

2004 Annual Financial Report

Australian Pharmaceutical Industries Limited

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Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Shareholders of Australian Pharmaceutical Industries Limited ABN 57 000 004 320 will be held on Tuesday, 7 September 2004 at 2.30pm at API's Head Office

11 Grand Avenue
Camellia Sydney NSW

For full details and proxy form see separate document enclosed

Chairman's Report

2003/2004 Operating Performance

I commenced my Chairman's Report last year by saying that 2003 had been a challenging and difficult year, unfortunately these words have to be repeated this year. Despite continued revenue growth the Company announced a decline in profit before tax of 24.1% to \$27.380 million for the year ended 30 April 2004.

At last year's Annual General Meeting I had the unpleasant task of informing shareholders of the Board's decision to voluntarily suspend the Company's TGA licence at the Kingsgrove pharmaceutical manufacturing plant. At the time Directors and Management were confident the facility would return to full manufacturing status within a relatively short period of time. However, the longer than expected return to production during the balance of the financial year resulted in the Australian manufacturing division posting a loss before tax of \$10.446 million which severely affected the Company's 2004 operating result. In addition to this disappointing result, higher redundancy costs due to the restructure of management in API Pharmacy, the inclusion this year of a charge relating to the development of a new information and warehouse management system and an increase in provisions relating to doubtful debts and obsolete stock further reduced the Company's profit performance. The 2004 profit comparison to last year was also affected by the absence this year of a contribution from API Finance which sold its loan book to BankWest in April 2003. Included in last year's result was a profit before tax contribution of \$3.493 million from API Finance.

In January 2004 the Company's Managing Director, Mr David Young left the Company and from that date I have assumed the role of Acting Managing Director as well as Chairman of API. An executive search is continuing to find a suitable replacement for Mr Young. During the period as Acting Managing Director, I have worked closely with the Senior Management team in reviewing all aspects

of API's corporate structure along with strategies aligned with each of the operating divisions. Above all the culture of the Company was re-examined to deal with the complexities of operating in a high volume, low margin industry. Combined with the corporate objective of increasing revenue and market share, Management is now directly focused on controlling costs and to this end results in the first quarter 2005 are encouraging. Management continues to review all major expense items on a monthly basis with relevant KPI's monitored and reported to the Board of Directors at each meeting.

It was obvious from the review undertaken in the Pharmaceutical Wholesaling division that the corporate structure in place could not be sustained. As a result of the review over 40 senior and middle management staff were made redundant. Although redundancy costs of \$2.10 million were incurred as a result of this restructure the on-going saving in salaries and oncosts will amount to \$3.5 million per annum. In addition, a national procurement policy covering the major expense areas such as freight, insurance, telecommunications, packaging, stationery and pallet hire was initiated. On an annualized basis Management expect further savings of approximately \$1.5 million.

As advised last year, API launched Healthcare Logistics in Australia to leverage off the success of our third party logistics business in New Zealand. Just under \$1.0 million was invested in 2004 to investigate the potential in establishing such a business in Australia. The new division Healthcare Logistics was formed to review the market potential for a specialist healthcare logistics provider. Although the review showed there was long term potential in such a project it was difficult on a business case to support the investment, due to the capital costs associated with establishing the infrastructure required to support a national presence in this market. The Healthcare Logistics division was rationalised in

May 2004 and the responsibility for third party logistics work conducted by API in the future will be undertaken within the Pharmaceutical Wholesaling division. Since the relocation to Camellia approximately 40% of the warehouse space has been under utilized and it was expected Healthcare Logistics would assist in earning income from this space to offset higher rental costs. With the work done by Healthcare Logistics up until May and subsequently the Wholesale division this under utilized space will now be fully occupied by third party customers. It is expected that income received for providing third party logistics services from Camellia will more than cover the higher rental costs.

The 2004 operating result included a full year contribution from Halas Dental, PSM Manufacturing and ProPharma, acquired in October 2002. All these businesses performed to expectations, in particular, Halas Dental which had a strong result. ProPharma which operates in the pharmaceutical wholesaling sector in New Zealand faces continued pressure on margins as the New Zealand government endeavours to lower its healthcare costs. Management is continuing to monitor the changes taking place in the marketplace and reviewing its strategies accordingly.

Hospital Supplies of Australia ('HSA') produced a positive 2004 EBIT on a 29.7% lift in sales to \$239 million. Sales growth in the new financial year has continued to be in excess of 20% which has raised capacity issues at the division's Victorian operations. Currently HSA warehousing and distribution is undertaken from the same premises as API's Victorian Pharmaceutical Wholesaling division. With the increase in sales set to continue in HSA a decision has been made to separate the two divisions which will overcome a number of existing inefficiencies.

The relocation of HSA will take place within 12 months. Although HSA will experience higher costs in 2005, as a result of the relocation, it is expected the 2005 EBIT will be in line with last year.

There is no doubt that the loss incurred by the Healthcare Manufacturing Group was the Company's biggest set-back in 2004. In addition to the greater than expected loss due to the voluntary suspension of the TGA licence at the Kingsgrove facility further delays in implementing new validation procedures have continued into the new financial year. Although production has recommenced at Kingsgrove it will not be until late 2004 calendar year that sufficient throughput will be achieved to cover the substantially higher costs in operating the current facility. Until this time the Kingsgrove facility will run at a loss.

As part of the voluntary suspension the TGA made it quite clear that the current facility was not going to meet the new standards set for all pharmaceutical manufacturing plants in Australia. To conform to these new standards and to provide the Company with a facility which will underpin improved performance, a decision was made to build a new manufacturing plant on the existing Kingsgrove site at a cost of \$10 million. The current plant will continue to operate until the new facility is completed in April 2005.

In making the decision to invest in a new manufacturing facility the Board and Management took note of the number of pharmaceutical manufacturing companies which had closed over the past 12 months and determined that only a small number of manufacturing plants will comply with the TGA's standards going forward. The closure of manufacturing plants in Australia will lead to increased demand for locally produced

healthcare products from those plants that are TGA compliant. The Board is confident the manufacturing division will be well placed to capitalize on these market conditions once the new plant is operating. A new Management team has been formed to ensure the opportunities are fully exploited.

In 2003 API reviewed and enhanced its corporate governance program having approved an Audit Committee Charter and a Business Ethics and Independence Statement. During 2004 the Company appointed Deloitte Touche Tomatsu as internal auditors, reporting directly to the Chairman of the Audit Committee. The internal audit function further strengthens the risk management of the Company.

Your Board supports the Principles of Good Corporate Governance and Best Practice Recommendations published by the Australian Stock Exchange's Corporate Governance Council. We have reviewed and updated our practices in light of their recommendations and changes in governance requirements and we have reported our practices in the 2004 Directors' Report.

During 2004 two directors – Peter Wright and Fritz Horlacher – retired from the Board. Both directors were nominees for Interpacific Holding Limited and retired when that company sold its shareholding in April 2004. The Board would like to thank both Peter and Fritz for their significant contribution to API over the period of their directorships. In June 2004 Graeme Herring having reached the age of 70 decided to retire from the Board. I would also like to thank Graeme for his contribution to the Company over the past 20 years.

2004/2005 Outlook

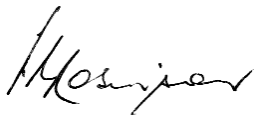
The two major challenges facing the Company in 2005 are the rebuilding of our pharmaceutical manufacturing business in Australia and the implementation of a new information and warehouse management system. As mentioned earlier, the construction of the new manufacturing facility is due for completion in April 2005 and the roll-out of the new IT system will commence in November 2004.

API has had two disappointing years and your Board and present Management are duly focused on returning the Company to more acceptable results. Your Board has continued to support the present dividend payout to shareholders, however, understand the importance of improved earnings per share to underpin the current dividend and any future increase in the dividend payment to shareholders. As a result of the work undertaken in the past 7 months, with the input of the Management team and the Board of Directors, the Company is clearly focused on achieving the 2005 forecast.

The first quarter results have been encouraging with API Group sales totaling \$769.8 million a 7.4% increase compared with the same period last year. The result from the Pharmaceutical Wholesaling division underpinned the result with sales from this division increasing 10.1% against last year, as market share is regained, particularly in NSW. The manufacturing division is operating at a loss as expected whereas at this stage in 2003, that is prior to the voluntary suspension of our TGA licence, the division was producing satisfactory profit results. Halas Dental has started the year slower than expected due to lower sales of dental equipment compared to last year, however, Management expect a better performance in the second quarter due to a number of trade exhibitions scheduled for August 2004.

Chairman's Report CONTINUED

The Directors acknowledge the efforts of the Management team and staff during this period in which significant changes have been made. All staff have worked tirelessly to ensure the Company is better placed to face the ongoing challenges in pharmaceutical retailing, wholesaling and manufacturing in 2005 and beyond.

