

**Appendix 4E
Preliminary Final Report
For the year ended 30 April 2006**

RESULTS FOR ANNOUNCEMENT TO THE MARKET
(all comparisons to year ended 30 April 2005)

| | \$'000 | up / down | % Movement |
|--|-----------|-----------|---------------|
| Revenue | 2,582,144 | up | 11.14% |
| Profit before interest, tax, depreciation & amortisation | 51,068 | down | -19.83% |
| Profit before interest, tax & depreciation | 51,068 | down | -19.83% |
| Profit before tax | 26,414 | down | -41.68% |
| Profit/(loss) from ordinary activities after tax attributable to members | 20,561 | down | -40.88% |
| Net profit/(loss) from ordinary activities after tax attributable to members | 20,561 | down | -40.88% |

| Dividend information | Amount per share | Franked amount per share | Tax rate for franking |
|--|------------------|--------------------------|-----------------------|
| Interim dividend per share – cents (paid 31 January 2006) | 6.25 | 6.25 | 30% |
| Final dividend per share - cents | 3.00 | 3.00 | 30% |
| <u>Total dividends per share for the year - cents</u> | <u>9.25</u> | <u>9.25</u> | <u>30%</u> |

Final dividend dates

| | |
|------------------|-------------------|
| Ex dividend date | 23 August, 2006 |
| Record date | 29 August, 2006 |
| Payment date | 8 September, 2006 |

| | 30 April 06 | 30 April 05 |
|--------------------------------------|-------------|-------------|
| Net tangible asset backing per share | \$0.84 | \$0.91 |

Results from operating activities

The results for the year ended 30 April, 2006 include a one-off item in 'other expenses' relating to IT system conversion discrepancies written off of \$17.178 million. Refer to note 5 on page 18 for details.

Consolidated Income Statement

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

| <i>In thousands of AUD</i> | Note | Consolidated | |
|---|-------------|---------------------|----------------|
| | | 2006 | 2005 |
| Revenue | | 2,582,144 | 2,323,350 |
| Cost of sales | | (2,231,242) | (2,028,887) |
| Gross profit | | <u>350,902</u> | <u>294,463</u> |
| Other income | | 4,328 | 4,920 |
| Warehousing and distribution expenses | | (81,907) | (86,081) |
| Marketing and sales expense | | (156,091) | (103,560) |
| Administration and general expenses | 4 | (60,658) | (55,165) |
| Other expenses | 5 | (17,178) | - |
| Results from operating activities | | <u>39,396</u> | <u>54,577</u> |
| Financial income | 6 | 2,278 | 914 |
| Financial expenses | 6 | (15,569) | (10,201) |
| Net financing costs | | <u>(13,291)</u> | <u>(9,287)</u> |
| Share of profit of associates | 9 | 309 | 5 |
| Profit before tax | | <u>26,414</u> | <u>45,295</u> |
| Income tax expense | | (7,775) | (12,941) |
| Profit after tax but before profit and loss of discontinued operation and gain on discontinued operation | | <u>18,639</u> | <u>32,354</u> |
| Profit of discontinued operation and gain on sale of discontinued operation, net of tax | 7 | 1,735 | 2,427 |
| Profit for the year | | <u>20,374</u> | <u>34,781</u> |
| Attributable to: | | | |
| Equity holders of the parent | | 20,561 | 34,781 |
| Minority interest | | (187) | - |
| Profit for the year | | <u>20,374</u> | <u>34,781</u> |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share from continuing operations | 8 | 7.3 | 13.5 |
| Diluted earnings per share from continuing operations | 8 | 7.3 | 13.5 |
| Dividends per share | | | |
| Ordinary shares (cents per share) | 10 | 9.25 | 13.0 |

Statement of Recognised Income and Expense

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

| <i>In thousands of AUD</i> | Consolidated | |
|---|---------------------|---------------|
| | 2006 | 2005 |
| Foreign exchange translation differences | (4,833) | 3,848 |
| Actuarial gains/(losses) on defined benefit superannuation funds | - | - |
| Actuarial gains/(losses) on equity options | 162 | - |
| Net income recognised directly in equity | <u>(4,671)</u> | <u>3,848</u> |
| Profit for the period | <u>20,374</u> | <u>34,781</u> |
| Total recognised income and expense for the period | <u>15,703</u> | <u>38,629</u> |
| Attributable to: | | |
| Equity holders of the parent | 15,890 | 38,629 |
| Minority interest | (187) | - |
| Total recognised income and expense for the period | <u>15,703</u> | <u>38,629</u> |
| Effects of change in accounting policy- financial instruments: | | |
| Equity holders of the parent | (1,378) | - |
| Minority interest | - | - |
| | <u>(1,378)</u> | <u>-</u> |

Other movements in equity arising from transactions with owners as owners are set out in note 10.

Statement of Financial Position

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

| <i>In thousands of AUD</i> | <i>Note</i> | Consolidated | |
|--|-------------|---------------------|------------------|
| | | 2006 | 2005 |
| Assets | | | |
| Cash and cash equivalents | | 36,076 | 24,787 |
| Trade and other receivables | | 212,001 | 376,237 |
| Inventories | | 251,140 | 277,691 |
| Income tax receivable | | 3,045 | 5,218 |
| Assets classified as held for sale | | - | 114,392 |
| Total current assets | | 502,262 | 798,325 |
| Receivables | | 49,765 | 16,271 |
| Investments accounted for using the equity method | 9 | 30,010 | 754 |
| Deferred tax assets | | 9,563 | 13,388 |
| Property, plant and equipment | | 72,569 | 74,620 |
| Intangible assets | | 212,878 | 225,744 |
| Total non-current assets | | 374,785 | 330,777 |
| Total assets | | 877,047 | 1,129,102 |
| Liabilities | | | |
| Bank overdraft | | 6,016 | 10,996 |
| Trade and other payables | | 412,639 | 494,584 |
| Interest-bearing loans and borrowings | | 512 | 55,999 |
| Employee benefits | | 12,738 | 21,306 |
| Provisions | | 6,011 | 2,866 |
| Liabilities classified as held for sale | | - | 81,597 |
| Total current liabilities | | 437,916 | 667,348 |
| Trade and other payables | | - | 350 |
| Interest-bearing loans and borrowings | | 4,778 | 6,098 |
| Deferred tax liabilities | | - | 2,633 |
| Employee benefits | | 5,171 | 3,826 |
| Provisions | | 285 | 1,943 |
| Total non-current liabilities | | 10,234 | 14,850 |
| Total liabilities | | 448,150 | 682,198 |
| Net assets | | 428,897 | 446,904 |
| Equity | | | |
| Issued capital | | 419,499 | 419,499 |
| Reserves | | (823) | 3,848 |
| Retained earnings | | 9,285 | 23,557 |
| Total equity attributable to equity holders of the parent | 10 | 427,961 | 446,904 |
| Minority interest | | 936 | - |
| Total equity | | 428,897 | 446,904 |

