



Australian Pharmaceutical Industries Limited
ABN 57 000 004 320

All correspondence to:
Computershare Investor Services Pty Limited
GPO Box 7045 Sydney
New South Wales 2001 Australia
Enquiries (within Australia) 1300 855 080
(outside Australia) 61 3 9415 4000
Facsimile 61 2 8234 5050
www.computershare.com

Dear Securityholder

On behalf of the Board of Directors of Australian Pharmaceutical Industries Limited, we are pleased to invite you to attend our Annual General Meeting and have enclosed the Notice of Meeting which sets out the items of business.

The meeting will be held at our offices at 11 Grand Avenue, Camellia NSW 2142 on Tuesday 27 September 2005 at 2:30pm.

Enclosed with this letter is a Notice of Meeting detailing the business to be dealt with at the meeting.

If you decide to attend the meeting, please bring this letter with you to facilitate registration at the meeting.

If you are unable to attend the meeting, you are encouraged to complete the enclosed proxy form. The proxy form should be returned in the envelope provided or faxed to our share registry on 02 8235 8220 so that it is received no later than 2:30pm on Sunday 25 September 2005.

Corporate securityholders will be required to complete a "Certificate of Appointment of Representative" to enable a person to attend on their behalf. A form of this certificate may be obtained from the Company's share registry.

The information contained in this communication and any attachments to it are confidential and for the exclusive use of the named recipient. If the reader of this communication is not the intended recipient or authorised by the intended recipient, notice is hereby given that dissemination, distribution or copying of this communication is prohibited.

If you have received this communication in error it would be appreciated if you could notify API immediately by telephone to arrange for its return to us. Thank you.

Be the first to receive API company information! Register your email address, and receive company communications electronically by logging onto the Computershare website at www.computershare.com.au. Simply click on Securityholders, enter API, your SRN/HIN and Postcode, and enter your email address.

We look forward to your attendance at the meeting.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Peter R Robinson', is written over a light blue horizontal line.

Peter R Robinson
Chairman
25 August 2005



Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the shareholders of Australian Pharmaceutical Industries Limited will be held at 11 Grand Avenue, Camellia NSW 2142 on Tuesday 27 September 2005 at 2.30pm.

Business:

Items 2, 3 and 4 will be proposed as ordinary resolutions.

Ordinary Business

Reports:

1. To receive and consider the Financial Report of the Company and its controlled entities for the year ended 30 April 2005 and the related Directors' Report, Directors' Declaration and Audit Report.

Directors

2. To re-elect a Director. Mr Peter R Robinson retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for election.
3. To elect a Director. Mr John W Murphy retires as a Director, having been appointed by the Board during the year and in accordance with the Company's Constitution, being eligible, offers himself for election.

Special Business

4. Grant of Performance Rights to Mr J Sher, Group Leader and Managing Director.

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

"THAT the grant of performance rights under the API Long Term Incentive Plan to the Company's Group Leader, Mr Jeff Sher, in the manner set out in the Explanatory Notes to this Notice of 2005 Annual General Meeting be approved for all purposes, including for the purpose of ASX Listing Rule 10.14."

Other Business

To deal with any business that may be brought forward in accordance with the Constitution and the Corporations Act 2001.

Voting Exclusion Statement

The Company will disregard any votes cast on item 4 by:

- *Mr Sher;*
- *any other director who is eligible to participate in any employee incentive scheme (of which there are none); and*
- *any of their associates,*

unless the vote is cast as proxy for a person entitled to vote in accordance with a direction on the proxy form or unless the vote is cast by a person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the Board

Chris Gardoll

Company Secretary

25 August 2005

Explanatory Notes on Items of Business

Item 4 – Grant of performance rights to Mr Jeff Sher

It is proposed that Mr Jeff Sher, the Company's Group Leader and Managing Director be granted performance rights under API's Long Term Incentive Plan.

Approval is required under the ASX Listing Rules for the grant of performance rights to any director of the Company, including Mr Sher.

Background

At the time the Company acquired New Price Retail in October 2004 and appointed Mr Jeff Sher as Group Leader, it was announced that he would be granted options on 1 July 2005 under the API Executive Share Option Plan. As announced, the grant was subject to approval of shareholders at the Company's 2005 Annual General Meeting.

