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Australian Pharmaceutical Industries Limited **2009 Annual Report**

For the year ended 31 August 2009

api

priceline
beauty health wellbeing

Soul Pattinson Chemist

Pharmacist Advice

api Member

Australian Pharmaceutical Industries Limited
ABN 57 000 004 320

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The Directors present their report together with the financial report of Australian Pharmaceutical Industries Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 August 2009 and the auditor's report thereon.

Contents

section 1
Chairman's report

During the year ended 31 August 2009, API continued to build on its previous year's profit performance. Over the full twelve month period, total revenue of the Company was $3.5 billion, an increase of 9.6%, a solid performance given the significant downturn in the domestic economy and against a backdrop of the largest single review of Pharmaceutical Benefits Scheme (PBS) pricing in its history.

The Company reported a net profit after tax of $18.6 million, an increase of 22.3% over the previous corresponding period. Your Board is confident in the Company's on-going position, and has declared a fully franked dividend of 2 cents per share payable to eligible shareholders on 11 December 2009.

Directors and management continue to focus on working capital. Despite an increase in pharmacy sales revenue of 11.3%, well in excess of the underlying growth in the PBS available to pharmaceutical distributors, and comparable retail store growth of 5.4% during the year, average total net debt was slightly below last year. During the same period, $31 million was invested in project 'Revitalise', the Company's supply chain initiative which will deliver expected annualised savings of approximately $10 million in 2011 and approximately $18 million when fully implemented by the end of the 2012 financial year.

At the same time, API has successfully refinanced all debt facilities, having received commitments from its debt financiers that subject to completing final documentation, its senior debt facilities will be extended to April 2012 and the securitisation facility will be extended to April 2011.

When the Company announced its full year results on 21 October 2009, it provided guidance for the 2010 financial year of expected growth in net profit after tax of 10%, subject to a stable industrial and economic environment and no major changes to the regulatory landscape.

The Company also announced that it would raise approximately $150 million in new equity through an Entitlement Offer to Institutions and Retail Shareholders and a Placement to Institutional Investors. This will allow API to reduce net debt, providing flexibility for future growth, through the Priceline brand and in pharmacy disribution. It will also allow the Company to continue to invest in its ongoing strategy of building 400 Priceline stores across Australia by late 2010 to early 2011. Eligible Retail Shareholders were also offered the opportunity to apply for additional shares in excess of their entitlement.

The offer price for the New Shares to be issued under the Entitlement Offer and Placement was 65 cents per New Share representing a 24.7.% discount to the theoretical ex-rights price (TERP), noting that the average discount to TERP for $100 - $300 million entitlements offers year to date 2009 is 19.4%. The Institutional Entitlement was highly successful with 99% of eligible institutional shareholders taking up their entitlement in full and the retail component received strong support from existing shareholders.

The successful equity raising has significantly strengthened the Company's balance sheet reducing pro-forma gearing from 41% to 21% and bringing API's debt metrics in line with its Australian market peers.

As stated in my report last year, the Board again met with senior management in June of this year to further review the Company's Strategic Plan. It is pleasing to note that the Strategic Plan is delivering, as API is now Australia's leading pharmaceutical distributor (by reference to Community Service Obligation payments). In addition the Company's investment in the Priceline brand is delivering considerable returns for stakeholders with like-for-like sales growth during the year of 9.4% in franchised stores, well above the retail market average.

The two major challenges faced by the Company during the past year, namely the downturn in the domestic economy and PBS Reform, were managed very effectively by management. The Priceline 'value-driven' retail offer was well received by consumers as they became more value conscious during the year. Priceline will continue to maintain its value offer to ensure its competitive position, as the threat of rising interest rates, the end of the Government's fiscal programs, and the high levels of discounting in the market creates a level of uncertainty for retailers leading into this year's all important Christmas trading period. I believe our Priceline business is well placed to meet what could be a difficult period with a mix of professional pharmacy services along with a highly competitive health and beauty offer.

At the start of the year, the Pharmacy Distribution division had to deal with the introduction of reforms to the PBS and one of the most significant changes to the scheme since it began over 60 years ago. On 1 August 2008, the reference price payable on a number of PBS products with annual sales of $2 billion was cut in relation to some medicines by 25%, delivering a significant saving to the Government through the PBS. An industry study released in October 2009 claims that these reforms and others to the PBS have delivered the Government a $3 billion windfall. The government will continue to look for further savings through the PBS with the introduction of new price disclosure arrangements. To counter this threat to margins, as previously mentioned, API has commenced the roll-out of its supply chain initiative which will reduce operating costs by approximately $18 million per year when fully implemented by the end of the Company's 2012 financial year.

Over the next five years, a significant number of patents relating to pharmaceutical medicines will expire. This will lead to the introduction of new generic brands for these products. The Company's strategic alliance with Alphapharm, the leading generic pharmaceutical supplier in Australia, will provide API with opportunities to capitalise on the growing generics market.

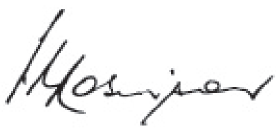
API continues to support the pharmaceutical industry, in particular, through its major sponsorship of the Pharmacy Practice Foundation which was established in 1978 to help promote teaching, research and debate in the area of practice within Sydney University and the pharmaceutical community in New South Wales.

Through its involvement in delivering life saving drugs, API is closely linked to the general community. I was indeed proud of all the staff who gave considerable personal time to help deliver a wide range of health and personal hygiene products, to those who suffered from the Black Saturday bushfires in Victoria. Management and staff worked side by side during and after that weekend to ensure adequate supplies were available to those affected.

Much has been spoken about greenhouse emission levels and what organisations have planned to reduce those levels over the ensuing years. As shareholders are aware, there has been a great deal of community talk with very little action. Through API's supply chain initiative 'Revitalise', the Company will reduce truck movements across the eastern seaboard by approximately 1 million kilometres per annum. This will have an obvious benefit for the environment by the reduction of greenhouse emissions.

In closing, I wish to thank my fellow Board members, management and staff for their dedication and hard work over the past 12 months. Considerable progress has been made during the year with improved profitability and the continued re-alignment of our major business units. With the roll-out of our cost saving initiative through 'Revitalise', a significant pipeline of prospective new Priceline franchises and a much stronger balance sheet after the equity raising, the Board is confident of achieving the 2010 profit guidance provided to the market and continued growth beyond.

Next year is a further significant milestone for API, representing its centenary year since incorporation in April 1910. We should look back with pride on the achievements your Company has made over the last 100 years, as we look forward to achieving greater success in the future.



Peter Robinson

Chairman

section 2
CEO's report

Australian Pharmaceutical Industries reported stronger than expected results for the year ended 31 August 2009.

The Chairman has taken you through the Company's results and highlights and I will review the year from an operational perspective. We believe that API is now positioned as a leading Australian healthcare company and one of Australia's leading health and beauty retailers.

Our results for the past year are very pleasing and demonstrate the focus we have had on strengthening the fundamentals and growth profile of the business.

We have increased revenue by 9.6% to $3.5 billion and profit after tax by 22.3% to $18.6 million, while at the same time invested for the future in our successful Priceline brand and the transformation of our supply chain through 'Revitalise'.

The Pharmacy Division recorded sales growth of 11.3% and EBIT growth of 15.7% while comparable store sales for Priceline were up by 5.4% with underlying EBIT growth of 11.3%.

We have worked hard to ensure the Company is in a sustainable, profitable position. We have carefully managed the balance between investment in the business and increasing the Company's net profit position.

API's Pharmacy Division grew solidly despite volatile market conditions and the largest single review of PBS pricing in the system's history. As previously mentioned, sales growth in pharmacy continued strongly at 11.3%, with margins maintained.

The Pharmacy Division has responded to changes in the industry very well. We have continued to manage our working capital effectively, which has been critical with high revenue and volume growth prior to any benefits from 'Revitalise'.

Our alliance with Alphapharm has continued to perform to expectation and deliver value.

New formats introduced for 'Soul Pattinson' and 'Pharmacist Advice' have gained traction and outperformed the market in the core pharmacy categories. Our retail services offer has been strengthened with the addition of the new 'Premium' business-to-business brand for independent pharmacists. This has led to superior buying outcomes for 'Premium' members and long term, profitable business for API.

Our Consumer Brands (NZ) business has performed to plan and continues to improve in all key areas.

Priceline's status as one of Australia's leading health and beauty retailers has been reinforced with an increase in comparable store sales of 5.4%. This performance was particularly pleasing given the uncertainty in consumer confidence created by the global financial crisis in the past 12 months.

The brand was well placed at the value end of the retail market and continued to offer customers a competitive offer enabling us to position ourselves successfully through the year.

We opened 30 new Priceline stores in the year despite the historically tight credit markets and caution exhibited by investors over the period. We expect to be close to achieving our aim of operating 400 Priceline stores by the end of calendar year 2010 or early 2011.

Management has adopted a strategy of controlled expansion whereby we have opened new stores or converted company-owned stores to the Priceline franchise model as the economic conditions prudently allow.

Priceline's customer offering of health and beauty is clearly resonating, with our independent brand tracking showing that brand perceptions, customer experience, service, awareness and consideration are all at record highs and, importantly, are ahead of our competitors.

Our investment in the Priceline brand is delivering considerable returns for stakeholders with like for like growth in franchised stores up 9.4%.

Priceline re-launched its 'ClubCard' loyalty program in November 2008, creating greater value for members, increasing membership take-up and increasing our sales. The program is now approaching 3 million members, making it one of the largest retail loyalty programs in Australia.

This membership base has become a major driver of sales at favourable margins for the Retail Division. 'ClubCard' members now account for 40% of all retail sales, with the average 'ClubCard' member sale more than 30% higher than for a non-'ClubCard' customer.

Our sales, stores numbers, brand health measures and the increasingly significant 'ClubCard' program all demonstrate our market leadership in the health and beauty segment.

The roll-out of API's supply chain consolidation program, 'Revitalise', is being implemented to our timetable and on budget.

Our first Distribution Centre ("DC") in Melbourne is operating and we are currently preparing to open our Brisbane DC. We are now advanced in our planning for improving the existing Sydney DC.

The benefits from 'Revitalise' will start to flow in 2011 as planned and API confirms previous guidance that in excess of $18 million of savings are expected in 2012.

API is now positioned as a leading Australian healthcare Company and one of Australia's leading health and beauty retailers.

I wish to thank the Board, our Executive team and all API's employees for their contribution throughout the year.

We look forward to 2010 and particularly the celebration of API's 100th year.

Stephen Roche

Managing Director/CEO

Directors' report

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DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Mr Peter R. Robinson, B.Com, FAICD

Chairman

Non-executive director.

Director since 5 May 2000.

Appointed Chairman 8 July 2003.

Mr Robinson joined Washington H Soul Pattinson and Company Limited in 1978 and was appointed a director of Washington H Soul Pattinson and Company Limited in 1984. Mr Robinson is also Chairman of Clover Corporation Limited and a director of New Hope Corporation Limited. Mr Robinson resigned as a director of SP Telemedia Limited in April 2008.

Mr Robinson has also been a non- executive director of KH Foods Limited (1987-2006). Mr Robinson was re-appointed as a director of KH Foods Limited in February 2008.

Mr Robert D. Millner, FAICD

Non-executive director.

Director since 5 May 2000.

Member of the Remuneration Committee.

Mr Millner is the Chairman of Washington H Soul Pattinson and Company Limited and has been a non-executive director of Washington H Soul Pattinson and Company Limited since 1984.

Mr Millner is also Chairman of Brickworks Limited, Brickworks Investment Company Limited, Choiseul Investments Limited, Souls Private Equity Limited, New Hope Corporation Limited and Milton Corporation Limited.

Mr Millner is a director of SP Telemedia Limited.

The Hon Dr Michael R. Wooldridge, BSc, MBBS, MBA, LLD

Independent non-executive director.

Director since 1 February 2006.

Member of the Remuneration Committee.

Appointed Lead Independent Director 2 December 2008.

Dr Wooldridge was Australia's Federal Minister for Health from 1996 to 2001. Dr Wooldridge is an Honorary Fellow of the Australasian Faculty of Public Health Medicine.

Dr Wooldridge is Chairman of Prime Trust Ltd, Dia-B Tech Limited, and a director of Cogstate Ltd.

Ms E. Carol Holley, B.A, FCA, FAICD

Independent non-executive director.

Director since 19 December 2006.

Appointed Chair of the Audit and Risk Committee on 19 December 2006.

Ms Holley is the Chair of Audit and Finance Committee and a member of the Governance Committee for Job Futures Ltd and is Chair of Cochlear Foundation Ltd.

Ms Holley is also Chair of the Risk Management and Audit and Risk Committees for NSW Department of Housing, NSW Police and NSW Department of Planning.

During the last 4 years, Ms Holley has also been a non-executive director of Resource Pacific Holdings Ltd.

Mr Stephen P. Roche, B.Bus, GAICD

Executive director.

Managing Director and Chief Executive Officer since 14 August 2006.

Mr Roche joined API in March 2005. Previously he was Group General Manager, Health Services for Mayne Group Limited with responsibility for pharmacy distribution, pathology and other business units. Previous roles included Chief Operating Officer, Healthcare Services for FH Faulding & Co and a number of management roles at CSR.

Mr Miles L. Hampton, BEc (Hons), FCIS, FCPA, FAICD

Independent non-executive director.

Director since 7 August 2007.

Member of the Audit and Risk Committee since 7 August 2007.

Appointed Chair of the Remuneration Committee on 2 September 2008.

Mr Hampton was previously Managing Director of publicly listed Roberts Limited for 20 years prior to his resignation in 2006. Mr Hampton brings significant business experience to API, particularly in the areas of logistics, real estate and retail operations.

Mr Hampton is currently a director of MyState Limited, Impact Fertilisers Pty Ltd, Tasman Farms Limited, Forestry Tasmania, Hobart Water, and The Van Diemen's Land Company.

Ms Lee Ausburn M.Pharm,
B.Pharm, Dip.Hosp.Pharm, GAICD

Independent non-executive director.

Director since 7 October 2008.

Member of the Audit and Risk Committee since 7 October 2008.

Ms Ausburn is a pharmacist with experience in retail and hospital pharmacy and in academia. She joined the pharmaceutical industry with Merck Sharp and Dohme (Australia) Pty Ltd in 1983 and most recently was Vice President, Asia, for Merck and Co Inc with responsibility for the company's operations across Asia.

Company Secretary

Mr Peter Sanguinetti, has been Company Secretary and General Counsel since November 2007.
Mr Sanguinetti BJuris, LLB, has extensive experience and was previously Company Secretary and General Counsel of Kodak (Australasia) Pty Ltd for 9 years, responsible for legal and company secretarial activities for the Kodak group across Asia. Mr Sanguinetti was also a non-executive director of HPAL Limited (listed ASX) from January 2005 to November 2007. On 2 June 2009, Ms Genevieve Browne was appointed an Alternate Company Secretary. Ms Browne BSc(Hons), LLB(Hons) is a qualified lawyer and supports the Company Secretary as necessary.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the period were:

	MEETINGS ATTENDED					
	Directors' Meetings		Audit and Risk Committee		Remuneration Committee	
Director	Number attended	Number *held	Number attended	Number *held	Number attended	Number *held
Mr P R Robinson**	14	14	–	–	–	–
Mr R D Millner	13	14	–	–	4	4
Dr M R Wooldridge	13	14	–	–	4	4
Ms E C Holley	14	14	4	4	–	–
Mr S P Roche**	14	14	–	–	–	–
Mr M Hampton	13	14	4	4	4	4
Ms L Ausburn	14	14	4	4	–	–

* Number of meetings held during the time the director held office or was a member of the committee during the period.

** All Directors who are not members of Committees are invited to attend Committee Meetings. Mr Robinson and Mr Roche attended all Audit and Risk and Remuneration Committee meetings by invitation.

CORPORATE GOVERNANCE STATEMENT

The Board recognises the importance of a strong governance framework and culture throughout the organisation. During the year ended 31 August 2009, it continued to build on and enhance the established corporate governance framework.

The roles and responsibilities of the Board are set out in the Board Charter. This is located on the Company's website (www.api.net.au). To assist with the execution of its responsibilities, the Board has established a Remuneration Committee and an Audit and Risk Committee. Both committees have documented charters, which are also available through the Company website.

Under ASX Listing Rules and the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations", API is required to disclose in its annual report the extent of its compliance with the Principles. The Directors have implemented internal control processes for identifying, evaluating and managing significant risks to the achievement of the Company's objectives. These internal control processes cover financial, operating and compliance risks.

The Directors have received and considered the annual control certification by the Chief Executive Officer and the Chief Financial Officer in accordance with the Principles relating to financial and operating risks. Material associates and joint ventures, which API does not control, and are not dealt with for the purposes of this statement. Throughout the reporting period, and as such the date of signing of this annual report, API was in compliance with the Principles in all material respects.

