

**Appendix 4E**  
**Preliminary Final Report**  
**For the year ended 30 April 2007 - DRAFT**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
*(all comparisons to year ended 30 April 2006)*

	\$'000	up / down	% Movement
Revenue	2,648,989	up	2.6%
Profit before interest, tax, depreciation, associates & significant items	53,123	down	-22.8%
Profit before interest, tax & depreciation & associates	22,590	down	-56.3%
Profit/(loss) before tax	(15,843)	down	-160.1%
Profit/(loss) from ordinary activities after tax attributable to members	(11,270)	down	-154.9%

<b>Dividend information</b>	<b>Amount per share</b>	<b>Franked amount per share</b>
Interim dividend per share – cents	-	-
Final dividend per share - cents	-	-
<u>Total dividends per share for the year - cents</u>	-	-

	<b>30 April 07</b>	<b>30 April 06</b>
Net tangible asset backing per share	\$0.76	\$0.84

**Results from operating activities**

During the half year ending 31 October 2006, the company's trading result was affected by the share trading halt and recognition of significant one-off costs, totalling \$24.3m, resulting in a half year loss before interest, tax and depreciation of \$7.6m. The second half profit before interest, tax, associates and depreciation totalled \$30.2m resulting in a full year profit before interest, tax, associates and depreciation of \$22.6m.

## Consolidated Income Statement

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Final Report

For the year ended 30 April 2007

*In thousands of AUD*

	<b>Note</b>	<b>Consolidated</b>	
		<b>2007</b>	<b>2006</b>
Revenue		2,648,989	2,582,144
Cost of sales		(2,321,396)	(2,231,242)
<b>Gross profit</b>		<b>327,593</b>	<b>350,902</b>
Other income	3	12,513	4,328
Warehousing and distribution expenses		(86,052)	(81,907)
Marketing and sales expense		(172,456)	(156,091)
Administration and general expenses		(74,524)	(60,658)
Other expenses		-	(17,178)
<b>Results from operating activities</b>		<b>7,074</b>	<b>39,396</b>
Financial income	5	3,478	2,278
Financial expenses	5	(23,850)	(15,569)
<b>Net financing costs</b>		<b>(20,372)</b>	<b>(13,291)</b>
Share of profit of associates	8	(2,545)	309
<b>Profit / (loss) before tax</b>		<b>(15,843)</b>	<b>26,414</b>
Income tax expense		4,358	(7,775)
<b>Profit / (loss) after tax but before profit and loss of discontinued operation and gain on discontinued operation</b>		<b>(11,485)</b>	<b>18,639</b>
Profit of discontinued operation and gain on sale of discontinued operation, net of tax	6	-	1,735
<b>Profit / (loss) for the year</b>		<b>(11,485)</b>	<b>20,374</b>
<b>Attributable to:</b>			
Equity holders of the parent		(11,270)	20,561
Minority interest		(215)	(187)
<b>Profit / (loss) for the year</b>		<b>(11,485)</b>	<b>20,374</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company (cents per share):</b>			
Basic earnings / (loss) per share from continuing operations	7	(4.4)	7.3
Diluted earnings / (loss) per share from continuing operations	7	(4.4)	7.3

## Statement of Recognised Income and Expense

Australian Pharmaceutical Industries Limited and Controlled Entities

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<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
Foreign exchange translation differences	2,626	(4,686)
Effective portion of changes in fair value of cash flow hedges	(362)	-
<b>Net income recognised directly in equity</b>	<b>2,264</b>	<b>(4,686)</b>
<b>Profit / (loss) for the period</b>	<b>(11,485)</b>	<b>20,374</b>
<b>Total recognised income and expense for the period</b>	<b>(9,221)</b>	<b>15,688</b>
<b>Attributable to:</b>		
Equity holders of the parent	(9,006)	15,875
Minority interest	(215)	(187)
<b>Total recognised income and expense for the period</b>	<b>(9,221)</b>	<b>15,688</b>
<b>Effects of change in accounting policy- financial instruments:</b>		
Equity holders of the parent	-	(1,378)
Minority interest	-	-
	-	(1,378)

Other movements in equity arising from transactions with owners as owners are set out in note 9.