A handwritten signature in black ink, appearing to read 'P. Robinson', written in a cursive style.

Peter R. Robinson
Chairman and Acting Managing Director

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 2004 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 52	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 Keith Harris & Co Ltd and a director of Apex Healthcare Berhad (Malaysia), New Hope Corporation Limited, SP Telecommunications Limited and NBN Group Limited. Nominee of Washington H Soul Pattinson and Company Limited. Member of the Audit Committee until his appointment as Chairman. Appointed Chairman 8 July 2003. Director since 5 May 2000. Acting Chief Executive Officer since 8 January 2004.
Mr Barry A. Frost , <i>B.Pharm, FPS, FAIPM, Dip.Fin.Plan.</i> Deputy Chairman Independent non-executive director – age 61	Mr Frost is a pharmacist and is a Fellow of the Pharmaceutical Society of Australia and a Fellow of the Australian Institute of Pharmacy Management. Member of the Remuneration and Credit Committees. Appointed Deputy Chairman 1 July 2001. Director since 20 September 1993.
Mr David J. Fairfull , <i>B.Com, C.P.A., A.C.I.S., A.S.I.A</i> Non-executive director – age 62	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 Gazal Corporation Limited, NBN Group Limited, New Hope Corporation Ltd, SP Telecommunications Limited and Stockland Trust Group. Nominee of Washington H Soul Pattinson and Company Limited. Member of the Audit and Credit Committees. Director since 5 May 2000.
Mr Robert D. Millner Non-executive director – age 53	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, NBN Group Limited, Choiseul Investments Limited, SP Telecommunications Limited, New Hope Corporation Limited and Milton Corporation Limited. His other directorships include Pacific Strategic Investments Limited. Nominee of Washington H Soul Pattinson and Company Limited. Member of the Audit Committee. Director since 5 May 2000.

Mr Michael S. Smith, *M.Sc., B.Pharm(Hons)*,
Diploma of Business Administration
Independent non-executive director – age 58

Mr Smith is a pharmacist with over 30 years experience in community pharmacy.
Appointed Chairman of the Audit Committee 1 July 2001.
Director since 25 August 1981.

Mr Frank J. Conroy, *B.Com, MBA*
Independent non-executive director – age 62

Mr Conroy was appointed director 29 October 1999, Deputy Chairman 29 October 1999 and Chairman 1 July 2001.
Mr Conroy's directorships included Chairman of St George Bank Limited, Orix Australia Corporation Limited and a director of Futuris Corporation Limited and Santos Limited.
He is a fellow of the Australian Institute of Banking and Finance, the Australian Institute of Management and the Australian Institute of Company Directors.
Chairman from 1 July 2001 until 8 July 2003.
Resigned 8 July 2003.

Ms Verilyn C. Fitzgerald
Independent non-executive director – age 50

Ms Fitzgerald was appointed director 1 September 1997. She has extensive executive experience in the Information Technology industry in Australia, USA and Asia.
Ms Fitzgerald's directorships included Blackmores Limited, a member of the Information Industries Advisory Board to NSW Department of State and Regional Development and is a member of the Australian Institute of Company Directors.
Member of the Remuneration Committee.
Resigned 8 July 2003.

Mr Graeme L. Herring, *FCA, B.Com, Dip.Ed*
Independent non-executive director – age 69

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.

Mr Fritz Horlacher
Non-executive director – age 54

Mr Horlacher was appointed director 3 October 2002 at the time of the acquisition of Interpacific Holding Limited's New Zealand and Australian healthcare companies.
Mr Horlacher is the Chief Executive of Interpharma's healthcare related marketing, distribution and manufacturing activities in Asia Pacific based in Hong Kong. He holds several directorships within the Interpharma Group.
Nominee of Interpacific Holding Limited.
Resigned 19 April 2004.

Mr A. Peter Wright
Non-executive director – age 55

Mr Wright was appointed director 3 October 2002 at the time of the acquisition of Interpacific Holding Limited's New Zealand and Australian healthcare companies. Mr Wright is Chief Financial Officer of Interpacific Holding Limited.
Nominee of Interpacific Holding Limited.
Resigned 19 April 2004.

Mr David C. Young

Group Managing Director – age 45

Mr Young was appointed Group Managing Director 8 January 2001.

Mr Young has extensive retail experience in senior management roles with Target Australia and Dairy Farm International. In 1998 he was appointed Group Managing Director of Hallensteins Glassons Holdings, a New Zealand listed company.

His last appointment before joining the Company was with the A S Watson Group in Taiwan.

He is a member of the Australian Institute of Company Directors. Resigned 8 January 2004.

In accordance with the Company's Constitution:

- Mr David Fairfull retires by rotation from the Board of Directors and, being eligible, offers himself for re-election;
- Mr Barry Frost retires by rotation from the Board of Directors and, being eligible, offers himself for re-election; and
- Mr Robert Millner retires by rotation from the Board of Directors and, being eligible, offers himself for re-election.

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 are:

Director	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Credit Committee Meetings	
	Number attended	Number held*	Number attended	Number held*	Number attended	Number held*	Number attended	Number held*
Mr P R Robinson**	10	12	1	1	–	–	–	–
Mr B A Frost	11	12	–	–	2	2	3	3
Mr F J Conroy**	4	4	–	–	–	–	–	–
Mr D J Fairfull	12	12	5	7	–	–	3	3
Ms V C Fitzgerald	3	4	–	–	1	1	–	–
Mr G L Herring	10	12	–	–	2	2	–	–
Mr F Horlacher	5	12	–	–	–	–	–	–
Mr R D Millner	11	12	5	7	–	–	–	–
Mr M S Smith	11	12	7	7	–	–	–	–
Mr A P Wright	11	12	–	–	–	–	–	–
Mr D C Young**	9	9	–	–	–	–	–	–

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

** Messrs Robinson, Conroy and Young attended all Audit and Remuneration Committee meetings by invitation during the time they held office as Chairman or Chief Executive Officer respectively, during the year.

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 Chief Executive Officer 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, an Audit Committee and a Credit 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, Chief Executive Officer and Company Secretary. Standing items include the Chief Executive Officer'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 5 and 6 of this 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 Chief Executive Officer).

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 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 a substantial shareholder. Each of these directors, in office at the date of this report, was appointed initially by a resolution of shareholders (prior to the issue of shares to the nominee company) at an Extraordinary General Meeting 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 Chief Executive Officer. 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 is currently reviewing its evaluation processes to establish performance indicators that are both measurable and qualitative and will report the processes for the evaluations to shareholders in the next annual report.

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

Credit Committee

The role of the Credit Committee is to review and decide 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.

The members of the Credit Committee during the year were:

- Mr B A Frost (Chairman) – Independent non-executive
- Mr D J Fairfull – non-executive

The Chief Executive Officer, is invited to Credit Committee meetings, as required, to discuss applications for finance of pharmacy businesses.

The Credit Committee meets as required. The Committee met three times during the year and committee members' attendance records are disclosed in the table of Directors' Meetings.

Remuneration report

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer, 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 G L Herring (Chairman) – Independent non-executive
- Mr B A Frost – Independent non-executive
- Ms V C Fitzgerald – Independent non-executive (resigned 8 July 2003)

The Chief Executive Officer 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.

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.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of the consolidated entity's and each relevant segment's result achieving or exceeding the Board approved budget. There is no separate profit-share plan. 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 13 current executives remain eligible to receive up to an aggregate of 370,000 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.

The Board considers that the above performance-linked remuneration structure will generate the desired outcome.

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. Refer to Note 23 for details on commitments to directors and executives under non-cancellable contracts.

