



## AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

ABN 57 000 004 320

Half Year Ended 31st October, 2004

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

				<b>\$'000</b>
Revenue from ordinary activities <i>(Appendix 4D item 2.1)</i>	Up	10.9%	to	1,627,085
Profit before interest, tax, depreciation & amortisation	Down	0.3%	to	27,818
Profit before interest, tax & depreciation	Down	1.4%	to	25,105
Profit before tax	Down	12.2%	to	17,008
Profit/(loss) from ordinary activities after tax attributable to members <i>(Appendix 4D item 2.2)</i>	Down	5.3%	to	11,918
Net profit/(loss) from ordinary activities after tax attributable to members <i>(Appendix 4D item 2.3)</i>	Down	5.3%	to	11,918

Dividends/distributions <i>(Appendix 4D item 2.4)</i>	Amount per security	Franked Amount per security
Final dividend (prior year - paid)	6.75 cents	6.75 cents
Interim dividend (declared)	6.25 cents	6.25 cents

**Record date** for determining entitlements to the interim dividend

17 January 2005

*(Appendix 4D item 2.5)*

#### **Explanation of result**

*(Appendix 4D item 2.6)*

API revenue growth for the half year 31 October 2004 was \$160.140 million, an increase of 10.9%.

EBITDA was \$27.818 million compared with \$27.914 million last year after the significant costs of the operating losses from the Kingsgrove manufacturing facility of \$8.681 million. Excluding the Kingsgrove operating losses from both half years, the EBITDA result is \$35.730 million an increase of 19.6% highlighting the strong performance of the core business.

For a fuller explanation of the half year's operating result, please refer to the ASX Announcement dated 8 December 2004.



**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED  
AND CONTROLLED ENTITIES**

ABN 57 000 004 320

Half Year Ended 31st October, 2004

<b>Contents</b>	<b>Page</b>
Directors' report	2-3
Consolidated statement of financial performance	4
Consolidated statement of financial position	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	
1. Basis of preparation of half year financial report	7
2. Profit from ordinary activities before income tax expense	7
3. Contingent liabilities	7
4. Dividends	8
5. Retained profits	8
6. Contributed equity	8
7. Acquisition/disposal of controlled entities	9
8. Notes to Statement of Cash Flows	9
9. International Financial Reporting Standards	10
10. Events subsequent to reporting date	10
11. Segment information	11
Directors' declaration	12
Independent review report to the members	13-14

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 April 2004 and any public announcements made by Australian Pharmaceutical Industries Limited ("The Company") during the half year reporting period in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Stock Exchange.

# AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED AND CONTROLLED ENTITIES

## Directors' Report

Your Directors present their report on the consolidated entity consisting of Australian Pharmaceutical Industries Limited and its controlled entities for the half year ended 31 October 2004.

## Directors

The following persons were Directors of Australian Pharmaceutical Industries Limited during the whole or part of the half-year and up to the date of this report:

Peter R Robinson, Chairman

Jeffrey C Sher, Group Leader and Chief Executive - appointed 7 September 2004

Barry A Frost

David J Fairfull

Graeme L Herring

Robert D Millner

John Murphy - appointed 7 September 2004

Greg Robertson (alternate to John Murphy) - appointed 7 September 2004

Michael S Smith

## Retiring Director

Graeme L Herring retired as a Director of Australian Pharmaceutical Industries Limited on 8 June 2004.

## Dividend

The following dividend relating to the 2003/4 financial year of the consolidated entity has been paid since the end of the preceding financial year:

- 6.75 cents per ordinary share \$15,109,642 (fully franked)

An interim dividend of 6.25 cents per share, fully franked, will be paid to holders of ordinary shares at the record date of 17 January 2005.

## Overview

### Review of operations

The Company has achieved strong growth in sales revenue of 10.2% to \$1,597.983 million (2003: \$1,449.654 million) for the half year ended 31 October 2004. The strong sales growth achieved by the pharmacy wholesaling divisions has partly been offset by the less than satisfactory revenue growth achieved from other divisions within the Group, particularly the Kingsgrove manufacturing operation which had difficulties implementing the new validation processes required following the return to production after the six week voluntary closure which occurred in the second half of the 2003 calendar year.

