and Communication
Mr Chris Gardoll	Leader	Finance and Administration
Mr George Meiliunas	Leader	Organisational Development and Human Resources
Mr Stephen Roche	Leader	Pharmacy
Mr Phil Smith	Leader	Retail
Mr Peter Kelly	CEO	Healthcare Distribution
Mr Ian McDonald	CEO	Pharmacy
Mr Peter Merton	CEO	Propharma
Mr Kim Campbell	CEO	Healthcare Manufacturing

Of the above listed specified executives, only Mr Chris Gardoll was a specified executive during the full financial year.

Messrs Smith, Burrow and Meiliunas commenced employment with the consolidated entity on 7 October 2004 as they had previously been employed by New Price Retail, the business acquired on that date. Mr Stephen Roche commenced employment with the consolidated entity on 15 March 2005.

Messrs Kelly, McDonald, Merton and Campbell were specified executives from 1 May 2004 until 7 October 2004, as from that date they were no longer defined to be specified executives.

Principles used to determine the nature and amount of remuneration

Directors Remuneration

The remuneration of non-executive directors is determined by the full Board with an aggregate maximum amount approved by shareholders in general meeting. The maximum aggregate amount was increased to \$595,000 per annum in total remuneration at the Company's 2000 Annual General Meeting.

Non-executive directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities with additional amounts paid for membership of board committees. Superannuation is paid for non-executive directors at the statutory prescribed rate.

Under the Board's Retirement Scheme, which was approved by shareholders at the 1994 Annual General Meeting, after 10 years service, retiring non-executive directors receive, on a sliding scale capped at \$220,000, benefits up to a maximum of three times the average annual remuneration in the three years preceding retirement. The scheme does not apply to directors appointed after 9 September 2003. Refer to Note 21 for details on commitments to directors and executives under non-cancellable contracts.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies locally.

26. Remuneration of directors and executives (continued)

Group Leader Remuneration

An employment agreement with Mr Sher, the Group Leader, specifies the duties and obligations he is to fulfill.

Mr Sher's appointment is effective for three years ending 7 October 2007, which at the Board's discretion, may be extended for a further term of two years.

The employment agreement specifies the following components regarding Mr Sher's remuneration:-

- Mr Sher will be paid a fixed annual remuneration of \$747,000 (inclusive of superannuation and fringe benefits tax). Mr Sher's remuneration will be reviewed on 1 July each year with the first review scheduled on 1 July 2005;
- For the period ending 30 April 2005, Mr Sher will be entitled to a short term incentive payment of up to \$302,000, eligibility for which will be measured through the achievement of Economic Value Added ('EVA') growth over a one year period based upon an EVA expected performance being met. EVA is calculated by applying a capital charge to the profit after tax based on the weighted average capital cost of the business;
- A further payment to Mr Sher is due being 200,000 times the amount by which the three day volume weighted average price of API shares traded on the Australian Stock Exchange in the three days ending on 30 June 2005 exceeds \$2.53 (the share price prior to Mr Sher's appointment as Group Leader of API); and
- Mr Sher will be entitled to participate in the Company's Executive Share Option Plan. The first grant, subject to shareholder approval at the next Annual General Meeting, will be for 200,000 options having an exercise price equal to the three day volume weighted average price of API shares traded on the Australian Stock Exchange in the period ending 30 June 2005. Mr Sher's participation will be on the same terms and conditions that apply to all participants and will be in accordance with the principles of the Share Plan Trust Deed. Exercise of the options will be dependant on the satisfaction of time and performance hurdles, which are to be determined in a review of the long term remuneration structure which will be undertaken prior to the Annual General Meeting of shareholders.

The agreement between Mr Sher and the Company makes the following provisions in respect of cessation of employment:-

- Mr Sher may resign from the Company by the giving of six months written notice. If the resignation occurs after eighteen months, the performance options will transfer to Mr Sher on a pro-rata basis from the effective date of the employment agreement but will remain subject to the achievement of performance hurdles;
- The Company may summarily terminate Mr Sher's employment in specified circumstances with immediate effect. In these circumstances, Mr Sher will forfeit all rights to options in the Company;
- The Company may terminate Mr Sher's employment by the giving of twelve months written notice and may make a termination payment in lieu of up to twelve months fixed remuneration. Should the Company terminate Mr Sher's employment, through no fault of the executive, during the first twelve months of the employment term, it shall make a termination payment to Mr Sher of the remainder of the three year term of the fixed remuneration and the performance options will transfer to Mr Sher but they shall remain subject to the achievement of the performance hurdles;
- Mr Sher will be subject to a twelve month non-compete restriction after cessation of his employment.