## Statement of Financial Position

Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2007

<i>In thousands of AUD</i>	<i>Note</i>	<b>Consolidated</b>	
		<b>2007</b>	<b>2006</b>
<b>Assets</b>			
Cash and cash equivalents	10	21,315	36,076
Trade and other receivables		120,461	167,858
Inventories		256,492	250,388
Income tax receivable		14,068	613
<b>Total current assets</b>		<b>412,336</b>	<b>454,935</b>
Receivables		124,844	91,932
Investments accounted for using the equity method	8	27,210	28,221
Deferred tax assets		12,284	13,033
Property, plant and equipment		76,046	69,228
Intangible assets		216,926	215,931
<b>Total non-current assets</b>		<b>457,310</b>	<b>418,345</b>
<b>Total assets</b>		<b>869,646</b>	<b>873,280</b>
<b>Liabilities</b>			
Bank overdraft	10	6,693	6,016
Trade and other payables		423,136	411,348
Interest-bearing loans and borrowings		1,831	760
Employee benefits		13,134	12,558
Provisions		1,609	1,017
<b>Total current liabilities</b>		<b>446,403</b>	<b>431,699</b>
Trade and other payables		4,233	3,613
Interest-bearing loans and borrowings		2,650	3,299
Employee benefits		2,762	3,192
Provisions		2,363	2,580
<b>Total non-current liabilities</b>		<b>12,008</b>	<b>12,684</b>
<b>Total liabilities</b>		<b>458,411</b>	<b>444,383</b>
<b>Net assets</b>		<b>411,235</b>	<b>428,897</b>
<b>Equity</b>			
Issued capital		419,499	419,499
Reserves		1,441	(823)
Retained earnings		(9,705)	9,285
<b>Total equity attributable to equity holders of the parent</b>	9	<b>411,235</b>	<b>427,961</b>
<b>Minority interest</b>		<b>-</b>	<b>936</b>
<b>Total equity</b>		<b>411,235</b>	<b>428,897</b>

## Statement of Cash Flows

Australian Pharmaceutical Industries Limited and Controlled Entities

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For the year ended 30 April 2007

<i>In thousands of AUD</i>	<i>Note</i>	<b>Consolidated</b>	
		<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		2,961,285	3,021,572
Cash paid to suppliers and employees		(2,887,998)	(2,853,241)
Cash generated from operations		73,287	168,331
Interest received	5	3,478	2,278
Interest paid	5	(23,850)	(15,569)
Income taxes paid		(2,713)	(7,932)
<b>Net cash from operating activities</b>		<b>50,202</b>	<b>147,108</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		2,338	7,687
Acquisition of property, plant and equipment		(20,014)	(17,881)
Acquisition of subsidiary, net of cash acquired		-	(4,189)
Loans to pharmacies		(647)	(285)
Loans to associates		(5,832)	(16,873)
Proceeds for disposal of subsidiary, net of cash disposed		4,000	25,443
Proceeds for disposal of discontinued operations		215	-
Payment for intangibles		(5,180)	(4,230)
<b>Net cash from investing activities</b>		<b>(25,120)</b>	<b>(10,328)</b>
<b>Cash flows from financing activities</b>			
Payment for interest bearing note (securitised receivable)		(32,543)	(35,294)
Proceeds from the issue of share capital		-	-
Repayment of borrowings		304	(56,964)
Payment of finance lease liabilities		(422)	(957)
Repayment of depositors' loans		-	(117)
Dividends paid	9	(7,720)	(33,455)
<b>Net cash from financing activities</b>		<b>(40,381)</b>	<b>(126,787)</b>
Net increase in cash and cash equivalents		(15,299)	9,993
Cash and cash equivalents at 1 May		30,060	20,080
Effect of exchange rate fluctuations on cash held		(139)	(13)
<b>Cash and cash equivalents at 30 April</b>	<i>10</i>	<b>14,622</b>	<b>30,060</b>

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Final Report

For the year ended 30 April 2007

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### 1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia. The preliminary final report of the Company for the financial year ended 30 April 2007 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 final report has been prepared in accordance with the measurement requirements of Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') for the purpose of fulfilling the consolidated entity's obligation under the Australian Stock Exchange listing rules.