Net profit after tax attributable to Australian Pharmaceutical Industries Limited for the six months ended 31 October 2004 was \$11.918 million compared to a net profit of \$12.590 million in the same period last year.

Net profit was affected by the individually significant expense of \$8.681 million (2003: \$2.052 million) arising from the manufacturing plant production losses incurred since the voluntary closure of the Kingsgrove facility for six weeks in late 2003.

The result for the six months is after net interest expense of \$3.874 million (2003: \$2.282 million), depreciation of \$4.223 million (2003 : \$3.815 million) and goodwill amortisation of \$2.713million (2003 : \$2.445 million).

EBITDA for the half year ended 31 October 2004 was \$27.818 million (2003:\$27.914 million) despite the significant costs arising from the Kingsgrove plant voluntary closure. Excluding the production losses of the Kingsgrove manufacturing plant from the results of both half years, the EBITDA result is \$35.730 million, an increase of 19.6%.

#### Changes in state of affairs

On 7th October 2004, Australian Pharmaceutical Industries Limited acquired the health, beauty and lifestyle retailer New Price Retail (the Synapse Finance Pty Ltd Group) which operates in Australia as Priceline, Priceline Pharmacy, House and Price Attack.

The purchase consideration for the business was 33,500,000 shares in the Company at \$3.05 per share and cash of \$26.917 million. The fair value of the net assets acquired was \$54.050 million resulting in goodwill on acquisition of \$78.777 million which includes acquisition costs of \$3.735 million. Deferred consideration may be payable based upon the excess of the API share price above \$3.00, at the end of three years, times 20,000,000.

#### **Rounding of amounts to nearest thousand dollars**

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 8th day of December 2004

Signed in accordance with a resolution of the directors:



Peter R Robinson, Director

**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE**  
**HALF-YEAR ENDED 31 OCTOBER 2004**

	Consolidated	
	Half-year ended 31 Oct 2004 \$'000	Half-year ended 31 Oct 2003 \$'000
Revenue from the sale of goods	1,597,983	1,449,654
Revenue from rendering of services	28,706	17,009
Other revenues from ordinary activities	396	282
<b>Total revenue</b>	<u>1,627,085</u>	<u>1,466,945</u>
Cost of sales	(1,478,667)	(1,343,611)
Warehousing & distribution expenses	(45,037)	(39,258)
Marketing & sales expenses	(33,037)	(20,239)
Administration & general expenses	(49,343)	(42,183)
Borrowing costs	(3,874)	(2,282)
Share of net loss of associate	(119)	-
Profit from ordinary activities before related income tax expense	<u>17,008</u>	<u>19,372</u>
Income tax expense relating to ordinary activities	(5,090)	(6,782)
<b>Net profit</b>	<u>11,918</u>	<u>12,590</u>
Decrease in retained earnings on initial adoption of Revised AASB 1028 "Employee Benefits"	-	(296)
Net exchange difference relating to self- sustaining foreign operations	1,716	(513)
<b>Total changes in equity from non-owner related transactions</b>	<u><u>13,634</u></u>	<u><u>11,781</u></u>
Basic earnings per share (cents per share)	5.2	5.6
Diluted earnings per share (cents per share)	5.2	5.6

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 7 to 11.