Senior Executives Remuneration

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies locally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

Fixed Remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicle), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the remuneration committee through a process that considers individual segment and overall performance of the consolidated entity. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance-linked Remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan.

Short-term incentive bonus

Each year the remuneration committee sets the KPI's (key performance indicators) for the executive directors and senior executives. The KPI's generally include measures relating to the consolidated entity, the relevant segment, and the individual, and include financial, people, customers and strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

26. Remuneration of directors and executives (continued)

Senior Executives Remuneration (continued)

The financial performance objective are 'profit before tax' and 'return on capital employed' compared to budgeted amounts.

The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development. Financial and non-financial objectives each account for varying percentage of the maximum STI depending up on the executives role.

At the end of the financial year the remuneration committee assess the actual performance of the consolidated entity, the relevant segment and individual against the KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is awarded depending on results, between 20% for minimum performance and 100% for stretch performance. No bonus is awarded where performance falls below the minimum.

The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the committee with an objective assessment of the individual's performance.

Long Term Incentive Bonus

The Board has decided to review the long term incentive remuneration structure which will be undertaken prior to the annual general meeting of shareholders to implement an incentive program to generate the desired outcomes.

Options have previously been issued under the Executive Share Option Plan (made in accordance with the plan approved by shareholders at the 8 December 1997 Extraordinary General Meeting). The most recent issue of options was in July 2002 and at year end 9 current executives remain eligible to receive up to an aggregate of 260,000 options (within a range of 10,000 to 60,000 each) over ordinary shares for consideration of \$3.45 per share. The ability to exercise the options is conditional upon the consolidated entity achieving a performance hurdle which is a 7.5% compound growth in EPS over the three year period commencing 1 May 2002 and is able to be achieved up to the end of the exercise period using the EPS compound growth over the most recent three year period. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Service Agreements

It is the consolidated entity's policy that service contracts for six senior executives, excluding the Group Leader, be unlimited in term but capable of termination on 6 months notice after five years employment and that the consolidated entity retains the right to terminate the contract immediately, by making payment equal to six months' pay in lieu of notice.

The consolidated entity has entered into service contracts with each senior executive, excluding the Group Leader, that provides for the payment of benefits where the contract is terminated by the consolidated entity of the individual. The senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service contract outlines the components of remuneration paid to the senior executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any changes in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

26. Remuneration of directors and executives (continued)
Remuneration of directors and specified executives

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the specified executives of the consolidated entity are:

	Primary			Post-employment		Equity	Total
	Salary & fees \$	Short-term incentives \$	Non-monetary benefits \$	Superannuation contribution \$	Retirement benefits [•] \$	Value of options* \$	\$
Directors							
<i>Non-executive</i>							
Mr P R Robinson	126,999	–	–	11,430	55,950	–	194,379
Mr D J Fairfull	51,999	–	–	4,680	16,850	–	73,529
Mr B A Frost	87,000	–	–	7,830	–	–	94,830
Mr G L Herring Resigned 8 June 2004	9,500	–	–	855	–	–	10,355
Mr R D Millner	51,999	–	–	4,680	16,550	–	73,229
Mr M S Smith	57,000	–	–	5,130	3,000	–	65,130
Mr J W Murphy Appointed 7 Oct 2004	33,250	–	–	–	–	–	33,250
<i>Executive</i>							
Mr J C Sher – Group Leader Appointed 7 Oct 2004	371,407	202,000	42,751	46,559	–	–	662,717
Total directors	789,154	202,000	42,751	81,164	92,350	–	1,207,419
Specified executive							
Mr S Burrow Appointed 7 Oct 2004	169,342	25,000	–	13,666	–	–	208,008
Mr C Gardoll – Leader Finance and Administration	233,401	61,719	36,084	57,109	–	10,400	398,713
Mr G Meiliunas Appointed 7 Oct 2004	119,583	30,000	10,474	10,763	–	–	170,820
Mr S Roche Appointed 15 Mar 2005	42,233	–	–	3,801	–	–	46,034
Mr P Smith Appointed 7 Oct 2004	172,346	35,000	1,800	12,973	–	–	222,119
Mr P Kelly – CEO Healthcare Distribution**	83,958	67,227	19,518	7,556	–	2,167	180,426
Mr I McDonald – CEO Pharmacy**	95,958	43,185	19,330	22,070	–	3,611	184,154
Mr K Campbell – CEO Healthcare Manufacturing**	81,806	8,213	17,337	8,275	–	–	115,631
Mr P Merton – CEO Propharma**	127,425	53,333	14,577	–	–	–	195,335
Total specified executives	1,126,052	323,677	119,120	136,213	–	16,178	1,721,240

- Directors retirement benefits are included on an accrual basis. Directors retirement benefits are paid on a pro-rata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at \$220,000 and does not apply to directors first appointed after 9 September 2003.