Statement of Cash Flows

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

| <i>In thousands of AUD</i> | <i>Note</i> | Consolidated | |
|---|-------------|---------------------|-----------------|
| | | 2006 | 2005 |
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 3,021,572 | 3,763,274 |
| Cash paid to suppliers and employees | | (2,911,214) | (3,614,582) |
| Cash generated from operations | | 110,358 | 148,692 |
| Interest received | | 1,660 | 914 |
| Interest paid | | (15,569) | (10,338) |
| Income taxes paid | | (7,932) | (11,805) |
| Net cash from operating activities | | 88,517 | 127,463 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 4,171 | 11,655 |
| Acquisition of property, plant and equipment | | (22,477) | (9,398) |
| Acquisition of subsidiary, net of cash acquired | | (4,436) | (11,261) |
| Loans to pharmacies | | (4,111) | - |
| Loans to associates | | (18,835) | - |
| Proceeds for disposal of subsidiary, net of cash disposed | | 25,443 | - |
| Acquisition of investments in associates | | - | (24) |
| Payment for intangibles | | (6,166) | (6,977) |
| Net cash from investing activities | | (26,411) | (16,005) |
| Cash flows from financing activities | | | |
| Deposit for securitised receivables | | 38,265 | - |
| Proceeds from the issue of share capital | | - | 656 |
| Repayment of borrowings | | (56,807) | (60,288) |
| Payment of finance lease liabilities | | - | (822) |
| Repayment of depositors loans | | (116) | (199) |
| Dividends paid | | (33,455) | (31,194) |
| Net cash from financing activities | | (52,113) | (91,847) |
| Net increase in cash and cash equivalents | | 9,993 | 19,611 |
| Cash and cash equivalents at 1 May | 11 | 20,080 | (74) |
| Effect of exchange rate fluctuations on cash held | | (13) | 543 |
| Cash and cash equivalents at 30 April | 11 | 30,060 | 20,080 |

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia. The preliminary financial report of the Company for the financial year ended 30 April 2006 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

(a) Statement of compliance

The preliminary financial report has been prepared in accordance with the measurement requirements of Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

This is the consolidated entity's first preliminary financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 14.

(b) Basis of preparation

The preliminary financial report is presented in Australian dollars. The entity has elected to early adopt the measurement requirements of the following accounting standards and amendments:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*
- UIG 8 *Scope of AASB 2*

Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation (continued)

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the consolidated entity to date.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale.

The preparation of a financial report in conformity with the measurement requirements of Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the preliminary financial report and in preparing an opening AIFRS balance sheet at 1 May 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the preliminary financial report from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities for which the consolidated entity has significant influence, but not control, over the financial and operating policies. The preliminary financial report includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Joint ventures

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

Jointly controlled entities

Investments in jointly controlled entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the preliminary financial report.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates net profit" accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

In respect of all foreign operations, any differences that have arisen after 1 May 2004, the date of transition to AIFRS, are presented as a separate component of equity.

(e) Derivative financial instruments

Current accounting policy

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is the present value of the quoted forward price.

Comparative period policy

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses interest rate swaps and forward rate agreements. Derivative financial instruments are not held for speculative purposes.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Hedging

Current accounting policy

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e., when interest income or expense is recognised).

For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Comparative period policy

(i) Cash flow hedges

Transactions are designated as a hedge of the anticipated specific purchase of goods or purchase of qualifying assets, only when they are expected to reduce exposure to the risks being hedged. These transactions are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded in the balance sheet from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency exchange rates current at reporting date.

The net amounts receivable or payable under open swaps and the associated deferred gains or losses are not recorded on the balance sheet until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest rate current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the income statement.

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Australian Pharmaceutical Industries Limited and Controlled Entities

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Hedging (continued)

(i) Cash flow hedges (continued)

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the income statement for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. Any gains or losses relating to the hedge instrument are included in the income statement for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the income statement.

The quantitative effect of the change in accounting policy is set out in note 15.

(ii) Hedge of monetary assets and liabilities

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the income statement.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (l)). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 May 2004, the date of transition to Australian Accounting Standards – AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy (s).

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- buildings 40 years
- plant and equipment 3-10 years
- fixtures and fittings 3-10 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(h) Intangible assets

(i) Goodwill

Business combinations

Business combinations prior to 1 May 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 May 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 May 2004 (see note 14).

Business combinations since 1 May 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy (l)).

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Brand names

Brand names acquired are included in the financial statements at cost less impairment losses.

Brand names are not amortised as the directors believe the useful lives of these assets are considered indefinite at this point of time. The consolidated entity's brand names have an unlimited legal life and based on industry experience it is extremely rare for leading brand names to disappear or become commercially or technically obsolete. If an event occurs which results in the diminution in the value of a brand name then the difference between recoverable amount and book value is charged against profits in the year in which the event occurred.

Independent valuations of brand names are obtained during the year of acquisition and every three years thereafter. Expenditure incurred in developing, maintaining and enhancing brand names is charged against profits in the year in which it is incurred.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see accounting policy h(vi)) and impairment losses (see accounting policy (l)).

(iv) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (l)).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(v) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

(vi) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- capitalised software development expenses 2-5 years

(i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (l)).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (j)), employee benefits (see accounting policy (o)) and deferred tax assets (see accounting policy (u)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (i)).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 May 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Receivables that are not assessed as impaired are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment (continued)

(i) Calculation of recoverable amount (continued)

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Derecognition of financial assets and liabilities

Current accounting policy

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

Comparative period policy

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed. A financial liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(m) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(n) Interest-bearing borrowings

Current accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Comparative period policy

Interest bearing borrowings are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in 'Trade and Other Payables'.

(o) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Defined benefit superannuation funds

The consolidated entity's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Defined benefit superannuation funds (continued)

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses as at 1 May 2004, the date of transition to AIFRSs, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 May 2004 in calculating the consolidated entity's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

When the calculation results in a plan assets exceeding liabilities to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

(iii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iv) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(v) Share-based payment transactions

Share Performance Rights granted to employees are recorded at the fair value of the amount payable to the employee and recognised as an expense with a corresponding increase in equity. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the Share Performance Rights is measured based on the Black-Scholes formula for the EPS performance hurdle and the Monte Carlo/Binomial formula for the TSR performance hurdle, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date.

(p) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Loyalty card

A provision for loyalty card expenses is recognised when the underlying products or services are sold. The provision is based on historical loyalty card data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Provisions (continued)

(iii) Dismantling and make good

The provision is the best estimate of the present value of the expenditure required to complete dismantling and make good obligations on property leases at the reporting date, based on current lease contracts. Future dismantling and make good costs are reviewed annually and any changes are reflected in the present value of the dismantling and make good provision at the end of the reporting period.

The amount of the provision for future dismantling and make good costs is capitalised and is depreciated in accordance with the policy set out in note (g). Make good costs are provided for over the lease term. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(q) Trade and other payables

Trade and other payables are stated at their amortised cost.

(r) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, usually when goods are delivered to manufacturing and wholesale customers or the point of sale for retail customers. Revenue from services represents fees (including licence and franchise fees) and commissions earned and is recognised as it accrues. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (f)).

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payment is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(t) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

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Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(v) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

(w) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(x) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill and intangibles with indefinite useful lives

The consolidated entity assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually in accordance with the accounting policy in note 1(l). These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

Defined benefit superannuation fund obligations

Various actuarial assumptions are utilised in the determination of the consolidated entity's defined benefit superannuation fund obligations. These assumptions are discussed in note 1(0)(ii).

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

2. SEGMENT REPORTING

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loyalty program costs, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Business segments

The consolidated entity comprises the following operating divisions:

Pharmacy Distribution

Australia – Distribution of pharmaceutical and medical products to pharmacy; provider of retail services to pharmacy customers; loan and leases to pharmacy customers.