Directors' Report CONTINUED

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:

	Base emolument	Bonuses	Non cash benefits	Superannuation contribution	Options issued	Termination and Retirement Benefits*	Total
	\$	\$	\$	\$	\$	\$	\$
Directors							
<i>Non-executive</i>							
Mr P R Robinson	108,249	–	–	9,742	–	54,950	172,941
Mr F J Conroy	48,704	–	–	4,383	–	116,279	169,366
Mr D J Fairfull	51,999	–	–	4,680	–	22,000	78,679
Ms VC Fitzgerald	35,836	–	–	3,225	–	85,987	125,048
Mr B A Frost	87,000	–	–	7,830	–	9,790	104,620
Mr G L Herring	57,000	–	–	5,130	–	16,200	78,330
Mr F Horlacher	55,000	–	–	–	–	–	55,000
Mr R D Millner	51,999	–	–	4,680	–	22,150	78,829
Mr M S Smith	57,000	–	–	5,130	–	20,000	82,130
Mr A P Wright	55,000	–	–	–	–	–	55,000
<i>Executive</i>							
Mr D C Young	386,272	–	22,179	34,764	–	402,675	845,890
Executive officers (excluding directors)							
The Company							
<i>Current</i>							
Mr K Campbell	165,381	96,409	32,963	9,975	–	–	304,728
Ms K Cleworth	210,834	–	–	16,500	–	–	227,334
Mr C J Gardoll	220,089	–	19,238	55,021	10,400	–	304,748
Mr P Kelly	194,165	40,000	28,447	17,475	5,200	–	285,287
Mr I McDonald	203,353	60,000	9,653	50,838	8,667	–	332,511
<i>Former</i>							
Mr J L Williams	15,624	–	2,014	1,406	–	255,043	274,087
Consolidated							
<i>Current</i>							
Mr G Anderson	208,000	96,600	30,000	30,114	–	–	364,714
Mr K Campbell	165,381	96,409	32,963	9,975	–	–	304,728
Mr C J Gardoll	220,089	–	19,238	55,021	10,400	–	304,748
Mr I McDonald	203,353	60,000	9,653	50,838	8,667	–	332,511
Mr P Merton	295,251	96,409	30,783	–	–	–	422,443

* Directors retirement benefits are included on an accrual basis, except for directors retiring during the year, where the full amount of the retirement payment is included. Directors 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.

All options expire on 3 June 2007 and each option entitles the holder to purchase one ordinary share in the Company. The ability to exercise options is conditional on the consolidated entity achieving certain performance hurdles. The estimated value disclosed above is calculated at the date of grant using a Binomial model. The estimated value of the options has not been included as an expense in the net profit for the year. Further details of options granted are set out below.

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 granted	Number of options exercised during the year	Number of options exercised since year end	Number of options expired	Number of options at the date of this report
28 June 2002 – 27 June 2004	\$1.93	30,000	–	–	30,000	–
30 August 2002 – 29 August 2004	\$2.05	320,000	–	320,000	–	–
4 June 2005 – 3 June 2007	\$3.45	610,000	–	–	280,000	330,000

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.

In addition, the ability to exercise the options with an exercise period commencing on 30 August 2002, 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 must 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 an exercise period commencing 30 August 2002 have achieved the maximum performance hurdle and are exercisable within the exercise period.

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 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.

Since the end of the financial year the Company has issued 320,000 ordinary shares as a result of the exercise of options. The market value of shares on the date these options were exercised was \$2.52.

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 (appointed 8 July 2003) – non-executive

Mr P R Robinson (resigned 8 July 2003) – non-executive

The internal and external auditors, the Chief Executive Officer and Chief Financial Officer, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met seven times during the year and Committee members' attendance records are disclosed in the table of Directors' Meetings. The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the Company's financial reports for the year ended 30 April 2004 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.

Audit Committee (continued)

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. The external auditor provides an annual declaration of independence which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies;
- reviewing the nomination and performance of the external auditor. The external auditors were appointed in 1983. The external audit engagement partner was last rotated in 2001;
- 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;
- finalise half-year and annual reporting to:
 - review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
 - review the draft financial report and recommend Board approval of the financial report; 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 Chief Executive Officer and the Chief Financial Officer 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 commenced from December 2003 and covered 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 quarterly 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 quarterly 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 29 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 also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Financial reporting

The Chief Executive Officer and the Chief Financial Officer 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 IFRS 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 IFRS reporting, beginning with the half-year ending 31 October 2005. One of the project's first tasks is to prepare an opening statement of financial position, under IFRS, as at 1 May 2004 (24 months prior to the first IFRS financial year end), to facilitate first year IFRS comparatives.

The broad IFRS convergence plan is as follows:

- a staff training plan;
- calculation of the estimate of the financial impact of convergence;
- significant changes in accounting policies;
- a management information systems conversion plan;
- calculation of the opening IFRS-based statement of financial position as at 24 months prior to the first full IFRS year end (to facilitate first year IFRS comparatives);
- calculation of an IFRS-based statement of financial performance in the lead-up year to the first full year of IFRS-based reporting, in addition to the non-IFRS financial reporting, (to facilitate first year IFRS comparatives);
- IFRS-only complete financial reporting in the first full year of IFRS financial reporting which commences from 1 May 2005 (for the year ending 30 April 2006); and
- project status reporting to the board.

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 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 who were appointed in December, 2003, 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 31.

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 clients, 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;

Trading in Company securities by directors and employees (cont'd)

- 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 Chief Executive Officer, Chief Financial Officer 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 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; manufacture of pharmaceutical medicines and consumer toiletries; and finance origination and retail services to pharmacists.

The Company's activities during the year:

- were impacted by the voluntary suspension of the Company's TGA licence at the Kingsgrove manufacturing plant in September 2003. The resultant slow return to production due to the delay in implanting new product validation processes has caused the Australian plant to post a loss before tax of \$10.446 million, compared with a profit before tax \$1.529 million last year;
- included for the first time the full results from the acquisition on 1 October 2002 of ProPharma, a pharmaceutical distribution business in New Zealand, Halas Dental, a dental distribution business in Australia and New Zealand and PSM Healthcare, a manufacturer of pharmaceutical medicines and consumer toiletries in New Zealand (the 'Interpacific businesses'); and
- excluded for the first time the full year results from the sale of API Finance Limited, a controlled entity, on 29 April 2003 including the loan and lease book with a net value of \$132.05 million, contributing profit before tax of \$3.493 million in the previous year.

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 of \$18.444 million (2003: \$23.567 million) after income tax relating to ordinary activities amounted to \$8.936 million (2003:\$12.523 million).

The profit from ordinary activities before income tax amounted to \$27.380 million, a decrease of 24% on the 2003 year of \$36.090 million.

The profit before tax for the year was adversely impacted by a number of significant one off costs amounting to \$14.247 million (2003: \$12.251 million). Individually significant one off costs incurred included manufacturing plant production losses \$10.586 million, redundancy costs \$2.100 million and IT systems development salary costs written off \$1.561 million. All individually significant expenses are detailed in Note 4 (a).

The revenue growth achieved by the consolidated entity in the pharmaceutical medical and dental distribution industry and the pharmaceutical manufacturing business of 19% was mainly due to the full year of revenue from the acquisition of the Interpacific businesses on 1 October 2002 and revenue growth of 27% in Hospital Supplies of Australia ('HSA').

The consolidated entity's net assets decreased by 1.6% to \$337.762 million due to the on-market buy-back of shares.

Significant changes in the State of Affairs

The consolidated entity's total assets increased by \$48.758 million to \$821.539 million (2003: \$772.781million) over the year. The increase in total assets principally comprised:

- an increase in the carrying amount of trade debtors of \$42.305 million, due to an increase in sales and days debtors outstanding;
- an increase in inventories of \$19.518 million mainly as a result of the decision to build up inventories to meet customer service standards; and
- The debt to equity ratio (borrowings on shareholders' equity) at 30 April 2004 grew substantially to 21.2%, up from 4.3% at 30 April 2003 which had decreased over the previous year due to the return on funds from the sale of API Finance Limited's loan book.

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

	2004
	\$000's
– 15 July 2003 – options over 40,000 ordinary shares exercised at an exercise price of \$1.91	76
– Shares bought back – the Company completed the on-market buy-back of 3,269,148 shares at prices ranging between \$2.55 to \$2.74	(8,753)
Decrease in fully paid share capital	(8,677)

The entity entered the tax consolidation regime from 1 May 2003.

The consolidated entity acquired property, plant and equipment totaling \$15.653 million during the year. The acquisitions were primarily due to the upgrading of the consolidated entity's information systems. Proceeds on disposal of non-current assets amounted to \$1.576 million. The assets disposed of were plant and equipment used in various business segments. The acquisitions and disposals, with the exception of the investment in information systems, were part of the normal pattern of investing and upgrading required to ensure the consolidated entity's wholesale and manufacturing facilities are keeping pace with facilities management improvements 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 2003 dividend of 6.75 cents per share, franked to 100% at 30% franking credits paid on 1 August 2003 amounting to \$15,308,710;
 - an interim 2004 dividend of 6.25 cents per share, franked to 100% at 30% franking credits paid on 30 January 2004 amounting to \$14,072,300.
- 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 2 August 2004 amounting to \$15,109,642.

Events Subsequent To Reporting Date

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 five operating businesses during the next financial year. Further information as to likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has 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 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 M S Smith	192,498	–

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.

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 28 day of July 2004.