* The value of options is calculated at grant date using the Binomial model. The value is allocated to each reporting period evenly over the period from grant date to vesting date.

** Messrs Kelly, McDonald, Campbell and Merton were defined as specified executives from 1 May 2004 to 7 October 2004. Their remuneration is only included for the period during which they were specified executives.

26. Remuneration of directors and executives (continued)
Options

The number of options over ordinary shares in the Company held during the financial year by any of the specified executives of the consolidated entity are set out below:

	Balance at 30 April 2004	Granted During The Year	Exercised During The Year	Balance At 30 April 2005	Vested and exercisable at the end of the year
C J Gardoll	60,000	–	–	60,000	–
P Kelly	30,000	–	–	30,000	–
I McDonald	50,000	–	–	50,000	–

Share holdings

The movement during the reporting period in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each specified director and specified executive, including their personally related entities is as follows:

	Held at 1 April 2004	Purchases	Sales	Held at 30 April 2005
Specified directors				
Mr P R Robinson	15,800	–	–	15,800
Mr B A Frost	461,548	–	–	461,548
Mr D J Fairfull	5,000	–	–	5,000
Mr R D Millner	11,000	–	–	11,000
Mr J W Murphy	–	–	–	–
Mr M S Smith	192,498	–	–	192,498
Mr J C Sher	–	1,700,815	–	1,700,815
Specified executives				
Mr S Burrow	–	640,163	–	640,163
Mr C Gardoll	40,478	420	–	40,898
Mr G Meiliunas	–	588,192	–	588,192
Mr P Smith	–	588,192	–	588,192
Mr I McDonald	96,634	–	–	96,634

No options were exercised during the year by specified executives or specified directors.

Messrs D J Fairfull , R D Millner, and P R Robinson are directors of Washington H Soul Pattinson & Company Limited. Washington H Soul Pattinson & Company Limited holds 54,112,040 shares (2004: 51,640,340 shares) in the Company at year end.

Mr J W Murphy is a director of Investec Wentworth Private Equity Limited , IWPE Nominees Pty Limited and MGB Equity Growth Pty Ltd. Investec Wentworth Private Equity Fund holds 5,277,222 shares (2004: nil shares) , IWPE Nominees Pty Limited holds 5,158,616 shares (2004: nil shares) and MGB Equity Growth Pty Ltd holds 5,158,616 shares (2004: nil shares) in the Company at year end.

Loans to directors and executives

No loans were made during the year to, or are outstanding at year's end from, specified directors of the Company or specified executives of the Company or consolidated entity.

27. Additional financial instrument disclosure**Interest rate risk***Interest rate risk exposures*

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities, is set out below:

	Note	Weighted average interest rate	Floating interest rate	Fixed interest rate 1 year or less	Fixed interest rate over 1 to 5 years	Non interest bearing	Total
			\$000's	\$000's	\$000's	\$000's	\$000's
2005							
<i>Financial Assets</i>							
Receivables	8	7.27%	7,901	–	–	428,797	436,698
Cash		5.00%	31,076	–	–	–	31,076
			38,977	–	–	428,797	467,774
<i>Financial Liabilities</i>							
Payables	15		–	–	–	567,857	567,857
Bank overdraft	16	10.70%	10,996	–	–	–	10,996
Bank term loans	16	7.50%	1,964	–	–	–	1,964
Bank bills	16	6.07%	58,000	–	–	–	58,000
Customer deposits	16	3.30%	189	–	–	–	189
Lease liability	16	6.83%	–	810	1,489	–	2,299
Employee and directors' entitlements	17	6.07%	27,118	–	–	–	27,118
			98,267	810	1,489	567,857	668,423
2004							
<i>Financial Assets</i>							
Receivables	8		–	–	–	389,866	389,866
Cash		4.75%	7,557	–	–	–	7,557
			7,557	–	–	389,866	397,423
<i>Financial Liabilities</i>							
Payables	15		–	–	–	392,473	392,473
Bank overdraft	16	8.95%	7,631	–	–	–	7,631
Bank term loans	16	5.20%	2,069	–	–	–	2,069
Bank bills	16	5.92%	63,000	–	–	–	63,000
Customer deposits	16	3.30%	388	–	–	–	388
Lease liability	16	8.15%	–	480	–	–	480
Employee and directors' entitlements	17	5.92%	16,667	–	–	–	16,667
			89,755	480	–	392,473	482,708