Since that time, the Board has reviewed the operation of the Executive Share Option Plan and has taken advice from an independent remuneration expert.

Following that review, the Board concluded that the Plan is no longer appropriate and is out of line with market practice because it fails to take account of the Company's performance as measured against a range of both relative and absolute factors. As a result:

- the Board has adopted a new API Long Term Incentive Plan, which better aligns long term value creation of the Company with rewards to senior management; and
- instead of granting options to Mr Sher, as previously announced, it is proposed that he be granted performance rights under API's Long Term Incentive Plan, as described below.

Number of performance rights to be granted to Mr Sher

Subject to your approval, it is intended that Mr Sher be granted 53,000 performance rights under API's Long Term Incentive Plan, of which 26,500 will be subject to the total shareholder return performance condition and 26,500 will be subject to the earnings per share performance condition, described below. No amount is payable by Mr Sher for the grant of the performance rights or on exercise of the performance rights.

API's Long Term Incentive Plan

API's Long Term Incentive Plan has been designed with the following objectives:

- to drive medium to long-term performance outcomes and shareholder returns;
- to align the interests of senior management (Leaders) and shareholders;
- to attract and retain key talent; and
- to reward Leaders for improvements in the Company's performance when measured against a range of factors, including internal and external measures.

The Board has responsibility for the overall design and structure of API's Long Term Incentive Plan and any awards made under it. The Remuneration Committee has responsibility for determining specific awards to individuals and overseeing the administration of the Plan.

The features of the Plan – which will apply to the 2005 grant of performance rights to Mr Sher and to any other participant under the Plan – are summarised below.

What is a performance right?

A "performance right" is a right to be provided with a fully paid ordinary share in the Company. Under the Plan, the shares can either be purchased on market on behalf of the participant, or new shares issued by the Company.

If a performance right is satisfied through the achievement of a performance condition (as described below), a participant has approximately 2 years from that time to "exercise" it and be provided with a share in API.

Performance conditions

A participant will only be entitled to receive shares, if appropriate conditions or "hurdles" are achieved.

The performance conditions for the exercise of performance rights will be assessed after 3 years from the date they are granted. It is expected that the first grant of performance rights will be made by mid-October 2005.

Performance conditions will be tested only once, and any performance rights that do not meet the performance conditions will lapse and will not be re-tested.

The performance conditions for the performance rights are designed to take account of absolute and relative measures – being:

- the Company's total shareholder return (**TSR**) performance relative to the total shareholder return performance of a comparator group of ASX-listed companies; and
- the Company's earnings per share (**EPS**) relative to an EPS growth target determined by the Board.

For each participant (including Mr Sher), one half of the total performance rights granted will be assessed against the TSR measure and the other half will be assessed against the EPS measure.

Total shareholder return performance condition

Up to 50% of the performance rights granted can be exercised if the following condition is met:

API's TSR relative to the TSR of companies within a selected comparator group over the performance period (which is 3 years from the date of grant) must be above the 50th percentile. In that event, a participant (including Mr Sher) can exercise a specified proportion of the performance rights that are subject to the TSR performance condition, as set out below:

<i>If API's relative TSR percentile ranking at the end of the performance period is...</i>	<i>then the percentage of TSR performance rights that can be exercised is...</i>
at or below the 50th percentile (median performance)	zero
at the 51st percentile and below the 75th percentile	50% and increasing on a straight line basis in accordance with the following formula: $2.083(N - 51) + 50$ where N is API's TSR percentile ranking between 50 and 75
at or above the 75th percentile (out performance)	100%

This performance condition has the effect that:

- none of the performance rights subject to the TSR performance condition may be exercised at the end of the performance period, unless API's TSR performance is at least above the median level when compared against the comparator group; and
- if API's TSR is at or above the 75th percentile, all the performance rights subject to this condition can be exercised.

Some relevant concepts are:

- total shareholder return or TSR is, broadly, share price growth and dividends reinvested, excluding the impact of franking credits;
- the comparator group against which API's TSR will be compared will consist of 50 other ASX-listed companies (excluding trusts) which have a similar market capitalisation and also includes companies which operate in broadly similar industries. The Board will finalise the composition of this group before the grant of performance rights to participants. (The companies in the comparator group will be described in the Company's remuneration report for the year ended 30 April 2006.)

