Appendix 4E
Preliminary Final Report for the year ended 31 August 2012

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The following information is presented in accordance with ASX listing rule 4.3A.

1. Details of the reporting period and the previous corresponding period

Current period - the year ended 31 August 2012

Previous corresponding period - the year ended 31 August 2011

2. Results for announcement to the market

		Year ended 31 August 2012 $'000	Year ended 31 August 2011 $'000	Increase(↑) /Decrease (↓) %
2.1	Revenue from ordinary activities	3,215,234	3,425,890	↓ 6.1%
2.2	Profit/(Loss) from ordinary activities after tax attributable to members	30,283	(23,310)	↑ 229.9%
2.3	Net profit for the period attributable to members	30,283	(23,310)	↑ 229.9%
	Profit before interest, tax, depreciation and associates	88,668	13,577	↑ 553.1%
	Profit/(Loss) before tax	43,426	(29,977)	↑ 244.9%

		Amount per Security	Franking %	Franked amount per Security
2.4	Dividends			
	Interim Dividend (paid 5 June 2012)	1.5 cents	100	1.5 cents
	Final Dividend (payable 14 Dec 2012)	1.5 cents	100	1.5 cents

2.5 The record date for determining entitlements to the dividend
5:00pm Sydney time 16 November 2012

2.6 Supplementary comments of any figures in 2.1 to 2.4 above
Refer to the Results Announcement and Results Presentation issued 25 October 2012.

3. Income Statement

Please refer to the Income Statement in the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

4. Statement of Financial Position

Please refer to the Statement of Financial Position in the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

5. Statement of Cash Flows

Please refer to the Statement of Cash Flows in the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

6. Dividends Paid

	Amount per share	Franked amount per share	Total Amount	Date of payment
Paid during the year ended 31 Aug 2012				
Final August 2011 - Ordinary	1.5 cents	Nil	7,321,738	15 December 2011
Interim August 2012 - Ordinary	1.5 cents	1.5 cents	7,321,738	5 June 2012
Paid during the year ended 31 Aug 2011				
Final August2010 - Ordinary	1.5 cents	1.5 cents	7,321,738	15 December 2010
Interim August 2011 - Ordinary	1 cent	1 cent	4,881,159	3 June 2011
Declared in respect of the year ended 31 Aug 2012				
Final August 2012 - Ordinary	1.5 cents	1.5 cents	7,321,738	14 December 2012

7. Dividend Reinvestment Plan

There are no dividend reinvestment plans currently in operation.

8. Statement of Retained Earnings

Please refer to the Statement of Changes in Equity in the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

9. Net tangible asset backing (cents per share)

	31 Aug 2012	31 Aug 2011
Net tangible asset backing per ordinary security (cents)	77.2	73.7

10. Subsidiaries

There were no acquisitions, disposals or loss of control over any entities during the year ended 31 August 2012.

11. Associates and Joint Ventures

Refer to Note 14 of the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

12. Other significant information

Refer to the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

13. Foreign Entities

The New Zealand subsidiary adopts International Financial Reporting Standards which is consistent with the consolidated entity.

14. Commentary on the Results for the period

14.1 The earnings per security and the nature of any dilution aspects.
Please refer to Note 9 of the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

14.2 Returns to shareholders including distributions and buy backs.
Please refer to Note 9 of the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

14. Commentary on the Results for the period (continued)

14.3 Significant features of operating performance.
Please refer to the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

14.4 The results of segments that are significant to an understanding of the business as a whole.
Please refer to Note 2 of the attached Consolidated Preliminary Final Report for the year ended 31 August 2012.

14.5 A discussion of trends in performance.
Please refer to the Results Announcement and Results Presentation issued 25 October 2012.

14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.
Please refer to the Results Announcement and Results Presentation issued 25 October 2012.

15. Independent Audit Review

The financial report is in the process of being audited. The Company knows of no dispute or qualification that may impact the reported results.

16. Annual Meeting

The annual meeting will be held as follows:

Place	Rydges Parramatta, 116-118 James Ruse Drive, ROSEHILL NSW 2142
Date:	Tuesday 22 January 2013
Time:	2:00pm
Approximate date the annual report will be available:	Friday 14 December 2012

17. Audit Committee

The entity has a formally constituted Audit and Risk Committee.