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 – Owner of pharmaceutical medicines manufactured by related parties.

New Zealand – Manufacture of pharmaceutical medicines and consumer toiletries.



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 Australian Pharmaceutical Industries Limited and Controlled Entities
 Preliminary Financial Report
 For the year ended 30 April 2006

2. SEGMENT REPORTING (continued)

| | DISTRIBUTION | | | | | | | | RETAILING | | MANUFACTURING | | | | ELIMINATIONS | | CONSOLIDATED | | Less: Pharmacy Distribution New Zealand (discontinued) | | Less: Healthcare Distribution (discontinued) | | Consolidated Continuing Operations | | |
|---|------------------|------------------|----------------------------|----------------|---------------------------|----------------|-------------|---------------|----------------|----------------|---------------|---------------|---------------|---------------|-----------------|-----------------|------------------|------------------|--|----------------|--|----------------|------------------------------------|------------------|--|
| | PHARMACY | | | | HEALTHCARE (discontinued) | | | | | | | | | | | | | | | | | | | | |
| | AUSTRALIA | | NEW ZEALAND (discontinued) | | AUSTRALIA | | NEW ZEALAND | | AUSTRALIA | | AUSTRALIA | | NEW ZEALAND | | | | | | | | | | | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | |
| <i>In thousands of AUD</i> | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenue | | | | | | | | | | | | | | | | | | | | | | | | | |
| External segment sales | 1,985,837 | 1,972,426 | 303,524 | 493,279 | 25,130 | 331,388 | 576 | 14,830 | 477,675 | 257,900 | 5,885 | 5,957 | 34,924 | 28,267 | - | - | 2,833,550 | 3,104,047 | 303,524 | 493,279 | 25,706 | 346,218 | 2,504,321 | 2,264,550 | |
| Internal segment sales | 34,594 | 41,602 | 8,055 | 9,837 | 125 | 1,669 | - | - | 43,229 | 21,394 | - | - | - | - | - | - | 86,003 | 74,502 | 8,055 | 9,837 | 125 | 1,669 | 77,823 | 62,996 | |
| | - | 4,792 | - | 1,948 | - | 2,248 | - | - | - | - | 3,481 | 6,450 | 7,412 | 3,540 | (10,893) | (18,978) | - | - | - | 1,948 | - | 2,248 | - | (4,196) | |
| Total segment revenue | 2,020,431 | 2,018,820 | 311,579 | 505,064 | 25,255 | 335,305 | 576 | 14,830 | 520,904 | 279,294 | 9,366 | 12,407 | 42,336 | 31,807 | (10,893) | (18,978) | 2,919,553 | 3,178,549 | 311,579 | 505,064 | 25,831 | 350,135 | 2,582,144 | 2,323,350 | |
| Segment result | 24,989 | 56,962 | 2,782 | 4,140 | (730) | (1,731) | - | 1,131 | 24,844 | 18,463 | (1,319) | (17,712) | 1,332 | (98) | - | - | 51,898 | 61,155 | 2,782 | 4,140 | (730) | (600) | 49,846 | 57,615 | |
| Unallocated income | | | | | | | | | | | | | | | | | - | 5,024 | - | - | - | - | - | 5,024 | |
| Unallocated expenses | | | | | | | | | | | | | | | | | (10,450) | (8,062) | - | - | - | - | (10,450) | (8,062) | |
| Profit before financing costs | | | | | | | | | | | | | | | | | 41,448 | 58,117 | 2,782 | 4,140 | (730) | (600) | 39,396 | 54,577 | |
| Net financing costs | | | | | | | | | | | | | | | | | (13,130) | (9,424) | 161 | (137) | - | - | (13,291) | (9,287) | |
| Share of profit of associates | | | | | | | | | | | | | | | | | 309 | 5 | - | - | - | - | 309 | 5 | |
| Gain/(loss) on sale of discontinued operation | | | | | | | | | | | | | | | | | 300 | - | 300 | - | - | - | - | - | |
| Profit before tax | | | | | | | | | | | | | | | | | 28,927 | 48,698 | 3,243 | 4,003 | (730) | (600) | 26,414 | 45,295 | |
| Income tax expense | | | | | | | | | | | | | | | | | (8,553) | (13,917) | (1,009) | (1,266) | 231 | 290 | (7,775) | (12,941) | |
| Net profit | | | | | | | | | | | | | | | | | 20,374 | 34,781 | 2,234 | 2,737 | (499) | (310) | 18,639 | 32,354 | |
| Depreciation & amortisation | 5,295 | 4,820 | 494 | 890 | 54 | 966 | 2 | 57 | 5,468 | 3,213 | 125 | 585 | 784 | 451 | | | 12,222 | 10,982 | 494 | 890 | 56 | 1,023 | 11,672 | 9,069 | |
| Assets | | | | | | | | | | | | | | | | | | | | | | | | | |
| Segment assets | 540,079 | 589,043 | - | 161,972 | - | 106,663 | - | 7,363 | 311,074 | 253,946 | 23,716 | 32,444 | 68,274 | 40,327 | (96,105) | (63,410) | 847,037 | 1,128,348 | | | | | | | |
| Equity accounted investments | 28,100 | - | - | 754 | - | - | - | - | 1,909 | - | - | - | - | - | - | - | 30,010 | 754 | | | | | | | |
| Consolidated total assets | 568,179 | 589,043 | - | 162,726 | - | 106,663 | - | 7,363 | 312,983 | 253,946 | 23,716 | 32,444 | 68,274 | 40,327 | (96,105) | (63,410) | 877,047 | 1,129,102 | | | | | | | |
| Liabilities | | | | | | | | | | | | | | | | | | | | | | | | | |
| Segment liabilities | 374,335 | 344,585 | - | 111,737 | - | 80,831 | - | 1,065 | 137,376 | 106,909 | 16,102 | 23,663 | 15,697 | 12,695 | (96,105) | (63,410) | 447,405 | 681,485 | | | | | | | |
| Unallocated corporate liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 745 | 713 | | | | | | | |
| Consolidated total liabilities | 374,335 | 344,585 | - | 111,737 | - | 80,831 | - | 1,065 | 137,376 | 106,909 | 16,102 | 23,663 | 15,697 | 12,695 | (96,105) | (63,410) | 448,150 | 682,198 | | | | | | | |

| | Australia | | New Zealand | | Consolidated | |
|--|-----------|-----------|-------------|---------|--------------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| <i>In thousands of AUD</i> | | | | | | |
| Secondary reporting – Geographical segments | | | | | | |
| External segment revenue by location of customers | 2,565,062 | 2,626,748 | 354,491 | 551,701 | 2,919,553 | 3,178,449 |
| Segment assets by location of assets | 808,773 | 918,686 | 68,274 | 210,416 | 877,047 | 1,129,102 |

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Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2006

3. OTHER INCOME

| <i>In thousands of AUD</i> | Consolidated | |
|---|---------------------|-------------|
| | 2006 | 2005 |
| Other income includes: | | |
| Net gain on disposal of property, plant and equipment | 252 | 4,920 |

4. ADMINISTRATION AND GENERAL EXPENSES

| <i>In thousands of AUD</i> | | |
|--|--------------|--------------|
| Administration and general expenses include: | | |
| Kingsgrove manufacturing plant closure:- | | |
| – Provision for redundancy | - | 2,073 |
| – Fixed assets written off | - | 2,180 |
| – Stock write off | - | 1,541 |
| Retail pharmacy research, development and roll out costs | 2,207 | - |
| Redundancy costs | 1,373 | 1,461 |
| IT system implementation costs | 1,125 | - |
| Loyalty program costs | 2,939 | 1,859 |
| | <u>7,644</u> | <u>9,114</u> |

5. OTHER EXPENSES

| <i>In thousands of AUD</i> | | |
|--|---------------|---|
| IT system conversion discrepancies written off | <u>17,178</u> | - |

During the financial year ended 30 April 2006 the Company including the pharmacy distribution business converted IT systems. The change over was extremely complex and to minimise disruption to the business operations required the financial recording of transactions to be maintained on three IT systems as each State operation converted separately and progressively during the year. As a result of this conversion process discrepancies were identified in the year end financial reporting processes which were required to be written off.