Signed in accordance with a resolution of the directors:



Peter R. Robinson
Director

Statements of Financial Performance

For the year ended 30 April 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$000's	\$000's	\$000's	\$000's
Revenue from sale of goods	3	2,895,585	2,433,559	1,293,697	1,204,747
Revenue from rendering of services	3	46,585	37,984	32,580	30,663
Other revenues from ordinary activities	3	1,890	13,553	26,797	27,000
Total revenue	3	2,944,060	2,485,096	1,353,074	1,262,410
Cost of sales		(2,680,940)	(2,252,297)	(1,207,744)	(1,121,665)
Warehousing and distribution expenses		(101,355)	(82,741)	(48,479)	(43,563)
Marketing and sales expenses		(51,674)	(32,197)	(19,254)	(14,285)
Administrative and general expenses		(77,648)	(73,207)	(46,752)	(52,527)
Borrowing costs		(5,164)	(8,798)	(4,679)	(8,028)
Share of net profit of associate	26	101	234	–	–
Profit from ordinary activities before related income tax expense	4	27,380	36,090	26,166	22,342
Income tax expense relating to ordinary activities	8	(8,936)	(12,523)	(2,779)	(3,206)
Net profit	21	18,444	23,567	23,387	19,136
Decrease in retained earnings on initial adoption of Revised AASB 1028 'Employee Benefits'	21	(296)	–	(139)	–
Net exchange difference relating to self-sustaining foreign operations	20	(202)	815	–	–
Total changes in equity from non-owner related transactions		17,946	24,382	23,248	19,136
Basic earnings per share – ordinary shares	6	8.2¢	11.0¢		
Diluted earnings per share – ordinary shares	6	8.2¢	11.0¢		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 22 to 55.

Statements of Financial Position

As at 30 April 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$000's	\$000's	\$000's	\$000's
Current assets					
Cash assets		7,557	21,581	33	14,919
Receivables	9	389,866	347,556	168,386	144,607
Inventories	10	232,239	212,721	101,721	90,436
Current tax asset		5,185	6,146	4,866	6,122
Other	11	2,117	2,224	1,737	1,386
Total current assets		636,964	590,228	276,743	257,470
Non-current assets					
Receivables	9	–	159	184,958	265,344
Investments accounted for using the equity method	12	667	234	–	–
Other financial assets	13	–	–	68,808	63,291
Property, plant and equipment	14	58,772	53,074	40,503	36,122
Intangible assets	15	117,131	121,612	36,919	37,681
Deferred tax assets		9,071	7,474	7,425	3,497
Total non-current assets		185,641	182,553	338,613	405,935
Total assets		822,605	772,781	615,356	663,405
Current liabilities					
Payables	16	392,473	381,059	193,666	303,486
Interest bearing liabilities	17	71,499	12,683	71,740	572
Current tax liabilities		–	1,876	–	–
Provisions	18	14,441	28,553	5,610	22,201
Total current liabilities		478,413	424,171	271,016	326,259
Non-current liabilities					
Payables	16	–	678	6,472	554
Interest bearing liabilities	17	2,069	2,155	–	–
Deferred tax liabilities		1,041	13	573	13
Provisions	18	2,674	2,578	1,414	1,222
Total non-current liabilities		5,784	5,424	8,459	1,789
Total liabilities		484,197	429,595	279,475	328,048
Net assets		338,408	343,186	335,881	335,357
Equity					
Contributed equity	19	316,668	325,345	316,668	325,345
Reserves	20	1,130	1,332	442	442
Retained profits	21	20,610	16,509	18,771	9,570
Total equity		338,408	343,186	335,881	335,357

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 22 to 55.

Statements of Cash Flows

For the year ended 30 April 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$000's	\$000's	\$000's	\$000's
Cash flows from operating activities					
Cash receipts in the course of operations		3,173,730	2,721,143	1,470,748	1,360,016
Cash payments in the course of operations		(3,175,749)	(2,652,420)	(1,611,871)	(1,328,844)
Dividends and distributions received		–	–	17,542	16,800
Interest received		314	10,210	8,856	9,523
Borrowing costs paid		(5,164)	(8,798)	(4,679)	(8,028)
Income taxes paid		(13,697)	(19,431)	(1,191)	(13,753)
Net cash (used in)/provided by operating activities	32(ii)	(20,566)	50,704	(120,595)	35,714
Cash flows from investing activities					
Payments for property, plant and equipment		(15,260)	(27,251)	(9,169)	(24,012)
Proceeds from sale of property, plant and equipment		1,576	1,695	399	677
Proceeds from sale of controlled entity	25	–	–	–	227
Proceeds from loan and lease book		–	132,050	–	–
Payment for the acquisition of controlled entities or businesses (net of cash acquired)	25	–	(9,778)	–	(11,818)
Payment for intangible asset		(253)	–	–	–
Customer leases/loans granted		–	(91,280)	–	–
Customer leases/loans repaid		–	100,908	–	–
Deposit on securitised loans		–	(10,577)	–	–
Repayments of loans by controlled entities		–	–	81,341	136,683
Net cash (used in)/provided by investing activities		(13,937)	95,767	72,571	101,757
Cash flows from financing activities					
Proceeds from/(repayments of) borrowings		54,414	(106,872)	60,000	(98,000)
Lease payments		(836)	(1,035)	–	–
Dividends paid		(29,353)	(27,494)	(29,353)	(27,494)
(Repayment of)/proceeds from depositors loans		(184)	7	(184)	7
Payments for buy-back of shares		(8,753)	–	(8,753)	–
Proceeds from issue of shares		76	2,012	76	2,012
Net cash provided by/(used in) financing activities		15,364	(133,382)	21,786	(123,475)
Net (decrease)/increase in cash held		(19,143)	13,089	(26,238)	13,996
Cash at the beginning of the financial year		18,893	5,742	14,919	923
Effects of exchange rate fluctuation on the balance of cash held in foreign currencies		176	62	–	–
Cash at the end of the financial year	32(i)	(74)	18,893	(11,319)	14,919

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 22 to 55.

Notes to the Financial Statements

For the year ended 30 April 2004

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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, except where there is a change in accounting policy as set out in Note 2, 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 and commissions earned and is recognised as it accrues.

Interest income and securitisation margin

Interest income and securitisation margin are recognised as they accrue.

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 (see Note 1(f));
- 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 and associates 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.

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. Refer to Note 29.

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, 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.

(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.

Expenditure 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 affect both current and future periods.

(j) Receivables

Trade debtors

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

Trade debtors are to be settled within 60 days and are carried at amounts due.

(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.

1. Statement of significant accounting policies (continued)

(l) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer to Note 1 (q).

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

Finance leases

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as 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. 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. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

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

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 25. The implementation date for the tax-consolidated group is 1 May 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

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.

1. Statement of significant accounting policies (continued)

(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 the recoverable amount, the asset is written down to the lower value. The write-down is expensed in the reporting period in which it occurs.

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 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.

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'.

(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.

1. Statement of significant accounting policies (continued)

(u) Employee entitlements (continued)

Executive share option plan

The Company grants options to certain executives under an executive share option plan. Other than the costs incurred in administering the scheme, which are expensed as incurred, the scheme does not result in any expense to the consolidated entity.

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 23.

(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.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Restructuring and employee termination benefits

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced, or firm contracts related to the restructuring 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.

Surplus leased premises

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less. The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

2. Changes in accounting policies

Employee benefits

The consolidated entity has applied the revised AASB 1028 'Employee Benefits' for the first time from 1 May 2003. The liability for wages and salaries and annual leave is now calculated using the remuneration rates the consolidated entity expects to pay when the obligation is settled, not wage and salary rates current at reporting date.

As a result, the consolidated entity recognised a credit to current provisions of \$425,000 (the Company: \$199,000), a debit to deferred tax assets of \$129,000 (the Company: \$60,000) and a debit to opening retained earnings of \$296,000 (the Company: \$139,000) at 1 May 2003 representing the effect of increased remuneration rates on the annual leave provision. The change in policy has no material financial effect on the current year.