Also available on the Company's website are the following policies:

- Code of Conduct and Ethics;
- Continuous Disclosure;
- Share Trading;
- Director Nomination, Selection and Induction; and
- Shareholder Communication Policy.

The key initiatives completed or in progress during the current year, include:

- A policy dealing with Director nomination, selection and induction has been approved by the Board;
- Financial policies and procedures have been reviewed and are currently being updated by management, prior to review and approval by the Audit and Risk Committee;
- The Compliance Policy has been revised in the current year with the formal appointment of a Compliance Manager, responsible for legal compliance, reporting to the General Counsel and Company Secretary;
- An employee Code of Conduct and Ethics is in place and is available on the Company's website. This is planned to be reviewed over each year, and re-communicated to all employees;
- An Environmental Compliance strategic review was conducted during the year, with the results communicated to the Audit and Risk Committee;
- A policy dealing with Shareholder Communications has been approved by the Board;
- A broader review of all corporate governance policies will be undertaken to ensure alignment with ASX Corporate Governance Council recommendations.

The Board has continued the process of review and renewal including:

- The appointment of Ms Lee Ausburn as a director. Ms Ausburn has also been appointed a member of the Audit and Risk Committee;
- The appointment of Dr Michael R Wooldridge as Lead Independent Director; and
- The Board continues to be comprised of a majority of independent directors. The Board Committees have independent Chairpersons and a majority of independent directors.

The Board confirms that the Company adheres to all of the ASX Recommendations other than the Chairman being a director of the Company's major shareholder.

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Board Processes, including Induction and Contact with the Business

To assist in the execution of its responsibilities, the Board has established a Remuneration Committee and an Audit and Risk Committee. These committees have written charters. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The Board currently holds eleven scheduled meetings each year, as well as other meetings to address any special matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, the Managing Director and the Company Secretary. Standing items include the Managing Director's report (which includes updates on key projects), financial reports, strategic matters, governance and compliance. Papers are circulated in advance. Executives are regularly involved in Board discussions, by invitation.

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit business operations and meet with management, employees and other stakeholders to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent Professional Advice and Access to Company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. A copy of the advice received by the director is to be made available to all other members of the Board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in the beginning of the Directors' Report.

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise in the industries in which the Company operates and Government regulation of those industries, or in significant aspects of accounting and finance and risk management;
- A majority of non-executive directors;
- A non-executive director as Chairman;
- Enough directors to serve on various committees without compromising their ability to discharge their responsibilities; and
- Re-election of directors every three years (except for the Managing Director).

Independence of Directors

The ASX Recommendations define an independent director as a director who is not a member of management (a non-executive director) and who:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder;
- Has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- Within the last three years has not been a principal or employee of a material[1] professional adviser or a material[1] consultant to the Company or another group member;
- Is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material[1] supplier or customer;
- Has no material[1] contractual relationship with the Company or another group member other than as a director of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially[1] interfere with the director's ability to act in the best interests of the Company.

The Board confirms that all directors meet the stated requirements for independence as set out in the ASX Recommendations, except that Mr Robinson and Mr Millner are directors of the Company's major shareholder, Washington H Soul Pattinson and Company Limited. The Board does not consider that this relationship impacts their ability to bring an independent mind and judgement to the Board. They are subject to re-election by shareholders.

1 The Board considers, 'material', in this context, where any director-related business relationship has represented, or is likely in future to represent the lesser of at least 10% of the relevant segment's or the director-related business revenue. The Board considered the nature of the Company's competition, alternative available services or supplies and the size and nature of each director-related business relationship, in arriving at this threshold.

Nomination, Appointment and Retirement of Directors

The Board is responsible for succession planning, identification and appointment of new Board members and regularly reviews Board membership. The Board oversees the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the Company's Managing Director. The Board considers the appropriate skill mix, personal qualities, expertise and diversity of Board and committee positions, based on the broad criteria outlined above (see "Board Composition"). The Board identifies potential candidates with advice from an external consultant. Directors appointed by the Board must stand for election by shareholders at the Company's next annual general meeting.

The Board also conducts an annual review of the performance of the Managing Director and the senior executives reporting directly to him and the results are discussed at a Board meeting.

The Board undertakes an annual self assessment of its collective performance. The self assessment:

- compares the performance of the Board with the requirements of the Board's charter;
- sets forth the goals and objectives of the Board for the upcoming year; and
- effects any improvements to the Board's charter deemed necessary or desirable.

The Chairman annually assesses the performance of individual directors and where necessary meets privately with each director to discuss this assessment. The Chairman's performance is reviewed by the Board.

The Managing Director does not participate in the review process for appointment of non-executive directors, nor in the review of his own performance by the Board.

REMUNERATION COMMITTEE

The Remuneration Committee has a documented charter approved by the Board. The Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and non-executive directors. It is also responsible for share schemes, senior executive incentive programs and a range of employment related matters.

The members of the Remuneration Committee during the year were:

Mr M Hampton – Independent non-executive – appointed Chairman 2 September 2008;

Mr R D Millner – Non-executive – appointed 2 October 2007; and

Dr M R Wooldridge – Independent non-executive – appointed 2 October 2007.

The Managing Director is invited to Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages.

The Remuneration Committee formally meets twice a year and otherwise as required.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has a documented charter, approved by the Board. The Committee's objective is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit and Risk Committee during the period ended 31 August 2009 were:

Ms E C Holley (Chair) – Independent non-executive – appointed 19 December 2006;

Mr M Hampton – Independent non-executive – appointed 7 August 2007; and

Ms L Ausburn – Independent non-executive – appointed 7 October 2008.

The external auditor, the Managing Director and Chief Financial Officer, are invited to the Audit and Risk Committee meetings at the discretion of the Committee.

The Audit and Risk Committee's charter provides procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The responsibilities of the Audit and Risk Committee include reporting to the Board on:

- Reviewing the annual and half-year financial reports and other financial information distributed externally. This includes considering the appropriateness of new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Assessing corporate risk assessment processes;
- Monitoring non-audit services provided by the external auditor for consistency with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the year end audit or half year review;
- Providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;

- Reviewing remuneration and effectiveness of performance of the external auditor;
- Assessing the adequacy of the internal control framework and the Company's Code of Conduct Policy;
- Assessment of compliance with internal controls to ensure prompt and appropriate rectification of any deficiencies or breakdowns identified; and
- Monitoring the procedures to ensure compliance with the Corporations Act 2001, the ASX Listing Rules and all other regulatory requirements.

The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- Discuss the external audit plans, identifying any significant changes in structure, operations, and internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- Review the annual, half-year and preliminary final reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results; and
- As required, organise, review and report on any special reviews or investigations deemed necessary by the Board.

RISK MANAGEMENT

Overview of the Risk Management System

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing all risks, including material business risks for the Group (including sustainability risk).

Managing Director and Chief Financial Officer Assurances

The Managing Director and Chief Financial Officer provide an assurance to the Board in respect of the annual and half yearly financial reports. The Managing Director and the Chief Financial Officer have given assurances with respect to this report that :

- The financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively in all material respects;
- The operational and other compliance risk management processes have also been assessed and found to be operating efficiently and effectively in all material respects;
- The Company's books and records have been adequately maintained; and
- The Company's financial statements and notes required by the accounting standards, for external reporting, give a true and fair view of the financial position and performance and comply with the accounting standards (and any further requirements in the Corporations Regulations), and applicable ASIC Class Orders.

Risk Profile

Material risks to the operations of the consolidated entity arise from matters including actions by existing and emerging competitors, government policy changes, compliance with government regulation, environment, occupational health and safety, property, pharmacy guarantee arrangements, pharmacists or pharmacy groups failing to honour contractual obligations including trading terms, and the purchase, development and use of information systems.

The Board has the overall responsibility for the Company's risk management and internal control framework, with delegation to the Audit and Risk Committee to oversee the process and then report back to the Board the status of material risks. The Company's internal compliance and control systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to identifying, assessing and managing risk across the Company's business activities. The internal control systems which have been adopted by the Company aim to develop a culture which is able to identify, communicate and manage material risk.

The Company has a full time Risk and Internal Audit Manager to continuously review risk management and compliance with internal controls. This role will be supplemented with assistance from an external accounting firm specialising in risk management, as necessary.

KPMG assists the Board by providing the external audit service.

Quality and Integrity of Personnel

The Company recognises the importance of training and development, appropriate remuneration and incentives and regular performance reviews. It also encourages an environment of co-operation and constructive dialogue with employees and senior management. A formal succession plan is being finalised to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur. Succession planning is supported by a Leadership Development Program which identifies high calibre employees and prepares them for future leadership roles.

Financial reporting

Monthly results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental regulation

The consolidated entity's operations are subject to environmental regulation under Commonwealth, State and New Zealand government legislation in relation to its manufacture of pharmaceutical products, retail stores and pharmaceutical distribution facilities.

Pharmaceutical and toiletries product manufacture – manufacturing plants operate under licence requirements relating to waste disposal, water and air pollution.

Wholesale distribution – distribution facilities operate under licence requirements relating to waste disposal, water and air pollution.

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of these environmental requirements as they apply to the consolidated entity.

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 27.

Code of Conduct and Ethics

The consolidated entity has advised each director, manager and employee that they must comply with the Code of Conduct and Ethics. The Code, which is available on the Company's intranet and website, covers the following:

- Aligning the behaviour of the Board and management with the Code of Conduct and Ethics by maintaining appropriate core Company values and objectives;
- Usefulness of financial information by maintaining appropriate accounting policies and practices and disclosure;
- Fulfilling responsibilities to customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced;
- Employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- Responsibilities to community, such as environmental protection policies, supporting the community activities and sponsorships and donations;
- Responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- Fair dealing; and
- Compliance with laws and reporting suspected breaches of laws.

Trading in Company Securities by Directors and Employees

The key elements of the Company's Share Trading Policy are:

- Identification of those restricted from trading – directors, officers and employees may acquire shares in the Company:
  - during the period of fourteen days after the Annual General Meeting;
  - during the period of 60 days following the issue of the annual results and half yearly results;
  - during the period of 60 days following the release of a prospectus by API relating to the issue of shares in the Company; and
  - provided they are not in possession of price sensitive information not yet released to the market.
- Raising the awareness of legal prohibitions;
- Requiring details to be provided of intended trading in the Company's shares; and
- Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

Directors are prohibited from using margin loans to finance the purchase of shares in the Company or from trading in any financial product issued or created over the Company's shares.

The policy also details the insider trading provisions of the Corporations Act. The Company's policy is promoted to all directors, officers and employees through publication on the Company's intranet and website.

COMMUNICATION WITH SHAREHOLDERS

The Company has a Shareholder Communication Policy which is designed to:

- Promote effective communication with existing and potential shareholders;

- Ensure ready access to understandable information about the Company including the existence of this policy; and
- Encourage shareholders to participate at Annual General Meetings.

In addition, the Company has a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- The Company's management is responsible for monitoring and recognising events which may have a material effect on the price or value of the Company's securities and reporting these events to the Managing Director, Chief Financial Officer, or Company Secretary; and
- The Managing Director, Chief Financial Officer and Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX. These matters are advised to ASX as they are discovered.

The Company's Shareholder Communication Policy and Continuous Disclosure Policy are promoted to all directors, officers and employees through publication in the Company's intranet and website.

In addition:

- The full annual financial report is available on the Company's website and printed copies are made available to shareholders who elect to receive a copy. This information includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX;
- All announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX; and
- The external auditor is requested to attend the Annual General Meeting to answer any questions concerning the audit and the content of the auditor's report.

REMUNERATION REPORT – AUDITED

This Remuneration Report forms part of the Directors' Report.

For the purposes of this Remuneration Report, key management personnel have authority and responsibility for planning, directing and controlling the activities of the consolidated entity, and includes directors of the Company and senior executives. Key management personnel comprise the directors of the Company and executives of the Company and consolidated entity including the five most highly remunerated executives of the Company and the consolidated entity as defined by Section 300A of the Corporations Act.

Remuneration Policies and Principles – Audited

Remuneration levels are set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies locally. The Committee reviews the remuneration of directors and senior executives annually.

Non-executive Directors

Under the Company's Constitution, the maximum aggregate remuneration available for division among the non-executive directors is to be determined by the shareholders in a general meeting. The maximum aggregate is currently fixed at $595,000. This amount (or part of it) is divided among the non-executive directors as determined by the Board.

Directors' fees cover all Board and Board committee activities. Superannuation is paid for non-executive directors at the statutory prescribed rate.

Non-executive directors do not receive performance-related remuneration.

Under the Board's Retirement Scheme, which was approved by shareholders at the 1994 Annual General Meeting, retiring non-executive directors are paid on a pro-rata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 per director and applies only to directors appointed prior to 9 September 2003. The directors have agreed to freeze this benefit at 31 August 2009.

Details of directors' remuneration are set out below.

Executive Director and Senior Executives

Remuneration packages include a mix of:

- Fixed remuneration; and
- Performance linked remuneration.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual segment and overall performance of the consolidated entity. In addition, external consultants provide analysis and advice to ensure that senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as performance rights over ordinary shares of the Company under the rules of API's Long Term Incentive Plan.

Short-term incentive bonus

Each year the Remuneration Committee sets the KPI's (key performance indicators) for the executive director and senior executives. The KPI's generally include measures relating to the consolidated entity, the relevant segment and the individual. They include financial, people, customers, strategic and risk measures. These measures are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The financial performance objectives are profit and funding benchmarks compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development. Financial and non-financial objectives each account for varying percentages of the maximum STI, depending upon the executive's role.

At the end of the financial year, the Remuneration Committee assesses the actual performance of the consolidated entity, the relevant segment and individual against the KPI's set at the beginning of the financial year. For each key management personnel, a percentage of the pre-determined maximum amount is awarded depending on results. This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance.

The Remuneration Committee recommends the cash incentive to be paid to the individuals for approval by the Board.

Long-term incentive bonus

The Remuneration Committee has responsibility for API's Long Term Incentive Plan. This plan was established during the year ended 30 April 2006. The Remuneration Committee is responsible for determining awards to be granted under the Plan, as well as overseeing administration of the Plan. Part of this administration is the determination of the performance conditions associated with each grant which are summarised over the page.

The plan envisages a performance right being issued to an executive. A performance right is a right to be provided with a fully paid ordinary share in the Company. Under the Plan, shares can either be purchased on market on behalf of the participant, or new shares issued by the Company.

If a performance right is satisfied through the achievement of a performance condition (as described below), a participant has approximately 6 months from that time to exercise it and be provided with a share in API.

At 10 August 2007 performance rights were granted in two tranches under the same terms and conditions. The performance period of the first tranche (the 2006 grant) ended on 28 February 2009 without vesting any performance rights. The second tranche (the 2007 grant) has a performance period commencing 1 May 2007 and ending 28 February 2010. The performance conditions for the exercise of performance rights will be assessed on 30 April 2010 for the second tranche.

At 31 March 2009, further performance rights (the 2008 grant) were granted with a performance period commencing 1 September 2008 and ending 31 August 2011. The performance conditions for the exercise of performance rights will be assessed on 31 October 2011.

Performance conditions will be tested only once, and any performance rights that do not meet the performance conditions will lapse and will not be re-tested.

The performance conditions for the performance rights are designed to take account of absolute and relative measures, being:

- the Company's total shareholder return (TSR) performance relative to the total shareholder return performance of a comparator group of ASX listed companies; and
- the Company's earnings per share (EPS) relative to an EPS growth target determined by the Board.

The comparator group of ASX listed companies for the TSR performance condition include:

- Sigma Pharmaceuticals Limited

- Boom Logistics Limited
- Pacific Brands Limited
- Spotless Group Limited
- G.U.D Holdings Limited
- Austereo Group Limited
- Crane Group Limited
- Specialty Fashion Group Limited
- Invocare Limited
- Pharmaxis Ltd
- iSOFT Group Limited (formerly IBA Health Limited)

For any participant, one half of the total performance rights granted will be assessed against the TSR measure and the other half will be assessed against the EPS measure.

The TSR performance condition has the effect that:

- none of the performance rights subject to the TSR performance condition may be exercised at the end of the performance period, unless API's TSR performance is at least above the median level when compared against the comparative group;
- if API's TSR is at or above the 75th percentile, all the performance rights subject to this condition can be exercised; and.i
- if the TSR is at the 51st percentile, 50% of the performance rights subject to this condition can be exercised; if the TSR is between the 51st and 75th percentile, the number of TSR rights that will become exercisable will be calculated on a straight line basis between the two levels.

The EPS performance condition has the effect that:

- none of the performance rights subject to the EPS performance condition may be exercised unless API's actual EPS performance over the performance period results in EPS that is equivalent to at least 10% per annum compound EPS growth over the 3 year period; and
- if API's actual EPS performance results in EPS over the performance period that is equivalent to being at or above 15% per annum, compound EPS growth over the same period, all the performance rights subject to this condition can be exercised; and
- if the EPS performance is at the EPS target pool (which results from a 10% per annum compounding rate over three years) 50% of the rights will vest. If the EPS performance is between 10% and 15% per annum compounding rates, the number of EPS rights that become exercisable will be calculated on a straight line basis between the two levels.