**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 OCTOBER 2004**

	Half-year ended 31 Oct 2004 <u>\$'000</u>	Consolidated Full year ended 30 Apr 2004 <u>\$'000</u>	Half-year ended 31 Oct 2003 <u>\$'000</u>
<b>CURRENT ASSETS</b>			
Cash assets	26,940	7,557	8,790
Receivables	427,871	389,866	399,587
Inventories	355,545	232,239	258,590
Current tax asset	951	5,185	9,916
Other	4,022	2,117	4,095
<b>TOTAL CURRENT ASSETS</b>	<u>815,329</u>	<u>636,964</u>	<u>680,978</u>
<b>NON-CURRENT ASSETS</b>			
Receivables	7,901	-	171
Investments (equity accounted)	608	667	234
Property, plant and equipment	91,942	58,772	58,619
Intangible assets	216,016	117,131	119,868
Deferred tax assets	16,462	9,071	7,993
<b>TOTAL NON-CURRENT ASSETS</b>	<u>332,929</u>	<u>185,641</u>	<u>186,885</u>
<b>TOTAL ASSETS</b>	<u><b>1,148,258</b></u>	<u><b>822,605</b></u>	<u><b>867,863</b></u>
<b>CURRENT LIABILITIES</b>			
Payables	553,246	392,473	409,840
Interest bearing liabilities	124,013	71,499	81,164
Current tax liabilities	952	-	3,101
Provisions	19,002	14,441	16,344
<b>TOTAL CURRENT LIABILITIES</b>	<u>697,213</u>	<u>478,413</u>	<u>510,449</u>
<b>NON-CURRENT LIABILITIES</b>			
Payables	350	-	82
Interest bearing liabilities	3,929	2,069	4,057
Deferred tax liabilities	2,958	1,041	130
Provisions	4,045	2,674	2,369
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>11,282</u>	<u>5,784</u>	<u>6,638</u>
<b>TOTAL LIABILITIES</b>	<u><b>708,495</b></u>	<u><b>484,197</b></u>	<u><b>517,087</b></u>
<b>NET ASSETS</b>	<u><b>439,763</b></u>	<u><b>338,408</b></u>	<u><b>350,776</b></u>
<b>EQUITY</b>			
Contributed equity	419,499	316,668	321,157
Reserves	2,846	1,130	819
Retained profits	17,418	20,610	28,800
<b>TOTAL EQUITY</b>	<u><b>439,763</b></u>	<u><b>338,408</b></u>	<u><b>350,776</b></u>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 7 to 11.

**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 OCTOBER 2004**

	<b>Half-year ended 31 Oct 2004 \$'000</b>	<b>Half-year ended 31 Oct 2003 \$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	1,775,259	1,561,390
Payments to suppliers and employees	(1,708,266)	(1,605,157)
Interest received	101	109
Interest paid	(3,874)	(2,282)
Income taxes paid	(7,236)	(9,410)
Net cash provided by/(used in) operating activities	55,984	(55,350)
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(7,763)	(8,439)
Proceeds from sale of property, plant and equipment	163	173
Payment for purchase of controlled entities (net of cash acquired)	(10,687)	-
Net cash used in investing activities	(18,287)	(8,266)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	916	26,244
Dividends paid	(15,110)	(15,309)
Repayments of depositors loans	(11)	(97)
Proceeds from issue of shares	656	76
Repayment of finance lease principal	(47)	-
Payments for buy-back of shares	-	(4,264)
Net cash provided by/(used in) financing activities	(13,596)	6,650
Net increase/(decrease) in cash held	24,101	(56,966)
Cash at the beginning of the financial period	(74)	18,892
Effects of exchange rate fluctuation on the balance of cash held in foreign currencies	58	(80)
<b>Cash at the end of the period</b>	<b>24,085</b>	<b>(38,154)</b>

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 7 to 11.

**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31**  
**OCTOBER 2004**

**1. Basis of preparation of half year financial report**

This general purpose financial report for the half year reporting period ended 31 October 2004 has been prepared in accordance with Accounting Standard AASB 1029: "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, other mandatory professional reporting requirements (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.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report should be read in conjunction with the Annual Report for the year ended 30 April 2004 and any public announcements made by Australian Pharmaceutical Industries Limited during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year end.

**2. Profit from ordinary activities before income tax expense**

Individually significant expenses included in profit from ordinary activities before income tax expense:-

	<b>Consolidated</b>	
	<b>31 October</b>	<b>31 October</b>
	<b>2004</b>	<b>2003</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Manufacturing plant production losses arising from the voluntary closure	8,681	2,052

**3. 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 guarantees at reporting 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.

	<b>Consolidated</b>	
	<b>31 October</b>	<b>31 October</b>
	<b>2004</b>	<b>2003</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Guarantee of bank accounts of pharmacy customers	81,026	84,969
Guarantee of trading accounts of pharmacy customers	76,607	67,115
	157,633	152,084

#### 4. Dividends

	<b>Consolidated</b>	
	<b>31 October</b>	<b>31 October</b>
	<b>2004</b>	<b>2003</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Dividends paid by the Company in the half year at 6.75 cents per share (2003: 6.75 cents) -fully franked at 30% (2003:30%)	15,110	15,309

#### Subsequent to reporting date

Since 31 October 2004 the directors have declared an interim ordinary dividend of 6.25 cents per share (fully franked) to be paid on 31 January 2005. The total of this dividend is \$16,084,000. The financial effect of the interim dividend for October 2004 has not been brought to account in the financial statements for the period ended 31 October 2004 and will be recognised in subsequent financial reports.

