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API ANNOUNCEMENT

API HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 31 OCT 2004

FINANCIAL SUMMARY

STRATEGIC REVIEW BUSINESS OUTCOMES ANNOUNCED

Integrated healthcare services company API today reported strong sales growth for the half year to 31 October, and also announced its recently conducted Strategic Review had validated its retail-led strategy for the future.

API reported sales revenue of $1.6 billion for the half year to 31 October 2004, an increase of 10.92% over the corresponding six-month period ended 31 October 2003. The consolidated revenue included only a one-month contribution from the New Price Retail business, acquired by API in a transaction concluded on 6 October 2004.

Earnings before interest, tax, depreciation and amortisation was $27.8 million (last year $27.9 million) and net profit after tax was $11.9 million (last year $12.6 million).

Had profits not been negatively impacted by losses from the Kingsgrove plant, like-for-like EBITDA would have resulted in a 19.6% increase to $35.73 million. The Kingsgrove plant EBITDA loss was $7.9 million, which included one-off items such as inventory write-offs due to the failure of products to be validated, and redundancy costs.

The total increase in revenue included an encouraging 9% increase in pharmacy revenue, with a 33% increase in EBITDA attributable to Australian Pharmacy Distribution.

API Group Leader Mr Jeff Sher said the pharmacy results were encouraging.

“This is a solid result, with a particularly robust performance from the Pharmacy Distribution business. Considering the absence of a CEO for most of the six month period, coupled with the NPR transaction which created uncertainty, I am satisfied that our core is healthy,” Mr Sher said. “I am also optimistic that our new retail-led focus and new leadership team will deliver strong results in the future.

“The former NPR retail business is also performing well and delivering strong results. We are optimistic the brands will continue to trade well through the key Christmas period, and they are on track to meet budgets.

“API clearly has a strong platform to build profitable growth from its core areas of retail, distribution and manufacturing, and we are setting aggressive performance benchmarks for all businesses moving forward,” Mr Sher said.

Mr Sher said the API Board and management had completed a Strategic Review of the business, following the acquisition by API of New Price Retail.

"Above all else, the Strategic Review has fully validated the retail-led strategy as a logical and relevant roadmap for growth. In addition, we will act decisively on under performing businesses and non-core assets," Mr Sher said.

Mr Sher said two immediate decisions had been made:

1. The Kingsgrove, Sydney, plant would be closed, and manufacturing consolidated into API's New Zealand Manufacturing business.

   The projected EBITDA trading loss for Kingsgrove in the second half until its intended closure in April 2005 is $3 million. The cost impact of closing the Kingsgrove facility is expected to be diluted, with the cost of the closure unlikely to exceed the profit on the sale of the property at Kingsgrove.

2. Under performing and non-core assets would be considered for sale so long as these sales were in the best interests of shareholders.

"The transition to the retail-led strategy will be rolled out progressively over a three year timeframe, although shorter term gains are expected from the integration process," Mr Sher said.

The Board of Directors has declared an interim dividend of 6.25 cents a share fully franked, maintaining API's dividend for the first half (2003: 6.25 cents). The dividend will be paid on 31 January 2005 to shareholders registered on 17 January 2005.

FINANCIAL SUMMARY

	2004 ($ 000)	**2003 ($ 000)**	**Change %**
Sales Revenue	1,627,085	1,466,945	+10.92%
EBITDA	27,818	27,914	-0.34%
EBIT	20,882	21,654	-3.57%
Profit before tax	17,008	19,372	-12.20%
Profit After tax	11,918	12,590	-5.34%
Interim Dividend	6.25	6.25	-

**Note: EBITDA excluding losses from the Kingsgrove plant would have resulted in a 19.6% increase to $35.73 million*

STRATEGIC REVIEW

The key aspects of the Strategic Review are as follows.

1. Focusing on the API core businesses
API will focus on its core businesses with an emphasis on the pharmacy channel - retail, distribution, and manufacturing, particularly private label for all brands - and on a core offering in health, beauty and lifestyle products.

2. Identified opportunities in working capital
Significant opportunities to improve management of working capital including inventories, receivables, and cash flows have been identified. Opportunities have also been identified for working capital savings with redundant and ageing stock, while still maintaining API's commitment to be a full line wholesaler. Working capital savings are expected to be in the range of $30 million over the next three years.

3. Establishing performance benchmarks for all businesses
Performance benchmarks have been set for all business units, intensifying pressure on required return from capital employed. API will act decisively on under performing businesses.

4. Identifying synergies in the integration process
A dedicated Integration Team is co-ordinating the integration of NPR into the API business, which is designed to deliver cost efficiencies. This team's role is to identify, quantify and execute on synergies created through the acquisition and from the retail-led strategy, with a proposed three-year integration time frame. Annualised synergy savings of $2.5 million have been delivered to date. At least a further $5 million synergy savings have been identified, principally from buying related opportunities.

5. Execution will be key: new management team focused on performance
A new operating structure has been created, with five clear operating divisions – Retail, Healthcare Distribution, Pharmacy Distribution, Propharma (New Zealand), and Manufacturing. This is supported by a shared services structure. The new team has been operating for eight weeks, with a clear, aligned view of the strategy.