The EPS target pool is a number that is arrived at by applying a compound growth rate figure to the EPS in the base year for three years. This then gives a number against which API's actual EPS performance can be measured.

The 2006 grant (granted at 10 August 2007) expired on 28 February 2009 without any vesting of the performance rights.

In order for the 2007 EPS grant to vest API's EPS must reach 9.2 cents per share (target) and 10.4 cents per share (stretch) at the end of 28 February 2010. In order for the 2008 EPS grant to vest API's EPS must reach 7.85 cents per share (target) and 8.97 cents per share (stretch) at the end of 31 August 2011.

Service contracts

The Company has entered into service contracts with key management personnel. These contracts outline the components of remuneration paid to them but do not prescribe how remuneration levels are modified from year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed, and any other changes required to meet the principles of the Company's remuneration strategy outlined above.

Mr Stephen Roche, the Company's Managing Director and CEO, has a contract of employment with the Company dated 27 September, 2006. The contract continues until the employment is terminated in accordance with the contract. The contract states the following in respect of cessation of his employment:

- Mr Roche may resign from the Company by giving three months written notice;
- The Company may summarily terminate Mr Roche's employment in specified circumstances with immediate effect and no termination benefits will apply other than accrued entitlements; and
- The Company may terminate Mr Roche's employment by the giving of twelve months written notice and may make a termination payment in lieu of notice of up to twelve months fixed remuneration.

Mr Roche is subject to a twelve month non-compete restriction after cessation of his employment.

Mr Roche's service contract has no fixed term.

Other key management personnel agreements have service contracts whereby the Company may terminate the employment by giving twelve months written notice. The Company may summarily terminate the employment in specified circumstances with immediate effect. Key management personnel are subject to a twelve month non-compete restriction after cessation of employment.

Directors' and executive officers' remuneration (Company and Consolidated) – audited

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Company executives and relevant group executives who receive the highest remuneration and other key management personnel are:

api

	Short Term				Post employment super-annuation contributions	Other long term	Termin-ation payments	Equity Value of Options & Rights	Total	Proportion of remuneration performance related	Value of options as proportion of remuner-ation (%)
	Salary & Fees	Short-term incentives	Non-monetary benefits	Total							
DIRECTORS	$	$	$	$	$	$	$	$	$	%	%
Non-executive											
Mr P R Robinson											
31 August 2009	127,000	–	–	127,000	11,430	22,000	–	–	160,430	–	–
31 August 2008	127,000	–	–	127,000	11,430	22,000	–	–	160,430	–	–
Mr B A Frost (Retired 31 July 2008)											
31 August 2009	–	–	–	–	–	–	–	–	–	–	–
31 August 2008	79,750	–	–	79,750	7,178	–	–	–	86,928	–	–
Mr R D Millner											
31 August 2009	52,000	–	–	52,000	4,680	15,600	–	–	72,280	–	–
31 August 2008	52,000	–	–	52,000	4,680	15,600	–	–	72,280	–	–
Mr M R Wooldridge											
31 August 2009	59,500	–	–	59,500	5,355	–	–	–	64,855	–	–
31 August 2008	52,000	–	–	52,000	4,680	–	–	–	56,680	–	–
Ms E C Holley											
31 August 2009	72,000	–	–	72,000	6,480	–	–	–	78,480	–	
31 August 2008	72,000	–	–	72,000	6,480	–	–	–	78,480	–	–
Mr M L Hampton											
31 August 2009	62,000	–	–	62,000	5,580	–	–	–	67,580	–	–
31 August 2008	52,000	–	–	52,000	4,680	–	–	–	56,680	–	–
Ms L Ausburn (appointed 7 October 2008)											
31 August 2009	46,913	–	–	46,913	4,222	–	–	–	51,135	–	–
31 August 2008	–	–	–	–	–	–	–	–	–	–	–
Executive											
Mr S P Roche Managing Director/CEO											
31 August 2009	776,969	187,500	140	964,609	13,864	–	–	13,077	991,550	20	1
31 August 2008	742,267	–	–	742,267	13,232	–	–	25,010	780,509	3	3
EXECUTIVES											
Mr J Meiliunas – General Manager Change Management											
31 August 2009	328,255	49,350	1,440	379,045	13,864	38,010	–	5,476	436,395	13	1
31 August 2008	317,934	–	–	317,934	13,232	–	–	11,692	342,858	3	3
Mr P Smith – Group General Manager Retail to 1 May 2008 thence Group General Manager Supply Chain. Separated from the Company on 6 September 2009.											
31 August 2009	411,768	30,000	17,928	459,696	13,813	6,796	398,230	(32,992)	845,543	–	(4)
31 August 2008	411,870	–	–	411,870	13,232	–	–	15,719	440,821	4	4
Mr R Vincent – Group General Manager Pharmacy											
31 August 2009	537,445	120,000	61,265	718,710	13,864	–	–	6,834	739,408	17	1
31 August 2008	390,934	–	–	390,934	13,232	–	–	18,446	422,612	4	4
Mr P Sanguinetti – Company Secretary and Chief Legal Counsel (Appointed 30 November 2007)											
31 August 2009	289,830	53,438	2,754	346,022	13,864	–	–	10,769	370,655	17	3
31 August 2008	227,916	–	–	227,916	11,043	–	–	–	238,959	–	–
Mr A Killick – Chief Financial Officer (Appointed 4 February 2008 – Exited 16 October 2009)											
31 August 2009	386,768	60,000	–	446,768	13,967	–	–	–	460,735	–	–
31 August 2008	220,368	–	–	220,368	7,659	–	–	–	228,027	–	–
Mr M Langham – General Manager, Priceline (key management person from 1 May 2008)											
31 August 2009	330,302	51,300	–	381,602	13,864	30,904	–	8,413	434,783	14	2
31 August 2008	99,688	–	–	99,688	5,000	–	–	3,251	107,939	3	3
Mr P Hourihan – Group General Manager Supply Chain (Appointed 3 August 2009)											
31 August 2009	34,628	–	–	34,628	1,205	–	–	–	35,833	–	–
31 August 2008	–	–	–	–	–	–	–	–	–	–	–
FORMER EXECUTIVES											
Mr C Gardoll – Company Secretary (Exited 30 November 2007)											
31 August 2009	–	–	–	–	–	–	–	–	–	–	–
31 August 2008	59,818	–	6,376	66,194	12,727	–	159,622	(21,087)	217,456	(10)	(10)
Mr D Marr – Chief Financial Officer (Exited 18 April 2008)											
31 August 2009	–	–	–	–	–	–	–	–	–	–	–
31 August 2008	259,523	–	–	259,523	8,753	–	6,461	(8,111)	266,626	(3)	(3)

Retirement benefits for non executive directors are included on an accrual basis. They are paid on a pro rata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 and does not apply to directors first appointed after 9 September 2003. On 31 August 2009 the directors agreed to freeze this benefit.

Subsequent to signing the year ended 31 August 2008 financial statements, the Board resolved to award short term incentive payments to the Executive Director, senior and middle managers. Those payments were made during the year ended 31 August 2009.

Negative values shown in "Value of Options and Rights" above, represent the value of forfeitures resulting from these executives having submitted their resignations from the Company prior to that year end.

The value of performance rights is calculated at grant date using the Monte Carlo Simulation model. The value is allocated to each reporting period evenly over the period from grant date to vesting date.

Specific Bonus and Equity Remuneration Analysis – Audited

Analysis of Performance Rights over Equity Instruments granted as Compensation

Details of the vesting profile of performance rights awarded as remuneration to each key management person are detailed below.

Performance rights

	Performance Rights granted				
EXECUTIVE DIRECTOR	Number	Performance period commences	% Vested in the period	% Forfeited in the period (A)	Financial period in which grant vests
Mr S Roche	139,800	1 November 2006	0%	100%	31 August 2009
	139,800	1 May 2007	0%	0%	31 August 2010
	279,600	1 September 2008	0%	0%	31 August 2011
EXECUTIVE OFFICERS					
Mr A Killick	125,000	1 September 2008	0%	100%	31 August 2011
Mr P Sanguinetti	111,400	1 September 2008	0%	0%	31 August 2011
Mr J Meiliunas	37,500	1 November 2006	0%	100%	31 August 2009
	39,500	1 May 2007	0%	0%	31 August 2010
	122,100	1 September 2008	0%	0%	31 August 2011
Mr R Vincent	21,800	1 November 2006	0%	100%	31 August 2009
	46,900	1 May 2007	0%	0%	31 August 2010
	151,800	1 September 2008	0%	0%	31 August 2011
Mr P Smith	47,500	1 November 2006	0%	100%	31 August 2009
	51,900	1 May 2007	0%	100%	31 August 2010
	151,800	1 September 2008	0%	100%	31 August 2011
Mr M Langham	18,000	1 November 2006	0%	100%	31 August 2009
	20,600	1 May 2007	0%	0%	31 August 2010
	121,400	1 September 2008	0%	0%	31 August 2011

- The performance rights were granted on 10 August 2007. The fair value of the performance rights commencing on 1 November 2006 (the 2006 grant) is dependent upon the TSR or EPS performance conditions which apply to one half of the performance rights each and is $0.52 and $2.07 respectively. The fair value of the performance rights commencing on 1 May 2007 (the 2007 grant) is dependent upon the TSR or EPS performance conditions which apply to one half of the performance rights each and is $0.95 and $1.97 respectively. The performance rights include a service condition through to 31 August 2010. The exercise price was nil.
- Further performance rights were granted on 31 March 2009 with a performance period commencing 1 September 2008 and ending 31 August 2011 (the 2008 grant). The performance conditions for the exercise of performance rights will be assessed on 31 Oct 2011. The fair value of the performance rights is dependent upon the TSR or EPS performance conditions which apply to one half of the performance rights each and is $0.22 and $0.36 respectively.
- The performance rights were provided at no cost to the recipient.

(A) The % forfeited in the year represents the reduction from the maximum number of performance rights available to vest due to the highest level performance criteria not being achieved.

Analysis of Movements in Performance Rights

Further performance rights were issued during the reporting period as indicated above. As disclosed in the table above the rights allocated to former key management personnel, Messrs Killick and Smith, both of whom submitted their resignations before 31 August 2009, were forfeited during the period.

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDERS' WEALTH

In considering the consolidated entity's performance and the benefits for shareholder wealth, the Remuneration Committee has regard to a range of indicators in respect of senior executive remuneration and linked these to the previously described short and long term incentives.

The following table presents these indicators over 6 periods, spanning 1 May 2004 to 31 August 2009, showing the impact of the Company's performance on shareholder wealth, taking into account dividend payments, share price changes and returns of capital during the financial years:

	31 August *** 2009	31 August ** 2008	31 August * 2007	30 April 2007	30 April 2006	30 April 2005
Net profit/(loss) after tax ($m)	$18.60	$15.21	($2.60)	($11.49)	$20.37	$34.78
Dividends paid – cents per share	2.00	1.00	0.00	3.00	9.25	13.00
Share price at	$0.75	$0.69	$1.85	$2.20	$2.48	$2.75

* Four month financial period.

** Dividend paid 15 December 2008.

*** Dividend payable 11 December 2009.

The Remuneration Report concludes at this point

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial period were:

- the wholesale distribution of pharmaceutical and allied products;
- retail operations of the brands Priceline and Priceline Pharmacy;
- manufacture of pharmaceutical medicines and consumer toiletries;
- the distribution of pharmaceutical and medical consumable products to hospitals, through its associate CH2 Pty Ltd, in which the Company holds a 45.3% stake; and
- finance origination and retail services to pharmacists, including the retail banners of Soul Pattinson, and Pharmacist Advice.

REVIEW AND RESULTS OF OPERATIONS

For the year ended 31 August 2009, the income statement shows a consolidated net profit from ordinary activities of $18.6 million (31 August 2008: $15.2 million profit) after an income tax expense of $8.6 million (31 August 2008: $5.8 million expense).

API reported for the year ended 31 August 2009, revenue of $3,550 million, and earnings before interest, tax, depreciation and amortisation of $65.6 million. API's associates (see note 12), over which API did not have direct operational control, accounted for losses of $0.7 million (31 August 2008: $2.2 million loss). Excluding associates, API would have recorded a profit after tax of $19.3 million.

The profit before income tax amounted to $27.2 million, compared to a $21.0 million profit for the year ended 31 August 2008.

For the year ended 31 August 2009, the consolidated entity's total net assets were $435 million (31 August 2008: $419 million).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS.

There were no significant changes in the nature of the activities of the consolidated entity during the period.

DIVIDENDS

A dividend was paid during the year ended 31 August 2009 in respect of the profits earned for the year ended 31 August 2008. The dividend was at the rate of one cent per share, fully franked. The dividend totalled $2.575 million and was paid on 15 December 2008.

On 21 October 2009, a final dividend of two cents per share, fully franked to be paid on 11 December 2009 amounting to $5.147 million was declared.

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year end, API received commitments from its bankers (subject to final documentation) to extend its cash advance facilities to April 2012 and its securitisation facilities to April 2011.

On 21 October 2009, the Company announced that it would be raising $150 million by way of a fully underwritten, non-renounceable pro-rata entitlement offer to existing shareholders and placement to institutions. The proceeds will be used to reduce debt and allow for continued investment in the Priceline brand.

Other than above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future years.

LIKELY DEVELOPMENTS

The consolidated entity will continue to pursue its policy of improving the profitability and market share of each of its major operating businesses during the next financial year.

Further information regarding the business strategies of the consolidated entity and the expected results of those operations in future financial years have not been included in this report as disclosure of this information would likely result in unreasonable prejudice to the consolidated entity.

DIRECTORS' INTERESTS

The relevant interest of each director, in the share capital of the Company, as notified by the directors to the Australian Securities Exchange in accordance with section 205G(1) of the Corporations Act 2001 at the date of this report is as follows:

	Ordinary Shares	Options / Performance Rights over Ordinary Shares
Mr P R Robinson	67,300	–
Ms E C Holley	10,000	–
Mr R D Millner	411,000	–
Mr S P Roche	70,000	367,100
Dr M R Wooldridge *	–	–
Mr M Hampton	65,000	–
Ms L Ausburn	50,000	–

* It was incorrectly disclosed to the ASX on 27 November 2008 that Dr M R Wooldridge purchased shares in the Company. This purchase was not completed.

OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

Details of the performance rights granted to directors and officers of the Company are set out in the Remuneration report.

INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year the Company paid a premium in respect of a contract insuring its directors and officers against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The contract covers any past, present or future director, secretary, executive officer or employee of the Company and its controlled entities. Further details have not been disclosed due to confidentiality provisions of the contract of insurance.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the period by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor.

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the period are set out below.

Amounts Paid to Auditor	Consolidated	Consolidated
In AUD	31 August 2009	31 August 2008
Audit Services		
KPMG Australia		
– Audit and review of financial reports – for the 31 August 2009 financial year	475,000	–
– Audit and review of financial reports – for the 31 August 2008 financial year	–	537,000
Overseas KPMG firms		
– Audit and review of financial reports	40,000	50,000
	515,000	**587,000**
Other Services		
Auditors of the Company		
KPMG Australia		
– Other assurance services	–	169,305
– Sale of business completion audits	–	47,000
– Taxation services	30,780	117,510
Overseas KPMG offices		
– Other assurance services	–	13,793
– Taxation services	14,317	19,743
Total	**560,097**	**954,351**

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 20 and forms part of the Directors' report for the financial year ended 31 August 2009.

Rounding off of Amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney this 5th day of November 2009

Signed in accordance with a resolution of the directors:

Peter R. Robinson

Director

section 4
Auditor's Independence Declaration

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 August 2009 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

John Wigglesworth

Partner

Sydney, 5th November, 2009

Income statements

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In thousands of AUD	Note	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Revenue	3	3,549,734	3,238,879	1,441,788	1,298,776
Cost of sales		(3,180,802)	(2,875,540)	(1,346,587)	(1,210,298)
Gross profit		**368,932**	**363,339**	**95,201**	**88,478**
Other income and expense	3	6,081	11,703	(4,967)	(1,637)
Warehousing and distribution expenses		(98,412)	(93,620)	(44,671)	(40,608)
Marketing and sales expenses		(156,539)	(160,529)	(19,256)	(17,543)
Administration and general expenses		(70,604)	(71,174)	(42,730)	(42,007)
Impairment of investment in associate		–	–	(4,849)	–
Result from operating activities		**49,458**	**49,719**	**(21,272)**	**(13,317)**
Financial income		3,776	5,184	40,232	52,982
Financial expenses		(25,345)	(31,740)	(13,664)	(18,915)
Net financing costs	5	**(21,569)**	**(26,556)**	**26,568**	**34,067**
Share of loss of associates	12	(713)	(2,194)	–	–
Profit before tax		**27,176**	**20,969**	**5,296**	**20,750**
Income tax (expense)/benefit	6	(8,578)	(5,756)	7,186	8,008
Profit for the period		**18,598**	**15,213**	**12,482**	**28,758**
Attributable to:					
Equity holders of the Company		18,598	15,213	12,482	28,758
Profit for the period		18,598	15,213	12,482	28,758
Earnings per share (cents per share):					
Basic earnings per share from continuing operations	7	7.2	5.9		
Diluted earnings per share from continuing operations	7	7.2	5.9		

Notes to the financial statements are annexed.

section 6

Statements of recognised income and expense

In thousands of AUD	Note	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Foreign exchange translation differences		(84)	(3,169)	–	–
Effective portion of changes in fair value of cash flow hedges, net of tax		(397)	(109)	(397)	(109)
Net (expense)/income recognised directly in equity		**(481)**	**(3,278)**	**(397)**	**(109)**
Profit for the period		18,598	15,213	12,482	28,758
Total recognised income and expense for the period attributable to equity holders of the company	20	**18,117**	**11,935**	**12,085**	**28,649**

Notes to the financial statements are annexed.

