



ASX ANNOUNCEMENT

1 JULY, 2004

**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED ('API')**

Australian Pharmaceutical Industries Limited (API) has announced a profit before tax of \$27.380 million for its financial year ended 30 April 2004. The result was 24.1% below last year. Profit after tax was \$18.444 million, a 21.7% decline compared to the same period last year.

The company's 2004 profit was affected by a number of significant one-off expense items including the continued impact of the voluntary suspension of the company's TGA licence in September 2003, higher redundancy costs due to the restructure of management in API Pharmacy and the inclusion this year of a charge relating to the development of a new information and warehouse management system. The total of those significant expense items was \$14.247 million. In addition to these significant one-off items API increased its provisions for doubtful debts and obsolete stock by \$4.576 million in the 2004 financial year.

API's profit result was based on revenue growth of 18.6% driven by the full year result of the recent acquisitions of Halas Dental, PSM Manufacturing and ProPharma, as well as sales revenue growth in Hospital Supplies of Australia (HSA). Offsetting the profit generated from the full year contribution of these companies was 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.

Directors are pleased to advise that the non-recurring significant items and reduced profit will not impact on API's ability to maintain its full year dividend of 13.0¢ per share fully franked.

**Australian Pharmaceutical Industries Limited (API)  
Results for year ended 30 April 2004**

	<b>2004 \$'000</b>	<b>2003 \$'000</b>	<b>% Change</b>	<b>Comments</b>
Sales Revenue	2,946,232	2,485,096	+18.6	Acquisitions included for a full year lift revenue
EBITDA (before significant non recurring items)	59,527	66,396	-10.3	Sale of API Finance loan and lease book reduces profit by \$3.493m
Less- Significant non recurring items	14,247	12,251		
EBITDA	45,280	54,145	-16.4	Manufacturing plant production losses since closure of \$10.586m, redundancy costs of \$2.10m and information system development costs written off of \$1.561m
EBIT	32,286	44,888	-28.1	Increased amortization of acquisition goodwill and depreciation of capital investments amounting to \$3.627m
Profit before taxation	27,380	36,090	-24.1	Business profitability affected by manufacturing plant production losses since closure
Profit after taxation	18,444	23,567	-21.7	
EPS ( c )	8.2	11.0		
Dividend – full year ( c )	13.0	13.0		Dividend for the full year maintained.



### **API Pharmacy (Wholesale)**

API Pharmacy (Wholesale) posted sales revenue of \$1.988 billion for the year ended 30 April 2004, a 5.9% increase on the same period last year. Sales revenue was affected in the first half of the financial year by the relocation of its major warehouse facility from Northmead to Camellia. The second half revenue performance has shown an increase over last year of 8.2% with the final quarter revenue increase over last year at 11.1%. For the first month of the new financial year (May 2004) API's national market share was recorded at 32% ahead of competitors Mayne and Sigma.

API Pharmacy (Wholesale) profit before tax was \$29.161 million compared to last year's result of \$35.733 million. The profit for the current year included a total of \$8.237 million relating to costs associated with the restructure of the division, the write-off of expenses relating to the development of a new information and warehouse management system which will commence roll-out in October 2004 and an increase in the provision for doubtful debts and obsolete stock. Last year API Pharmacy (Wholesale) booked significant one-off costs of \$8.251 million.

As a result of the restructure, ongoing salary costs will be reduced by \$3.5 million per annum. The division has now been restructured to reflect a lower cost base, more in keeping with a high volume low margin business.

### **ProPharma (NZ)**

ProPharma operates a pharmaceutical wholesaling and third party logistics business in New Zealand. ProPharma recorded sales of \$570 million for the full year compared with \$311 million last year (7 months). Profit before tax was \$2.251 million compared with last year's result of \$1.323 million (7 months) despite a fall in gross margin. Margins in all sectors of the healthcare industry in New Zealand are under intense pressure as the New Zealand government endeavours to lower its healthcare costs as a percentage of GDP. ProPharma has responded to these challenges by reducing its cost base through branch rationalization, changes to its terms of trade and more efficient use of its administrative systems.

### **Hospital Supplies of Australia (HSA)**

HSA recorded sales of \$239 million, a 26.7% increase over the same period last year. HSA market growth during the 2004 financial year was 27.2% compared with the general growth in the market of 17.6%. HSA has been successful in winning new business in all states which reflects the excellent sales growth experienced this year. This growth is expected to continue in the 2004-2005 year.

The EBIT result for HSA for the year ended 30 April 2004 was \$1.800 million compared with a loss of \$1.256 million last year.

### **Halas Dental**

Halas Dental has in excess of 40% of the Australian dental wholesale market and operates a subsidiary company, Shalfoon, in New Zealand. Sales revenue for the combined Halas group was \$116 million for the full year compared with \$60 million last year (7 months). The division produced an excellent profit before tax result of \$4.515 million compared with \$0.587 million last year (7 months).

### **Healthcare Manufacturing**

Healthcare Manufacturing operates two pharmaceutical manufacturing plants, one at Kingsgrove NSW and the other in Auckland New Zealand. A toiletries plant is also operated out of New Zealand. Sales revenue for the combined group was \$51 million compared with \$49 million last year. This year's result has been impacted by the voluntary suspension of the company's TGA licence at Kingsgrove and the longer than expected start-up due to time delays confronted during the product validation period. However this has been partially offset by the full year contribution of the New Zealand operations whereas only 7 months sales were recorded last year.

The closure of the Kingsgrove plant and the resultant slow return to production due to the delay in implementing new product validation processes has caused the Australian plant to post a loss before tax of \$10.446 million. This result compares to a profit before tax last year of \$1.529 million. The New Zealand division recorded a profit before tax of \$1.275 million down by \$278,000 on last year's profit performance.

The loss incurred at Kingsgrove included redundancy costs of \$678,000, stock writedowns of \$1.5 million and product recall costs of \$400,000. This division continues with the production validation process with 32 products expected to be fully validated by September 2004. At this level of production the factory will operate at break-even



levels however substantial costs are still being incurred throughout the process. It is expected that the Kingsgrove plant will record a loss in the 2004-2005 financial year, albeit at a much reduced level than was recorded this year.

During the year API completed an assessment of a number of alternatives to replace its existing manufacturing plant at Kingsgrove and has now committed to build a new manufacturing plant on the existing Kingsgrove site. The current plant will continue to operate until the new facility is built. At a capital cost of \$10 million API will have a modern efficient plant to take advantage of the opportunities that will eventuate from a restructure of the pharmaceutical manufacturing industry over the next 2 years. The new facility is expected to take 12 months to complete.

**API Finance**

Last financial year API sold the API Finance loan & lease book to BankWest to improve the balance sheet and return on funds employed and limit the exposure to pharmacy financing risk. The full year result at 30 April 2004 compared with the same period last year does not include profit before tax of \$3.493 million from the API Finance loan and lease book reported last year.

For further information:

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