27. Additional financial instrument disclosure (continued)

Credit risk exposure

Recognised financial instruments

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers. The consolidated entity is not materially exposed to any individual customer.

Fair values

Recognised financial instruments

The consolidated entity's financial assets and liabilities are carried at amounts that approximate net fair value.

Foreign exchange risk

The consolidated entity enters into forward foreign contracts to hedge a proportion of anticipated purchase commitments denominated in foreign currencies (principally US dollars and Euro) expected in each month, within the following 12 months subject to the Board approved limits. The amount of anticipated future purchases are forecast in light of current conditions in foreign markets, commitments from customers and experience. All sales and purchases from the first of each month are designated as being hedged until all hedge contracts are fully utilised. Note 1(e) and Note 1(f) set out the accounting treatment for these contracts. The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of the outstanding contracts for the consolidated entity.

27. Additional financial instrument disclosure (continued)

	Consolidated		Consolidated	
	2005	2005	2004	2004
	Weighted Average Rate	\$000's	Weighted Average Rate	\$000's
<i>Buy Euro</i>				
Not later than one year	0.58	1,449	0.60	4,726
<i>Buy South African rand</i>				
Not later than one year	–	–	4.77	1,049
<i>Buy Japanese yen</i>				
Not later than one year	81.21	198	78.61	116
<i>Buy US dollars</i>				
Not later than one year	0.77	1,024	0.72	1,337

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases recognised in 'other creditors and accruals' and the timing of their anticipated recognition is:

	Consolidated Net losses	
	2005	2004
	\$000's	\$000's
Not later than one year	(70)	(64)

Notes to the Financial Statements CONTINUED

RETAILING		MANUFACTURING				ELIMINATIONS		CONSOLIDATED	
AUSTRALIA		AUSTRALIA		NEW ZEALAND					
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
255,353	–	7,933	10,075	29,638	28,978			3,423,810	2,944,060
–	–	6,450	6,116	3,540	5,738	(18,978)	(19,379)	–	–
255,353	–	14,383	16,191	33,178	34,716	(18,978)	(19,379)	3,423,810	2,944,060
								3,423,810	2,944,060
23,093	–	(17,039)	(9,055)	393	2,825			70,445	45,493
(821)	–	(338)	(335)	(916)	(916)			(5,718)	(4,894)
22,272	–	(17,377)	(9,390)	(523)	1,909	–	–	64,727	40,599
(3,106)	–	(585)	(456)	(451)	(750)			(10,383)	(8,032)
19,166	–	(17,962)	(9,846)	(974)	1,159	–	–	54,344	32,567
(2,009)	–	(600)	(600)	(329)	(264)			(10,338)	(5,164)
–	–	–	–	–	–	–	–	5	101
–	–	–	–	–	–	–	–	(94)	(124)
17,157	–	(18,562)	(10,446)	(1,303)	895	–	–	43,917	27,380
								(14,196)	(8,936)
								29,721	18,444
930	–	5,253	1,245	14	172			14,445	5,684
–	–	–	10,586	–	–	–	–	–	10,586
–	–	–	–	–	–	–	–	–	2,100
–	–	–	–	–	–	–	–	–	1,561
–	–	–	–	–	–	–	–	(5,024)	–
–	–	–	–	–	–	–	–	1,461	–
–	–	–	–	–	–	–	–	–	–
–	–	2,073	–	–	–	–	–	2,073	–
–	–	2,180	–	–	–	–	–	2,180	–
–	–	1,541	–	–	–	–	–	1,541	–
								2,231	14,247
172,863	–	18,576	37,600	39,411	30,129			1,114,336	821,938
–	–	–	–	–	–			754	667
–	–	–	–	–	–			–	–
								1,115,090	822,605
101,411	–	23,663	16,216	12,695	8,986			670,763	483,400
–	–	–	–	–	–	–	–	713	797
								671,476	484,197
2,844	–	1,319	1,122	1,198	1,290			16,375	15,260

Business Segments

The consolidated entity comprises the following five operating divisions:–

Pharmacy Distribution

Australia – Distribution of pharmaceutical and medical products to pharmacy; provider of retail services to pharmacy customers; loan & lease origination to pharmacy customers.