Balance sheets

api

As at 31 August 2009

		Consolidated		The Company	
In thousands of AUD	Note	2009	2008	2009	2008
Assets					
Cash and cash equivalents	26	5,856	42,906	13,251	23,835
Trade and other receivables	8	251,348	226,403	84,226	82,252
Inventories	9	292,902	269,058	102,284	95,175
Income tax receivable	11	–	3,326	–	3,326
Total current assets		**550,106**	**541,693**	**199,761**	**204,588**
Trade and other receivables	8	147,511	136,444	271,713	256,921
Investments	10	–	–	206,183	234,898
Investments accounted for using the equity method	12	23,667	24,668	–	–
Deferred tax assets	13	13,580	8,752	2,251	4,421
Property, plant and equipment	14	112,307	84,870	58,955	27,270
Intangible assets	15	200,073	202,828	40,004	42,589
Total non-current assets		**497,138**	**457,562**	**579,106**	**566,099**
Total assets		**1,047,244**	**999,255**	**778,867**	**770,687**
Liabilities					
Trade and other payables	16	564,810	549,288	294,441	273,817
Loans and borrowings	17	1,140	1,135	1,053	814
Employee benefits	18	13,560	12,721	5,422	4,707
Provisions	19	2,587	1,885	–	–
Income tax payable	11	9,133	–	9,136	–
Total current liabilities		**591,230**	**565,029**	**310,052**	**279,338**
Trade and other payables	16	9,318	3,614	33,132	66,065
Loans and borrowings	17	6,097	5,788	1,212	551
Employee benefits	18	3,322	2,999	1,147	1,008
Provisions	19	2,750	2,861	879	811
Total non-current liabilities		**21,487**	**15,262**	**36,370**	**68,435**
Total liabilities		**612,717**	**580,291**	**346,422**	**347,773**
Net assets		**434,527**	**418,964**	**432,445**	**422,914**
Equity					
Share capital		419,499	419,499	419,499	419,499
Reserves		(3,907)	(3,445)	316	694
Retained earnings		18,935	2,910	12,630	2,721
Total equity	20	**434,527**	**418,964**	**432,445**	**422,914**

Notes to the financial statements are annexed.

section 8
Statements of cash flows

In thousands of AUD	Note	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Receipts from customers		3,880,082	3,439,652	1,581,153	1,363,465
Payments to suppliers and employees		(3,846,322)	(3,386,173)	(1,579,399)	(1,422,826)
Cash generated from operations		**33,760**	**53,479**	**1,754**	**(59,361)**
Dividends and distributions from subsidiaries		–	–	37,960	49,100
Interest received		3,776	5,184	2,272	3,882
Financing costs paid		(25,345)	(31,740)	(13,664)	(18,915)
Income taxes (payment)/refund		(632)	3,631	(632)	3,631
Net cash from operating activities	26	**11,559**	**30,554**	**27,690**	**(21,663)**
Cash flows from investing activities					
Proceeds from sale of stores, property, plant and equipment		8,760	10,242	50	180
Acquisition of property, plant and equipment		(43,456)	(26,342)	(36,719)	(10,440)
Deferred consideration received		182	6,677	182	6,000
Loans to pharmacies		–	–	4,342	(3,254)
Proceeds from disposal of subsidiary or business, net of cash disposed		–	15,178	–	–
Acquisition of investments in associates		–	(2,727)	–	(2,727)
Payment for intangibles		(161)	(215)	(159)	(54)
Repayment of loans from controlled entities		–	–	1,060	46,381
Net cash from investing activities		**(34,675)**	**2,813**	**(31,244)**	**36,086**
Cash flows from financing activities					
Payment for/(Receipt from) interest bearing note (securitised receivable)		(10,000)	(2,500)	(3,477)	4,419
Payment of finance lease liabilities		(1,363)	(3,014)	(980)	(1,296)
Repayment of depositors loans		–	(69)	–	(69)
Proceeds from borrowings		–	4,931	–	–
Dividend paid		(2,573)	–	(2,573)	–
Net cash from financing activities		**(13,936)**	**(652)**	**(7,030)**	**3,054**
Net increase in cash and cash equivalents		(37,052)	32,715	(10,584)	17,477
Cash and cash equivalents at beginning of period		42,906	9,558	23,835	6,358
Effect of exchange rate fluctuations on cash held		2	633	–	–
Cash and cash equivalents at the end of the period	26	**5,856**	**42,906**	**13,251**	**23,835**

Notes to the financial statements are annexed.

section 9
Notes to the consolidated financial statements

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The consolidated financial report of the Company included herein 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.

The financial report was authorised for issue by the directors on 5 November, 2009.

(b) Statement of Compliance and Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASs') adopted by the Australian Accounting Standards Board ('AASB') – including Australian Interpretations and the Corporations Act 2001. Financial reports of the consolidated entity and the Company also comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

The financial report is presented in Australian dollars, which is the Company's and consolidated entity's functional currency.

The financial report is prepared on the historical cost basis except that derivative financial instruments are stated as their fair value.

Current liabilities of the Company and consolidated entity exceed current assets at 31 August 2009. The Directors believe the Company and the consolidated entity will be able to pay their debts as and when they become due and payable through operations and the use of the funding facilities disclosed in note 17.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with 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. Actual results may differ from these estimates. 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 and in future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 15: – Intangibles – measurement of recoverable amount of cash generating units;
- Note 18: – Employee benefits – measurement of defined benefit obligations and share based payments;
- Note 19: – Provisions;
- Note 21: – Financial instruments.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report by all entities in the consolidated entity.

Issued standards not early adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 August 2009 but have not been applied in preparing this financial report.

- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the consolidated entity's 31 August 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated entity's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the consolidated entity presents segment information in respect of its business and geographical segments (see Note 2).
- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 31 August 2010 financial statements.

Notes to the consolidated financial statements continued

1 SIGNIFICANT ACCOUNTING POLICIES Continued

The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's disclosures.

- Revised AASB 3 Business Combinations, Amended AASB 127 Consolidated and Separate Financial Statements and AASB 2008–3 Amendments to Australian Accounting Standards become mandatory for the consolidated entity's 31 August 2010 financial statements. Revised AAB3 is applied prospectively for all business combinations finalised after 1 January 2009. Revised AASB 3 changes the measurement and recognition requirements in accounting for business combinations.

Issued standards early adopted

No standards were early adopted.

(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 consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost in the Company's financial statements.

(ii) Associates

Associates are those entities for which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include 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 an obligation or has made payments on behalf of an associate.

In the Company's financial statements, investments in associates are carried at cost.

(iii) Transactions Eliminated on Consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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 to the functional currencies of the consolidated entity companies 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 the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement in other income and expense. 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 translation are recognised directly in a separate component of equity.

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. Differences arising prior to 1 May 2004 have been transferred to retained earnings.

(e) Financial Instruments

(i) Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset of another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and from 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.

Held to Maturity Investments

If the consolidated entity has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative Financial Instruments

The consolidated entity holds derivative financial instruments to hedge its interest rate risk exposures.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iii) Ordinary Shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

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

(iv) De-recognition of Financial Assets and Liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group or similar financial assets) 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

Notes to the consolidated financial statements continued

1 SIGNIFICANT ACCOUNTING POLICIES Continued

- 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

The Company's and consolidated entity's investment in its securitisation program is classified as a non-current interest bearing note receivable. The note receivable is carried at amortised cost using the effective interest rate method.

(v) Financial guarantees

Financial guarantees are initially recognised at fair value net of premium received. The fair value is amortised as an expense through the income statement over the life of the guarantee. Subsequent to initial measurement, the guarantee is measured at the higher of the amortised balance of the guarantee or the value of the guarantee determined in accordance with AASB137 Provisions, Contingent assets and liabilities. The provision would be measured to at the present value of any expected payment to which the consolidated entity has an obligation to meet. The face value of all guarantees issued by the consolidated entity is presented in Note 23.

(f) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the equipment is capitalised as part of that equipment.

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) Disposal of property, plant and equipment

Property, plant and equipment is derecognised when scrapped or disposed of. For store sales, a disposal is considered to have taken place when the significant risks and rewards of ownership have passed to the acquirer, there is no continuing involvement in the asset and it is probable that the economic benefits associated with the disposal will flow to the consolidated entity. The proceeds are recognised at the fair value of consideration received and a gain or loss on disposal is recognised equal to the difference between this amount and the carrying value of the asset disposed of.

(ii) 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 profit and loss as an expense as incurred.

(iii) Depreciation

Depreciation is charged to profit and loss 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.

(g) Intangible Assets

(i) Goodwill

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.

Business Combinations since 1 May 2004

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

Goodwill is stated at cost less any accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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 rare for leading brand names to disappear or become commercially or technically obsolete. If an event occurs which results in an impairment of the value of a brand name then the difference between recoverable amount and carrying value is charged against profit and loss in the year in which the event occurred.

Independent valuations of brand names are obtained during the year of acquisition. Expenditure incurred in developing, maintaining and enhancing brand names is charged against profit and loss in the year in which it is incurred. The brand names held by the consolidated entity are considered to have an indefinite useful life and accordingly are not amortised.

(iii) Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new 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 profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iv) Other Intangible Assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

(v) Subsequent Expenditure

Subsequent expenditure 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.

(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. 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

(h) 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.

(i) Impairment

(i) Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate, including cash flows from the realisation of security held, if applicable. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Notes to the consolidated financial statements continued

1 SIGNIFICANT ACCOUNTING POLICIES Continued

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-Financial Assets

The carrying amounts of the consolidated entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest group of assets that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates 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.

(j) Leased Assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases, the leased assets are not recognised in the consolidated entity's balance sheet.

(k) Employee Benefits

(i) Defined Contribution Superannuation Funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss as incurred.

(ii) Defined Benefit Superannuation Funds

The consolidated entity's net obligation in respect of defined benefit pension plans is calculated 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 Commonwealth 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.

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 profit and loss.

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 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 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 fair value 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 Monte Carlo Simulation formula for the EPS performance hurdle and the Monte Carlo Simulation formula for the TSR performance hurdle, taking into account the terms and conditions upon which the instruments were granted.

(l) 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) 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.

(ii) 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 is capitalised and is depreciated over the useful life. Make good costs are provided for over the lease term as the make good obligation arises. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(m) 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

1 SIGNIFICANT ACCOUNTING POLICIES Continued

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. Revenue is recognised net of returns, allowances, trade discounts and volume rebates.

(ii) Loyalty Card

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

(n) Expenses

(i) Operating Lease Payments

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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 and gains and losses on hedging instruments that are recognised in profit and loss. The cost of debtor securitisation arrangements is also recorded as a finance cost.

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 payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(o) 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 recognised 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.

Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 May 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Pharmaceutical Industries Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

1 SIGNIFICANT ACCOUNTING POLICIES Continued

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of Tax Funding Arrangements and Tax Sharing Arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(p) 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.

(q) Non-Current Assets held for Sale and Discontinued Operations

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.

(r) 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.

(s) Earnings per Share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share performance rights granted to employees.

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.

Notes to the consolidated financial statements continued

2 SEGMENT REPORTING Continued

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 pharmacies, provider of retail services to pharmacy customers.

Retailing

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

Manufacturing

Australia and New Zealand – Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries. The majority of manufacturing operations are located in New Zealand.

	Distribution		Retailing		Manufacturing					
	Australia		Australia		Australia and New Zealand		Eliminations		Consolidated	
In thousands of AUD	Aug-09	Aug-08	Aug-09	Aug-08	Aug-09	Aug-08	Aug-09	Aug-08	Aug-09	Aug-08
Revenue										
External segment sales	2,757,290	2,478,192	622,484	615,635	42,501	35,152	–	–	3,422,275	3,128,979
External segment services	59,775	45,501	67,684	64,399	–	–	–	–	127,459	109,900
Internal segment sales	–	–	–	–	11,920	8,884	(11,920)	(8,884)	–	–
Total segment revenue	**2,817,065**	**2,523,693**	**690,168**	**680,034**	**54,421**	**44,036**	**(11,920)**	**(8,884)**	**3,549,734**	**3,238,879**
Segment result	**49,940**	**43,145**	**17,952**	**24,831**	**2,369**	**1,284**	**–**	**–**	**70,261**	**69,260**
Unallocated income									–	–
Unallocated expenses									(20,803)	(19,541)
Profit before financing costs									**49,458**	**49,719**
Net financing costs									(21,569)	(26,556)
Share of profit/(loss) of associates									(713)	(2,194)
(Loss)/Profit before tax									**27,176**	**20,969**
Income tax expense									(8,578)	(5,756)
Net (loss)/ profit									**18,598**	**15,213**
Depreciation & amortisation	9,102	8,434	5,853	6,082	1,194	1,204	–	–	16,148	15,720
Assets										
Segment assets	665,543	676,593	398,720	379,030	72,951	75,965	(114,206)	(157,513)	1,023,008	974,075
Equity accounted investments	–	–	–	–	–	–	–	–	23,667	24,668
Unallocated corporate assets	–	–	–	–	–	–	–	–	569	512
Consolidated total assets	**665,543**	**676,593**	**398,720**	**379,030**	**72,951**	**75,965**	**(114,206)**	**(157,513)**	**1,047,244**	**999,255**
Liabilities										
Segment liabilities	526,379	497,682	173,319	210,960	26,077	28,096	(114,206)	(157,513)	611,569	579,225
Unallocated corporate liabilities	–	–	–	–	–	–	–	–	1,148	1,066
Consolidated total liabilities	**526,379**	**497,682**	**173,319**	**210,960**	**26,077**	**28,096**	**(114,206)**	**(157,513)**	**612,717**	**580,291**
Capital Expenditure	9,963	10,464	32,285	15,384	1,208	494	–	–	43,456	26,342

3 REVENUE, OTHER INCOME AND EXPENSE

In thousands of AUD	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Revenue				
Sales revenue	3,422,275	3,128,979	1,407,113	1,272,333
Service revenue	127,459	109,900	34,675	26,443
	3,549,734	**3,238,879**	**1,441,788**	**1,298,776**
Other income and expense				
Net gain on disposal of stores, property, plant and equipment	6,169	10,538	31	150
Net foreign exchange gains/(losses)*	(88)	1,165	(154)	(1,787)
Loss on investment	–	–	(4,844)	–
	6,081	**11,703**	**(4,967)**	**(1,637)**

4 PERSONNEL EXPENSES

Wages and salaries	139,008	139,542	41,798	39,809
Other associated personnel expenses	14,602	15,800	5,346	6,123
Contributions to defined contribution superannuation funds	9,391	9,253	3,047	2,955
Expenses related to defined benefit superannuation funds	121	309	121	309
Increase/(Decrease) in liability for annual leave	362	(426)	316	671
Increase in liability for long service leave	800	857	538	502
Equity settled share based payment transactions	19	94	19	94
	164,303	**165,429**	**51,185**	**50,463**

5 FINANCE INCOME AND EXPENSE

Recognised in Profit and Loss

Interest income on bank deposits	(457)	(3,477)	(400)	(2,175)
Interest income from associates	(1,597)	(1,159)	(1,597)	(1,159)
Interest income from subsidiary companies	–	–	–	–
Dividend and distribution income from subsidiary companies	–	–	(37,960)	(49,100)
Other interest received	(1,722)	(548)	(275)	(548)
Financial income	**(3,776)**	**(5,184)**	**(40,232)**	**(52,982)**
Financing costs **	**25,345**	**31,740**	**13,664**	**18,915**
Net financing costs/(income)	**21,569**	**26,556**	**(26,568)**	**(34,067)**

- The net foreign exchange gain/loss in respect of the Company principally related to a long term loan receivable which on consolidation is taken to the foreign currency translation reserve as a net investment hedge.