EPS performance condition

Up to 50% of the performance rights granted to a participant (including Mr Sher) can be exercised if the following condition is met:

API's actual EPS performance measured over the performance period (which is the 3 years ending 30 April 2006, 2007 and 2008) must exceed a specified EPS target pool.

API's actual EPS performance is calculated by aggregating the actual EPS for the 3 years ending 30 April 2006, 2007 and 2008. The "EPS target pool" is a number that is arrived at by applying a compound growth figure to the EPS in the base year (being 30 April 2005) for 3 years. This then gives a number against which API's actual EPS performance can be measured.

For this performance condition, a participant (including Mr Sher) will be entitled to exercise a specified proportion of performance rights that are subject to the EPS performance condition, based on API's actual EPS performance measured against the EPS target pool, as set out below:

<i>If API's actual EPS performance over the performance period is...</i>	<i>then the percentage of the EPS performance rights that can be exercised is...</i>
below the EPS target pool which results from a 10% p.a. compounding rate over 3 years	zero
at the EPS target pool which results from a 10% p.a. compounding rate over 3 years	50%
above the EPS target pool which results from a 10% p.a. compounding rate over 3 years and below the EPS target pool which results from a 15% p.a. compounding rate over 3 years	more than 50%, increasing on a straight line basis in accordance with actual EPS performance relative to the EPS pools
at or above the EPS target pool which results from a 15% p.a. compounding rate over 3 years	100%

This performance condition has the effect that:

- none of the performance rights subject to the EPS performance condition may be exercised unless API's actual EPS performance over the performance period results in aggregate EPS that is equivalent to at least 10% per annum, compound EPS growth over the 3 year period; and
- if API's actual EPS performance results in aggregate EPS over the performance period that is equivalent to being at or above 15% per annum, compound EPS growth over the same period, all the performance rights subject to this condition can be exercised.

For this performance condition:

- EPS is the basic earnings per share calculated by applying in a consistent manner the policies and practices used in determining earnings per share for the year ended 30 April 2005 with any adjustments that the Board considers necessary (including changes to accounting policies because of the application of Australian equivalents to International Financial Reporting Standards);
- the EPS targets have been set by reference to API's 3 year business strategy and taking into account the EPS performance of Australian listed companies including listed health and retail companies.

Leaving employment

Where a participant (including Mr Sher) leaves the employment of the Company within 3 years from the date of grant of the performance rights, the treatment of the performance rights will depend on the reasons for departure:

<i>If the participant leaves due to ...</i>	<i>then the performance rights will ...</i>
Resignation or dismissal for cause	Lapse
Redundancy, death, or permanent disability or illness	A pro rata number of performance rights can be exercised, subject to the testing of the relevant performance hurdles (over a shortened performance period) at the time the participant leaves employment with API. However, if the participant ceases employment within one year of the grant the performance rights lapse.

The Board retains a discretion to vary the above, depending on the circumstances at the relevant time.

Change of Control

On a change in control of the Company, the Board has a discretion to accelerate vesting, subject to testing against the performance hurdles at the relevant time.

Variations of share capital

The Board may make certain changes to the number of shares to be provided to a participant upon the exercise of performance rights if there are changes in the capital structure through, for example, a rights issue or bonus entitlement, subject to the ASX Listing Rules.

Rationale of the Long Term Incentive Plan and the award to Mr Sher

The Board believes that the Long Term Incentive Plan, with the performance conditions described above, provide an incentive for Mr Sher to drive the medium and long-term growth of the Company for the benefit of all shareholders. By imposing a TSR performance condition and an EPS performance condition, the Board believes that Mr Sher will only be minimally rewarded if the Company's TSR performance is at a median level or EPS performance is equivalent to EPS growth of 10% per annum. However, if the Company's TSR performance does well against its peers or EPS performance is equivalent to a high level of EPS growth of 15% per annum, he will receive a reward which appropriately reflects the performance of the Company.

The Board also intends offering certain Leaders with invitations to participate in the Long Term Incentive Plan with awards of performance rights on terms similar to those described here.

Additional information

ASX Listing Rule 10.15 requires the following information in relation to the performance rights to be granted to Mr Sher under the Long Term Incentive Plan.