#### (b) Basis of preparation

The preliminary final report is presented in Australian dollars.

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

The accounting policies have been applied consistently and a full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's full financial report.

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

Preliminary Final Report

For the year ended 30 April 2007

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### 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 (\* discontinued) – Distribution of pharmaceutical and medical products to pharmacy; and retail services.

##### Healthcare Distribution (\* discontinued)

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.



**Notes to the Preliminary Financial Report**  
 Australian Pharmaceutical Industries Limited and Controlled Entities  
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**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												
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
<b>Revenue</b>																									
External segment sales	1,962,927	1,985,837	-	303,524	-	25,130	-	576	566,030	477,675	6,248	5,885	35,417	34,924	-	-	2,570,622	2,833,551	-	303,524	-	25,706	2570,622	2,504,321	
Internal segment services	26,458	34,594	-	8,055	-	125	-	-	51,909	43,229	-	-	-	-	-	-	78,367	86,003	-	8,055	-	125	78,367	77,823	
Internal segment sales	-	-	-	-	-	-	-	-	-	-	3,500	3,481	7,166	7,412	(10,666)	(10,893)	-	-	-	-	-	-	-	-	
<b>Total segment revenue</b>	<b>1,989,385</b>	<b>2,020,431</b>	<b>-</b>	<b>311,579</b>	<b>-</b>	<b>25,255</b>	<b>-</b>	<b>576</b>	<b>617,939</b>	<b>520,904</b>	<b>9,748</b>	<b>9,366</b>	<b>42,583</b>	<b>42,336</b>	<b>(10,666)</b>	<b>(10,893)</b>	<b>2,648,989</b>	<b>2,919,554</b>	<b>-</b>	<b>311,579</b>	<b>-</b>	<b>25,831</b>	<b>2,648,989</b>	<b>2,582,144</b>	
<b>Segment result</b>	<b>27,581</b>	<b>42,167</b>	<b>-</b>	<b>2,782</b>	<b>-</b>	<b>(730)</b>	<b>-</b>	<b>-</b>	<b>24,654</b>	<b>24,844</b>	<b>(166)</b>	<b>(1,319)</b>	<b>147</b>	<b>1,332</b>	<b>-</b>	<b>-</b>	<b>52,216</b>	<b>69,076</b>	<b>-</b>	<b>2,782</b>	<b>-</b>	<b>(730)</b>	<b>52,216</b>	<b>67,024</b>	
Unallocated income																									
Significant Expenses																	(30,533)	(17,178)	-	-	-	-	(30,533)	(17,178)	
Unallocated expenses																	(14,609)	(10,450)	-	-	-	-	(14,609)	(10,450)	
Profit before financing costs																	7,074	41,448	-	2,782	-	(730)	7,074	39,396	
Net financing costs																	(20,372)	(13,130)	-	161	-	-	(20,372)	(13,291)	
Share of profit of associates																	(2,545)	309	-	-	-	-	(2,545)	309	
Gain/(loss) on sale of discontinued operation																	-	-	-	-	-	-	-	-	
Profit before tax																	300	300	-	300	-	-	-	300	
Income tax expense																	(15,843)	28,927	-	3,243	-	(730)	(15,843)	26,414	
<b>Net profit</b>																	<b>4,358</b>	<b>(8,553)</b>	<b>-</b>	<b>(1,009)</b>	<b>-</b>	<b>231</b>	<b>4,358</b>	<b>(7,775)</b>	
																	<b>(11,485)</b>	<b>20,374</b>	<b>-</b>	<b>2,234</b>	<b>-</b>	<b>(499)</b>	<b>(11,485)</b>	<b>18,639</b>	
Depreciation & amortisation	8,443	5,323	-	494	-	54	-	2	6,028	5,468	-	125	1,046	784	-	-	15,517	12,250	-	494	-	56	15,517	11,700	
<b>Assets</b>																									
Segment assets	546,308	540,079	-	-	-	-	-	-	370,877	311,074	26,579	23,716	73,146	68,274	(174,474)	(98,083)	842,436	845,059	-	-	-	-	-	-	
Equity accounted investments	27,210	26,311	-	-	-	-	-	-	-	-	-	-	-	1,910	-	-	27,210	28,221	-	-	-	-	-	-	
<b>Consolidated total assets</b>	<b>573,518</b>	<b>566,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>370,877</b>	<b>312,983</b>	<b>26,579</b>	<b>23,716</b>	<b>73,146</b>	<b>70,184</b>	<b>(174,474)</b>	<b>(98,083)</b>	<b>869,646</b>	<b>873,280</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Liabilities</b>																									
Segment liabilities	386,786	372,546	-	-	-	-	-	-	211,919	137,376	18,848	16,102	14,740	15,697	(174,474)	(98,083)	457,819	443,638	-	-	-	-	-	-	
Unallocated corporate liabilities	592	745	-	-	-	-	-	-	-	-	-	-	-	-	-	-	592	745	-	-	-	-	-	-	
<b>Consolidated total liabilities</b>	<b>387,378</b>	<b>373,291</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>211,919</b>	<b>137,376</b>	<b>18,848</b>	<b>16,102</b>	<b>14,740</b>	<b>15,697</b>	<b>(174,474)</b>	<b>(98,083)</b>	<b>458,411</b>	<b>444,383</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Capital Expenditure</b>	<b>1,545</b>	<b>6,794</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,453</b>	<b>10,225</b>	<b>-</b>	<b>-</b>	<b>2,016</b>	<b>6,401</b>	<b>-</b>	<b>-</b>	<b>20,014</b>	<b>23,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