#### 5. Retained profits

	<b>Consolidated</b>	
	<b>31 October</b>	<b>31 October</b>
	<b>2004</b>	<b>2003</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Retained profits at the beginning of the half year	20,610	16,509
Net profit attributable to members	11,918	12,590
Net effect on initial adoption of:		
Revised AASB 1028 "Employee Benefits"	-	(296)
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	15,306
Dividends	(15,110)	(15,309)
Retained profits at end of half year	<u>17,418</u>	<u>28,800</u>

#### 6. Contributed Equity

	<b>Consolidated</b>	
	<b>31 October</b>	<b>31 October</b>
	<b>2004</b>	<b>2003</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Issued and paid-up capital</b>		
257,346,455 (2003 : 225,156,797) ordinary shares, fully paid	419,499	321,157
<b>Movements in ordinary share capital</b>		
Balance at the beginning of the reporting period	316,668	325,345
Shares issued		
-33,500,0000 shares issued as consideration for the New Price	102,175	-
- 320,000 (2003 : 40,000) ordinary share options were exercised at	656	76
Shares bought back		
- No shares were bought back during the current accounting period	-	(4,264)
	<u>419,499</u>	<u>321,157</u>

## 7. Acquisition/disposal of controlled entities

The following controlled entities were acquired or disposed of during the period:

### Acquisition 2004

Name	Date	Consolidated Entities interest	Consideration	Contribution to Consolidated Entity
	Acquired	%	\$,000	\$,000
Synapse Finance Pty Ltd and wholly	7 Oct 2004	100	132,826	1,736

The consideration paid includes cash of \$26.917 million and the issue of 33,500,000 shares at the issue price of \$3.05 per share, the Company share price on the date of issue of the shares at the completion of the transaction. Deferred consideration may be payable based upon the excess of the API share price above \$3.00, at the end of three years, times 20,000,000.

The consolidated entity did not dispose of or lose control of any entities during the half year.

### 2003

The consolidated entity did not gain control, and did not dispose of or lose control over, any entities

## 8. Notes to Statement of Cash Flows

	Consolidated	
	31 October	31 October
	\$'000	\$'000

### Reconciliation of cash and cash equivalents

Cash includes cash on hand, at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash	26,940	8,790
Bank overdrafts	(2,855)	(46,944)
	<u>24,085</u>	<u>(38,154)</u>

## **9. International Financial Reporting Standards (IFRS)**

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The adoption of Australian equivalent IFRS will be first reflected in the Australian Pharmaceutical Industries Limited financial statements for half-year ending 31 October 2005 and the year ending 30 April 2006.

The Group has established a project team to manage the transition to IFRS, consisting of internal resources and expert consultants as required. Activities involve technical evaluation, systems design for collection of the required financial information and implementation strategy. The technical analysis is progressing as planned and activities will shortly move towards design and implementation.

The following areas have been identified where changes to the Group's current accounting treatments will be required. However, the standards noted below should not be regarded as a complete list of those that will lead to changes resulting from the transition to IFRS, as not all standards have been fully analysed and some decisions have not yet been made where choices of accounting policies are available. For these reasons, it is not possible at this time to quantify the impact of the transition to IFRS on the Group's financial position and reported results. In addition, the ultimate impact of the incoming accounting standards will depend on the particular circumstances existing in future years.

AASB138 - Intangible Assets (Goodwill)

AASB119 - Employee Benefits (Defined Benefit Superannuation Plans; Share Options)

AASB112 - Income Tax

AASB116 - Property, Plant and equipment

AASB136 - Impairment of Assets

AASB139 - Financial Instruments

## **10. Events Subsequent to Reporting Date**

On 8 December 2004 the Company announced that the pharmaceutical manufacturing plant at Kingsgrove will be closing in April, 2005. The products currently being manufactured at Kingsgrove will be consolidated into the Company's two modern manufacturing plants in New Zealand.