6. NET FINANCING COSTS

| <i>In thousands of AUD</i> | | |
|----------------------------|---------------|--------------|
| Interest income | (2,278) | (914) |
| Interest expense | 15,569 | 10,201 |
| Net financing costs | <u>13,291</u> | <u>9,287</u> |

7. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Discontinued operations

In May 2005, the consolidated entity discontinued its Healthcare Distribution segment by selling the share capital of Halas Dental Limited and Shalfoon Bros Limited and the business assets and liabilities of the Hospital Supplies of Australia ("HSA") division. The consolidated entity was committed to a plan to sell this division due to a strategic decision to change the direction of the consolidated entity in March 2005.

In November 2005, the consolidated entity sold the New Zealand pharmacy distribution and logistics business Pharmacy Retailing (New Zealand) Limited, trading as Healthcare Logistics and ProPharma.

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For the year ended 30 April 2006

7. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

Effect of the disposal on individual assets and liabilities of the consolidated entity

In thousands of AUD

| | 2006 | 2005 | 2006 | 2005 |
|---|--------------------------------------|------|----------------------------|------|
| | Pharmacy Distribution New Zealand | | Healthcare Distribution | |
| Assets and liabilities disposed | | | | |
| Property, plant and equipment | 5,079 | - | 2,321 | - |
| Inventories | 42,693 | - | 41,956 | - |
| Trade receivables | 67,310 | - | 15,377 | - |
| Other receivables | 2,742 | - | 2,030 | - |
| Deferred tax assets | 1,060 | - | 1,004 | - |
| Goodwill | 17,466 | - | 5,611 | - |
| Cash and cash equivalents | 13,584 | - | 4,450 | - |
| Employee benefits | - | - | (2,733) | - |
| Trade payables | (98,778) | - | (16,223) | - |
| Other payables | (10,928) | - | (2,256) | - |
| Lease liabilities | - | - | (172) | - |
| Other liabilities | (2,725) | - | (862) | - |
| Net identifiable assets and liabilities | 37,503 | - | 50,503 | - |
| Total cash consideration on sale | | | | |
| Cash | 30,332 | - | 13,750 | - |
| Deferred consideration | 7,583 | - | 15,998 | - |
| Transaction costs | (112) | - | (493) | - |
| Equity in joint venture | - | - | 21,248 | - |
| | 37,803 | | 50,503 | |
| Gain on sale of discontinued operation | 300 | - | - | - |
| Net change in cash | | | | |
| Consideration received, satisfied in cash | 30,332 | - | 13,750 | - |
| Transaction costs | (112) | - | (493) | - |
| Cash disposed of | (13,584) | - | (4,450) | - |
| Net cash inflow | 16,636 | - | 8,807 | - |

Analysis of profit and loss of the discontinued operation, gain on sale of discontinued operation and related income tax expense.

In thousands of AUD

| | 2006 | 2005 | 2006 | 2005 |
|--|--------------------------------------|-----------|----------------------------|-----------|
| | Pharmacy Distribution New Zealand | | Healthcare Distribution | |
| Revenue | 311,579 | 505,064 | 25,831 | 350,135 |
| Cost of sales | (298,537) | (476,462) | (22,810) | (301,970) |
| Gross profit | 13,042 | 28,602 | 3,021 | 48,165 |
| Warehousing and distribution expenses | (9,061) | (13,010) | (971) | (8,049) |
| Marketing and sales expenses | (66) | (89) | (2,664) | (15,939) |
| Administrative expenses | (1,133) | (11,363) | (116) | (24,777) |
| Operating profit / (loss) before financing costs | 2,782 | 4,140 | (730) | (600) |
| Net financing costs | 161 | (137) | - | - |
| Profit/(loss) before tax | 2,943 | 4,003 | (730) | (600) |
| Income tax (expense) / benefit | (1,009) | (1,266) | 231 | 290 |
| Profit/(loss) after tax | 1,934 | 2,737 | (499) | (310) |
| Gain on sale of discontinued operation | 300 | - | - | - |
| Income tax expense | - | - | - | - |
| Gain on sale of discontinued operation after tax | 300 | - | - | - |
| Net gain on sale | 2,234 | 2,737 | (499) | (310) |

Assets held for sale

As the consolidated entity was committed to discontinue the Healthcare Distribution segment in March 2005, the assets and liabilities of the segment are classified as held for sale at 30 April 2005.

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8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 April 2006 was based on the profit attributable to ordinary shareholders of \$20,561,000 (2005: \$34,781,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 April 2006 of 257,346,000 (2005: 242,589,000), calculated as follows:

Profit attributable to ordinary shareholders

| <i>In thousands of AUD</i> | <i>Note</i> | Consolidated | |
|--|-------------|---------------------|-------------|
| | | 2006 | 2005 |
| Profit attributable to ordinary shareholders | | 20,561 | 34,781 |

Weighted average number of ordinary shares

| <i>In thousands of shares</i> | | Consolidated | |
|--|----|---------------------|-------------|
| | | 2006 | 2005 |
| Issued ordinary shares at 1 May | 10 | 257,346 | 223,526 |
| Weighted average number of ordinary shares at 30 April | | 257,346 | 242,589 |

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2006 was based on profit attributable to ordinary shareholders of \$20,561,000 (2005: \$34,781,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 April 2006 of 257,346,000 (2005: 242,589,000), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

| <i>In thousands of AUD</i> | 2006 | 2005 |
|--|-------------|-------------|
| Profit attributable to ordinary shareholders (diluted) | 20,561 | 34,781 |

Weighted average number of ordinary shares (diluted)

| <i>In thousands of shares</i> | 2006 | 2005 |
|--|-------------|-------------|
| Weighted average number of ordinary shares at 30 April | 257,346 | 242,589 |
| Effect of potential ordinary shares on issue | 262 | - |
| Weighted average number of ordinary shares (diluted) at 30 April | 257,608 | 242,589 |

Earnings per share for continuing and discontinued operations

Basic earnings per share

| <i>In AUD</i> | 2006 | 2005 |
|------------------------------|-------------|-------------|
| From continuing operations | 7.3 | 13.5 |
| From discontinued operations | 0.7 | 1.0 |
| | 8.0 | 14.5 |

Diluted earnings per share

| <i>In AUD</i> | 2006 | 2005 |
|------------------------------|-------------|-------------|
| From continuing operations | 7.3 | 13.5 |
| From discontinued operations | 0.7 | 1.0 |
| | 8.0 | 14.5 |

For the financial year ended 30 April 2006, earnings per share for continuing and discontinued operations has been calculated using the same figures as earnings per share, except that the profit for the period used in the calculation is the profit relating to continuing operations of \$18,639,000 (2005: \$32,354,000) and the one relating to discontinued operations of \$1,735,000 (2005: \$2,427,000).

