

## CHAIRMAN'S ADDRESS

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THE FINANCIAL YEAR HAS BEEN CHALLENGING FOR BOTH YOUR BOARD OF DIRECTORS AND THE COMPANY'S MANAGEMENT. DURING THE YEAR THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION REJECTED THE PROPOSED MERGER BETWEEN API AND SIGMA, THE INTERGRATION OF HOSPITAL SUPPLIES OF AUSTRALIA CONTINUED TO PROGRESS MORE SLOWLY THAN ANTICIPATED, REVENUE GROWTH FROM OUR AUSTRALIAN WHOLESALING OPERATIONS SLOWED DUE TO CONSTRAINTS ON THE PHARMACEUTICAL BENEFITS SCHEME AND THE COMMISSIONING OF THE NEW DISTRIBUTION FACILITY AT CAMELLIA TOOK LONGER THAN EXPECTED AND ADDED SIGNIFICANTLY TO OPERATING EXPENSES IN THE LAST QUARTER OF THE FINANCIAL YEAR.

AT LAST YEAR'S MEETING WE ANNOUNCED THE ACQUISITION OF ZUELLIG'S PHARMACEUTICAL DISTRIBUTION, RETAILING AND MANUFACTURING BUSINESSES IN NEW ZEALAND AND AUSTRALIA. I AM PLEASED TO SAY THAT THOSE BUSINESSES, HALAS DENTAL, ZUELLIG PHARMA NOW KNOWN AS PROPHARMA NEW ZEALAND AND PSM MANUFACTURING ALL PERFORMED TO BUDGET AND

MADE A SATISFACTORY CONTRIBUTION TO THE COMPANY'S PROFIT.

IN APRIL 2003 THE COMPANY ANNOUNCED THE SALE OF IT'S LOAN BOOK TO BANKWEST WHICH RESULTED IN PROCEEDS OF \$132 MILLION BEING RETURNED TO API. THOSE FUNDS HAVE BEEN USED TO RETIRE DEBT AND IMPROVE THE COMPANY'S WORKING CAPITAL POSITION. IN ADDITION API ANNOUNCED IN AUGUST 2003 IT'S INTENTION TO BUY BACK UP TO A MAXIMUM OF 19.7 MILLION SHARES ON MARKET OR 10% OF IT'S ISSUED CAPITAL OVER A TWELVE MONTH PERIOD.

SIGNIFICANT PROGRESS WAS MADE DURING THE YEAR TOWARDS API'S STRATEGIC GOAL OF BECOMING AN INTERGRATED HEALTHCARE SERVICES COMPANY. API HAS REORGANIZED IT'S STRUCTURE INTO SIX SPECIFIC OPERATING BUSINESSES, API PHARMACY, HOSPITAL SUPPLIES OF AUSTRALIA, HALAS DENTAL,

PROPHARMA NEW ZEALAND, HEALTHCARE LOGISTICS AND HEALTHCARE MANUFACTURING. THIS STRUCTURE WILL ASSIST IN MANAGEMENT FOCUSING ON THE COMPANY'S CORE COMPETENCIES.

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AS I SAID AT THE OUTSET, THIS YEAR HAS BEEN CHALLENGING AND INDEED DISAPPOINTING. DESPITE POSTING A 29.6% INCREASE IN REVENUES TO \$2.485 BILLION THE COMPANY'S NET PROFIT FOR THE PERIOD DECLINED 32.0% TO \$23.567 MILLION.

THE PROFIT RESULT WAS AFFECTED BY A NUMBER OF SIGNIFICANT EXPENSES ASSOCIATED WITH THE PAN PRODUCT RECALL, THE FAILED MERGER WITH SIGMA, GOODWILL WRITE-OFF IN HOSPITAL SUPPLIES OF AUSTRALIA, THE RELOCATION FROM NORTHMEAD TO CAMELLIA, THE DEVELOPMENT OF A LOYALTY CLUB PROGRAMME FOR OUR BANNER GROUPS AND AN INCREASE IN OUR PROVISION FOR STOCK OBSOLENCE. THESE ONE-OFF SIGNIFICANT EXPENSES TOTALLED \$12.251 MILLION BEFORE TAX. ONCE AGAIN MORE DETAIL WILL BE PROVIDED IN THE MANAGING DIRECTOR'S ADDRESS.