The costs of asset write downs and closure costs relating to the Kingsgrove facility will be substantially offset by the sale of the property at Kingsgrove. These costs, and the profit arising from the sale of the property may be recognised in different reporting periods.

11. Segment Reporting

	DISTRIBUTION																CONSOLIDATED	
	PHARMACY DISTRIBUTION				HEALTHCARE DISTRIBUTION				RETAILING		MANUFACTURING				ELIMINATIONS		CONSOLIDATED	
	AUSTRALIA		NEW ZEALAND		AUSTRALIA		NEW ZEALAND		AUSTRALIA		AUSTRALIA		NEW ZEALAND					
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Primary reporting - Business segments</b>																		
<b>Revenue</b>																		
External segment revenue	1,072,494	984,501	307,226	287,620	191,682	162,307	8,165	9,216	29,041	-	3,736	7,583	14,741	15,718	-	-	1,627,085	1,466,945
Internal segment revenue											2,932	2,489	1,779	2,408	(4,711)	(4,897)	-	-
Total segment revenue	1,072,494	984,501	307,226	287,620	191,682	162,307	8,165	9,216	29,041	-	6,668	10,072	16,520	18,126	(4,711)	(4,897)	1,627,085	1,466,945
Unallocated revenue																		
<b>Total revenue</b>																	1,627,085	1,466,945
<b>Result</b>																		
Earnings before interest, tax, depreciation, amortisation, equity accounted result and unallocated corporate expenses	29,456	22,177	1,934	1,991	1,257	3,960	608	1,262	3,449	-	(7,912)	(1,955)	257	1,404	(1,036)	(850)	28,013	27,989
Amortisation taken to Profit & Loss	(634)	(621)	(655)	(655)	(729)	(744)	-	-	(265)	-	(169)	(166)	(261)	(259)	-	-	(2,713)	(2,445)
Earnings before interest, tax, depreciation equity accounted result, and unallocated corporate expenses	28,822	21,556	1,279	1,336	528	3,216	608	1,262	3,184	-	(8,081)	(2,121)	(4)	1,145	(1,036)	(850)	25,300	25,544
Depreciation taken to Profit & Loss	(2,046)	(2,267)	(511)	(499)	(496)	(474)	(24)	(18)	(448)	-	(300)	(184)	(398)	(373)	-	-	(4,223)	(3,815)
Earnings before interest, and tax	26,776	19,289	768	837	32	2,742	584	1,244	2,736	-	(8,381)	(2,305)	(402)	772	(1,036)	(850)	21,077	21,729
Interest charged to Profit & Loss	(3,307)	(1,862)	(17)	(68)	(904)	(741)	(10)	(10)	(249)	-	(300)	(300)	(123)	(151)	1,036	850	(3,874)	(2,282)
Share of net profit/(loss) of equity accounted investments	-	-	(119)	-	-	-	-	-	-	-	-	-	-	-	-	-	(119)	-
Unallocated corporate expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(76)	(75)
Segment result (Profit before income tax)	23,469	17,427	632	769	(872)	2,001	574	1,234	2,487	-	(8,681)	(2,605)	(525)	621	-	-	17,008	19,372
Income tax expense																	(5,090)	(6,782)
<b>Net profit</b>																	11,918	12,590
Non-cash expenses other than amortisation and depreciation	1,166	2,713	737	514	1,033	1,530	3	4	72	-	1,894	431	(243)	294	-	-	4,662	5,486
<b>Individually significant items</b>																		
Manufacturing plant voluntary closure costs	-	-	-	-	-	-	-	-	-	-	8,681	2,052	-	-	-	-	8,681	2,052
<b>Assets</b>																		
Segment assets	542,119	516,395	131,282	122,052	135,040	126,173	6,415	6,174	262,561	-	37,740	65,822	32,493	31,013	-	-	1,147,650	867,629
Equity accounted investments	-	-	608	234	-	-	-	-	-	-	-	-	-	-	-	-	608	234
Unallocated corporate assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Consolidated total assets</b>																	1,148,258	867,863
<b>Liabilities</b>																		
Segment liabilities	420,594	329,919	89,033	82,857	102,922	93,453	636	3	60,835	-	22,980	-	10,801	10,107	-	-	707,801	516,339
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	694	748
<b>Consolidated total liabilities</b>																	708,495	517,087
<b>Acquisition of non-current assets</b>	5,207	7,529	421	396	99	64	24	17	300	-	1,280	-	432	433	-	-	7,763	8,439