Pharmacy Distribution

New Zealand – Distribution of pharmaceutical and medical products to pharmacy; and retail services

Healthcare Distribution

Australia – Distribution of dental and allied products to dental practices; distribution of medical and pharmaceutical products to hospitals and doctors.

New Zealand – Distribution of dental and allied products to dental practices

Retailing

Australia – the purchase and sale of various health, beauty and lifestyle products within the retail industry in Australia

Manufacturing

Australia – Manufacture of pharmaceutical medicines
New Zealand – Manufacture of pharmaceutical medicines and consumer toiletries

29. Related party disclosures

Directors transactions with the Company or its controlled entities

Certain directors of the Company have entered into transactions with the Company and its controlled entities during the financial year. These transactions may include purchasing of inventories from the Company or its controlled entities, placing money on deposit with the Company and entering into finance agreements with API Financial Services Australia Limited. All transactions with the directors are on the same terms and conditions as those entered into by other entities, employees or customers and are trivial or domestic in nature.

Certain non-executive directors of the Company are associated with entities which derive fees for work done for the Company and its controlled entities.

Mr D J Fairfull is a director of Pitt Capital Partners Pty Ltd. During the year, an amount of \$2,832,500 was paid by the Company to Pitt Capital Partners Pty Ltd. The payment related to arms length professional services provided in connection with the successful acquisition by the Company of the New Price Retail group on 7 October 2005.

Wholly-owned group

Details of interests in wholly-owned controlled entities are set out in Note 24. Details of dealings with these entities are set out below.

Loans

Loans from the Company to controlled entities are initially for a period of 5 years and then subject to further negotiation. Interest is charged monthly at varying rates, based on the bank prime rate of interest, on the outstanding balance.

Interest revenue brought to account by the Company in relation to these loans during the year is set out in Note 2.

Other transactions

During the year the Company received a fee for administrative services provided to three controlled entities, API Financial Services Limited, Soul Pattinson (Manufacturing) Pty. Ltd. and Propharma Limited. All transactions with related entities are on normal commercial terms and conditions.

Balances with entities within the wholly-owned group

The aggregate amounts receivable by the Company from wholly-owned controlled entities at balance date:

	2005	2004
	\$000's	\$000's
<i>Receivables</i>		
Non-current	189,919	184,958
<i>Payables</i>		
Non-current	–	6,472

Dividends

Dividends and distributions received or due and receivable by the Company from wholly-owned controlled entities are shown in Note 2.

30. Notes to the statements of cash flows
(i) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the statements of financial position as follows:

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
Cash	31,076	7,557	21	33
Bank overdraft	(10,996)	(7,631)	(7,731)	(11,352)
	20,080	(74)	(7,710)	(11,319)

(ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

Profit from ordinary activities after income tax	29,721	18,444	30,521	23,387
Add/(less) items classified as investing activities:				
(Profit)/loss on sale of non-current assets	(4,920)	(70)	(5,202)	(53)
Add/(less) non-cash items:				
Amortisation	6,183	5,202	796	762
Amount set aside to provisions	7,551	5,684	2,758	939
Depreciation	10,383	7,724	4,002	4,442
Share of associates net profit	(5)	(101)	–	–
Net cash provided by operating activities before change in assets and liabilities:	48,913	36,883	32,875	29,477
Increase/decrease in inventories	(13,653)	(24,074)	(31,141)	(12,778)
(Increase)/decrease in trade and other debtors	(17,916)	(46,414)	(55,219)	(24,457)
(Increase)/decrease in prepayments	(1,558)	107	229	(351)
(Increase)/decrease in current tax assets	1,527	960	953	1,256
(Increase)/decrease in deferred tax assets	600	(998)	(1,644)	(3,928)
Increase/(decrease) in trade and other creditors	110,551	13,874	125,121	(110,374)
Increase/(decrease) in income taxes payable	–	(1,870)	–	–
Increase/(decrease) in deferred tax payable	(1,001)	1,028	(573)	560
Net cash provided by/(used in) operating activities	127,463	(20,504)	70,601	(120,595)

31. Impact of adopting Australian equivalents to International Financial Reporting Standards

For the reporting period beginning on 1 May 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 30 April 2005.