Income Statement

In thousands of AUD	*Note*	Consolidated Year ended 31 August 2012	 Year ended 31 August 2011
Revenue	*3*	3,215,234	3,425,890
Cost of sales		(2,826,212)	(3,056,098)
Gross profit		**389,022**	**369,792**
Other income and expense	*3*	17,935	12,444
Warehousing and distribution expenses		(127,522)	(125,369)
Marketing and sales expenses	*6*	(156,882)	(194,345)
Administration and general expenses		(68,596)	(65,557)
Net insurance recoveries/(loss) from Queensland Floods	*7*	14,545	(3,627)
Result from operating activities		**68,502**	**(6,662)**
Financial income		1,889	3,147
Financial expenses		(27,072)	(27,690)
Net financing costs	*5*	**(25,183)**	**(24,543)**
Share of profit of associates (net of income tax)	*14*	107	1,228
Profit/(loss) before tax		**43,426**	**(29,977)**
Income tax (expense)/benefit	*8*	(13,143)	6,667
Profit/(loss) for the period		**30,283**	**(23,310)**
Attributable to:			
Equity holders of the Company		30,283	(23,310)
Profit/(loss) for the period		**30,283**	**(23,310)**
Earnings/(loss) per share for profit/(loss) attributable to the ordinary shareholders of the company(cents):			
Basic -profit/(loss) per share	9	6.2	(4.8)
Diluted-profit/(loss) per share	9	6.2	(4.8)

Notes to the Income Statement are annexed.

Statement of Comprehensive Income

	Consolidated	
In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Profit/(loss) after income tax for the period	**30,283**	**(23,310)**
Exchange gains on dissolution of foreign subsidiary transferred to the income statement	(1,026)	-
Exchange fluctuations on translation of foreign operations, net of tax	(1,174)	622
Effective portion of changes in fair value of cash flow hedges, net of tax	68	(2,035)
Other comprehensive expense for the period, net of income tax	**(2,132)**	**(1,413)**
Total comprehensive income/(expense) for the period attributable to equity holders of the parent company	**28,151**	**(24,723)**

Notes to the Statement of Comprehensive Income are annexed.

Statement of Financial Position

	Note	Consolidated	
In thousands of AUD		**As at 31 August 2012**	**As at 31 August 2011**
Assets			
Cash and cash equivalents	*28*	19,549	34,605
Trade and other receivables	*10*	586,193	590,260
Inventories	*11*	313,771	320,154
Total current assets		**919,513**	**945,019**
Trade and other receivables	*10*	76,032	69,196
Investments accounted for using the equity method	*14*	27,922	27,815
Deferred tax assets	*15*	37,368	34,184
Property, plant and equipment	*16*	120,950	119,929
Intangible assets	*17*	191,586	194,761
Total non-current assets		**453,858**	**445,885**
Total assets		**1,373,371**	**1,390,904**
Liabilities			
Trade and other payables	*18*	562,810	569,089
Loans and borrowings	*19*	44,113	188,064
Employee benefits	*20*	14,252	13,942
Provisions	*21*	32,790	41,337
Income tax payable	*13*	9,149	4,576
Total current liabilities		**663,114**	**817,008**
Trade and other payables	*18*	12,477	11,330
Loans and borrowings	*19*	120,637	469
Employee benefits	*20*	4,298	3,935
Provisions	*21*	4,537	3,795
Total non-current liabilities		**141,949**	**19,529**
Total liabilities		**805,063**	**836,537**
Net assets		**568,308**	**554,367**
Equity			
Share capital		566,461	566,461
Reserves		14,916	(6,347)
Accumulated losses		(13,069)	(5,747)
Total equity		**568,308**	**554,367**

Notes to the Statement of Financial Position are annexed.

Statement of Cash Flows

		Consolidated	
In thousands of AUD	*Note*	Year ended 31 August 2012	Year ended 31 August 2011
Cash receipts from customers		3,526,558	3,876,926
Cash payments to suppliers and employees		(3,462,511)	(3,852,117)
Cash generated from operations		**64,047**	**24,809**
Interest received		1,889	6,737
Financing costs paid		(27,072)	(27,690)
Insurance proceeds received- Queensland flood	7	20,784	53,304
Income taxes paid		(11,832)	(11,952)
Net cash from operating activities	28	**47,816**	**45,208**
Cash flows from investing activities			
Proceeds from sale of stores, property, plant and equipment		1,016	5,719
Acquisition of property, plant and equipment		(19,624)	(18,231)
Loans to pharmacies		(5,554)	(1,234)
Repayment of loan from employee		-	89
Payment for intangibles		(215)	(102)
Net cash from investing activities		**(24,377)**	**(13,759)**
Cash flows from financing activities			
Disinvestment of securitised receivables		(29,574)	(15,905)
Proceeds from borrowings		6,335	3,004
Payment of finance lease liabilities		(544)	(1,151)
Dividends paid		(14,643)	(12,203)
Net cash from financing activities		**(38,426)**	**(26,255)**
Net (decrease)/ increase in cash and cash equivalents		(14,987)	5,194
Cash and cash equivalents at the beginning of the period		34,605	29,431
Effect of exchange rate fluctuations on cash held		(69)	(20)
Cash and cash equivalents at the end of the period	28	**19,549**	**34,605**

Notes to the Statement of Cash Flows are annexed.