	AUSTRALIA		NEW ZEALAND		CONSOLIDATED	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
External segment revenue by location of customers	1,299,369	1,156,649	327,716	310,296	1,627,085	1,466,945
Segment assets by location of assets	978,713	709,322	169,545	158,541	1,148,258	867,863
Acquisition of non-current assets	6,886	7,593	877	846	7,763	8,439

**Business Segments**

The consolidated entity comprises the following five operating divisions:-

**Pharmacy Distribution**

Australia - Distribution of pharmaceutical and medical products to pharmacy; provider of retail services to pharmacy customers; loan & lease origination to pharmacy customers.

**Pharmacy Distribution**

New Zealand - Distribution of pharmaceutical and medical products to pharmacy; and retail services

**Healthcare Distribution**

Australia - Distribution of dental and allied products to dental practices; distribution of medical and pharmaceutical products to hospitals and doctors.  
New Zealand - Distribution of dental and allied products to dental practices

**Retailing**

Australia - the purchase and sale of various health, beauty and lifestyle products within the retail industry in Australia

**Manufacturing**

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

**AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED  
AND ITS CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION FOR THE HALF-YEAR ENDED  
31 OCTOBER 2004**

The Directors declare that the financial statements and notes set out on pages 4 to 11 :

- (a) comply with Australian Accounting Standard AASB 1029 : "Interim Financial Reporting", the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 October 2004 and of its performance, as represented by the results of its operations and its cash flows, for the financial period ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Dated at Sydney this 8th day December 2004.



Peter R Robinson  
Director

## INDEPENDENT REVIEW REPORT TO THE MEMBERS OF AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Australian Pharmaceutical Industries Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 October 2004. The Consolidated Entity comprises Australian Pharmaceutical Industries Limited ("the Company") and the entities it controlled during that half-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.

#### *Review approach*

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- \* enquiries of company personnel; and
- \* analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

**Independence**

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

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Australian Pharmaceutical Industries Limited is not in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 October 2004 and of its performance for the half-year ended on that date; and
  - ii. complying with Australian Accounting Standard AASB 1029 " Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

*VPAG*

KPMG



G Boydell  
*Partner*

Sydney  
8 December 2004

## AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

### SUPPLEMENTARY APPENDIX 4D INFORMATION

	<b>31 Oct</b>	<b>31 Oct</b>
<b><u>NTA Backing (Appendix 4D item 3)</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Net tangible asset backing per ordinary share	\$0.87	\$1.03

#### **Controlled entities acquired or disposed of (Appendix 4D item 4)**

On 7th October 2004, Australian Pharmaceutical Industries Limited acquired the health, beauty and lifestyle retailer New Price Retail (the Synapse Finance Pty Ltd Group) which operates in Australia as Priceline, Priceline Pharmacy, House and Price Attack.

The purchase consideration for the business was 33,500,000 shares in the Company at \$3.05 per share and cash of \$26.917 million. The fair value of the net assets acquired was \$54.050 million resulting in goodwill on acquisition of \$78.777 million which includes acquisition costs of \$3.735 million. Deferred consideration may be payable based upon the excess of the API share price above \$3.00, at the end of three years, times 20,000,000.

The consolidated entity did not dispose of or lose control of any entities during the half year.

#### **Additional dividend/distribution information (Appendix 4D item 5)**

Details of dividends/distributions declared or paid during or subsequent to the half year ended 31 October 2004 are as follows:-

Record Date	Payment Date	Type	Amount per security	Total Dividend \$'000	Franked amount per security	Foreign sourced dividend amount per security	
17.1.05	31.1.05	Ord	6.25 cents	16,084	100%	-	-

Note that dividends declared between the end of the half-year and the completion of this report that have not been provided for in the half-year accounts are included in this disclosure.