\*1H07: Pharmacy Segment included 13m Segment Revenue and 2.8m Segment result which is reflected in Retail Australia Segment revenue and Segment result for the full year.

*In thousands of AUD*  
**Secondary reporting – Geographical segments**  
 External segment revenue by location of customers  
 Segment assets by location of assets  
 Capital Expenditure

	Australia		New Zealand		Consolidated	
	2007	2006	2007	2006	2007	2006
External segment revenue by location of customers	2,606,406	2,565,062	42,583	354,491	2,648,989	2,919,553
Segment assets by location of assets	796,500	803,096	73,146	70,184	869,646	873,280
Capital Expenditure	17,998	17,049	2,016	6,401	20,014	23,450

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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### 3. OTHER INCOME

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
Net gain on disposal of stores, property, plant and equipment	12,261	2,539
Gain on sale of business:	252	1,789
	<u>12,513</u>	<u>4,328</u>

### 4. SIGNIFICANT ITEMS

Included in these costs are the following:

*In thousands of AUD*

Termination & redundancy costs	3,449	-
Financial Year 2006 Completion Costs	4,075	-
Corporate Expenses	3,244	-
Joint Venture and divestment costs	3,946	-
Retail shrinkage & stocktake costs	7,656	-
Pharmacy Inventory obsolescence	8,163	-
IT system conversion discrepancies written off	-	17,178

### 5. NET FINANCING COSTS

*In thousands of AUD*

Interest income	(3,478)	(2,278)
Interest expense	23,850	15,569
Net financing costs	<u>20,372</u>	<u>13,291</u>

### 6. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

#### Discontinued operations

On 20 April 2007, API sold its subsidiary share in the Pharmacy Brands Limited. As this is not a separate segment for reporting purposes, it is not treated as a discontinued operation.

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.