DESPITE EARNINGS PER SHARE FALLING TO 11.0 CENTS PER SHARE DUE TO THE REDUCED PROFIT AND THE INCREASED NUMBER OF

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SHARES ON ISSUE AS A RESULT OF THE ZUELLIG ACQUISITION THE COMPANY MAINTAINED ITS DIVIDEND OF 13.0 CENTS PER SHARE FULLY FRANKED.

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THIS LEVEL OF DIVIDEND REPRESENTED A CASH DIVIDEND OF \$29.5 MILLION, A 15.2% INCREASE OVER LAST YEAR.

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MUCH HAS BEEN COMMENTED UPON IN THE MEDIA AND ELSEWHERE REGARDING THE STANDARDS OF CORPORATE GOVERNANCE IN AUSTRALIAN COMPANIES. AT API WE AS DIRECTORS ARE CONSCIOUS OF OUR RESPONSIBILITY TO SHAREHOLDERS, CUSTOMERS, SUPPLIERS AND STAFF. YOUR DIRECTORS WISH TO ASSURE ALL STAKEHOLDERS THAT THEY

PLACE THE UTMOST IMPORTANCE ON OBSERVING APPROPRIATE GOVERNANCE PRACTICES WITHIN THE COMPANY.

THE COMPANY'S FINANCIAL STATEMENTS AND REPORTS INCLUDE A CORPORATE GOVERNANCE STATEMENT. THIS STATEMENT OUTLINES PRACTICES, WHICH WERE IN PLACE DURING THE PAST FINANCIAL YEAR. THIS YEAR WE HAVE AGAIN REVIEWED AND ENHANCED OUR CORPORATE GOVERNANCE PROGRAM HAVING

APPROVED AN AUDIT COMMITTEE CHARTER AND A BUSINESS ETHICS AND INDEPENDENCE STATEMENT. ALL NON-EXECUTIVE DIRECTORS HAVE ACTIVELY PARTICIPATED IN THE VARIOUS COMMITTEES, NAMELY, THE AUDIT COMMITTEE, REMUNERATION COMMITTEE AND THE CREDIT COMMITTEE.

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I TAKE THIS OPPORTUNITY TO PROVIDE YOU WITH MY VIEW OF HOW I SEE THE NEXT TWELVE MONTHS.

- a) THERE IS NO DOUBT THAT THE FEDERAL GOVERNMENT WILL CONTINUE WITH IT'S ENDEAVOURS TO DRIVE DOWN THE COST OF THE PHARMACEUTICAL BENEFITS SCHEME RESULTING IN SUBDUED GROWTH IN THE PBS. REPORTS INDICATE GROWTH IN THE ORDER OF 5% DURING 2003-2004. THIS WILL IMPACT ON SALES REVENUE GROWTH BOTH AT WHOLESALE AND RETAIL LEVEL.
- b) OUR INDUSTRY IS NOT IMMUNE TO COMPETITION, WOOLWORTHS, COLES AND PRICELINE HAVE CLEARLY STATED THEIR OBJECTIVES IN REGARD TO HEALTH AND AND PRICELINE, THEIR DESIRE TO EXPAND THEIR RETAIL OFFERS TO INCLUDE PHARMACY.

HAVING REGARD TO THE SUBDUED GROWTH IN THE PBS AND INCREASED COMPETITION IN OUR TRADITIONAL MARKET WE WILL HOWEVER BENEFIT THIS YEAR FROM:-

- 1) THE CAMELLIA DISTRIBUTION CENTRE WILL DELIVER PLANNED COST SAVINGS;
- 2) HOSPITAL SUPPLIES OF AUSTRALIA CONTINUES TO SHOW POSITIVE TRENDS AND IS CURRENTLY TRADING IN THE BLACK COMPARED TO A LOSS AT THIS STAGE LAST YEAR;
- 3) PBS GROWTH OF APPROXIMATELY 5% AND MANAGEMENT'S ABILITY TO INCREASE OUR NATIONAL CUSTOMER BASE WILL DELIVER OVERALL MARKET SHARE GROWTH;

- 4) FULL YEAR CONTRIBUTION FROM HALAS DENTAL, PROPHARM NEW ZEALAND AND PSM MANUFACTURING COMPARED TO EIGHT MONTHS TRADING LAST YEAR;
- 5) THE LAUNCH OF HEATHCARE LOGISTICS IN AUSTRALIA TO LEVERAGE OFF THE SUCCESS OF THE SUPPLY CHAIN LOGISTICS BUSINESS WE HAVE IN NEW ZEALAND.

I WOULD NOW LIKE TO INTRODUCE OUR MANAGING DIRECTOR, MR DAVID YOUNG.