Implementation Project

An implementation project has been established to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 May 2005. The implementation project consists of three phases: Assessment and planning; Design; and Implementation.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed in most respects as at 30 April 2005.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase has commenced with a project team working on areas such as treasury operations, application of impairment requirements and transitional elections.

The design phase incorporates:

- formulating revised accounting policies and procedures for compliance with AIFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
- developing revised AIFRS disclosures;
- designing accounting and business processes to support AIFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The design phase is expected to be completed before 30 September 2005.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the consolidated entity to generate the required disclosures of AASB 1 as it progresses through its transition to AIFRS.

Except for certain training that has been given to its AIFRS project team, the consolidated entity has not yet commenced the implementation phase. However, this phase is expected to be substantially complete by 30 September 2005.

Impact of transition to AIFRS

Those standards where the differences between Australian Generally Accepted Accounting Principles (Australian GAAP) and Australian equivalents to International Financial Reporting Standards (AIFRS) are identified as potentially having a significant impact on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all differences between current Australian GAAP and AIFRS.

- AASB138 – Intangible Assets (Goodwill)
- AASB119 – Employee Benefits (defined benefit superannuation plans; share options)
- AASB112 – Income Tax
- AASB116 – Property, Plant & Equipment
- AASB136 – Impairment of Assets
- AASB139 – Financial Instruments
- AASB103 – Business Combinations

No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The standards noted above should not be regarded as a complete list of those that may lead to changes resulting from the transition to AIFRS. Some standards have not been fully analysed and some decisions are yet to be made where choices of accounting policies are available. For these reasons it is not possible to quantify the impact of the transition on the Group's financial position and reported results.

32. Discontinuing operations**Sale of non-core businesses*****Hospital Supplies Distribution Business***

On 21 April 2005, the Company announced the sale of its hospital supplies distribution business, Hospital Supplies of Australia ('HSA') into a newly formed joint venture, that is owned 50% by API and 50% by ABN AMRO Capital (Belgium) NV, the private arm of ABN AMRO Bank.

The acquisition of HSA by the joint venture was completed on 27 May 2005 along with its concurrent acquisition of Clifford Hallam Pharmaceuticals Pty Limited from Spotless Group Limited.

Halas Dental Limited and Shalfoon Bros Limited

On 16 May 2005, API announced the sale of Halas Dental Limited and Shalfoon Bros Limited to Henry Schein, Inc. for a maximum of \$19.75 million, which includes a performance earn-out of \$3 million and approximates the book values of Halas Dental Limited and Shalfoon Bros Limited.

Together these discontinuing operations represent the consolidated entity's Healthcare Distribution segment.

Financial information for the Healthcare Distribution segment as at 30 April 2005 was as follows:–

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000's	\$000's	\$000's	\$000's
Financial performance information for the year ended 30 April				
Revenue from ordinary activities	394,867	353,222	285,572	239,495
Other expenses from ordinary activities	(393,336)	(347,219)	(284,826)	(238,796)
Profit before ordinary activities before income tax	1,531	6,003	746	699
Income tax expense	(474)	(2,144)	(304)	(211)
Net profit	1,057	3,859	442	488
Financial position information at 30 April				
Segment assets	114,692	129,748	65,702	66,932
Segment liabilities	(81,896)	(91,304)	(62,197)	(62,603)
Net assets	32,796	38,444	3,505	4,329
Cash flow information for the year ended 30 April				
Net cash (used in)/provided by operating activities	(6,483)	8,760	(4,221)	2,620
Net cash used in investing activities	(251)	(1,224)	(187)	(156)
Net cash provided by/(used in) financing activities	1,639	1,351	(4,408)	2,464
Net (decrease)/increase in cash held	(5,095)	8,887	(8,816)	4,928

33 Events subsequent to balance date

Disposal of entities

Since 30 April, 2005 the Company sold its hospital supplies distribution business, Hospital Supplies of Australia ('HSA') into a newly formed joint venture, that is owned 50% by API and 50% by ABN AMRO Capital (Belgium) NV, the private arm of ABN AMRO Bank.

The acquisition of HSA for net assets by the joint venture was completed on 27 May 2005 along with the concurrent acquisition of Clifford Hallam Pharmaceuticals Pty Limited from Spotless Group Limited for consideration of \$67.5 million.