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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### 6. 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*

	2007	2006	2007	2006
	Pharmacy Distribution New Zealand		Healthcare Distribution	
<b>Assets and liabilities disposed</b>				
Property, plant and equipment	-	5,079	-	2,321
Inventories	-	42,693	-	41,956
Trade receivables	-	68,895	-	15,377
Other receivables	-	2,742	-	2,030
Deferred tax assets	-	1,060	-	1,004
Goodwill	-	15,881	-	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
<b>Total cash consideration on sale</b>				
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	-	-
<b>Net change in cash</b>				
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*

	2007	2006	2007	2006
	Pharmacy Distribution New Zealand		Healthcare Distribution	
Revenue	-	311,579	-	25,831
Cost of sales	-	(298,537)	-	(22,810)
Gross profit	-	13,042	-	3,021
Warehousing and distribution expenses	-	(9,061)	-	(971)
Marketing and sales expenses	-	(66)	-	(2,664)
Administrative expenses	-	(1,133)	-	(116)
Operating profit / (loss) before financing costs	-	2,782	-	(730)
Net financing costs	-	161	-	-
Profit/(loss) before tax	-	2,943	-	(730)
Income tax (expense) / benefit	-	(1,009)	-	231
Profit/(loss) after tax	-	1,934	-	(499)
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	-	(499)

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### 7. EARNINGS PER SHARE

#### Basic earnings per share

The calculation of basic earnings per share at 30 April 2007 was based on the loss attributable to ordinary shareholders of \$(11,270,000) (2006: profit of \$20,561,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 April 2007 of 257,346,000 (2006: 257,346,000), calculated as follows:

#### Profit attributable to ordinary shareholders

<i>In thousands of AUD</i>	<i>Note</i>	<b>Consolidated</b>	
		<b>2007</b>	<b>2006</b>
Profit attributable to ordinary shareholders		(11,270)	20,561

#### Weighted average number of ordinary shares

<i>In thousands of shares</i>		<b>Consolidated</b>	
		<b>2007</b>	<b>2006</b>
Issued ordinary shares at 1 May	10	257,346	257,346
Weighted average number of ordinary shares at 30 April		257,346	257,346

#### Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2007 was based on loss attributable to ordinary shareholders of \$(11,270,000) (2006: profit of \$20,561,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 April 2007 of 257,346,000 (2006: 257,346,000), calculated as follows:

#### Profit attributable to ordinary shareholders (diluted)

<i>In thousands of AUD</i>	<b>2007</b>	<b>2006</b>
Profit attributable to ordinary shareholders (diluted)	(11,270)	20,561

#### Weighted average number of ordinary shares (diluted)

<i>In thousands of shares</i>	<b>2007</b>	<b>2006</b>
Weighted average number of ordinary shares at 30 April	257,346	257,346
Effect of potential ordinary shares on issue	-	31
Weighted average number of ordinary shares (diluted) at 30 April	257,346	257,377

#### Earnings per share for continuing and discontinued operations

##### Basic earnings per share

<i>In cents</i>	<b>2007</b>	<b>2006</b>
From continuing operations	(4.4)	7.3
From discontinued operations	-	0.7
	(4.4)	8.0

##### Diluted earnings per share

<i>In cents</i>	<b>2007</b>	<b>2006</b>
From continuing operations	(4.4)	7.3
From discontinued operations	-	0.7
	(4.4)	8.0

For the financial year ended 30 April 2007, earnings per share for continuing and discontinued operations has been calculated using the same figures as earnings per share, except that the loss for the period used in the calculation is the loss relating to continuing operations of \$(11,270,000) (2006: profit of \$18,826,000) and the profit relating to discontinued operations of \$nil (2006: \$1,735,000).

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities  
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### 8. 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	
				2007	2006
CH2 Holdings Pty Ltd	Hospital supplies distribution	Australia	June	45.5%	50%
Making Life Easy Pty Ltd	Operates mobility and independent living retail superstores	Australia	June	50%	50%

#### CH2 Holdings Pty Ltd

During February and April 2007, API reduced its ownership in CH2 Holdings Pty Ltd to 45.5% as a result of employees taking an equity stake. As part of this agreement the consolidated entity made a further investment of \$1,948,747 in this business.