- As a performance right entitles Mr Sher to one fully paid ordinary share (assuming the performance conditions have been met), the maximum number of securities to be acquired by Mr Sher is 53,000.
- Apart from Mr Sher, no director is entitled to participate in the Long Term Incentive Plan and no director has previously participated in the Long Term Incentive Plan.
- No loans are provided under the Long Term Incentive Plan.
- The performance rights will be granted to Mr Sher by mid-October or in any event on a date determined by the Board, which will be no later than 26 September 2006.

Recommendation

The Directors consider that the long term incentive remuneration for Mr Sher described above is aligned with the ultimate interests of shareholders as the performance conditions set challenging hurdles before Mr Sher can exercise the performance rights. The Directors (other than Mr Sher) recommend that shareholders vote in favour of item 4. (Given his interest, it is not appropriate for Mr Sher to make a recommendation on this item.)

Voting Entitlements

For the purpose of the Corporations Act, the Company has determined that all securities of the Company that are quoted securities at 5.30pm Australian Eastern Standard Time on Monday 26 September 2005 will be taken, for the purpose of the Meeting, to be held by the persons who held the securities at the time.

Proxies

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise. The Proxy Form must be deposited at the share registry of the Company, Computershare Investor Services Pty Limited, located at Level 2, 60 Carrington Street, Sydney NSW 2000 or at the Company's Registered Office, 11 Grand Avenue, Camellia NSW 2142, or by facsimile to Computershare on (02) 8235 8220 or to the Company on (02) 8844 2409 so that it is received no later than 2.30pm 25 September 2005.



Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Mark this box with an 'X' if you have made any changes to your address details (see reverse)



Proxy Form 2005 AGM



All correspondence to:
Computershare Investor Services Pty Limited
GPO Box 7045 Sydney
New South Wales 2001 Australia
Enquiries (within Australia) 1300 855 080
(outside Australia) 61 3 9415 4000
Facsimile 61 2 8234 5050
www.computershare.com

Appointment of Proxy

I/We being a member/s of Australian Pharmaceutical Industries Limited and entitled to attend and vote hereby appoint



the Chairman
of the Meeting
(mark with an 'X')

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Australian Pharmaceutical Industries Limited to be held at our offices at 11 Grand Avenue, Camellia NSW 2142 on Tuesday 27 September 2005 at 2:30pm and at any adjournment of that meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of Item 4.

IMPORTANT: FOR ITEM 4 BELOW



If the Chairman of the Meeting is to be your proxy and you have not directed your proxy how to vote on Item 4 below, please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of that Item and that votes cast by him, other than as proxy holder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Item 4, the Chairman of the Meeting will not cast your votes on that item and your votes will not be counted in computing the required majority if a poll is called on that item.

Voting directions to your proxy - please mark to indicate your directions

- 2 To re-elect Mr P R Robinson as a Director
- 3 To elect Mr J W Murphy as a Director
- 4 To Approve the Grant of Performance Rights to the Managing Director

	For	Against	Abstain*
2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Appointing a second Proxy

I/We wish to appoint a second proxy



Mark with an 'X' if you wish to appoint a second proxy.

AND

 %

OR

State the percentage of your voting rights or the number of securities for this Proxy Form.

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

Individual or Securityholder 1

Individual/Sole Director and
Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

Date

A P I

T B A

010877 - V1



How to complete this Proxy Form

1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid unless the marks are a number or percentage of shares. If you attempt to vote in excess of your shareholding on the share register, whether by one proxy or two, your vote will be invalid. If the Chairman of the Meeting is your proxy and you do not direct your proxy how to vote on Item 4, you must mark the box next to the heading "IMPORTANT: FOR ITEM 4 BELOW" or the Chairman of the Meeting will not be able to vote your proxy on that item. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 2 to 4.

4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) indicate that you wish to appoint a second proxy by marking the box.
- (b) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form (together being no more than 100% of your total shareholding). If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (c) return both forms together in the same envelope.

5 Signing Instructions

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

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at www.computershare.com.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 2:30pm on Tuesday 27 September 2005. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged using the reply paid envelope or:

IN PERSON	Registered Office - 11 Grand Ave, Camellia NSW 2142, Australia Share Registry - Computershare Investor Services Pty Limited, Level 2, 60 Carrington Street, Sydney NSW 2000 Australia
BY MAIL	Registered Office - 11 Grand Ave, Camellia NSW 2142, Australia Share Registry - Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 8060 Australia
BY FAX	61 2 8235 8220