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9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and joint venture entities

The consolidated entity accounts for investments in associates and joint venture entities using the equity method.

The consolidated entity has the following investments in associates and joint venture entities:

| | Principal activities | Country | Reporting Date | Ownership | |
|--------------------------|---|-----------|----------------|-----------|------|
| | | | | 2006 | 2005 |
| Everod Pty Ltd | Hospital supplies distribution | Australia | June | 50% | 0% |
| Making Life Easy Pty Ltd | Operates mobility and independent living retail superstores | Australia | June | 50% | 0% |

Everod Pty Ltd

On 29 May 2005 the consolidated entity acquired 50% of the share capital of Everod Pty Ltd for total consideration of \$21,248,000. The consideration was in the form of the consolidated entity's contribution of the non-cash assets of its hospital supplies distribution business, Hospital Supplies of Australia ('HSA') into a newly formed joint venture that is controlled by Everod Pty Ltd. The acquisition of HSA by the joint venture was completed along with its concurrent acquisition of Clifford Hallam Pharmaceuticals Pty Limited from Spotless Group Limited.

Making Life Easy Pty Ltd

On 1 July 2005 the consolidated entity acquired a 50% equity interest in Making Life Easy, a mobility and independent living superstore that serves Australia's ageing population with a full range of "caring" products. API's initial investment was \$2,000,000 cash and will be capped at a maximum \$12,000,000.

On 28 April, 2006 API sold the Home Healthcare business of wholesaling and distributing mobility and independent living aid and appliances for aged, infirm and disabled persons, to Making Life Easy, the company in which it holds a 50% equity interest. The sale price was \$3,578,394.

Pharmacybrands Limited

On 31 December 2005, the consolidated entity acquired an additional 15% in Pharmacybrands Limited and controls 66% of the issued shares. The consolidated entity has consolidated Pharmacybrands Limited from that date. Refer Note 13 for further details. Pharmacybrands Limited continues to hold equity investments in associated entities.

| | Revenues 100% | Profit/(loss) 100% | Share of associates net profit/(loss) recognised | Share of associate's net assets equity accounted |
|---|------------------|-----------------------|--|--|
| <i>In thousands of AUD</i> | | | | |
| 2006 | | | | |
| Everod Pty Ltd | 751,809 | 996 | 498 | 26,271 |
| Making Life Easy Pty Ltd | 1,417 | (375) | (187) | 1,830 |
| Pharmacybrands Limited equity investments | 9,735 | (4) | (2) | 1,909 |
| | <u>762,961</u> | <u>617</u> | <u>309</u> | <u>30,010</u> |
| 2005 | | | | |
| Pharmacybrands Limited | <u>10,952</u> | <u>10</u> | <u>5</u> | <u>754</u> |

Results of associates

| <i>In thousands of AUD</i> | Consolidated | |
|--|--------------|----------|
| | 2006 | 2005 |
| Share of associate profit before income tax | 441 | 7 |
| Share of income tax expense | (132) | (2) |
| Share of associates net profit accounted for using the equity method | <u>309</u> | <u>5</u> |

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10. CAPITAL AND RESERVES

In thousands of AUD

| | Share capital | Retained earnings | Translation reserve | Equity reserve | Total | Minority interest | Total equity |
|---------------------------------------|---------------|-------------------|---------------------|----------------|----------|-------------------|--------------|
| Balance 1 May 2004 | 316,668 | 19,970 | - | - | 336,638 | - | 336,638 |
| Shares issued | 102,831 | - | - | - | 102,831 | - | 102,831 |
| Dividends to shareholders | - | (31,194) | - | - | (31,194) | - | (31,194) |
| Total recognised income and expense | - | 34,781 | 3,848 | - | 38,629 | - | 38,629 |
| Balance at 30 April 2005 | 419,499 | 23,557 | 3,848 | - | 446,904 | - | 446,904 |
| Balance at 1 May 2005 | 419,499 | 23,557 | 3,848 | - | 446,904 | - | 446,904 |
| Effect of change in accounting policy | - | (1,378) | - | - | (1,378) | - | (1,378) |
| Balance at 1 May 2005 restated | 419,499 | 22,179 | 3,848 | - | 445,526 | - | 445,526 |
| Acquisition during the year | - | - | - | - | - | 1,123 | 1,123 |
| Total recognised income and expense | - | 20,561 | (4,833) | 162 | 15,890 | (187) | 15,703 |
| Dividends to shareholders | - | (33,455) | - | - | (33,455) | - | (33,455) |
| Balance at 30 April 2006 | 419,499 | 9,285 | (985) | 162 | 427,961 | 936 | 428,897 |

Share capital

In thousands of shares

| | The Company Ordinary shares | |
|---|-----------------------------------|---------|
| | 2006 | 2005 |
| On issue at 1 May | 257,346 | 223,526 |
| Shares issued as consideration for New Price Retail business (i) | - | 33,500 |
| Under the Executive Share option plan Ordinary share options exercised at an exercise price of \$2.05 | - | 320 |
| On issue at 30 April – fully paid | 257,346 | 257,346 |

- (i) On 7 October 2004, 33,500,000 shares were issued at \$3.05 each as consideration for the acquisition of Synapse Finance Pty Ltd ("New Price Retail"). New Price Retail is a retailer of health, beauty and lifestyle products and services throughout Australia.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of a winding up of the company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Equity reserve

The equity reserve relates to share-based payment transactions measured at fair value in accordance with applicable Australian Accounting Standards.

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10. CAPITAL AND RESERVES (continued)

Dividends

Dividends recognised in the current year by the Company are:

| <i>In thousands of AUD</i> | Cents per share | Total amount | Franked / unfranked | Date of payment |
|----------------------------|-----------------|---------------|------------------------|--------------------|
| 2006 | | | | |
| Interim 2006 ordinary | 6.25 | 16,084 | Franked (i) | 31 January 2006 |
| Final 2005 ordinary | 6.75 | 17,371 | Franked (i) | 1 August 2005 |
| Total amount | | <u>33,455</u> | | |
| 2005 | | | | |
| Interim 2005 ordinary | 6.25 | 16,084 | Franked (i) | 30 January 2005 |
| Final 2004 ordinary | 6.75 | 15,110 | Franked (ii) | 2 August 2004 |
| Total amount | | <u>31,194</u> | | |

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

| <i>In thousands of AUD</i> | Cents per share | Total amount | Franked / unfranked | Date of payment |
|----------------------------|-----------------|--------------|------------------------|--------------------|
| Final ordinary | 3.00 | <u>7,720</u> | Franked (i) | 8 September, 2006 |

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 30 April 2006 and will be recognised in subsequent financial reports.

(i) Paid out of AIFRS profits

(ii) Paid out of old AGAAP profits

Dividends

In thousands of AUD

Dividend franking account

30 per cent franking credits available to shareholders of the Company for subsequent financial years

| | The Company 2006 | 2005 |
|--|---------------------|--------|
| | 23,742 | 25,674 |

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$7,720,000 (2005: \$17,371,000).