** Includes securitisation charge.

section 9
Notes to the consolidated financial statements continued

5 FINANCE INCOME AND EXPENSE Continued

Recognised Directly in Equity

In thousands of AUD	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Effective portion of changes in fair value of cash flow hedge – net of tax	397	109	397	109
Foreign currency translation differences for foreign operations – net of tax	84	3,169	–	–
Net expense/(income) recognised directly in equity – net of tax	**481**	**3,278**	**397**	**109**

6 INCOME TAX EXPENSE

Recognised in the Income Statement

In thousands of AUD	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
Current tax expense				
Current year	13,282	6,633	(9,324)	(7,146)
Adjustments for prior years	124	(630)	(32)	667
	13,406	**6,003**	**(9,356)**	**(6,479)**
Deferred tax expense				
Origination and reversal of temporary differences	(4,828)	309	2,170	(1,529)
Benefit of previously unrecognised tax losses	–	(556)	–	–
Total income tax expense/(benefit) in income statement	**8,578**	**5,756**	**(7,186)**	**(8,008)**

Numerical reconciliation between tax expense and pre–tax net profit

	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
Profit/(Loss) before tax	**27,176**	**20,969**	**5,296**	**20,750**
Income tax using the domestic corporation tax rate of 30%	8,153	6,291	1,589	6,225
Increase in income tax expense due to:				
Share of associates net losses	214	658	–	–
Impairment of investments	–	–	1,455	–
Non–deductible expenses	273	59	95	30
Effect of tax rate in foreign jurisdictions	–	5	–	–
Other	138	30	5	(45)
Decrease in income tax expense due to:				
Tax exempt revenues	–	–	(9,934)	(14,730)
Tax incentives	(319)	–	(264)	–
Other	(5)	(101)	(100)	(155)
	8,454	**6,942**	**(7,154)**	**(8,675)**
Benefit of previously unrecognised tax losses	–	(556)	–	–
(Over)/Under provided in prior years	124	(630)	(32)	667
Income tax expense/(benefit) on pre–tax net profit	**8,578**	**5,756**	**(7,186)**	**(8,008)**

7 EARNINGS PER SHARE

In thousands of AUD	Consolidated Year ended 31 August 2009 $	 Year ended 31 August 2008 $
Profit/(Loss) attributable to ordinary shareholders	**18,598**	**15,213**
Basic weighted average number of ordinary shares for the period	257,346	257,346
Effect of potential ordinary shares on issue	1,227	90
Diluted weighted average number of ordinary shares for the period	**258,573**	**257,436**
In cents		
Basic earnings per share	7.2	5.9
In cents		
Diluted earnings per share	7.2	5.9

8 TRADE AND OTHER RECEIVABLES

In thousands of AUD	Consolidated Year ended 31 August 2009	 Year ended 31 August 2008	The Company Year ended 31 August 2009	 Year ended 31 August 2008
Current				
Trade receivables	222,073	183,927	78,709	73,108
Provision for impairment	(10,776)	(5,796)	(5,417)	(2,577)
	211,297	**178,131**	**73,292**	**70,531**
Amounts receivable as deferred consideration	11,709	14,709	–	–
Derivatives used for hedging	–	567	–	567
Other receivables and prepayments	28,304	32,338	10,896	10,496
Trade receivables due from associates	38	658	38	658
	251,348	**226,403**	**84,226**	**82,252**
Non–current				
Loans to associates	15,808	12,060	15,808	12,060
Loans to controlled entities	–	–	171,576	195,255
Loans to employees	221	198	–	–
Loans receivable from pharmacy customers	51,895	51,461	47,012	12,628
Provision for impairment	(3,158)	–	(3,158)	–
Pension asset	1,245	1,225	1,245	1,225
Interest bearing notes – securitised receivables	81,500	71,500	39,230	35,753
	147,511	**136,444**	**271,713**	**256,921**

At 31 August 2009 the consolidated entity and the Company have derecognised securitised trade receivables amounting to $407,813,000 (31 August 2008: $363,935,000) and $177,973,000 (31 August 2008: $163,787,000) respectively.

9 INVENTORIES

In thousands of AUD	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Raw materials and consumables	3,500	3,066	–	–
Work in progress	242	865	–	–
Finished goods	295,325	272,498	102,873	95,800
Less: provision for obsolescence and shrinkage	(6,165)	(7,371)	(589)	(625)
	292,902	**269,058**	**102,284**	**95,175**

10 INVESTMENTS

Investments in controlled entities – at cost	–	–	180,583	204,449
Investments in associates – at cost	–	–	25,600	30,449
	–	**–**	**206,183**	**234,898**

11 CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the consolidated entity of $ 9.133,million (current tax asset 31 August 2008: $3.326 million) and for the Company of $9.136 million (current tax asset 31 August 2008: $3.326 million) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the Australian tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability (asset) initially recognised by the members in the Australian consolidated tax group.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

In the financial statements of the Company, investments in associates are accounted for at cost. The consolidated entity accounts for investments in associates using the equity method.

The consolidated entity has the following investments in associates:

Venture	Principal Activities	Country	Reporting Date	Ownership 31 August 2009	Ownership 31 August 2008
CH2 Holdings Pty Ltd	Hospital supplies distribution	Australia	30 June	45.3 %	45.3%

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD Continued

Details of Investments in Associates

In thousands of AUD	Revenues 100%	Loss 100%	Share of associates net loss recognised	Net assets as reported by associates 100%	Share of associates net assets equity accounted (including goodwill)
For the year ended 31 August 2009					
CH2 Holdings Pty Ltd	738,053	(1,574)	(713)	42,259	23,667
For the year ended 31 August 2008					
CH2 Holdings Pty Ltd	680,711	(4,843)	(2,194)	44,939	24,668

The value in use (VIU) approach was adopted for assessing the recoverable value. VIU was determined by discounting the future cash flows generated from the continuing use of the unit and based on the following assumptions:

- Cash flows were projected based on actual results and the 3 year business plan and 5% for years 4 and 5.
- Growth rates after five years are based on current market factors and management opinion and are 0%.
- A pre tax discount rate of 18.14% has been used in discounting the projected cash flows and in terminal values.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on other external sources and internal sources (including historical data). The value of the investment in CH2 was similarly reviewed. This resulted in an impairment in the Company financial statements, as the calculated value was lower than the value carried in the Company financial statements, although higher than the value carried in the consolidated entity.

Results of Associates

	Consolidated	
In thousands of AUD	Year ended 31 August 2009	Year ended 31 August 2008
Share of associate loss before income tax	(1,019)	(3,134)
Share of income tax benefit	306	940
Share of associates net loss accounted for using the equity method	**(713)**	**(2,194)**
Commitments		
Share of associates operating leases		
Within one year	1,328	1,389
One year or later and no later than five years	4,101	4,421
Later than five years	720	1,219
	6,149	**7,029**

13 DEFERRED TAX ASSETS AND LIABILITIES

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
In thousands of AUD	31 August 2009	31 August 2008	31 August 2009	31 August 2008	31 August 2009	31 August 2008
Property, plant and equipment	–	–	(1,076)	(2,364)	(1,076)	(2,364)
Intangible assets	–	–	(148)	(1,879)	(148)	(1,879)
Unrealised foreign exchange losses*	130	2,533	–	–	130	2,533
Employee benefits	4,848	4,116	–	–	4,848	4,116
Provisions	10,374	5,889	–	–	10,374	5,889
Derivatives*	–	–	–	(170)	–	(170)
Other items	–	71	(746)	–	(746)	71
Tax loss carried forward	198	556	–	–	198	556
Tax assets / (liabilities)	**15,550**	**13,165**	**(1,970)**	**(4,413)**	**13,580**	**8,752**

The Company	Assets		Liabilities		Net	
In thousands of AUD	31 August 2009	31 August 2008	31 August 2009	31 August 2008	31 August 2009	31 August 2008
Property, plant and equipment	–	–	(1,165)	(826)	(1,165)	(826)
Unrealised foreign exchange losses	130	2,533	–	–	130	2,533
Employee benefits	1,775	1,441	–	–	1,775	1,441
Provisions	4,992	1,237	–	–	4,992	1,237
Derivatives*	–	–	–	(170)	–	(170)
Other items	–	206	(3,481)	–	(3,481)	206
Tax loss carried forward	–	–	–	–	–	–
Tax assets / (liabilities)	**6,897**	**5,417**	**(4,646)**	**(996)**	**2,251**	**4,421**

* Recognised in equity.

As at 31 August 2009, the Company considers it probable that future taxable profits will be available against which tax losses can be utilised.

14 PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	Consolidated					The Company				
Cost	Land and Buildings	Plant and Equipment	Leased Plant and Equipment	Capital Works in Progress	Total	Land and Buildings	Plant and Equipment	Leased Plant and Equipment	Capital Works in Progress	Total
Balance at 1 September 2007	10,253	114,206	10,438	8,143	143,040	2,505	45,226	5,429	–	53,160
Additions	2,770	2,181	–	21,391	26,342	2,770	1,992	–	5,678	10,440
Reclassification of assets	–	18,752	31	(18,783)	–	–	–	–	–	–
Transfer of assets from intangibles	–	5,102	–	–	5,102	–	–	–	–	–
Disposals	–	(17,636)	(546)	–	(18,182)	–	(3,035)	–	–	(3,035)
Effect of movement in foreign exchange	(593)	(567)	–	(31)	(1,191)	–	–	–	–	–
Balance at 31 August 2008	**12,430**	**122,038**	**9,923**	**10,720**	**155,111**	**5,275**	**44,183**	**5,429**	**5,678**	**60,565**
Additions	–	6,203	1,126	36,127	43,456	–	960	92	35,667	36,719
Reclassification of assets	–	12,164	93	(12,257)	–	–	10,315	–	(10,315)	–
Diisposal	–	(7,685)	(399)	(121)	(8,205)	–	(547)	–	–	(547)
Effect of movement in foreign exchange	(13)	(13)	–	(5)	(31)	–	–	–	–	–
Balance at 31 August 2009	**12,417**	**132,707**	**10,743**	**34,464**	**190,331**	**5,275**	**54,911**	**5,521**	**31,030**	**96,737**
Depreciation and impairment losses										
Balance at 1 September 2007	(1,527)	(59,049)	(5,119)	–	(65,695)	(533)	(27,979)	(2,513)	–	(31,025)
Depreciation charge for the period	(379)	(11,125)	(1,365)	–	(12,869)	(47)	(4,021)	(1,189)	–	(5,257)
Transfer from intangibles	–	(3,524)	–	–	(3,524)	–	–	–	–	–
Disposals	–	11,087	403	–	11,490	–	2,987	–	–	2,987
Effect of movements in foreign exchange	16	341	–	–	357	–	–	–	–	–
Balance at 31 August 2008	**(1,890)**	**(62,270)**	**(6,081)**	**–**	**(70,241)**	**(580)**	**(29,013)**	**(3,702)**	**–**	**(33,295)**
Depreciation charge for the period	(365)	(11,529)	(1,402)	–	(13,296)	(47)	(4,380)	(1,261)	–	(5,688)
Disposals	–	4,473	1,021	–	5,494	–	541	660	–	1,201
Effect of movements in foreign exchange	–	19	–	–	19	–	–	–	–	–
Balance at 31 August 2009	**(2,255)**	**(69,307)**	**(6,462)**	**–**	**(78,024)**	**(627)**	**(32,852)**	**(4,303)**	**–**	**(37,782)**
Carrying amounts										
At 1 September 2007	8,726	55,157	5,319	8,143	77,345	1,972	17,247	2,916	–	22,135
At 31 August 2008	10,540	59,768	3,842	10,720	84,870	4,695	15,170	1,727	5,678	27,270
At 31 August 2009	10,162	63,400	4,281	34,464	112,307	4,648	22,059	1,218	31,030	58,955

section 9
Notes to the consolidated financial statements continued

15 INTANGIBLE ASSETS

In thousands of AUD	Consolidated					The Company			
Cost	Goodwill	Brand names	Software	Development Costs	Total	Goodwill	Brand names	Software	Total
Balance at 1 September 2007	110,404	99,000	22,274	503	232,181	11,115	23,881	17,172	52,168
Other acquisitions	–	–	54	161	215	–	–	54	54
Disposals	–	–	–	(55)	(55)	–	–	–	–
Transfer to property, plant and equipment	–	–	(5,102)	–	(5,102)	–	–	–	–
Effect of movements in foreign exchange	(1,754)	–	–	(26)	(1,780)	–	–	–	–
Balance at 31 August 2008	**108,650**	**99,000**	**17,226**	**583**	**225,459**	**11,115**	**23,881**	**17,226**	**52,222**
Other acquisitions	–	–	161	–	161	–	–	159	159
Disposals	–	–	–	(4)	(4)	–	–	–	–
Effect of movements in foreign exchange	(574)	–	–	(31)	(605)	–	–	–	–
Balance at 31 August 2009	**108,076**	**99,000**	**17,387**	**548**	**225,011**	**11,115**	**23,881**	**17,385**	**52,381**
Amortisation and impairment losses									
Balance at 1 September 2007	(15,601)	–	(7,825)	(106)	(23,532)	(2,602)	–	(4,300)	(6,902)
Amortisation for the period	–	–	(2,731)	(120)	(2,851)	–	–	(2,731)	(2,731)
Transfer to property, plant and equipment	–	–	3,524	–	3,524	–	–	–	–
Effect of movements in foreign exchange	219	–	–	9	228	–	–	–	–
Balance at 31 August 2008	**(15,382)**	**–**	**(7,032)**	**(217)**	**(22,631)**	**(2,602)**	**–**	**(7,031)**	**(9,633)**
Amortisation for the period	–	–	(2,744)	(108)	(2,852)	–	–	(2,744)	(2,744)
Disposal	–	–	–	2	2	–	–	–	–
Effect of movements in foreign exchange	514	–	–	29	543	–	–	–	–
Balance at 31 August 2009	**(14,868)**	**–**	**(9,776)**	**(294)**	**(24,938)**	**(2,602)**	**–**	**(9,775)**	**(12,377)**
Carrying amounts									
At 1 September 2007	94,803	99,000	14,449	397	208,649	8,513	23,881	12,872	45,266
At 31 August 2008	93,268	99,000	10,194	366	202,828	8,513	23,881	10,195	42,589
At 31 August 2009	93,208	99,000	7,611	254	200,073	8,513	23,881	7,610	40,004

15 INTANGIBLE ASSETS Continued

Amortisation and Impairment Charge

The amortisation charge was recognised within administration and general expenses in the income statement.

Impairment tests for Cash Generating Units containing Goodwill and Brand Names

The following cash generating units have significant carrying amounts of goodwill and brand names:

Goodwill	Consolidated	
In thousands of AUD	31 August 2009	31 August 2008
Australian pharmaceutical distribution	29,418	29,418
Australian retail	35,664	35,664
New Zealand manufacturing	28,126	28,186
	93,208	**93,268**

For all cash generating units containing goodwill, the value in use (VIU) approach was adopted for assessing the recoverable value. VIU was determined by discounting the future cash flows generated from the continuing use of the unit and based on the following assumptions:

- Cash flows were projected based on actual results and the 5 year business plan.
- Growth rates for each individual CGU after three years are based on current market factors and management opinion and are 3%.
- A pre tax discount rate of 14% has been used in discounting the projected cash flows and in terminal values.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on other external sources and internal sources (including historical data). The value of the investment in CH2 was similarly reviewed. This resulted in an impairment in the Company financial statements, as the calculated value was lower than the value carried in the Company financial statements, although higher than the value carried in the consolidated entity.

Brand names	Consolidated	
In thousands of AUD	31 August 2009	31 August 2008
Australian pharmaceutical distribution		
– Soul Pattinson brand name	37,500	37,500
Australian retail		
– Priceline brand name	61,500	61,500
	99,000	**99,000**

The recoverable amount of the Priceline brand was determined by reference to the value in use approach using the relief from royalty method. The relief from royalty method is generally used for brand name valuations and it has been undertaken using a DCF approach due to the availability of forecast cash flows for each of the brand names.

The valuation of Soul Pattinson (SP) brand has been completed as part of Australian Pharmacy Distribution CGU as predominant economic benefits of the SP brand have been realised in Pharmacy Distribution business. Additionally, the cash flows derived from the SP brand cannot be separated from the cash flows derived from the wholesale distribution business and banner group operations.