Provisions and contingent liabilities

The consolidated entity has applied AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' for the first time from 1 May 2003. Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of that financial year. As a result, the consolidated entity's provisions do not take into account the dividend of \$15.109 million declared on 1 July 2004.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
3. Revenue from ordinary activities				
Sale of goods revenue from operating activities	2,895,585	2,433,559	1,293,697	1,204,747
Rendering of services revenue from operating activities	46,585	37,984	32,580	30,663
Other revenues:				
<i>From operating activities:</i>				
Dividends – related parties	–	–	13,000	16,800
Distribution from trust	–	–	4,542	–
Interest – related parties	–	–	8,647	9,340
Interest – other parties	314	10,210	209	183
Securitisation margin	–	1,648	–	–
<i>From outside operating activities</i>				
Gross proceeds from sale of non-current assets	1,576	1,695	399	677
Total other revenues	1,890	13,553	26,797	27,000
Total revenue from ordinary activities	2,944,060	2,485,096	1,353,074	1,262,410

4. Profit from ordinary activities before income tax expense

(a) Individually significant expenses included in profit from ordinary activities before income tax expense

Manufacturing plant production losses arising from the voluntary closure	10,586	–	–	–
Redundancy costs	2,100	–	2,100	–
IT development – salary costs	1,561	–	1,561	–
Merger costs written off	–	1,838	–	1,838
Provision for stock obsolescence	–	862	–	305
Provision for warehouse closure and restructure	–	2,141	–	2,141
Provision for PAN product recall	–	2,000	–	2,000
Goodwill write off	–	4,425	–	4,425
Development of loyalty club programme	–	985	–	985
	14,247	12,251	3,661	11,694

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
4. 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	5,164	8,798	4,679	8,028
Depreciation of:				
– Buildings	300	211	81	94
– Plant and equipment	7,424	5,215	4,361	3,512
Amortisation of goodwill	4,894	3,831	762	1,073
Amortisation of leased plant and equipment	308	750	–	–
Deferred expenditure written off	–	1,626	–	1,626
Net bad and doubtful debts expense including movements in provision for doubtful debts	1,732	700	678	350
Operating lease rental expense – minimum lease payments	12,084	8,820	6,562	6,575
Net (gain)/loss on sale of plant and equipment	(70)	401	(53)	435
Gain on sale of controlled entity	–	27	–	27
Net foreign exchange loss	–	76	2,076	–
5. Auditors' Remuneration				
Assurance services				
<i>KPMG Australia</i>				
– Audit and review of financial reports	405,775	350,000	222,255	169,000
– Acquisition due diligence	–	150,155	–	150,155
– Other regulatory audit services	12,763	11,500	–	–
– Other assurance services	13,700	1,000	13,700	1,000
	432,238	512,655	235,955	320,155
<i>Overseas KPMG firms</i>				
– Audit and review of financial reports	122,336	100,000	–	–
Other services				
<i>KPMG Australia</i>				
– Taxation services	169,617	124,530	152,687	106,030
<i>KPMG related practices</i>				
– Merger and other corporate advisory	–	281,445	–	281,445
	724,191	1,018,630	388,642	707,630

	Consolidated	
	2004	2003
	\$000's	\$000's

6. Earnings per share**Earnings reconciliation**

Net profit, basic and diluted earnings	18,444	23,567
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Weighted average number of shares

	No.	No.
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Weighted average number of ordinary shares used in the calculation of basic earnings per share	225,357,001	214,021,975
Effect of share options on issue	320,000	121,556

Weighted average number of ordinary shares used in the calculation of diluted earnings per share	225,677,001	214,143,531
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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 23.

7. Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount \$'000	Date of payment	Percentage franked
2004				
Interim 2004 ordinary	6.25	14,047	30 January 2004	100%
Final 2003 ordinary dividend recognised when declared during the year – refer to Note 2	6.75	15,306	1 August 2003	100%
		29,353		
2003				
Final 2002 under provided – ordinary	6.75	56	2 August 2002	100%
Interim 2003 – ordinary	6.25	14,169	30 January 2003	100%
Final 2003 – ordinary	6.75	15,306	1 August 2003	100%
		29,531		

Subsequent to reporting date

Since 30 April 2004 the directors have declared a final ordinary dividend of 6.75 cents per share (fully franked) to be paid on 2 August 2004. The total of this dividend is \$15,109,642. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 April 2004.

	The Company	
	2004	2003
	\$000's	\$000's

7. Dividends (continued)**Dividend franking account**

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

	15,516	4,334
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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 tax 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.

Tax consolidation legislation

On 1 May 2003, Australian Pharmaceutical Industries Limited and its wholly owned Australian subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 April 2004 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the 'franking credits available' balance at 30 April 2003 would have been \$14,698,000.

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$000's	\$000's	\$000's	\$000's
8. Taxation					
Income tax expense					
Prima facie income tax expense calculated at 30% (2003: 30%) on the profit from ordinary activities		8,214	10,827	7,850	6,703
Increase in income tax expense due to:					
Amortisation of goodwill		1,468	2,477	229	1,649
Imputation gross up		–	–	–	2,160
Effect of higher rate of tax on overseas income		292	98	–	–
Payment for income tax benefit under a tax funding agreement		–	–	2,164	–
Sundry items		141	–	24	112
Decrease in income tax expense due to:					
Interest deduction		(989)	–	–	–
Rebate on dividend income		–	–	–	(7,200)
Non assessable dividend and distribution income		–	–	(5,263)	–
Income tax benefit related to the current and deferred tax transactions of the wholly owned subsidiaries in the tax consolidated group		–	–	(2,164)	–
Sundry items		–	(192)	–	–
Income tax expense on profit from ordinary activities		9,126	13,210	2,840	3,424
Income tax under/(over) provided in prior year		(190)	(687)	(61)	(218)
Income tax expense attributable to profit from ordinary activities		8,936	12,523	2,779	3,206

9. Receivables
Current

Trade debtors	392,027	347,321	168,792	143,857
Less: Provision for doubtful trade debtors	(4,656)	(2,924)	(2,010)	(1,332)
	387,371	344,397	166,782	142,525
Other debtors	2,495	3,159	1,604	2,082
	389,866	347,556	168,386	144,607

Non-current

Loans to controlled entities	–	159	–	–
Other debtors	–	159	184,958	265,344

Notes to the Financial Statements CONTINUED

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$000's	\$000's	\$000's	\$000's
10. Inventories					
Raw materials – at cost		7,679	5,409	–	–
Work in progress – at cost		450	677	–	–
Finished goods – at cost		228,953	208,634	103,770	90,992
Less: Provision for obsolescence		(4,843)	(1,999)	(2,049)	(556)
		224,110	206,635	101,721	90,436
		232,239	212,721	101,721	90,436
11. Other current assets					
Prepayments		2,117	2,224	1,737	1,386
12. Investments accounted for using the equity method					
Associates	26	667	234	–	–
13. Other financial assets					
Non-current					
Controlled entities:					
– Unlisted shares and units at cost		–	–	68,808	63,291

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$000's	\$000's	\$000's	\$000's
14. Property, plant and equipment					
Freehold land – at cost		6,052	5,615	4,771	4,771
Buildings – at cost		9,148	8,961	3,735	3,735
Less: accumulated depreciation		(854)	(1,925)	(554)	(473)
		8,294	7,036	3,181	3,262
Plant and equipment – at cost		81,042	78,618	41,311	40,304
Less: accumulated depreciation		(46,081)	(39,997)	(16,364)	(12,447)
		34,961	38,621	24,947	27,857
Leased plant and equipment – at capitalised cost		2,417	3,162	–	–
Less: accumulated amortisation		(1,465)	(1,954)	–	–
		952	1,208	–	–
Capital works in progress – at cost		8,513	594	7,604	232
		58,772	53,074	40,503	36,122

Capital works in progress

Capital works in progress includes \$7,604,000 of costs incurred in respect of the development of an enterprise wide information system.

Valuation of land and buildings

Directors and independent valuations were carried out as at 30 April 2002 and were on the basis of the open market value of the properties concerned in their existing use. The valuations determined a value of \$9,025,000 which compares to a carrying value at 30 April 2002 of \$8,139,000. As land and buildings are recorded at cost, the valuation has not been brought to account.

	Consolidated	The Company
	2004	2004
	\$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	5,615	4,771
Additions	482	–
Net foreign currency translation difference	(45)	–
Carrying amount at the end of the year	6,052	4,771

Buildings

Carrying amount at the beginning of year	7,036	3,262
Additions	1,737	–
Depreciation	(300)	(81)
Net foreign currency translation differences	(179)	–
Carrying amount at the end of the year	8,294	3,181

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

14. Property, plant and equipment (continued)**Reconciliations (continued)***Plant and equipment*

Carrying amount at the beginning of year	38,621	27,857
Additions	3,799	1,797
Transfer from capital works in progress	1,302	–
Disposals	(1,165)	(346)
Depreciation	(7,424)	(4,361)
Net foreign currency translation differences	(172)	–
Carrying amount at the end of the year	34,961	24,947

Leased plant and equipment

Carrying amount at the beginning of year	1,208	–
Additions	393	–
Disposals	(341)	–
Amortisation	(308)	–
Carrying amount at the end of the year	952	–

Capital works in progress

Carrying amount at the beginning of year	594	232
Additions	9,242	7,372
Transfer to plant and equipment	(1,302)	–
Net foreign currency translation difference	(21)	–
Carrying amount at the end of the year	8,513	7,604

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

15. Intangible assets

Brand names – at cost	37,500	37,500	23,881	23,881
Goodwill – at cost	100,985	100,572	20,755	20,755
Less: Accumulated amortisation	(21,354)	(16,460)	(7,717)	(6,955)
	79,631	84,112	13,038	13,800
	117,131	121,612	36,919	37,681

An independent valuation of the Soul Pattinson brands, 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.