11. CASH AND CASH EQUIVALENTS

| <i>In thousands of AUD</i> | Consolidated | |
|--|---------------|----------------|
| | 2006 | 2005 |
| Cash and cash equivalents | 36,076 | 24,787 |
| Bank overdrafts repayable on demand | (6,016) | (10,996) |
| Cash and cash equivalents in the statement of cash flows | <u>30,060</u> | <u>13,791*</u> |

* The cash and cash equivalents in the cash flow at 30 April, 2005 of \$20,080,000 varies from the net cash on the balance sheet at that date of \$13,791,000 due to the reclassification of cash at bank as assets classified as held for sale' of \$6,289,000 relating to discontinued operations.

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For the year ended 30 April 2006

12. CONTINGENCIES

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

| <i>In thousands of AUD</i> | Note | Consolidated 2006 | 2005 |
|--|-------------|------------------------------|-------------|
| Contingent liabilities considered remote | | | |
| Guarantee of bank facilities of pharmacy customers | (i) | 112,137 | 77,767 |
| Guarantee of trading accounts of pharmacy customers | (ii) | - | 63,057 |
| Contingent liability on termination of a director's service contract | | 683 | 1,662 |
| Guarantee for property rentals | (iii) | 28,246 | 22,792 |
| Contingent liability for potential ClubCard voucher redemptions | (iv) | 3,049 | 1,198 |

These guarantees are not secured.

- i. The consolidated entity has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy.
- ii. The guarantees at balance date relating to trading accounts have been included in the balance sheet for the year ended 30 April 2006 following the adoption of AASB139 on 1 May 2005. The trading account balances of pharmacy customers have subsequently been paid to third parties with no liability to the consolidated entity.
- iii. The guarantee for property rentals represents guarantees on franchisee leases of premises.
- iv. The contingent liability for ClubCard voucher redemptions represents the value of vouchers issued and not redeemed or provided for. A provision has been recognised for potential voucher redemptions based on historical redemption notes.

Potential deferred consideration is payable in respect of the acquisition of the New Price Retail business. The deferred consideration will be calculated on 7 October 2007, three years from the acquisition date and will be the amount by which the API share price then exceeds \$3.00, multiplied by 20,000,000.

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13. ACQUISITIONS OF SUBSIDIARIES

Acquiree's net assets at the acquisition date

Acquisition of controlled entities

On 31 December 2005 the consolidated entity acquired an additional 15% of the issued capital in Pharmacybrands Limited, a provider of services to retail pharmacy in New Zealand. In the four months to 30 April 2006, the subsidiary incurred a net loss of \$638,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 May 2005 consolidated entity revenue would have been \$11,177,000 and net loss would have been \$222,000.

During the prior year the consolidated entity purchased 100% of the voting shares in Synapse Finance Pty Ltd.

| <i>In thousands of AUD</i> | Consolidated | |
|--|---------------------|----------------|
| | 2006 | 2005 |
| Details of these acquisitions are as follows: | | |
| Consideration (shares issued in the Company) | - | 102,175 |
| Consideration (cash) | 4,916 | 26,917 |
| Costs of acquisition (cash) | - | 4,308 |
| Cash acquired | (480) | (19,964) |
| Net consideration | <u>4,436</u> | <u>113,436</u> |
| Fair value of net assets of entities acquired: | | |
| Property, plant and equipment | 310 | 27,784 |
| Goodwill – at cost | 576 | 23,974 |
| Goodwill – accumulated amortisation | (60) | (1,514) |
| Brand names | - | 75,000 |
| Equity investment | 1,747 | - |
| Deferred tax assets | 27 | 3,718 |
| Inventories | 96 | 75,042 |
| Receivables | 2,591 | 24,442 |
| Prepayments | 103 | 1,125 |
| Current tax asset | - | 1,436 |
| Bank loans | - | (55,000) |
| Payables | (2,604) | (59,212) |
| Lease liabilities | - | (2,641) |
| Deferred tax liability | - | (14) |
| Employee entitlements | (246) | (7,250) |
| | <u>2,540</u> | <u>106,890</u> |
| Less Minority interest | (1,123) | - |
| | <u>1,417</u> | <u>106,890</u> |
| Goodwill and other intangibles on acquisition | <u>3,019</u> | <u>6,546</u> |
| | <u>4,436</u> | <u>113,436</u> |

On 31 December 2005 the consolidated entity increased its interest in Pharmacybrands Limited from 50% to 66%. The operating results of the entity from that date have been included in the consolidated profit.

Synapse Finance Pty Ltd was acquired on 7 October 2004 and the operating results of the entity from that date have been included in the consolidated profit.

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14. EXPLANATION OF TRANSITION TO AIFRSs

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 April 2006, the comparative information presented in these financial statements for the financial year ended 30 April 2005 and in the preparation of an opening AIFRS balance sheet at 1 May 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

| Note | Consolidated | | | | | | |
|--|----------------|--------------------------------|----------------|------------------|---------------------------|--------------------------------|------------------|
| | Previous GAAP | Effect of transition to AIFRSs | AIFRSs | Previous GAAP | Discontinued Operations * | Effect of transition to AIFRSs | AIFRSs |
| | 1 May 2004 | | | 30 April 2005 | | | |
| <i>In thousands of AUD</i> | | | | | | | |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 7,557 | - | 7,557 | 31,076 | (6,289) | - | 24,787 |
| Trade and other receivables | 384,278 | - | 384,278 | 425,260 | (49,633) | 610 | 376,237 |
| Inventories | 232,239 | - | 232,239 | 322,556 | (44,865) | - | 277,691 |
| Income tax receivable | 5,185 | - | 5,185 | 5,208 | 10 | - | 5,218 |
| Assets classified as held for sale | - | - | - | - | 114,392 | - | 114,392 |
| Total current assets | 629,259 | - | 629,259 | 784,100 | 13,615 | 610 | 798,325 |
| Non-current assets | | | | | | | |
| Receivables | 7,705 | - | 7,705 | 16,271 | - | - | 16,271 |
| Investments accounted for using the equity method | 667 | - | 667 | 754 | - | - | 754 |
| Deferred tax assets | 9,071 | 71 | 9,142 | 12,291 | (77) | 1,174 | 13,388 |
| Property, plant and equipment | 52,972 | 1,184 | 54,156 | 73,478 | (1,913) | 3,055 | 74,620 |
| Intangible assets | 117,131 | 4,482 | 121,613 | 215,419 | (11,625) | 21,950 | 225,744 |
| Other | 5,800 | (5,800) | - | 12,777 | - | (12,777) | - |
| Total non-current assets | 193,346 | (63) | 193,283 | 330,990 | (13,615) | 13,402 | 330,777 |
| Total assets | 822,605 | (63) | 822,542 | 1,115,090 | - | 14,012 | 1,129,102 |
| Liabilities | | | | | | | |
| Current liabilities | | | | | | | |
| Bank overdraft | 7,631 | - | 7,631 | 10,996 | - | - | 10,996 |
| Trade and other payables | 392,473 | 93 | 392,566 | 567,507 | (76,478) | 3,555 | 494,584 |
| Interest-bearing loans and borrowings | 63,868 | - | 63,868 | 58,999 | (3,000) | - | 55,999 |
| Employee benefits | 13,993 | - | 13,993 | 22,803 | (1,497) | - | 21,306 |
| Income tax payable | - | - | - | - | - | - | - |
| Provisions | 448 | - | 448 | 2,999 | (133) | - | 2,866 |
| Liabilities classified as held for sale | - | - | - | - | 81,597 | - | 81,597 |
| Total current liabilities | 478,413 | 93 | 478,506 | 663,304 | 489 | 3,555 | 667,348 |
| Non-current liabilities | | | | | | | |
| Other payables | - | - | - | 350 | - | - | 350 |
| Interest-bearing loans and borrowings | 2,069 | 778 | 2,847 | 3,453 | - | 2,645 | 6,098 |
| Deferred tax liabilities | 1,041 | 286 | 1,327 | 54 | - | 2,579 | 2,633 |
| Employee benefits | 2,674 | - | 2,674 | 4,315 | (489) | - | 3,826 |
| Provisions | - | 550 | 550 | - | - | 1,943 | 1,943 |
| Total non-current liabilities | 5,784 | 1,614 | 7,398 | 8,172 | (489) | 7,167 | 14,850 |
| Total liabilities | 484,197 | (1,707) | 485,904 | 671,476 | - | 10,722 | 682,198 |
| Net assets | 338,408 | (1,770) | 336,638 | 443,614 | - | 3,290 | 446,904 |
| Equity | | | | | | | |
| Issued capital | 316,668 | - | 316,668 | 419,499 | - | - | 419,499 |
| Reserves | 1,130 | (1,130) | - | 4,978 | - | (1,130) | 3,848 |
| Retained earnings | 20,610 | (640) | 19,970 | 19,137 | - | 4,420 | 23,557 |
| Total equity attributable to equity holders of the parent | 338,408 | (1,770) | 336,638 | 443,614 | - | 3,290 | 446,904 |
| Minority interest | - | - | - | - | - | - | - |
| Total equity | 338,408 | (1,770) | 336,638 | 443,614 | - | 3,290 | 446,904 |