BUSINESS OUTCOMES

Key business outcomes following the Strategic Review are as follows.

1. Manufacturing Division – consolidation to drive performance

After a complete review of the manufacturing division, the Board has revised its earlier decision to rebuild the facility at Kingsgrove, Sydney.

Due to lower operating costs in New Zealand and the failure of product validation causing product write-offs at Kingsgrove, a commercial decision has been made to consolidate three manufacturing locations into two.

The Kingsgrove plant will close in April 2005, with 82 employees being made redundant. The decision will not negatively impact on the supply of product. This consolidation provides positive outcomes for pharmacists, with private label products guaranteed and no disruption to supply. More products are returning to the market, satisfying pharmacist demand in the short term.

To guarantee supply of product, the facilities at Kingsgrove will continue production until April 2005. During that time, the plant will produce a stockpile of six-months supply. This stockpile will be used to guarantee the supply of products while Kingsgrove manufacturing transfers to the New Zealand facilities.

2. Retail-led strategy offers choice to all pharmacists, and tailored solutions
The retail-led strategy will deliver wider choice and tailored solutions to all API pharmacists, whether independent, Banner Group members or fully compliant retail stores.

Independent pharmacists will benefit from improved and faster delivery and service to stores, building on strong existing relationships. Current Banner Group members will see improved promotional programs and a broader suite of professional services. Pharmacists with fully compliant stores will receive added benefits of full category management services and of retail technology improvements. All pharmacists will have access to a full suite of professional services.

3. Wholesale - $15 million IT platform to deliver world class logistics service
A $15 million MOVEX IT system will be rolled out in early 2005, which will assist in providing a world-class logistics service. The Wholesale Division will derive working capital improvements, leading to building a better, more efficient supply chain.

4. $80 million new business, no pharmacist leakage
As a result of the focus on retail services, improved infrastructure, and the IT initiatives, API has recently won the business of three major pharmacy groups. These three groups are expected to result in an $80 million increase in annualised turnover.

The pharmacy industry reaction to the acquisition of New Price Retail by API has been overwhelmingly positive and there has been no leakage of API pharmacy customers.

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About API

API is an integrated healthcare services company with currently four core business operations – pharmaceutical distribution, manufacturing, retail pharmacy brands and hospital, dental and medical distribution. API was established as a chemists' co-operative in 1910 and listed on the ASX on 16 June 1997 (ASX Code: API).

In September 2004 API acquired the health, beauty and lifestyle retailer New Price Retail. The acquisition marked the commencement of a retail-led, market-driven strategy. The focus of the retail-led strategy is the consumer, which in turn drives business for Banner Groups and independent customers, and flows through to the wholesale and manufacturing divisions.

As a retail-led organisation, API serves 935 stores in Australia across the following brands:

Retail Division

Soul Pattinson - 212 stores
Soul Patts, as it is affectionately known, has a proud 130-year history. The brand's vision is: "To be pharmacy proud, providing well-being solutions for mind, body and soul. Research has found Soul Pattinson is the most trusted pharmacy brand in Australia.

Priceline – 139 stores
Priceline is one of Australia's fastest growing retailers of healthcare and beauty products. It holds significant market share in colour cosmetics, skin and haircare. The brand uses imports and private label programs to help differentiate itself from its competitors.

Chemworld – 156 stores
Chemworld is one of Australia's leading innovative and contemporary retail pharmacy brands, delivering great value and superior professional health services to consumers.

Price Attack - 118 stores
Price Attack is a category leader in specialty haircare retail. Each Price Attack store is essentially a specialty retail store and hair salon. Each store carries a comprehensive range of haircare products and a large range of associated accessories.

Pharmacist Advice - 60 stores
Pharmacist Advice provides a comprehensive pharmacy training program and professional services support package plus marketing support to a group of pharmacists focused on providing medication management and professional healthcare advice.

House - 100 stores
House is one of the largest and most successful dedicated kitchenware and giftware retail groups in Australia.

API Healthcare - 132 stores
API Healthcare has as its vision: "Essential solutions for independent pharmacists." It is community based.

Priceline Pharmacy - 18 stores
Priceline Pharmacy was launched in September 2002. It is a new pharmacy model in which pharmacists deliver the dispensing, patient care and manage the delivery of service while API, through its shared services model, delivers a compliant and successful retail format to the front of store.

Wholesale Division

Pharmacy Distribution
This division distributes to 2,500 customers from 14 Distribution Centres throughout Australia. It prides itself on its relationships with pharmacists and its excellent service record.

Healthcare Distribution
Hospital Supplies of Australia (HSA), the leading provider of products to hospitals, medical centres and doctors, and Halas Dental, the market leader in the supply of dental products are housed within this division. Halas has a sister company in New Zealand, Shalfoon.

Manufacturing Division
There are, at present, three manufacturing plants. Kingsgrove, Sydney (pharmaceuticals); and two in Auckland, NZ (pharmaceutical and toiletries). They provide private label products to the API retail brands and to supermarkets and independent pharmacy chains.

Propharma (New Zealand)
This operation is multi-facetted with distribution, pharmacy franchises (Amcal, Unichem, and Dispensary First) and third-party logistics. It is the market-leader in New Zealand.