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
16. Payables				
Current				
Trade creditors	369,018	356,418	188,431	289,362
Other creditors and accruals	23,455	24,641	5,235	14,124
	392,473	381,059	193,666	303,486
Non-current				
Other creditors and accruals	–	678	–	554
Amounts owing to controlled entities	–	–	6,472	–
	–	678	6,472	554
17. Interest bearing liabilities				
Current				
Bank overdrafts – unsecured	7,631	2,688	11,352	–
Bank bills – unsecured	63,000	8,500	60,000	–
Customer deposits – unsecured	388	572	388	572
Lease liabilities	480	923	–	–
	71,499	12,683	71,740	572
Non-current				
Bank term loan – secured	2,069	2,155	–	–
Financing arrangements				
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank overdraft	26,344	26,567	20,000	20,000
Bank term loan	2,069	2,694	–	–
Bill acceptance facility	142,826	164,000	120,000	155,000
Standby letters of credit	100	100	100	100
	171,339	193,361	140,100	175,100
Facilities utilised at balance date:				
Bank overdraft	7,631	2,688	11,352	–
Bank term loan	2,069	2,155	–	–
Bill acceptance facility	63,000	8,500	60,000	–
Standby letters of credit	–	–	–	–
	72,700	13,343	71,352	–
Facilities not utilised at balance date:				
Bank overdraft	18,713	23,879	8,648	20,000
Bank term loan	–	539	–	–
Bill acceptance facility	79,826	155,500	60,000	155,000
Standby letters of credit	100	100	100	100
	98,639	180,018	68,748	175,100

17. Interest bearing liabilities (cont'd)
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 \$63,000,000 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	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

18. Provisions
Current

Dividends	–	15,306	–	15,306
Employee entitlements	13,993	10,587	5,610	4,895
Other	448	2,660	–	2,000
	14,441	28,553	5,610	22,201

Non-current

Employee entitlements	1,877	1,703	617	347
Directors' retirement scheme	797	875	797	875
	2,674	2,578	1,414	1,222

Reconciliations

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

Dividends

Carrying amount at beginning of year	15,306	15,306
Adjustment on adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'	(15,306)	(15,306)
Provisions made during the year	29,353	29,353
Payments made during the year	(29,353)	(29,353)
	–	–

Other

Carrying amount at beginning of year	2,660	2,000
Payments made during the year	(2,212)	(2,000)
	448	–

Number of employees

The number of employees at year end was 1,987 (2003: 1,978).

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
19. Contributed equity				
<i>Issued and paid-up capital</i>				
223,526,455 (2003: 226,755,603) ordinary shares, fully paid	316,668	325,345	316,668	325,345
<i>Movements in ordinary share capital</i>				
Balance at the beginning of the financial year	325,345	243,412	325,345	243,412
Shares issued				
– 29,274,949 shares issued as consideration for the Interpacific businesses (i)	–	79,921	–	79,921
– 40,000 (2003: 901,000) ordinary share options were exercised at an exercise price of \$1.90 (2002: from \$1.92 to \$2.44) under the Executive Share Option Plan	76	2,012	76	2,012
– 3,269,148 shares were bought back at prices ranging between \$2.55 and \$2.74 (ii)	(8,753)	–	(8,753)	–
	316,668	325,345	316,668	325,345

(i) On 1 October 2002, 29,274,949 shares were issued at \$2.73 each as consideration for the acquisition of Zuellig Pharma (New Zealand) Limited, a pharmaceutical distribution business in New Zealand, Stevens KMS Equities (New Zealand) Limited, a dental distribution business in Australia and New Zealand and PSM Healthcare (New Zealand) Limited, a manufacturer of pharmaceutical medicines and consumer toiletries in New Zealand.

(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	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

20. Reserves

Capital profits	75	75	–	–
Asset revaluation	442	442	442	442
Foreign currency translation	613	815	–	–
	1,130	1,332	442	442

Movements during the year

Foreign currency translation reserve				
Balance at beginning of year	815	–	–	–
Net gain on translation of assets and liabilities of overseas controlled entities	1,305	815	–	–
Net loss on translation of Company loans to overseas controlled entities, net of income tax expense	(1,507)	–	–	–
Balance at end of year	613	815	–	–

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 reserves 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	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

21. Retained profits

Retained profits at beginning of year	16,509	22,473	9,570	19,965
Net profit attributable to members	18,444	23,567	23,387	19,136
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	(29,353)	(29,531)	(29,353)	(29,531)
Retained profits at end of year	20,610	16,509	18,771	9,570

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

22. Contingent liabilities

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are not aware of any circumstances or information which would lead them to believe that these liabilities will crystallise. The guarantee at balance date relating to trading accounts paid by pharmacy customers have subsequently been paid to third parties with no liability to the Company. Consequently no provisions are included in the financial statements in respect of these matters.

Guarantee of bank facilities to controlled entities	–	–	20,000	20,000
Guarantee of bank accounts of pharmacy customers	87,347	92,427	84,179	90,340
Guarantee of trading accounts of pharmacy customers	66,048	48,802	66,048	60,186

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.

23. 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. 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 2004.

The ability to exercise the options with exercise periods commencing 30 August 2002 or prior, is 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 must 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 an exercise period commencing prior to and including 30 August 2002 have achieved the maximum performance hurdle and are exercisable within the exercise period.

The options issued during the year ended 30 April 2003 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 using the EPS compound growth over the most recent three year period.

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 \$2.56.

23. 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 \$76,400 (2003: \$2,012,000).

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 issued	Total options exercised and shares issued		Forfeited Options		Unissued shares and options available	
				2004	2003	2004	2003	2004	2003
2 November 1998	1 November 2003	\$1.91	40,000	40,000	–	–	–	–	40,000
28 June 1999	27 June 2004	\$1.93	30,000	–	–	–	–	30,000	30,000
30 August 1999	29 August 2004	\$2.05	320,000	–	–	–	–	320,000	320,000
4 June 2002	3 June 2007	\$3.45	670,000	–	–	300,000	–	370,000	670,000
			1,060,000	40,000	–	300,000	–	720,000	1,060,000

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 2004, no shares were issued pursuant to the Employee Share Plan. (2003: 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.

23. Employee entitlements (continued)
Superannuation funds

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 2004	10,540	12,080	(1,540)	10,171
2003	11,796	12,080	(284)	11,008

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 2003. 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 2004 indicated that estimated net assets of the fund were \$107,000 in excess of accrued benefits at that date. The directors are not aware of any changes in circumstances since 30 April 2004 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	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Employer contributions to the fund	2,154	2,141	1,685	1,576
Employer contributions payable to the fund at balance date	-	1	-	1

24. Commitments
Non-cancellable operating lease commitments

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

Within one year	13,533	12,154	7,911	6,658
One year or later but no later than five years	29,781	29,920	21,485	17,778
Later than five years	25,375	26,731	22,525	23,868
	68,689	68,805	51,921	48,304

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	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

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

Finance lease commitments are payable:

Within one year	515	1,100	–	–
	515	1,100	–	–
Less future finance charges	(35)	(177)	–	–
	480	923	–	–
Lease liabilities provided for in the financial statements:				
Current	480	923	–	–

The consolidated entity leases plant and equipment under finance leases expiring within one year. 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.

25. Controlled entities
Particulars in relation to controlled entities

	Consolidated entity interest	
	2004	2003
	%	%
Thrift Chemist Merchandising Pty Limited	100	100
Healthcare Logistics Pty Limited	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	–
Pharmacists of Australia Medicines Pty Limited	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
Stevens KMS Equities Limited	(i) 100	100
Zuellig Australia Pty Limited	100	100
Stevens Australia Pty Limited	100	100
Halas Dental Limited	100	100
Shalfoon Bros Limited	(i) 100	100
Dental Forum Australia Pty Limited	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

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

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

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's

25. Controlled entities (continued)**Acquisition of controlled entities**

During the previous year the consolidated entity purchased 100% of the voting shares of Zuellig Pharma Ltd, PSM Healthcare Ltd and Halas Dental Ltd. Details of this acquisition are as follows:

Consideration (shares issued in the Company)	–	79,921	–	79,921
Consideration (cash)	–	11,818	–	11,818
Cash acquired	–	(2,040)	–	(2,040)
Net consideration	–	89,699	–	89,699

Fair value of net assets of entities acquired:

Cash	–	2,040	–	–
Property, plant and equipment	–	11,653	–	–
Goodwill	–	1,484	–	–
Future income tax benefit	–	699	–	–
Inventories	–	59,436	–	–
Receivables	–	71,058	–	–
Bank loans	–	(21,492)	–	–
Payables	–	(88,667)	–	–
Current tax asset	–	475	–	–
Employee entitlements	–	(3,090)	–	–
		33,596	–	–
Goodwill on acquisition	–	58,143	–	–
	–	91,739	–	–

Zuellig Pharma Ltd, PSM Healthcare Ltd and Halas Dental Ltd were acquired on 1 October 2002 and the operating results from that date have been included in the consolidated operating profit. The market price of the Company's shares at 1 October 2002 was \$2.99 while the issue price on acquisition was \$2.73, a 8.7% discount. The discount was applied having regard to independent advice taking into account the size of the share issue.