16 TRADE AND OTHER PAYABLES

In thousands of AUD	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Current				
Trade payables and accrued expenses	564,810	549,288	294,441	273,817
	564,810	**549,288**	**294,441**	**273,817**
Non–current				
Other payables	9,318	3,614	3,002	–
Non interest–bearing loans owed to controlled entities	–	–	30,130	66,065
	9,318	**3,614**	**33,132**	**66,065**

17 LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's and Company's interest–bearing loans and borrowings.

In thousands of AUD	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Current liabilities				
Customer deposits – unsecured	8	9	8	9
Finance lease liabilities	1,132	1,126	1,045	805
	1,140	**1,135**	**1,053**	**814**
Non–current liabilities				
Bank term loan	4,885	4,931	–	–
Finance lease liabilities	1,212	857	1,212	551
	6,097	**5,788**	**1,212**	**551**
Financing Facilities				
Bank overdraft – unsecured	12,442	12,447	10,000	10,000
Bank term loan – unsecured	6,000	6,000	–	–
Standby letters of credit	100	100	100	100
Cash advance facility – unsecured	136,500	116,500	136,500	116,500
Securitisation of trade receivables *	400,000	400,000	174,563	180,019
	555,042	**535,047**	**321,163**	**306,619**
Facilities utilised at reporting date				
Bank overdraft – unsecured	–	–	–	–
Bank term loan – unsecured	4,885	4,931	–	–
Standby letters of credit	–	–	–	–
Cash advance facility – unsecured	–	–	–	–
Securitisation of trade receivables *	332,813	298,935	145,242	134,534
	337,698	**303,866**	**145,242**	**134,534**
Facilities not utilised at reporting date				
Bank overdraft – unsecured	12,442	12,447	10,000	10,000
Bank term loan – unsecured	1,115	1,069	–	–
Standby letters of credit	100	100	100	100
Cash advance facility – unsecured	136,500	116,500	136,500	116,500
Securitisation of trade receivables *	67,187	101,065	29,321	45,485
	217,344	**231,181**	**175,921**	**172,085**

*The securitisation facility is not recognised in the balance sheet as it results in the de–recognition of trade receivable balances. Facilities utilised at reporting date includes $6,500,000 of subordinated notes in which the consolidated entity has directly invested.

Notes to the consolidated financial statements continued

17 LOANS AND BORROWINGS Continued

Bank Overdraft

The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of $12,442,000 (31 August 2008:$12,447,000) to entities in the Australian Pharmaceutical Industries Limited Group. The facility is subject to set off arrangements between the Group companies. Interest on bank overdrafts is charged at prevailing market rates. The bank overdraft is repayable on demand and subject to annual review.

Standby Letter of Credit

The standby letter of credit facility is a committed facility, available to be drawn down over the next year.

Finance Lease Facility

The consolidated entity's lease liabilities are secured by the leased assets. In the event of default, the assets revert to the lessor.

Cash Advances

The consolidated cash advance facilities total $136.5 million. The borrowings are unsecured. Interest is based on the Australian Financial Markets Association's bank–bill reference rate (BBSY) plus a margin charged by the lender.

Securitisation

Refer Note 21.

Finance Lease Liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

	Consolidated					
In thousands of AUD	Minimum Lease Payments 31 August 2009	Interest 31 August 2009	Principal 31 August 2009	Minimum Lease Payments 31 August 2008	Interest 31 August 2008	Principal 31 August 2008
Less than one year	1,260	128	1,132	1,226	100	1,126
Between one and five years	1,273	61	1,212	900	43	857
	2,533	**189**	**2,344**	**2,126**	**143**	**1,983**

	The Company					
In thousands of AUD	Minimum Lease Payments 31 August 2009	Interest 31 August 2009	Principal 31 August 2009	Minimum Lease Payments 31 August 2008	Interest 31 August 2008	Principal 31 August 2008
Less than one year	1,170	125	1,045	891	86	805
Between one and five years	1,273	61	1,212	569	18	551
	2,443	**186**	**2,257**	**1,460**	**104**	**1,356**

The Company and consolidated entity lease plant and equipment under finance leases expiring within five years. At the end of the lease term the Company and consolidated entity have the option to purchase the leased equipment at a price considered to be a bargain purchase option.

Under the terms of the lease agreements no contingent rents are payable.

18 EMPLOYEE BENEFITS

Current

In thousands of AUD	Consolidated 31 August 2009	Consolidated 31 August 2008	The Company 31 August 2009	The Company 31 August 2008
Liability for long service leave	4,328	3,851	2,103	1,704
Liability for annual leave	9,232	8,870	3,319	3,003
	13,560	**12,721**	**5,422**	**4,707**
Non–current				
Liability for long service leave	**3,322**	**2,999**	**1,147**	**1,008**

(a) Defined Benefit Plan

The consolidated entity and Company make contributions to a defined benefit superannuation fund that provides defined benefit amounts for employees upon retirement.

In thousands of AUD	Consolidated and the Company 31 August 2009	Consolidated and the Company 31 August 2008
Fair value of fund assets – funded	2,214	2,451
Present value of funded obligations	(2,013)	(1,959)
Present value of net fund assets	**201**	**492**
Unrecognised actuarial losses	1,044	733
Recognised asset for defined benefit obligations (see below)	**1,245**	**1,225**

Movements in the net asset for defined benefit obligations recognised in the balance sheet

In thousands of AUD	Consolidated and the Company 31 August 2009	Consolidated and the Company 31 August 2008
Net defined benefit asset at beginning of the period	1,225	1,337
Contributions received	141	197
Expense recognised in the income statement	(121)	(309)
Net defined benefit asset at end of the period	**1,245**	**1,225**

18 EMPLOYEE BENEFITS Continued

(a) Defined Benefit Plan Continued

Changes in the present value of the defined benefit obligation

In thousands of AUD	Consolidated and the Company 31 August 2009	31 August 2008
Opening defined benefit obligation	1,959	3,665
Service cost – recognised in the income statement	176	141
Interest cost – recognised in the income statement	92	179
Actuarial (gains)/losses	(108)	(542)
Benefits paid	(106)	(1,792)
Losses on curtailments	–	308
Closing defined benefit obligation	**2,013**	**1,959**
Changes in the fair value of fund assets		
Opening fair value of fund assets	2,451	4,326
Expected return – recognised in the income statement	191	340
Actuarial losses	(463)	(620)
Contributions by employer (net of tax)	141	197
Benefits paid	(106)	(1,792)
Closing fair value of fund assets	**2,214**	**2,451**

(b) Defined Contribution Superannuation Funds

In addition to the contributions to the defined benefit plan outlined above, the consolidated entity makes contributions to various defined contribution superannuation funds. The amount recognised as expense was $9,391,000 for the year ended 31 August 2009 (year ended 31 August 2008: $9,253,000).

(c) Share Based Payments

Share performance rights

The consolidated entity granted equity settled performance rights that entitle key management personnel and senior employees to receive shares in the Company if appropriate performance conditions are achieved.

At 10 August 2007 performance rights were granted in two tranches under the same terms and conditions. The performance period of the first tranche ended on 28 February 2009 without vesting any performance rights. The second tranche has a performance period commencing 1 May 2007 and ending 28 February 2010. The performance conditions for the exercise of performance rights will be assessed on 30 April 2010 for the second tranche.

On 31 March 2009, further performance rights were granted with a performance period commencing 1 September 2008 and ending 31 August 2011. The performance conditions for the exercise of performance rights will be assessed on 31 October 2011.

The performance conditions for the performance rights are designed to take account of absolute and relative measures being the Company's total shareholder return (TSR) performance relative to the total shareholder return performance of a comparator group of ASX-listed companies and the Company's earnings per share (EPS) relative to an EPS growth target determined by the Board. One half of the total performance rights granted will be assessed against the TSR measure and the other half will be assessed against the EPS measure.

Performance conditions will be tested once only, and any performance rights that do not meet the performance conditions will lapse and will not be re-tested.

18 EMPLOYEE BENEFITS Continued

(c) Share Based Payments Continued

The terms and conditions of the grants are as follows, all performance rights are settled by physical delivery of shares:

The number of performance rights outstanding in the period is as follows:

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of Performance Rights
Performance rights to key management personnel and senior employees at 10 August 2007 – Performance period to Feb 2010	314,200	Three years of service, TSR above the 50th percentile and an increase of 10% compound growth in EPS over the performance period	2.5 years
Performance rights to key management personnel and senior employees at 31 August 2008 – Performance period to Aug 2011	1,226,800	Three years of service, TSR above the 50th percentile and an increase of 10% compound growth in EPS over the performance period	3 years
	1,541,000		

	Number of performance rights 31 August 2009	Number of performance rights 31 August 2008
Outstanding at the beginning of the period	693	778
Forfeited/Lapsed during the period	(762)	(85)
Exercised during the period	–	–
Granted during the period	1,610	–
Outstanding at the end of the period	**1,541**	**693**
Exercisable at the end of the period	–	–

18 EMPLOYEE BENEFITS Continued

(c) Share Based Payments Continued

Fair value of performance rights and assumptions

	Key Management Personnel and Senior Manager 31 August 2009					
Performance period commences and	1 Nov 2006	1 Nov 2006	1 May 2007	1 May 2007	1 Sept 2008	1 Sept 2008
performance condition	TSR	EPS	TSR	EPS	TSR	EPS
Fair value at measurement date	$0.52	$2.07	$0.95	$1.97	$0.22	$0.36
Share price	$1.97	$1.97	$1.97	$1.97	$0.39	$0.39
Exercise price	–	–	–	–	–	–
Expected volatility (expressed as weighted average)	27%	27%	27%	27%	40%	40%
Performance Rights life (expressed as weighted average life)	3yrs	3yrs	3yrs	3yrs	3yrs	3yrs
Expected dividends	3.6%	3.6%	3.6%	3.6%	2.5%	2.5%
Risk–free interest rate (based on national government bonds)	6.2%	6.2%	6.2%	6.2%	3.40%	3.40%

The expected volatility is based on the historic volatility (calculated based on the weighted average expected life of the share performance rights), adjusted for any expected changes to future volatility due to publicly available information.

Share performance rights are granted under a service condition and, for grants to key management personnel, market and non–market performance conditions apply. Non–market performance conditions are not taken into account in the grant date fair value measurement of the services received.

Employee expenses

	Consolidated and the Company	
In thousands of AUD	31 August 2009	31 August 2008
Performance rights granted in 2007 – equity settled	(100)	94
Performance rights granted in 2008 – equity settled	119	–
Total expenses recognised as employee cost	**19**	**94**

19 PROVISIONS

In thousands of AUD	Directors retirement scheme	Provision for dismantling	Provision for restructuring	Other	Total
Consolidated					
Balance at 1 September 2008	313	2,129	996	1,308	4,746
Provisions made during the year	38	373	356	7,843	8,610
Provisions used during the year	–	(573)	(279)	(7,200)	(8,052)
Unwind of discount	–	33	–	–	33
Balance at 31 August 2009	**351**	**1,962**	**1,073**	**1,951**	**5,337**
Current	–	434	202	1,951	2,587
Non–current	351	1,528	871	–	2,750
	351	**1,962**	**1,073**	**1,951**	**5,337**
The Company					
Balance at 1 September 2008	313	498	–	–	811
Provisions made during the year	38	30	–	–	68
Provisions used during the year	–	–	–	–	–
Unwind of discount	–	–	–	–	–
Balance at 31 August 2009	**351**	**528**	**–**	**–**	**879**
Current	–	–	–	–	–
Non–current	351	528	–	–	879
	351	**528**	**–**	**–**	**879**

Directors Retirement Scheme

Retirement benefits for non-executive directors are included on an accrual basis. They are paid on a pro-rata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 per director and applies only to directors appointed prior to 9 September 2003. On 31 August 2009 the directors agreed to freeze this benefit.

Dismantling

The Group provides for the estimated costs to cover its obligations to lessors to restore premises to the condition that existed when leases of real property were entered into.

Restructuring

On 2 July 2007 the consolidated entity acquired the Making Life Easy-Mobility and Independent Living Superstores Pty Ltd ("MLE") business. MLE, at the date of acquisition, was committed to a plan to phase out its retail operations and had recognised a provision of $3,354,000 to allow for the costs of closure of retail outlets and write down of fixed assets.

Other

Other consists only of provision for Club Card points in the Retail Division which are convertible quarterly by customers in the form of gift vouchers.

20 CAPITAL AND RESERVES

In thousands of AUD	Share Capital	Retained Earnings	Translation Reserve	Hedging Reserve	Equity Reserve	Total
Consolidated						
Balance at 1 September 2007	419,499	(12,303)	(970)	506	203	406,935
Equity settled transactions (net of tax)	–	–	–	–	94	94
Total recognised income and expense	–	15,213	(3,169)	(109)	–	11,935
Balance at 31 August 2008	**419,499**	**2,910**	**(4,139)**	**397**	**297**	**418,964**
Balance at 1 September 2008	419,499	2,910	(4,139)	397	297	418,964
Equity settled transactions (net of tax)	–	–	–	–	19	19
Dividends to shareholders	–	(2,573)	–	–	–	(2,573)
Total recognised income and expense	–	18,598	(84)	(397)	–	18,117
Balance at 31 August 2009	**419,499**	**18,935**	**(4,223)**	**–**	**316**	**434,527**
The Company						
Balance at 1 September 2007	419,499	(26,037)	–	506	203	394,171
Equity settled transactions (net of tax)	–	–	–	–	94	94
Total recognised income and expense	–	28,758	–	(109)	–	28,649
Balance at 31 August 2008	**419,499**	**2,721**	**–**	**397**	**297**	**422,914**
Balance at 1 September 2008	419,499	2,721	–	397	297	422,914
Equity settled transactions (net of tax)	–	–	–	–	19	19
Dividends to shareholders	–	(2,573)	–	–	–	(2,573)
Total recognised income and expense	–	12,482	–	(397)	–	12,085
Balance at 31 August 2009	**419,499**	**12,630**	**–**	**–**	**316**	**432,445**

Share Capital

In thousands of shares	31 August 2009	31 August 2008
Shares on issue during all periods	257,346	257,346

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.

20 CAPITAL AND RESERVES Continued

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.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Dividends

During the current year the Company recognised dividends of $2.573 million paid on 15 December 2008. The dividend was in respect of earnings for the year ended 31 August 2008, and was at the rate of 1.00 cent per share, fully franked.

On 21 October 2009 a final dividend of 2.00 cents per share, fully franked to be paid on 11 December 2009, amounting to $5.146 million was declared.

Dividend Franking Account

	The Company	
In thousands of AUD	31 August 2009	31 August 2008
30 per cent franking credits available to shareholders of the Company for subsequent financial years	17,049	5,112

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

(a) Franking credits that will arise from the payment of the current tax liabilities;

(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) Franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end;

(d) Franking credits that the entity may be prevented from distributing in subsequent years; and

(e) Franking debits that will arise from receipt of the current income tax receivable.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The future reduction in the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability at year end is $2,025,828 (31 August 2008: $1,102,000).

Notes to the consolidated financial statements continued

21 FINANCIAL INSTRUMENTS

Financial Risk Management

Overview

The consolidated entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated entity's risk management framework. The Board has established an Audit and Risk Committee, which is responsible for developing and monitoring the consolidated entity's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The consolidated entity's risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities.

The Audit and Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The Audit and Risk Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its constructive obligations, and arises principally from the consolidated entity's receivables from customers and financial guarantees.

Trade and other receivables

The consolidated entity's exposure to credit risk is mainly influenced by the individual characteristics of each customer.

The consolidated entity has established a credit policy under which new customers are analysed individually for credit worthiness including using external ratings, where available. Purchase limits are established for each customer, which represents the maximum open amount available and limits are reviewed on a needs-basis. Customers that fail to meet the benchmark credit worthiness may transact with the consolidated entity only on a prepayment basis.

In monitoring customer credit risk, customers are grouped by state and reviewed monthly. "High risk" customers are placed on "credit hold", with orders manually released as appropriate.

Goods sold under some customer arrangements are subject to retention of title clauses, so that in the event of non-payment the consolidated entity may have a secured claim.

The consolidated entity establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures (after consideration of any collateral held).

Guarantees

In prior years, the consolidated entity provided financial guarantees to pharmacy customers and franchises. These guarantees were subject to strict controls over their approval, including obtaining security. Generally, the Board has established a practice of not approving any new guarantees. Only one new guarantee has been made during the two years ended 31 August 2009. The guarantees outstanding are further described in the contingencies note 23.

21 FINANCIAL INSTRUMENTS Continued

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Company and consolidated entity have varying borrowing levels based on seasonal requirements of the business. Any obligations can be met by the unused facilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor market risk exposures within acceptable parameters, whilst optimising the return on risk.

Currency risk

The consolidated entity had no material exposure to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the consolidated entity companies.

Interest rate risk

The consolidated entity is exposed to interest rate risk as a consequence of its financing facilities. The consolidated entity adopts a policy that up to 80% of its exposure to the changes in interest rates on its long term variable rate borrowings relating to the securitised trade receivables is hedged on a fixed rate basis. An interest rate swap denominated in Australian dollars was entered into to achieve this. The swap expired in April 2009 and had a fixed rate of 6.54%. The notional contract amount of the swap was $200,000,000. The consolidated entity classifies interest rate swaps as cash flow hedges.

The net fair value of the swap has been recognised in equity.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the consolidated entity's approach to capital management during the period.

Derecognised Financial Instruments

The consolidated entity has entered into a securitisation program, whereby the consolidated entity and company has access to funds as a result of the securitisation of current trade receivables. There are two separate programs which have limits of $300,000,000 and $100,000,000 respectively (31 August 2008: $300,000,000 and $100,000,000), respectively.
As part of these programs, the program provider charges a monthly variable interest rate plus margin based on the drawn down portion of this program. Settlement of the funds is monthly and daily respectively. These agreements expire in April 2010. Subsequent to the year end both facilities were extended to April 2011.