	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>				
<b>2007</b>				
CH2 Holdings Pty Ltd	652,565	(2,020)	(1,010)	27,210
Making Life Easy Pty Ltd	16,712	(3,070)	(1,535)	-
	<u>669,277</u>	<u>(5,090)</u>	<u>(2,545)</u>	<u>27,210</u>
<b>2006</b>				
CH2 Holdings Pty Ltd	751,809	996	498	26,271
Making Life Easy Pty Ltd	1,417	(375)	(187)	41
Pharmacybrands Limited equity investments	9,735	(4)	(2)	1,909
	<u>762,961</u>	<u>617</u>	<u>309</u>	<u>28,221</u>

#### Results of associates

<i>In thousands of AUD</i>	Consolidated	
	2007	2006
Share of associate profit before income tax	(2,978)	441
Share of income tax expense	433	(132)
Share of associates net profit accounted for using the equity method	<u>(2,545)</u>	<u>309</u>

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities

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### 9. CAPITAL AND RESERVES

*In thousands of AUD*

	Share capital	Retained earnings	Translation reserve	Hedging Reserve	Equity reserve	Total	Minority interest	Total equity
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
Equity settled transactions	-	-	-	-	15	15	-	15
Total recognised income and expense	-	20,561	(4,686)	-	-	15,875	(187)	15,688
Dividends to shareholders	-	(33,455)	-	-	-	(33,455)	-	(33,455)
Balance at 30 April 2006	419,499	9,285	(838)	-	15	427,961	936	428,897
Balance at 1 May 2006	419,499	9,285	(838)	-	15	427,961	936	428,897
Disposal during the year	-	-	-	-	-	-	(721)	(721)
Total recognised income and expense	-	(11,270)	2,626	(362)	-	(9,006)	(215)	(9,221)
Dividends to shareholders	-	(7,720)	-	-	-	(7,720)	-	(7,720)
Balance at 30 April 2007	419,499	(9,705)	1,788	(362)	15	411,235	-	411,235

#### Share capital

*In thousands of shares*

On issue at 1 May and 30 April – fully paid

#### The Company Ordinary shares

2007      2006

257,346    257,346

#### 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.

## Notes to the Preliminary Financial Report

Australian Pharmaceutical Industries Limited and Controlled Entities  
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### 9. 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
<b>2007</b>				
Interim 2007 ordinary	-	-	N/A	N/A
Final 2006 ordinary	3.00	7,720	Franked (i)	8 September 2006
Total amount		<u>7,720</u>		
<b>2006</b>				
Interim 2006 ordinary	6.25	16,084	Franked (i)	31 January 2006
Final 2005 ordinary	6.75	17,371	Franked (ii)	1 August 2005
Total amount		<u>33,455</u>		

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

(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	
2007	2006
10,503	20,721

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. As there are no profits available, no dividend can be declared.

### 10. CASH AND CASH EQUIVALENTS

*In thousands of AUD*

Cash and cash equivalents  
Bank overdrafts repayable on demand  
Cash and cash equivalents in the statement of cash flows

Consolidated	
2007	2006
21,315	36,076
(6,693)	(6,016)
<u>14,622</u>	<u>30,060</u>

## 11. 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>	<b>Note</b>	<b>Consolidated 2007</b>	<b>2006</b>
Contingent liabilities considered remote			
Guarantee of bank facilities of pharmacy customers	(i)	97,043	112,137
Contingent liability on termination of a director's service contract		710	683
Guarantee for property rentals	(ii)	19,535	28,246
Contingent liability for potential ClubCard voucher redemptions	(iii)	4,888	3,049

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. As a consequence of the adoption of the amendments to AASB 139: Financial Instruments – Recognition and Measurement, the consolidated entity was required to recognise the fair value of financial guarantees as an actual liability from 1 May 2006. The amount disclosed as a contingent liability represents the consolidated entity's total potential exposure to guarantees of bank facilities of pharmacy customer.
- ii. The guarantee for property rentals represents guarantees on franchisee leases of premises.
- iii. 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.

## Commentary on the results for the period

The commentary on the results of the period is contained in the "FY07 Results Presentation" dated XX June 2007.

## Annual Meeting

The annual meeting will be held as follows:

Place:

Australian Pharmaceutical Industries Limited 11 Grand Avenue Camellia, NSW
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Date:

Tuesday, 18 December, 2007
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Time:

2.00pm
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Approximate date the annual report will be available:

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## Compliance statement

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