Disposal of entity

During the previous financial year, the consolidated entity disposed of all the ordinary shares of API Finance Limited. Details of the disposal are as follows:

	Consolidated		The Company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Consideration (cash)	–	227	–	227
Carrying amount on disposal	–	(200)	–	(200)
Profit on disposal	–	27	–	27

	Interest Consolidated		Investment carrying amount Consolidated	
	2004	2003	2004	2003
	%	%	\$000's	\$000's

26. Investments accounted for using the equity method

Pharmacybrands Limited	50	50	667	234
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(The principal activity of the company is owner and operator of pharmacy banner groups in New Zealand)

	Consolidated	
	2004	2003
	\$000's	\$000's

Results of associates

Profit on initial recognition of equity accounted investment	–	158
Share of associates profit from ordinary activities before income tax	150	122
Share of associates income tax expense relating to profit from ordinary activities	(49)	(46)
	101	234

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

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

Movement in carrying amount of investments

Carrying amount of investments in associates at the beginning of the financial year	234	–
Profit on initial recognition of equity accounted investment	–	158
Additional investment in associate	66	–
Acquisition fair value adjustment	290	–
Share of associates net profit	101	76
Net foreign currency translation difference	(24)	–
Carrying amount of investments in associates at the end of the financial year	667	234

Share of associates operating lease commitments payable:

Within one year	346	342
One year or later and no later than five years	250	243
	596	585

	The Company	
	2004	2003
	No.	No.

27. Directors' remuneration

The number of directors of the Company, whose income from the Company or any related party falls within the following bands is:

\$20,000 – \$29,999	–	2
\$50,000 – \$59,999	2	–
\$70,000 – \$79,999	3	1
\$80,000 – \$89,999	1	5
\$100,000 – \$109,999	1	–
\$120,000 – \$129,999	1	–
\$150,000 – \$159,999	–	1
\$160,000 – \$169,999	1	–
\$170,000 – \$179,999	1	–
\$200,000 – \$209,999	–	1
\$680,000 – \$689,999	–	1
\$840,000 – \$849,999	1	–

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$

Total income paid or payable to all directors of the Company and controlled entities from the Company or any related party

1,845,833	1,574,907	1,845,833	1,574,907
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28. Executives' remuneration

The number of Australian based executive officers of the Company and the consolidated entity whose remuneration from entities in the consolidated entity, or related parties falls within the following bands:

	Consolidated		The Company	
	2004	2003	2004	2003
	No.	No.	No.	No.
\$100,000 – \$109,999	1	1	1	1
\$150,000 – \$159,999	1	–	1	–
\$160,000 – \$169,999	2	–	2	–
\$170,000 – \$179,999	4	1	4	1
\$180,000 – \$189,999	2	2	2	2
\$190,000 – \$199,999	1	1	1	1
\$200,000 – \$209,999	1	1	1	1
\$210,000 – \$219,999	1	–	1	–
\$220,000 – \$229,999	3	1	3	1
\$240,000 – \$249,999	–	1	–	1
\$270,000 – \$279,999	1	–	1	–
\$280,000 – \$289,999	1	–	1	–
\$290,000 – \$299,999	1	2	1	2
\$300,000 – \$309,999	1	–	1	–
\$320,000 – \$329,999	1	–	1	–
\$360,000 – \$369,999	1	–	1	–
\$370,000 – \$379,999	–	1	–	1
\$520,000 – \$529,999	–	1	–	1
\$680,000 – \$689,999	–	1	–	1
\$770,000 – \$779,999	–	1	–	1
\$840,000 – \$849,999	1	–	1	–

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$

Total income received, or due and receivable, from entities in the consolidated entity, or related parties by executive officers of the Company and the consolidated entity whose income is \$100,000 or more

5,630,899	4,418,567	5,630,899	4,418,567
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Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

29. 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:

		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
	Note		\$000's	\$000's	\$000's	\$000's	\$000's
2004							
<i>Financial Assets</i>							
Receivables	9		–	–	–	389,866	389,866
Cash		4.75%	7,557	–	–	–	7,557
			7,557	–	–	389,866	397,423
<i>Financial Liabilities</i>							
Payables	16		–	–	–	392,473	392,473
Bank overdraft	17	8.95%	7,631	–	–	–	7,631
Bank term loans	17	5.20%	2,069	–	–	–	2,069
Bank bills	17	5.92%	63,000	–	–	–	63,000
Customer deposits	17	3.30%	388	–	–	–	388
Lease liability	17	8.15%	–	480	–	–	480
Employee and directors' entitlements	18	5.92%	16,667	–	–	–	16,667
			89,755	480	–	392,473	482,708
2003							
<i>Financial Assets</i>							
Receivables	9		–	–	–	347,556	347,556
Cash		4.50%	21,581	–	–	–	21,581
			21,581	–	–	347,556	369,137
<i>Financial Liabilities</i>							
Payables	16		–	–	–	381,059	381,059
Bank overdraft	17	6.96%	2,688	–	–	–	2,688
Bank term loans	17	7.18%	2,155	–	–	–	2,155
Bank bills	17	5.62%	8,500	–	–	–	8,500
Customer deposits	17	3.30%	572	–	–	–	572
Lease liability	17	7.83%	–	923	–	–	923
Employee and directors' entitlements	18	5.20%	13,165	–	–	–	13,165
Dividend payable	18		–	–	–	15,306	15,306
			27,080	923	–	396,365	424,368

29. 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 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.

	Consolidated		Consolidated	
	2004	2004	2003	2003
	Weighted Average Rate	\$000's	Weighted Average Rate	\$000's
<i>Buy Euro dollars</i>				
Not later than one year	0.60	4,726	0.55	2,597
<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	78.61	116	–	–
<i>Buy US dollars</i>				
Not later than one year	0.72	1,337	0.61	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 gains/(losses)	
	2004	2003
	\$000's	\$000's
Not later than one year	(64)	(21)

Notes to the Financial Statements CONTINUED

30. Segment Reporting

	DISTRIBUTION									
	PHARMACY				DENTAL				HOSPITAL	
	AUSTRALIA		NEW ZEALAND		AUSTRALIA		NEW ZEALAND		AUSTRALIA	
	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's
Primary reporting – Business segments										
Revenue										
External segment revenue	1,981,979	1,877,642	568,797	308,019	97,509	50,783	16,218	9,118	239,495	189,056
Internal segment revenue	6,295		1,230	3,108						
Total segment revenue	1,988,274	1,877,642	570,027	311,127	97,509	50,783	16,218	9,118	239,495	189,056
Unallocated revenue										
Total revenue										
Result										
Segment result	29,285	35,733	2,150	1,323	2,694	(569)	1,821	1,156	699	(6,216)
Share of net profit result of equity accounted investments			101	234						
Unallocated corporate expense										
Profit from ordinary activities before income tax										
Income tax expense										
Net profit										
Depreciation and amortisation	6,287	6,057	2,330	1,263	1,776	1,117	39	18	405	481
Non-cash expenses other than amortisation and depreciation	3,737	5,366	6	(192)	204	(53)	(5)	(14)	325	(361)
Individually significant items										
Merger costs written off (unallocated)										
Provision for stock obsolescence		862								
Provision for warehouse closure and restructure		2,141								
Provision for PAN product recall		2,000								
Goodwill write off		425								4,000
Development of loyalty club programme		985								
Manufacturing plant production losses										
Redundancy costs	2,100									
IT Development – salary costs	1,561									
Assets										
Segment assets	503,960	457,300	120,406	121,786	56,122	57,187	6,694	5,800	66,932	55,283
Equity accounted investments										
Unallocated corporate assets										
Consolidated total assets										
Liabilities										
Segment liabilities	286,176	237,603	80,150	81,656	22,007	25,768	6,694	5,800	62,603	52,972
Unallocated corporate liabilities										
Consolidated total liabilities										
Acquisition of non-current assets										
	9,623	24,404	2,188		886	1,371			151	2

	AUSTRALIA		NEW ZEALAND		CONSOLIDATED	
	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's
Secondary reporting – Geographical segments						
External segment revenue by location of customers	2,334,867	2,147,889	609,193	337,207	2,944,060	2,485,096
Segment assets by location of assets	671,404	614,776	151,201	158,005	822,605	772,781
Acquisition of non-current assets	11,782	25,992	3,478	1,259	15,260	27,251