At 31 August 2009, $300,000,000 and $32,813,135 respectively were drawn down on these programs by the consolidated entity (31 August 2008: $260,000,000 and $38,934,781, respectively), and at 31 August 2009, $130,922,000 and $14,319,838 were drawn down on these programs by the Company (31 August 2008: $117,012,000 and $17,522,475, respectively). The trade receivables and loans and borrowings relating to these transactions are derecognised.

The amounts drawn down under the securitisation facility accrue finance charges at the prevailing market rate. At 31 August 2009 the weighted average rate was 5.34% (31 August 2008: 7.81%).

The consolidated entity and Company are also required to invest in the securitisation program. At 31 August 2009 an amount of $81,500,000 (the consolidated entity) and $39,230,425 (the Company) was invested as an interest bearing note receivable in the program (31 August 2008: $71,500,000 consolidated entity and $35,753,045 (the Company)). The interest paid is received by the Company and has no net impact on finance cost.

Notes to the consolidated financial statements continued

21 FINANCIAL INSTRUMENTS Continued

Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets and financial guarantee contingent liabilities represents the maximum credit exposure. The maximum exposure to credit risk as the reporting date was current and non-current trade and other receivables, excluding pension assets.

The majority of exposure to credit risk for trade receivables at the reporting date is domestic.

The consolidated entity and company have no significant concentrations of the trade receivable carrying amounts for the years presented.

The Company seeks to obtain collateral whenever long term funding arrangements with pharmacists are agreed to. The value of this collateral is taken into account during provisioning.

Impairment Losses

The aging of trade receivables at the reporting date was:

	Consolidated		The Company	
In thousands of AUD	31 August 2009	31 August 2008	31 August 2009	31 August 2008
Not past due	539,999	511,713	240,244	229,494
Past due 0–30 days	27,468	8,349	2,737	416
Past due 31+ days	62,419	27,800	13,700	6,985
Sub–total	**629,886**	**547,862**	**256,681**	**236,895**
Securitisation	(407,813)	(363,935)	(177,972)	(163,787)
Impairment	(10,776)	(5,796)	(5,417)	(2,577)
	211,297	**178,131**	**73,292**	**70,531**

The consolidated entity considers the value of collateral held over certain trade receivable balances and its securitisation in determining the allowance for impairment.

Historically, the consolidated entity has provided certain financial assistance to its customers. In the previous year, funding was formally extended to additional customers by restructuring the payment of $35.2 million of trade receivables. The formalised agreement includes an annual interest rate of 10% and full repayment due in approximately four years. As a result, these balances have been reclassified to long term loans receivable from pharmacy customers.

21 FINANCIAL INSTRUMENTS Continued

Liquidity Risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements.

Consolidated In thousands of AUD	Carrying Amount	Contract Cash Flows	1 year or less	1–2 years	2–5 years	More than 5 years
31 August 2009						
Non–derivative financial liabilities						
Finance lease liabilities	2,344	2,533	1,260	929	344	–
Customer deposits	8	8	8	–	–	–
Trade and other payables	574,128	574,128	564,810	5,847	2,506	965
Bank term loan	4,885	4,885	–	4,885	–	–
	581,365	**581,554**	**566,078**	**11,661**	**2,850**	**965**
31 August 2008						
Non–derivative financial liabilities						
Finance lease liabilities	1,983	2,126	1,226	865	35	–
Customer deposits	9	9	9	–	–	–
Trade and other payables	552,902	552,902	549,288	138	2,042	1,434
Bank term loan	4,931	4,931	–	4,931	–	–
	559,825	**559,968**	**550,523**	**5,934**	**2,077**	**1,434**

The Company In thousands of AUD	Carrying Amount	Contract Cash Flows	1 year or less	1–2 years	2–5 years	More than 5 years
31 August 2009						
Non–derivative financial liabilities						
Finance lease liabilities	2,257	2,443	1,170	929	344	–
Customer deposits	8	8	8	–	–	–
Trade and other payables	297,443	297,443	294,441	3,002	–	–
Loans from controlled entities	30,130	30,130	–	–	–	30,130
	329,838	**330,024**	**295,619**	**3,931**	**344**	**30,130**
31 August 2008						
Non–derivative financial liabilities						
Finance lease liabilities	1,356	1,460	891	559	10	–
Customer deposits	9	9	9	–	–	–
Trade and other payables	273,817	273,817	273,817	–	–	–
Loans from controlled entities	66,065	66,065	–	–	–	66,065
	341,247	**341,351**	**274,717**	**559**	**10**	**66,065**

21 FINANCIAL INSTRUMENTS Continued

Cash Flow Hedges

Interest rate swaps are recorded at fair value, however this value does not mature or require repayment. Upon maturity, the balance is not owed or receivable and so has no profit and loss or equity impact at that time. The interest rate swap expired in April 2009.

No cash flow hedge existed as at 31 August 2009.

The following table indicates the periods in which the cash flows and profit and loss impact associated with derivatives that were cash flow hedges existing as at 31 August 2008 were expected to occur:

Consolidated and the Company			31 August 2008				
In thousands of AUD	Carrying Amount	Expected Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest Rate Swap–Asset	567	567	–	567	–	–	–

21 FINANCIAL INSTRUMENTS Continued

Interest Rate Risk

Effective Interest Rates and Repricing Analysis

In respect of income–earning financial assets and interest–bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

		31 August 2009						31 August 2008					
In thousands of AUD	Note	Effective interest rate	Total	1 year or less	1–2 years	2–5 years	More than 5 years	Effective interest rate	Total	1 year or less	1–2 years	2–5 years	More than 5 years
Consolidated													
Cash and cash equivalents	26	2.50%	5,856	5,856	–	–	–	5.80%	42,906	42,906	–	–	–
Loans to associates*	8	8.07%	15,808	–	15,808	–	–	8.50%	12,060	–	12,060	–	–
Loans receivable from pharmacy customers*	8	8.02%	51,895	–	–	51,895	–	10.00%	51,461	–	–	51,461	–
Interest bearing notes	8	5.34%	81,500	–	81,500	–	–	7.29%	71,500	–	71,500	–	–
Finance lease liabilities	17	6.90%	(2,344)	(1,132)	(1,187)	(25)	–	6.90%	(1,983)	(1,169)	(804)	(10)	–
Bank overdrafts and term loan	17	3.58%	(4,885)	(4,885)	–	–	–	10.00%	(4,931)	(4,931)	–	–	–
Customer deposits*	17	3.25%	(8)	(8)	–	–	–	3.25%	(9)	(9)	–	–	–
Employee Loans	8	5.85%	221	86	–	–	135	8.03%	198	–	–	–	198
			148,043	**(83)**	**96,121**	**51,870**	**135**		**171,202**	**36,797**	**82,756**	**51,451**	**198**
The Company													
Cash and cash equivalents	26	2.50%	13,251	13,251	–	–	–	5.80%	23,835	23,835	–	–	–
Loans to associates*	8	8.07%	15,808	–	15,808	–	–	8.50%	12,060	–	12,060	–	–
Loans to controlled entities	8	5.00%	171,576	–	–	–	171,576	5.00%	195,255	–	–	–	195,255
Loans receivable from pharmacy customers*	8	8.02%	47,012	–	–	47,012	–	10.00%	12,628	–	–	12,628	–
Interest bearing notes	8	5.34%	39,230	–	39,230	–	–	7.29%	35,753		35,753	–	–
Finance lease liabilities	17	6.90%	(2,257)	(1,045)	(1,197)	(15)	–	6.90%	(1,356)	(826)	(520)	(10)	–
Customer deposits*	17	3.25%	(8)	(8)	–	–	–	3.25%	(9)	(9)	–	–	–
			284,612	**12,198**	**53,841**	**46,997**	**171,576**		**278,166**	**23,000**	**47,293**	**12,618**	**195,255**

* Fixed rate income earning financial assets and interest bearing financial liabilities. Remaining balances are variable rates.

The securitisation is not recognised on balance sheet. For details regarding interest rates, in relation to securitisation, refer to earlier commentary.

21 FINANCIAL INSTRUMENTS Continued

Foreign Currency Risk

The consolidated entity had no material exposure to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the consolidated entity companies.

The Company has a New Zealand denominated long term inter-company receivable designated as a hedge of the Company's investment in its subsidiary in New Zealand. The carrying amount of the loan at 31 August 2009 was $29,312,902 (31 August 2008 was $29,371,963).

Fair value sensitivity analysis for fixed rate instruments

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the consolidated entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at reporting date would not affect profit and loss.

Cash flow sensitivity analysis for variable rate instruments

A change in 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below for the consolidated entity and the Company. This analysis assumes that all other variables remain constant.

In thousands of AUD	Profit or Loss 31 August 2009	
Consolidated		
Interest expense increase/(decrease)	1,636	(1,636)
The Company		
Interest expense increase/(decrease)	472	(472)

Fair values

The fair values of financial assets and liabilities are not materially different from the carrying amounts shown in the balance sheet.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and Borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance Lease Liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other Receivables / Payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

Interest rates used for determining fair value

The entity uses the government yield curve as of the year end, plus an adequate constant credit spread, to discount financial instruments. The interest rates used are as follows:

	31 August 2009	31 August 2008
Loans and borrowings	3.5% – 5.5%	3.5% – 5.5%
Leases	6.0% – 7.0%	6.0% – 7.0%
Receivables	3.5% – 4.5%	3.5% – 4.5%

22 COMMITMENTS

Operating leases – leases as lessee

Non–cancellable operating lease rentals are payable as follows:

In thousands of AUD	Consolidated 31 August 2009	Consolidated 31 August 2008	The Company 31 August 2009	The Company 31 August 2008
Less than one year	54,254	43,449	5,640	4,934
Between one and five years	167,413	130,929	20,704	21,455
More than five years	56,807	17,890	846	640
	278,474	**192,268**	**27,190**	**27,029**

The consolidated entity leases property and plant under non–cancellable operating leases expiring from two to fifteen years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

During the year ended 31 August 2009, $ 54,811,723 was recognised by the consolidated entity as an expense in the profit and loss in respect of operating leases (year ended 31 August 2008: $57,618,138). For the Company this expense was $6,816,648 (year ended 31 August 2008: $6,492,841).

Capital commitments In thousands of AUD	Consolidated 31 August 2009	Consolidated 31 August 2008	The Company 31 August 2009	The Company 31 August 2008
Contracted but not provided for and payable:				
– Within one year	4,089	7,420	–	404
– One year or later and no later than five years	–	–	–	–
– Later than five years	–	–	–	–
	4,089	**7,420**	**–**	**404**

23 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.

In thousands of AUD		Consolidated 31 August 2009	Consolidated 31 August 2008	The Company 31 August 2009	The Company 31 August 2008
Guarantee of bank facilities to controlled entities		–	–	10,000	10,000
Guarantee of bank facilities of pharmacy customers	(i)	64,164	73,200	64,164	73,200
Contingent liability for potential Club Card voucher redemptions	(ii)	1,084	6,547	–	–

(i) The Company has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy.

(ii) The contingent liability for Club Card 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 rates.

Notes to the consolidated financial statements continued

24 CONSOLIDATED ENTITIES

	Note	Ownership interest 31 August 2009	31 August 2008
Parent Entity			
Australian Pharmaceutical Industries Limited			
Subsidiaries			
Thrift Chemist Merchandising Pty Limited		100	100
Healthcare Logistics Pty Limited	(ii)	–	100
Australian Pharmaceutical Industries (Queensland) Pty Limited	(iv)	100	100
API Victoria Pty Limited	(iv)	100	100
Amed Supplies Australia Pty Limited	(ii)	–	100
Soul Pattinson (Manufacturing) Pty Limited		100	100
Healthcare Manufacturing Group Pty Limited	(ii)	–	100
Pharmacists of Australia Medicines Pty Limited	(ii)	–	100
API Financial Services Australia Pty Limited	(iii) (iv)	100	100
Pharma–Pack Pty Limited		100	100
API (Canberra) Pty Limited		100	100
Canberra Pharmaceutical Supplies Trust		100	100
Zuellig Australia Pty Limited	(ii)	–	100
Stevens Australia Pty Limited	(ii)	–	100
Dental Forum Australasia Pty Limited	(ii)	–	100
Stevens KMS Equities Limited	(i)	100	100
API Healthcare Nominees (NZ) Limited	(i)	100	100
API Healthcare Holdings (NZ) Unit Trust	(i)	100	100
API Healthcare Holdings (NZ) Limited	(i)	100	100
Priceline (NZ) Pty Ltd	(i)	100	100
PAF (New Zealand) Ltd	(i)	100	100
The Medicine Shoppe Limited	(i)	100	100
PSM Healthcare Limited	(i)	100	100
Pharmaceutical Sales and Marketing Limited	(i)	100	100
Garrett Investments Limited	(i)	100	100
Healthcare Manufacturing Group Limited	(i)	100	100
Synapse Finance Pty Ltd	(iv)	100	100
New Price Retail Finance Pty Ltd	(iv)	100	100
New Price Retail Pty Ltd	(iv)	100	100
Pricemart Pty Ltd		100	100
New Price Retail Services Pty Ltd		100	100
You Pay Less Pty Ltd		100	100
PAF (Priceline) Pty Ltd		100	100
Priceline Unit Trust		100	100
Second Priceline Unit Trust		100	100
Priceline Proprietary Limited	(iv)	100	100
Making Life Easy – Mobility and Independent Living Superstores Pty Ltd		100	100
MLE Unit Trust		100	100

(i) These controlled entities are incorporated in New Zealand and carry on business predominantly in New Zealand. All other controlled entities are incorporated and carry on business predominantly in Australia.
(ii) Non-operative dormant companies de-registered during the year.
(iii) Converted from a public to proprietary company on 18 March 2009.
(iv) These controlled entities have each entered into a Deed of Cross Guarantee with Australian Pharmaceuticals Industries Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with ASIC Class Order 96/1418.

25 DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporation Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full, The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:-

- API Financial Services Australia Pty Ltd
- API Victoria Pty Ltd
- Australian Pharmaceutical Industries (Queensland) Pty Ltd
- New Price Retail Finance Pty Ltd
- Priceline Pty Ltd
- Synapse Finance Pty Ltd

A consolidated income statement and consolidated balance sheet comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 August 2009 is set out as follows:–

SUMMARISED INCOME STATEMENT AND RETAINED PROFITS

	Closed Group	
In thousands of AUD	Year ended 31 August 2009	Year ended 31 August 2008
Profit before tax	20,427	18,558
Income tax expense	(1,755)	(116)
Profit after tax	**18,672**	**18,442**
Retained profits/(losses) at beginning of year	8,838	(7,410)
Transfers to and from reserves	–	–
Share of associate loss	(713)	(2,194)
Dividends recognised during the year	(2,573)	–
Retained profits at end of year	**24,224**	**8,838**
Attributable to:		
Equity holders of the Company	24,224	8,838
Minority interest	–	–
Profit for the period	**24,224**	**8,838**

Notes to the consolidated financial statements continued

SUMMARISED BALANCE SHEET

	Closed Group	
In thousands of AUD	2009	2008
Assets		
Cash and cash equivalents	13,477	24,024
Trade and other receivables	95,334	121,925
Inventories	180,245	163,611
Income tax receivable	–	3,385
Total current assets	**289,056**	**312,945**
Trade and other receivables	304,794	294,145
Investments	128,506	152,372
Investments accounted for using the equity method	23,667	24,668
Deferred tax assets	2,375	3,901
Property, plant and equipment	60,180	28,894
Intangible assets	117,633	120,216
Total non–current assets	**637,155**	**624,196**
Total assets	**926,211**	**937,141**
Liabilities		
Trade and other payables	459,567	470,566
Loans and borrowings	1,053	814
Employee benefits	7,101	6,622
Income tax payable	9,136	–
Total current liabilities	**476,857**	**478,042**
Trade and other payables	651	26,669
Loans and borrowings	1,518	857
Employee benefits	2,041	1,518
Provisions	1,105	1,025
Total non-current liabilities	**5,315**	**30,069**
Total liabilities	**482,172**	**508,111**
Net assets	**444,039**	**429,030**
Equity		
Share capital	419,499	419,499
Reserves	316	693
Retained earnings	24,224	8,838
Total equity	**444,039**	**429,030**

26 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Income	Consolidated		The Company	
In thousands of AUD	31 August 2009	31 August 2008	31 August 2009	31 August 2008
Cash Flows from Operating Activities				
Profit/(loss) for the period	18,598	15,213	12,482	28,758
Adjustments for:				
Depreciation	13,296	12,869	5,688	5,257
Amortisation	2,852	2,851	2,744	2,731
Foreign exchange (gains)/losses	88	(1,165)	154	1,787
Share of (profit)/ loss of associates net of dividends received	713	2,194	–	–
Net (Gain)/loss on sale of stores, property, plant and equipment	(5,221)	(10,538)	(31)	(150)
Impairment of investment	–	–	4,844	–
Equity-settled share-based payment expenses	19	94	19	94
Income tax expense/(benefit)	8,578	5,756	(7,186)	(8,008)
(Increase)/decrease in trade and other receivables	(21,292)	(121,542)	(7,831)	(57,230)
Decrease/(increase) in inventories	(23,844)	41,597	(7,109)	2,065
Increase/(decrease) in trade and other payables	16,651	80,928	23,626	(1,517)
(Decrease)/increase in provisions and employee benefits	1,753	(1,334)	922	919
	12,191	**26,923**	**28,322**	**(25,294)**
Income taxes (paid)/received	(632)	3,631	(632)	3,631
Net Cash from Operating Activities	**11,559**	**30,554**	**27,690**	**(21,663)**

Income	Consolidated		The Company	
In thousands of AUD	31 August 2009	31 August 2008	31 August 2009	31 August 2008
Cash and cash equivalents	5,856	42,906	13,251	23,835
Bank overdrafts repayable on demand	–	–	–	–
Cash and cash equivalents in the statement of cash flows	**5,856**	**42,906**	**13,251**	**23,835**

Notes to the consolidated financial statements continued

27 RELATED PARTIES

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' is as follows

	Consolidated		The Company	
In AUD	31 August 2009	31 August 2008	31 August 2009	31 August 2008
Short–term employee benefits	4,150,493	3,171,443	4,150,493	3,171,443
Post employment benefits	249,363	174,838	249,363	174,838
Termination benefits	398,230	166,083	398,230	166,083
Share based payments	11,578	44,920	11,578	44,920
	4,809,664	**3,557,284**	**4,809,664**	**3,557,284**

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by Corporations Act S300A and Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to Key Management Personnel

Loans totalling $172,250 made to key management personnel were outstanding at 31 August 2009. The recipients of these loans were Mr P Smith ($86,125) and Mr J Meiliunas ($86,125). Interest accrued during the year ended 31 August 2009 was $6,142 for Mr Smith and $6,142 for Mr Meiliunas. Subsequent to year end, Mr Smith repaid his loan in full.