* The discontinued operations were only classified as such for the year ended 30 April 2005, hence there was no impact on the 1 May 2004 balance sheet.

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14. EXPLANATION OF TRANSITION TO AIFRSs

Reconciliation of profit

In thousands of AUD

| Consolidated | | | | | |
|--|---------|----------------|---------------------------|---------------------------------|----------------|
| | Note | Previous GAAP* | Discontinued operations** | Effect of Transition to AIFRS's | AIFRSs |
| 30 April 2005 | | | | | |
| Revenue | k | 3,411,241 | (350,135) | (232,692) | 2,828,414 |
| Cost of sales | k | (3,040,011) | 301,970 | 232,692 | (2,505,349) |
| Gross profit | | 371,230 | (48,165) | - | 323,065 |
| Other operating income | | 4,920 | - | - | 4,920 |
| Warehousing & distribution expenses | d | (106,939) | 8,049 | (201) | (99,091) |
| Marketing & sales expenses | | (119,588) | 15,939 | - | (103,649) |
| Administration & general expenses | a,b,c,h | (96,287) | 24,777 | 4,982 | (66,528) |
| Operating profit before financing costs | | 53,336 | 600 | 4,781 | 58,717 |
| Financial income | | 914 | - | - | 914 |
| Financial expenses | | (10,338) | - | - | (10,338) |
| Net financing costs | | (9,424) | - | - | (9,424) |
| Share of profit of associates | | 5 | - | - | 5 |
| Profit before tax | | 43,917 | 600 | 4,781 | 49,298 |
| Income tax expense | a, i | (14,196) | (290) | 279 | (14,207) |
| Profit after tax but before profit and loss of discontinued operations and gain on discontinued operation | | 29,721 | 310 | 5,060 | 35,091 |
| Profit and loss of discontinued operations and gain on sale of discontinued operation, net of tax | | - | (310) | - | (310) |
| Profit for the period | | 29,721 | - | 5,060 | 34,781 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 29,721 | - | 5,060 | 34,781 |
| Minority interest | | - | - | - | - |
| Profit for the period | | 29,721 | - | 5,060 | 34,781 |
| Basic earnings per share from continuing operations - cents | | 12.2 | | | 14.5 |
| Diluted earnings per share from continuing operations - cents | | 12.2 | | | 14.5 |

* Previous GAAP balances have been reclassified to ensure consistency with AIFRS disclosure requirements.

** The discontinued operations were those businesses classified as 'assets and liabilities classified as held for sale' as at 30 April, 2005. The Pharmacy New Zealand business sold during the year ended 30 April, 2006 is shown as a discontinued operation in the segment note (refer note 2).

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14. EXPLANATION OF TRANSITION TO AIFRSs (continued)

Notes to the reconciliations

The impact on deferred tax of the adjustments described below is set out in note (i).

- (a) The consolidated entity has applied AASB 3 to all business combinations that have occurred since 1 May 2004 (the date of transition to AIFRSs). Accordingly, the consolidated entity has revised the measurement of certain assets to fair value at the date of the business combination in which they were acquired. In addition, the consolidated entity has elected not to apply AIFRS retrospectively to all business combinations that occurred before 1 May 2004.

AASB 3 does not allow certain redundancy and restructuring costs to be capitalised into goodwill as part of a business combination. As a consequence the consolidated entity has reversed from goodwill certain costs previously capitalised to a business combination which occurred during the AIFRS transitional year. Goodwill has decreased by \$1,149,000 at 30 April 2005. Administration and general expenses have increased by \$1,641,000 and income tax expense has increased by \$492,000 for the year ended 30 April 2005.

Furthermore, from 1 May 2004, goodwill is no longer amortised under AIFRS but is tested annually for impairment. The effect on the consolidated entity of the requirement to test annually for impairment (excluding the reversal of goodwill amortisation charges) is to reduce the carrying amount of goodwill for impairment at 1 May 2004 and 30 April 2005 by \$1,318,000, as a consequence of assessing recoverable amount using discounted cash flows.

The effect on the consolidated entity of no longer amortising goodwill was to increase goodwill by \$5,718,000 at 30 April 2005. Administration and general expenses have reduced by \$5,718,000 for the year ended 30 April 2005.

- (b) Under previous GAAP, certain leases were classified as operating leases. Under AIFRSs those leases are classified as finance leases and the related assets recognised in the balance sheet of the consolidated entity due to differences in the classification criteria for a finance lease under previous GAAP.

The effect on the consolidated entity is to increase property, plant and equipment net of accumulated amortisation charges by \$750,000 at 1 May 2004 and by \$2,654,000 at 30 April 2005.

This also increased interest-bearing loans and borrowings by \$778,000 at 1 May 2004 and by \$2,645,000 at 30 April 2005.

Administration and general expenses decreased by \$37,000 for the year ended 30 April 2005.

In addition, under previous GAAP fixed rate rental increases were recognised as an expense in the period they were incurred. AIFRSs require minimum lease costs which include fixed rate rental increases to be recognised on a straight line basis. The effect on the consolidated entity was to increase provisions by \$3,555,000 at 30 April 2005. As the adjustment at 30 April 2005 related to a business combination occurring during the consolidated entity's transitional year the adjustment to provisions was reflected against goodwill rather than retained earnings. Administration and general expenses have reduced by \$251,000 for the year ended 30 April 2005.