The Company sold its Halas Dental Limited and Shalfoon Bros Limited businesses to Henry Schein, Inc on 16 May 2005 for a maximum consideration of \$19.75 million, which includes a performance earn-out of \$3 million and approximates the book values of Halas Dental Limited and Shalfoon Bros Limited.

International Financial Reporting Standards

For the reporting period beginning on 1 May 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 31 to the financial statements.

Dividends

Since 30 April 2005 the directors have declared a final ordinary dividend of 6.75 cents per share (fully franked) to be paid on 1 August 2005. The total of this dividend is \$17,370,886. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 April 2005.

Directors' Declaration

In the opinion of the directors of Australian Pharmaceutical Industries Limited ('the Company'):

- (a) the financial statements and notes, set out on pages 17 to 62, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 April 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 29 day of July 2005.

Signed in accordance with a resolution of the directors:



Peter R. Robinson
Director



Independent audit report to the members of Australian Pharmaceutical Industries Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 33 to the financial statements, and the directors' declaration for both Australian Pharmaceutical Industries Limited ('the Company') and Australian Pharmaceutical Industries Limited and its controlled entities ('the consolidated entity'), for the year ended 30 April 2005.

The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of Australian Pharmaceutical Industries Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 April 2005 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

Cameron Slapp
Partner

Sydney
29 July 2005

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

Shareholdings as at 30 June 2005

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Washington H Soul Pattinson and Company Limited	54,112,040 ordinary shares
J P Morgan Nominees Australia Limited	22,476,798 ordinary shares
IWPE Nominees Pty Limited, MGB Equity Growth Pty Ltd and associates	15,594,454 ordinary shares

Voting rights

The voting rights attaching to the ordinary shares, as set out in clause 13.1 of the Company's Constitution, are:

'Subject to any special rights or restrictions for the time being attaching to any class of shares in the capital of the Company, clause 13.8 and the provisions of Schedule 3:

- (a) on a show of hands at a general meeting every person present who is an Eligible Voter has one vote; and
- (b) on a poll at a general meeting every Eligible Member (not being a corporation) present in person or by proxy or attorney and every Eligible Member (being a corporation) present by a Representative or by proxy or attorney has one vote for each Share that Eligible Member holds.'

On-market share buy-back

There is no current on-market share buy-back.

Distribution of shareholders as at 30 June 2005

Category	Number of shareholders Ordinary Shares
1 – 1,000	1,932
1,001 – 5,000	3,931
5,001 – 10,000	1,377
10,001 – 100,000	1,598
100,001 and over	286
	<hr/>
	9,124

The number of shareholders holding less than a marketable parcel at 30 June 2005 was 120 (2004:172).

Twenty largest shareholders as at 30 June 2005*

Name	Number of Ordinary shares held	Percentage of Capital held
Washington H Soul Pattinson & Company Limited	54,112,040	21.03
J P Morgan Nominees Australia Limited	22,476,798	8.73
UBS Nominees Pty Ltd	11,999,367	4.66
National Nominees Limited	10,985,354	4.27
Westpac Custodian Nominees Limited	5,385,307	2.09
IWPE Nominees Pty Limited	5,158,616	2.00
MGB Equity Growth Pty Ltd	5,158,616	2.00
Citicorp Nominees Pty Limited	3,893,165	1.51
ANZ Nominees Limited	1,776,716	0.69
Cherson Pty Limited	1,700,815	0.66
Cogent Nominees Pty Limited	1,437,771	0.56
Permanent Trustee Australia Limited <EGG001 A/C>	1,190,467	0.46
Health Super Pty Ltd	1,087,640	0.42
ANZ Nominees Limited <Cash Income A/C>	883,524	0.34
Milton Corporation Limited	697,747	0.27
Simon Burrow	640,163	0.25
P A & G M Doyle Pty Ltd <Retirement Fund A/C>	616,503	0.24
Michael Patrick Kelaher	615,000	0.24
Jurgis Meiliunas	588,192	0.23
Phil Smith	588,192	0.23
	130,991,993	50.90

* As shown on the register, beneficial holdings may differ.

Shareholder Information

Shareholder Communications

Enquiries or notifications by shareholders regarding their shareholdings or dividend should be directed to API's share registry:

Computershare Investor Services Pty Limited
GPO Box 7045
Sydney NSW 1115 Australia
Telephone 1300 855 080
International +61 3 9415 4000
Facsimile (02) 8234 5050
International +61 2 8234 5050

Shareholders can also send queries to the share registry via email: web.queries@computershare.com.au

You can access information about your API shareholding and download forms via the internet by visiting: www.computershare.com.au

Dividends

The final dividend of 6.75 cents per share for 2004/2005 year will be paid by API on 1 August 2005. The dividend will be fully franked.