Notes to the Financial Statements CONTINUED

FINANCING		MANUFACTURING				ELIMINATIONS		CONSOLIDATED	
AUSTRALIA		AUSTRALIA		NEW ZEALAND					
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
1,009	12,435	10,075	17,774	28,978	20,269	–	–	2,944,060	2,485,096
		6,116	10,917	5,738	500	(19,379)	(14,525)	–	–
1,009	12,435	16,191	28,691	34,716	20,769	(19,379)	(14,525)	2,944,060	2,485,096
								–	–
								2,944,060	2,485,096
(75)	3,493	(10,446)	1,529	1,275	1,553			27,403	38,002
								101	234
								(124)	(2,146)
								27,380	36,090
								(8,936)	(12,523)
								18,444	23,567
		791	655	1,254	416			12,882	10,007
	(275)	1,245	284	172	(76)			5,684	4,679
								–	1,838
								–	862
								–	2,141
								–	2,000
								–	4,425
								–	985
		10,586						10,586	–
								2,100	–
								1,561	–
								14,247	12,251
95		37,600	44,575	30,129	30,616			821,938	772,547
								667	234
								–	–
								822,605	772,781
148		16,216	15,761	8,986	9,160			482,980	428,720
								797	875
								483,777	429,595
		1,122	215	1,290	1,259			15,260	27,251

Business Segments

The consolidated entity comprises the following main business segments:

Wholesale distribution:

Pharmacy Australia – Distribution of pharmaceutical and medical products to pharmacy, and retail services
New Zealand – Distribution of pharmaceutical and medical products to pharmacy, and retail services

Dental Australia – Distribution of dental and allied products to dental practices
New Zealand - Distribution of dental and allied products to dental practices

Hospital Australia – Distribution of medical and pharmaceutical products to hospitals and doctors

Financing:

Australia – As an originator of loan and lease finance to pharmacy customers. Last year, to 29 April 2003, provision of loan and lease financing to pharmacy customers.

Manufacturing:

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

31. Related parties

Directors

The names of each person holding the position of director of Australian Pharmaceutical Industries Limited during the financial year are P R Robinson, B A Frost, F J Conroy, D J Fairfull, V C Fitzgerald, G L Herring, F Horlacher, R D Millner, M S Smith, A P Wright and D C Young.

F J Conroy and V C Fitzgerald resigned as directors on 8 July 2003. F Horlacher and A P Wright resigned as directors on 19 April 2004. G L Herring retired as a director on 8 June 2004.

Details of directors' remuneration and retirement benefits are set out in the Directors' Report.

Directors' holdings of shares

The relevant interests of directors of the Company and their director related entities in shares and share options of entities within the consolidated entity at year end are set out below.

	Consolidated	
	2004	2003
	Number held	Number held
Australian Pharmaceutical Industries Limited		
Ordinary shares	769,949	779,949
Options over ordinary shares	–	200,000

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 51,640,340 shares (2003: 51,095,592 shares) in the Company at year end.

Messrs F Horlacher and A P Wright are directors of Interpacific Group companies. Interpacific Group companies sold 29,274,949 shares (2003: 29,274,949 shares held) in the Company on 19 April 2004 and Messrs Horlacher and Wright resigned on that date.

Mr D C Young was granted 200,000 options on 3 June 2002 on the same terms and conditions as those granted to other executives. The options granted to Mr Young were forfeited at his resignation on 8 January 2004. No options were granted to or exercised by directors during the year.

Other 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 Finance 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.

Wholly-owned group

Details of interests in wholly-owned controlled entities are set out in Note 25. 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 3.

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.

31. Related parties (cont'd)

Balances with entities within the wholly-owned group

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

	Consolidated	
	2004	2003
	\$000's	\$000's
Receivables		
Non-current	184,958	265,344
Payables		
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 3.

32. 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	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Cash	7,557	21,581	33	14,919
Bank overdraft	(7,631)	(2,688)	(11,352)	–
	(74)	18,893	(11,319)	14,919

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

Profit from ordinary activities after income tax	18,444	23,567	23,387	19,136
Add/(less) items classified as investing activities:				
(Profit)/loss on sale of non-current assets	(70)	401	(53)	420
Add/(less) non-cash items:				
Amortisation	5,202	3,831	762	1,073
Amount set aside to provisions	5,684	4,679	939	499
Depreciation	7,724	6,176	4,442	3,620
Goodwill write off	–	4,425	–	4,425
Share of associates net profit	(101)	(234)	–	–
Net cash provided by operating activities before change in assets and liabilities:	36,883	42,845	29,477	29,173
(Increase)/decrease in inventories	(24,136)	(7,677)	(12,778)	(114)
(Increase)/decrease in trade and other debtors	(46,414)	876	(24,457)	3,953
(Increase)/decrease in prepayments	107	(787)	(351)	(242)
(Increase)/decrease in deferred expenditure	–	1,626	–	1,626
(Increase)/decrease in current tax assets	960	(5,671)	1,256	(3,023)
(Increase)/decrease in deferred tax assets	(998)	(2,410)	(3,928)	(966)
Increase/(decrease) in trade and other creditors	13,874	20,798	(110,374)	5,511
Increase/(decrease) in income taxes payable	(1,870)	1,309	–	–
Increase/(decrease) in deferred tax payable	1,028	(205)	560	(204)
Net cash provided by operating activities	(20,566)	50,704	(120,595)	35,714

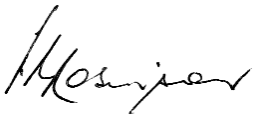
Directors' Declaration

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

- (a) the financial statements and notes, set out on pages 19 to 55, 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 2004 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.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 28 day of July 2004.



Peter R. Robinson
Director

Independent Audit Report

for the members of Australian Pharmaceutical Industries

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements (1 to 32), 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 2004. 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.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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 2004 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

Greg Boydell
Partner

Sydney
28 July 2004

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 2004

Substantial shareholders

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

Washington H Soul Pattinson and Company Limited	51,640,340 ordinary shares
RBC Global Services Australia Nominees Pty Limited	13,634,138 ordinary shares
Westpac Custodian Nominees Limited	12,563,790 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

The Company announced an on-market share buy-back commencing on 25 August 2003 for a 12 month period. The share buy-back is up to 10% of the Company's issued capital, a maximum of 19.7 million shares. The Company reserves the right to terminate the buy-back at any time.

Distribution of shareholders as at 30 June 2004

Category	Number of shareholders Ordinary Shares
1 – 1,000	1,809
1,001 – 5,000	3,085
5,001 – 10,000	1,068
10,001 – 100,000	1,485
100,001 and over	294
	<hr/> 7,741

The number of shareholders holding less than a marketable parcel at 30 June 2004 was 172 (2003:167).

Twenty largest shareholders as at 30 June 2004*

Name	Number of Ordinary shares held	Percentage of Capital held
Washington H Soul Pattinson & Company Limited	51,640,340	23.11
RBC Global Services Australia Nominees Pty Limited	13,634,138	6.10
Westpac Custodian Nominees Limited	12,563,790	5.62
Berne No 132 Nominees Pty Ltd	9,000,000	4.03
J P Morgan Nominees Australia Limited	4,451,661	1.99
National Nominees Limited	2,392,228	1.07
Citicorp Nominees Pty Limited	1,642,232	0.73
Permanent Trustee Australia Limited	1,543,593	0.69
Sandhurst Trustees Ltd	1,150,000	0.51
ANZ Nominees Limited	1,120,325	0.50
Equity Trustees Limited <SGH PI Smaller Co's Fund>	1,000,000	0.45
Mr Michael Kelaher	613,743	0.27
Bond Street Custodians Limited	602,947	0.27
Milton Corporation Limited	597,747	0.27
Mr John Edmund Mueller	576,315	0.26
P A & G M Doyle Pty Ltd	552,503	0.25
Mr Edward Henry Pickard	541,514	0.24
Feller Investments Pty Ltd	538,922	0.24
Equity Trustees Limited <JM Asset Management AVC>	537,888	0.24
Mr Alan Robert Lindsay Gordon	533,003	0.24
	105,232,889	47.08

* 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 2003/2004 year will be paid by API on 2 August 2004. 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

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

Financial Calendar*

Annual General Meeting	7 September 2004
Half year end	31 October 2004
Half year profit announcement	8 December 2004
Ex dividend share trading commences	13 January 2005
Record date for interim dividend	17 January 2005
Interim dividend payable	31 January 2005
Year end	30 April 2005
Full year profit announcement	30 June 2005
Ex dividend share trading commences	13 July 2005
Record date for final dividend	19 July 2005
Final dividend payable	1 August 2005

* 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

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.

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2004 Annual Financial Report



Healthcare Services

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320