



16 October 2006

Dr. John Stocker
Chairman
Sigma Pharmaceuticals Limited
96 Merrindale Drive
South Croydon VIC 3136

Dear John

Sigma Pharmaceuticals Limited Proposal

I refer to the proposal received from Elmo de Alwis dated 6 October 2006 to make an off-market takeover offer to acquire all of the ordinary shares of Australian Pharmaceutical Industries Limited ("API") and hereby advise that after careful consideration, the API Board of Directors has decided to decline to proceed with your proposal.

The API Board believes that the Sigma proposal at \$2.20 per API share does not adequately value the company or its proportionate share of the synergies that may result from the proposed transaction. It is highly conditional and provides little basis for API shareholders to assess the value of the scrip-based alternative.

In addition, the API Board believes the proposal was opportunistic in nature and in the form of the approach. This included its clear lack of certainty around timing, a requirement for API not to seek an independent valuation and the potentially open-ended due diligence requirement.

The API Board took decisive action on the recent issue impacting the 2006 result. Our Board and management are focused on implementing our strategy under new chief executive Stephen Roche. The API Board believes it is in the best interests of all shareholders that API continues to focus on its business rather than on this informal proposal that doesn't recognise the full value of the company.

Although we have already expressed an interest to participate in sector consolidation, we will only do so when we can be confident that our own shareholders and customers appropriately share in the benefits from any proposal.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter Robinson', is written over a light grey background.

Peter Robinson
Chairman