If you wish your dividends to be paid directly to a bank, building society or credit union account in Australia contact the share registry or visit the website of Computershare at www.computershare.com.au for an application form. The payments are electronically credited on the dividend payment date and confirmed by payment advices sent through the mail to the shareholder's registered address. All instructions received remain in force until amended or cancelled in writing.

Shareholders who receive dividend cheques are requested to bank them as soon as possible.

Tax File Number (TFN), Australia Business Number (ABN or exemption)

You are strongly advised to lodge your TFN, ABN or exemption with the share registry. If you choose not to lodge these details, then API is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of any dividend. Certain pensioners are exempt from supplying their TFN's. You can confirm whether you have lodged your TFN, ABN or exemption via the Computershare website.

Uncertificated Forms of Shareholdings

Two forms of uncertificated holdings are available to API shareholders:

Issuer Sponsored Holdings:

This type of holding is sponsored by API and provides shareholders with the advantages of uncertificated holdings without the need to be sponsored by any particular stockbroker.

Broker Sponsored Holdings ('CHESS'):

Shareholders may arrange to be sponsored by a stockbroker (or certain other financial institutions) and are required to sign a sponsorship agreement appointing the sponsor as their 'controlling participant' for the purposes of CHESS. This type of holding is likely to attract regular stock market traders or those shareholders who have their share portfolio managed by a stockbroker.

Shareholders communicating with the share registry should have their Security Holder Reference Number (SRN) at hand or Holder Identification Number (HIN) as it appears on the Issuer Sponsored/ CHESS statements or dividend advices. For security reason, shareholders should keep their Security Holder Reference Numbers confidential.

Annual Report Mailing List

Shareholders (whether Issuer or Broker Sponsored) not wishing to receive the Annual Report should advise the share registry in writing so that their names can be removed from the mailing list. Shareholders are able to update their preference via the Computershare website.

Change of Address

Shareholders who are Issuer Sponsored should notify any change of address to the share registry promptly in writing quoting their Security Holder Reference Number, previous address and new address. Application forms for Change of Address are also available for download via the Computershare website. Broker Sponsored (CHESS) holders must advise their sponsoring broker of the change.

Share Trading and Price

API shares are traded on the Australian Stock Exchange Limited ('ASX'). The stock code under which they are traded is 'API' and the details of trading activity are published in most daily newspapers under that abbreviation.

Off-Market Share Transfers

Stamp duty on transfer of listed shares was abolished on 1 July 2001. Share transfers dated after 1 July 2001 should be forwarded directly to Computershare Investor Services Pty Limited.

Information on API

API has a comprehensive internet site featuring news items, announcements, corporate information and a wide range of product and service information. API's internet address is www.api.net.au

The Annual Report is the main source of information for shareholders. Other sources of information include:

- Interim results
- Annual results
- the Annual General Meeting – the Chairman and the Managing Director address the meeting
- ASX announcements

Financial Calendar*

Annual General Meeting	27 September 2005
Half year end	31 October 2005
Half year profit announcement	12 December 2005
Ex dividend share trading commences	11 January 2006
Record date for interim dividend	17 January 2006
Interim dividend payable	31 January 2006
Year end	30 April 2006
Full year profit announcement	26 June 2006
Ex dividend share trading commences	13 July 2006
Record date for final dividend	19 July 2006
Final dividend payable	1 August 2006

* Timing of events is subject to change

Requests for publications and other enquiries about API's affairs should be communicated to:

Company Secretary
Australian Pharmaceutical Industries Limited
Locked Bag 5061
Parramatta NSW 2124
Enquiries can also be made via email to:
mail@api.net.au

Corporate Directory

Offices and officers

Company Secretary

Mr Christopher J Gardoll, ACA, B.Bus

Principal Registered Office

Australian Pharmaceutical Industries Limited
11 Grand Avenue
Camellia NSW 2142
Telephone: (02) 8844 2000
Facsimile: (02) 8844 2400

Location of Share Registry

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Telephone 1300 855 080
International +61 3 9415 4000
Facsimile (02) 8234 5050
International +61 2 8234 5050

Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information

Australian Pharmaceutical Industries Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.