- (c) Under previous GAAP pension obligations were recognised on a cash basis. In accordance with AASB 1, the cumulative actuarial losses existing at 1 May 2004 amounting to \$93,000 have been recognised for all defined benefit plans.

The effect is to increase trade and other payables by \$93,000 at 1 May 2004 and to increase trade and other receivables by \$610,000 at 30 April 2005. Administration and general expenses have reduced by \$703,000 for the year ended 30 April 2005.

- (d) An obligation exists to restore certain sites for the effect of the consolidated entity's operations. Under previous GAAP, the cost of rectification was recognised as an expense when incurred.

In accordance with AIFRSs, restoration costs should be recognised as part of the cost of property, plant and equipment and as a provision at the time of the obligating event.

The effect on the consolidated entity is to increase property, plant and equipment (net of depreciation charges) by \$434,000 at 1 May 2004 and by \$1,052,000 at 30 April 2005.

The effect is to also increase provisions by \$550,000 at 1 May 2004 and by \$1,943,000 at 30 April 2005.

Warehousing and distribution expenses increased by \$201,000 for the year ended 30 April 2005.

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

14. EXPLANATION OF TRANSITION TO AIFRSs (continued)

Notes to the reconciliations (continued)

As a net provision (before tax) of \$574,000 at 30 April 2005 related to a business combination occurring during the consolidated entity's transitional year, the net adjustment to property, plant and equipment and provisions was reflected against goodwill rather than retained earnings.

- (e) Translation differences that arose prior to the date of transition to AIFRSs in respect of all foreign entities have been reversed to zero in accordance with the transitional exemption available under AASB 1. Accordingly the foreign currency translation reserve as at 1 May 2004 of \$613,000 was transferred to retained earnings.
- (f) At 1 May 2004, an amount of \$442,000 has been reclassified from a revaluation reserve recognised under previous GAAP to retained earnings. The amount represents the balance on the revaluation reserve at 1 May 2004 in respect of assets that are measured on the basis of deemed cost under AIFRSs. In addition, an amount of \$75,000 has been reclassified from a capital profits reserve to retained earnings.
- (g) The consolidated entity reclassified items previously classed as property, plant and equipment and other assets to intangible assets in accordance with AASB 138. This resulted in the transfer from property, plant and equipment to intangibles of \$563,000 at 30 April 2005. In addition, deferred expenses of \$5,800,000 at 1 May 2004 and \$12,777,000 at 30 April 2005 previously classed other non-current assets were also transferred to intangibles.
- (h) Costs capitalised under previous GAAP were no longer permitted to be capitalised under AASB 116. The effect on the consolidated entity was to reduce property, plant and equipment at 30 April 2005 by \$88,000 and increase general and administration expense by \$88,000 for the year ended 30 April 2005.
- (i) Based on an income tax rate of 30%, the above changes increased (decreased) the net deferred tax balance as follows:

| <i>In thousands of AUD</i> | Note | 1 May 2004 | 30 April 2005 |
|--------------------------------------|-------------|-----------------------|--------------------------|
| Property, plant and equipment | <i>h</i> | - | 26 |
| Pension obligations | <i>c</i> | 28 | (183) |
| Finance lease classification | <i>b</i> | 8 | (3) |
| Operating lease straight line rental | <i>b</i> | - | 1,067 |
| Brands | <i>*</i> | (286) | (2,579) |
| Decommissioning costs | <i>d</i> | 35 | 267 |
| Change in net deferred tax balance | | <u>(215)</u> | <u>(1,405)</u> |

* The effect of applying the balance sheet approach resulted in the consolidated entity recording a deferred tax liability of \$286,000 at 1 May 2004 and \$2,579,000 at 30 April 2005. These adjustments related to the temporary differences in indefinite life brand names not recognised under the previous GAAP income statement approach. \$2,293,000 of the adjustment relates to a business combination occurring during the consolidated entity's transitional year and has therefore been recognised as part of goodwill arising on that combination.

- (j) The effect of the above adjustments (increased) / decreased retained earnings as follows:

| <i>In thousands of AUD</i> | Note | 1 May 2004 | 30 April 2005 |
|---------------------------------------|-------------|-----------------------|--------------------------|
| Business combinations | <i>a</i> | - | 1,149 |
| Goodwill impairment | <i>a</i> | 1,318 | 1,318 |
| Goodwill amortisation | <i>a</i> | - | (5,718) |
| Property, plant and equipment | <i>h</i> | - | 88 |
| Pension obligations | <i>c</i> | 93 | (611) |
| Finance lease classification | <i>b</i> | 28 | 9 |
| Operating lease straight line rental | <i>b</i> | - | (251) |
| Decommissioning costs | <i>d</i> | 116 | 317 |
| Reclassification of reserves | <i>e,f</i> | (1,130) | (1,130) |
| Deferred tax | <i>i</i> | 215 | 410 |
| Total adjustment to retained earnings | | <u>640</u> | <u>(4,419)</u> |

Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Financial Report

For the year ended 30 April 2006

14. EXPLANATION OF TRANSITION TO AIFRSs (continued)

Notes to the reconciliations (continued)

(k) Under previous GAAP sales revenue was recorded as gross invoices to the customer, before consideration of early settlement discounts. Under AIFRSs it has been clarified that sales revenue is to be reported net of early settlement discounts.

The effect to the consolidated entity is to decrease sales revenue by \$232,692,000 for the year ended 30 April 2005 and to decrease cost of sales by \$232,692,000 for the year ended 30 April 2005, with no impact on retained earnings.

Reconciliation of cash flow statement

There are no adjustments to the cash flow statement for the consolidated entity for the year ended 30 April 2005.

15. CHANGES IN ACCOUNTING POLICY

Reconciliation of financial instruments as if AASB 139 was applied at 1 May 2005

In the current financial year the consolidated entity adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

Under previous GAAP, the consolidated entity did not initially measure non-current receivables at fair value and subsequently at amortised cost. In accordance with AIFRSs non-current receivables are now measured initially at fair value and subsequently at amortised cost. The effect in the consolidated entity is to decrease non-current receivables by \$1,907,000, retained earnings by \$1,378,000 and to increase deferred tax assets by \$590,000 at 1 May 2005.

Under previous GAAP, the consolidation entity recorded trade receivable balances paid by credit card and guaranteed by the consolidated entity as a contingent liability. In accordance with AIFRSs these balances of \$69,796,000 are included as trade and other receivables with a \$69,796,000 increase in trade and other payables at 30 April, 2006. At 1 May 2005 this has resulted in an increase in trade and other receivables of \$63,057,000 and an increase in trade and other payables of \$63,057,000 in the consolidated entity.

Commentary on the results for the period

The commentary on the results of the period is contained in the "FY06 Results Presentation" dated 14 August 2006.

Annual Meeting

The annual meeting will be held as follows:

Place:

| |
|--|
| Australian Pharmaceutical Industries Limited 11 Grand Avenue Camellia, NSW |
|--|

Date:

| |
|------------------------------|
| Thursday, 28 September, 2006 |
|------------------------------|

Time:

| |
|--------|
| 2.00pm |
|--------|

Approximate date the annual report will be available:

| |
|-----------------|
| 28 August, 2006 |
|-----------------|

Compliance statement

1. The financial report is in the process of being audited.
2. The entity has a formally constituted audit committee.