For all loans to key management personnel, interest is payable at prevailing market rates, currently 8.03%.

All loans are secured by shares in the consolidated entity and are repayable on termination of employment, or earlier at the borrower's discretion.

No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

Other Key Management Personnel transactions with the Company or its Controlled Entities

Members of key management personnel are directors of an associate entity (as discussed in Note 13) that result in them having influence over the financial or operating policies of that entity. The associate transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with that party were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Certain directors of the Company have entered into transactions with the Company and its controlled entities during the financial year. These transactions may include purchasing of inventories from the Company or its controlled entities. All transactions with the directors are on the same terms and conditions as those entered into by other entities, employees or customers and are trivial or domestic in nature.

27 RELATED PARTIES Continued

Movements in Shares

The movement during the reporting period in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each key management person, including their personally related parties is as follows:

In shares	Held at 1 September 2008	Purchases	Sales	Held at 31 August 2009
Directors				
Mr P R Robinson	67,300	–	–	67,300
Mr M Hampton	35,000	30,000	–	65,000
Ms E C Holley	10,000	–	–	10,000
Mr R D Millner	211,000	200,000	–	411,000
Mr S P Roche	70,000	–	–	70,000
Dr M Wooldridge **	–	–	–	–
Ms L Ausburn	–	50,000	–	50,000
Executives				
Mr J Meiliunas	289,293	292,609	(289,293)	292,609
Mr P Smith	242,607	–	–	242,607
Mr R Vincent	–	–	–	–
Mr P Sanguinetti	5,000	–	–	5,000
Mr A Killick	–	–	–	–
Mr M Langham	–	–	–	–
Mr P Hourihan	–	–	–	–

The movement during the previous reporting period in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each key management person, including their personally related parties is as follows:

In shares	Held at 1 September 2007	Purchases	Sales	Held at 31 August 2008
Directors				
Mr P R Robinson	15,800	51,500	–	67,300
Mr B A Frost *	461,548	–	–	461,548
Mr M Hampton	–	35,000	–	35,000
Ms E C Holley	10,000	–	–	10,000
Mr R D Millner	11,000	200,000	–	211,000
Mr S P Roche	–	70,000	–	70,000
Dr M Wooldridge	–	–	–	–
Ms L Ausburn	–	–	–	–
Executives				
Mr J Meiliunas	292,609	–	(3,316)	289,293
Mr P Smith	282,607	–	(40,000)	242,607
Mr R Vincent	–	–	–	–
Mr P Sanguinetti	–	5,000	–	5,000
Mr A Killick	–	–	–	–
Mr M Langham	–	–	–	–

27 RELATED PARTIES Continued

No shares were granted during the period to directors or senior executives.

Messrs R D Millner, and P R Robinson are directors of Washington H Soul Pattinson and Company Limited. Washington H Soul Pattinson and Company Limited holds 63,380,228 shares (31 August 2008: 63,380,228 shares) in the Company at year end 31 August 2009.

* Mr Frost retired 31 July 2008.

** It was incorrectly disclosed to the ASX on 27 November 2008 that Dr M R Wooldridge purchased shares in the Company. This purchase was not completed.

During the year no further share rights or options were issued by the Company. Options and share rights forfeited by key management personnel have been disclosed in the Remuneration Report contained within the Directors Report of this report.

Non Key Management Personnel Disclosures

Subsidiaries

Other Transactions

During the year ended 31 August 2009 the Company received no fees for administrative services provided to API Financial Services Australia Limited, a controlled entity. (Year ended 31 August 2008: $185,369).

Balances with entities within the wholly–owned group

The aggregate amounts receivable and payable by the Company to and from wholly–owned controlled entities at balance date:

In thousands of AUD	31 August 2009	31 August 2008
Receivables		
Non-current loans to controlled entities	171,576	195,255
Payables		
Current trade payables	356	107
Non-current loans from controlled entities	30,130	66,065

Dividends

Dividends and distributions received or due and receivable by the Company from wholly-owned controlled entities was $37,960,000 (31 August 2008: $49,100,000).

Associates

During the year ended 31 August 2009, associates purchased goods from the consolidated entity in the amount of $978,365 (year ended 31 August 2008: $1,269,281) and at 31 August 2009 associates owed the consolidated entity $38,000 (31 August 2008: $658,000). Transactions with associates are priced on an arm’s length basis. Non-current loans to associates of $15,808,000 (31 August 2008: $12,060,000) are unsecured, and bear interest at market rates. Interest revenue brought to account by the Company and consolidated entity in relation to these loans during the year to 31 August 2009 was $771,000 (August 2008: $735,000). No dividends were received from associates during the period ended 31 August 2009 nor for the period ended 31 August 2008.

28 AUDITORS' REMUNERATION

In AUD	Consolidated Year ended 31 August 2009	Consolidated Year ended 31 August 2008	The Company Year ended 31 August 2009	The Company Year ended 31 August 2008
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports – 31 August 2009 financial year	475,000	–	475,000	–
Audit and review of financial reports – 31 August 2008 financial year	–	537,000	–	537,000
Overseas KPMG Firms:				
Audit and review of financial reports	40,000	50,000	–	–
	515,000	**587,000**	**475,000**	**537,000**
Other services				
Auditors of the Company				
KPMG Australia:				
Other assurance services	–	169,305	–	169,305
Sale of business completion audits	–	47,000	–	–
Taxation services	30,780	117,510	30,780	117,510
Overseas KPMG offices:				
Other assurance services	–	13,793	–	–
Taxation services	14,317	19,743	–	–
	560,097	**954,351**	**505,780**	**823,815**

29 SUBSEQUENT EVENTS

Subsequent to year end, API received commitments from its bankers (subject to final documentation) to extend its cash advance facilities to April 2012 and its securitisation facilities to April 2011.

On 21 October 2009, a final dividend of 2.00 cents per share, fully franked to be paid on 11 December 2009, amounting to $5.147 million was declared.

On 21 October 2009, the Company announced that it would be raising $150 million by way of a fully underwritten, non-renounceable pro-rata entitlement offer to existing shareholders and placement to institutions. The proceeds will be used to reduce debt and allow for continued investment in the Priceline brand.

section 10
Directors' declaration

DIRECTORS' DECLARATION

1 In the opinion of the directors of Australian Pharmaceutical Industries Limited ('the Company'):

(a) the financial statements and notes set out on pages 21 to 69, and the Remuneration Report in the Directors' Report set out on pages 12 to 17, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 August 2009 and of their performance, for the financial period ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Accounting Standards as disclosed in note 1(b); and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

There are reasonable grounds to believe that the Company and the controlled entities identified in note 24 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418

2 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial period ended 31 August 2009 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney 5th day of November 2009

Signed in accordance with a resolution of the directors:

Peter R. Robinson

Director

Independent audit report

KPMG

Independent audit report to the members of Australian Pharmaceutical Industries Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Australian Pharmaceutical Industries Limited (the Company), which comprises the balance sheets as at 31 August 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 29 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1 (b), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

(a) the financial report of Australian Pharmaceutical Industries Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 31 August 2009 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Company and consolidated entity also comply with International Financial Reporting Standards as disclosed in note 1 (b).

Independent audit report to the members of Australian Pharmaceutical Industries Limited continued

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the directors' report for the year ended 31 August 2009. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Australian Pharmaceutical Industries Limited for the year ended 31 August 2009, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

John Wigglesworth

Partner

Sydney

5th November 2009

Shareholder information

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings as at 5 October 2009

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Washington H Soul Pattinson and Company Limited	63,380,228	ordinary shares
J P Morgan Nominees Australia Limited	25,698,958	ordinary shares
SL Nominees Pty Ltd	19,087,159	ordinary shares
Citicorp Nominees Pty Limited	13,732,882	ordinary shares
Dancetown Pty Ltd	13,388,430	ordinary shares

Voting rights

The voting rights attaching to the ordinary shares, as set out in clause 13.1 of the Company's Constitution, are:

'Subject to any special rights or restrictions for the time being attaching to any class of shares in the capital of the Company, clause 13.8 and the provisions of Schedule 3:

(a) on a show of hands at a general meeting every person present who is an Eligible Voter has one vote; and

(b) on a poll at a general meeting every Eligible Member (not being a corporation) present in person or by proxy or attorney and every Eligible Member (being a corporation) present by a Representative or by proxy or attorney has one vote for each Share that Eligible Member holds.'

On-market share buy-back

There is no current on-market share buy-back.

Distribution of Shareholders as at 5 October 2009

Category Ordinary Shares	Number of Shareholders
1 – 1,000	1,729
1,001 – 5,000	2,958
5,001 – 10,000	1,020
10,001 – 100,000	1,351
100,001 and over	211
	7,269

The number of shareholders holding less than a marketable parcel at 12 October 2009 was 869

(30 October 2008: 1,249)

Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other Information

Australian Pharmaceutical Industries Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

section 12
Shareholder information continued

Twenty largest Shareholders as at 5 October 2009 *

Name	Number of Ordinary shares held	Percentage of Capital held
Washington H Soul Pattinson and Company Limited **	60,867,070	23.65
J P Morgan Nominees Australia Limited	25,698,958	9.99
SL Nominees Pty Ltd	19,087,159	7.42
Citicorp Nominees Pty Limited	13,732,882	5.34
Dancetown Pty Limited	13,388,430	5.20
National Nominees Limited	7,901,196	3.07
HSBC Custody Nominees (Australia) Limited	7,129,994	2.77
Merrill Lynch (Australia) Nominees Pty Ltd (Berndale A/c)	3,367,997	1.31
Washington H Soul Pattinson and Company Limited **	2,513,158	0.98
Queensland Investment Corporation	1,932,579	0.75
Hudson Conway Investments Pty Ltd	1,450,000	0.56
Cogent Nominees Pty Limited	1,150,208	0.45
RBC Dexia Investor Services Australia Nominees Pty Ltd (Piselect A/c)	691,129	0.27
Mr Michael Kelaher	620,000	0.24
Mr John Edmund Mueller	576,315	0.22
Mr Edward Henry Pickard	541,514	0.21
Mr John Joseph Murphy	511,409	0.20
Mrs Patricia June Murphy	511,028	0.20
Hallam Drainage Pty Limited	494,647	0.19
Australian Reward Investment Alliance	474,976	0.19
	162,640,649	**63.21**

* As shown on the register, beneficial holdings may differ.

** Combined holding – 63,380,228 ordinary shares representing 24.63% of capital held.

Shareholder Communications

Enquiries or notifications by shareholders regarding their shareholdings or dividend should be directed to API's share registry:

Registries Limited

Level 7

207 Kent Street

Sydney NSW 2000

GPO Box 3993

Sydney NSW 2001

Telephone 1300 737 760

International +61 2 9290 9600

Facsimile 1300 653 459

Shareholders can also send queries to the share registry via email: registries@registries.com.au

You can access information about your API shareholding and download forms via the internet by visiting: www.registries.com.au

Dividends

If you wish your dividends to be paid directly to a bank, building society or credit union account in Australia contact the share registry or visit the website of Registries at www.registries.com.au for an application form. The payments are electronically credited on the dividend payment date and confirmed by payment advices sent through the mail to the shareholder's registered address. All instructions received remain in force until amended or cancelled in writing.

Tax File Number (TFN), Australia Business Number (ABN or exemption)

You are strongly advised to lodge your TFN, ABN or exemption with the share registry. If you choose not to lodge these details, then API is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of any dividend. Certain pensioners are exempt from supplying their TFN's. You can confirm whether you have lodged your TFN, ABN or exemption via the Registries website.

Uncertificated Forms of Shareholdings

Two forms of uncertificated holdings are available to API shareholders:

Issuer Sponsored Holdings:

This type of holding is sponsored by API and provides shareholders with the advantages of uncertificated holdings without the need to be sponsored by any particular stockbroker.

Broker Sponsored Holdings ('CHESS'):

Shareholders may arrange to be sponsored by a stockbroker (or certain other financial institutions) and are required to sign a sponsorship agreement appointing the sponsor as their 'controlling participant' for the purposes of CHESS. This type of holding is likely to attract regular stock market traders or those shareholders who have their share portfolio managed by a stockbroker.

Shareholders communicating with the share registry should have their Security Holder Reference Number (SRN) at hand or Holder Identification Number (HIN) as it appears on the Issuer Sponsored/ CHESS statements or dividend advices. For security reason, shareholders should keep their Security Holder Reference Numbers confidential.

section 13
Shareholder information

Annual Report Mailing List

Shareholders (whether Issuer or Broker Sponsored) wishing to receive the Annual Report should advise Registries in writing so that their names can be added to the mailing list. Shareholders are able to update their preference via the Registries website. Shareholders can also elect to receive the Annual report by e-mail or by accessing the Company website.

Change of Address

Shareholders who are Issuer Sponsored should notify any change of address to the share registry promptly in writing quoting their Security Holder Reference Number, previous address and new address. Application forms for Change of Address are also available for download via the Registries website. Broker Sponsored (CHESS) holders must advise their sponsoring broker of the change.

Share Trading and Price

API shares are traded on the Australian Stock Exchange Limited ('ASX'). The stock code under which they are traded is 'API' and the details of trading activity are published in most daily newspapers under that abbreviation.

Off-Market Share Transfers

Stamp duty on transfer of listed shares was abolished on 1 July 2001. Share transfers dated after 1 July 2001 should be forwarded directly to Registries at the address noted above.

Information on API

API has a comprehensive internet site featuring news items, announcements, corporate information and a wide range of product and service information. API's internet address is www.api.net.au

The Annual Report is the main source of information for shareholders. Other sources of information include:

- Interim results
- Annual results
- The Annual General Meeting – the Chairman and the Managing Director address the meeting
- ASX announcements

Financial Calendar*

Half year end	28 February 2010
Half year profit announcement	30 April 2010
Year end	31 August 2010
Full year profit announcement	29 October 2010
Annual General Meeting	18 January 2011

* Timing of events is subject to change

Requests for publications and other enquiries about API's affairs should be communicated to:

Company Secretary

Australian Pharmaceutical Industries Limited

885 Mountain Highway

Bayswater VIC 3153

Enquiries can also be made via email by accessing

www.api.net.au – "contact us"

section 14
Corporate directory

Offices and Officers

Company Secretary

Mr Peter Sanguinetti B.Juris, LLB

Principal Registered Office

Australian Pharmaceutical Industries Limited

11 Grand Avenue

Camellia NSW 2142

Telephone: (02) 8844 2000

Facsimile: (02) 8844 2400

Location of Share Registry

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Level 7

207 Kent Street

Sydney NSW 2000

GPO Box 3993

Sydney NSW 2001

Telephone 1300 737 760

International +61 2 9290 9600

Facsimile 1300 653 459

E-mail registries@registries.com.au

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885 Mountain Highway
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www.api.net.au