Statement of Changes in Equity

In thousands of AUD	Share Capital	Retained Earnings	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
Balance at 1 September 2011	566,461	(5,747)	-	(4,892)	(2,035)	580	554,367
Total comprehensive income for the period							
Profit after tax	-	-	30,283	-	-	-	30,283
Total other comprehensive (expense)/income	-	-	-	(2,200)	68	-	(2,132)
Total comprehensive income/(expense) for the period	-	-	30,283	(2,200)	68	-	28,151
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	(7,322)	(7,322)	-	-	-	(14,644)
Share based payment transactions	-	-	-	-	-	434	434
Total contributions by and distributions to owners	-	(7,322)	(7,322)	-	-	434	(14,210)
Balance at 31 August 2012	**566,461**	**(13,069)**	**22,961**	**(7,092)**	**(1,967)**	**1,014**	**568,308**

In thousands of AUD	Share Capital	Retained Earnings	Profits Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
Balance at 1 September 2010	566,461	29,766	-	(5,514)	-	462	591,175
Total comprehensive income for the period							
Loss after tax	-	(23,310)	-	-	-	-	(23,310)
Total other comprehensive income/(expense)	-	-	-	622	(2,035)	-	(1,413)
Total comprehensive (expense)/income for the period	-	(23,310)	-	622	(2,035)	-	(24,723)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	(12,203)	-	-	-	-	(12,203)
Share based payment transactions	-	-	-	-	-	118	118
Total contributions by and distributions to owners	-	(12,203)	-	-	-	118	(12,085)
Balance at 31 August 2011	**566,461**	**(5,747)**	**-**	**(4,892)**	**(2,035)**	**580**	**554,367**

***Profits reserve**

The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate them against prior year accumulated losses. Such profits should be available to enable payment of franked dividends in the future should the directors declare by resolution.

Notes to the Statement of Changes in Equity are annexed.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 31 August 2012 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.

(b) Statement of Compliance and Basis of Preparation

The preliminary final report has been prepared in accordance with the measurement requirements of Australian Accounting Standards ('AASs') adopted by the Australian Accounting Standards Board ('AASB') for the purpose of fulfilling the consolidated entity's obligation under the Australian Stock Exchange listing rules.

The preliminary final report is presented in Australian dollars.

The preliminary final report is prepared on the historical cost basis except for derivative financial instruments and share based payments which are stated at their fair value.

Except as described below, the accounting policies have been applied consistently and a full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's 31 August 2012 full financial report.

Where applicable, comparatives have been reclassified or restated to conform to the current year's presentation.

(c) Going concern basis of accounting

In preparing the Financial Report, the Directors made an assessment of the ability of the consolidated entity to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business.

Based on budgeted trading results and cash flows, the Directors believe that the consolidated entity will continue to generate sufficient operating results to meet its funding requirements and debt covenants. As detailed in Note 23, the consolidated entity has long term loans to certain pharmacy customers and has guaranteed the bank facilities of some pharmacy customers. The obligations under these guarantees and amount and timing of the recovery of the trade debt and loans is dependent on a number of factors, including trading results and cash flows of the pharmacy customers, the ability of the pharmacy customers to obtain finance, and the value of collateral held over the receivables. These factors are subject to uncertainties arising from general trading conditions, the regulatory environment, and other factors impacting the pharmacy industry.

After making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the consolidated entity has the ability to continue to meet its obligations as they fall due for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial report.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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, less any impairment, 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.

(e) 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 in other comprehensive income, and presented in the foreign currency translation reserve in equity.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 measured at fair value through profit or loss, any directly attributable transaction costs, except as described below. Any financial instruments subject to material deferred settlement terms are recognised at their present value discounted using an interest rate that reflects the credit risk applicable to the counterparty equivalent to the extent of any underlying security. The unwinding of discounting is recognised in net finance costs. 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 of 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 form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments (continued)

(ii) Derivative Financial Instruments

The consolidated entity sometimes holds derivative financial instruments to hedge its interest rate and foreign currency 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income 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 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) Financial guarantees

Financial guarantees are initially recognised at fair value. 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*.

During the prior period, the consolidated entity assessed that it was probable that guarantees would be called in the foreseeable future, and accordingly recorded a provision for the maximum potential obligation that the consolidated entity had an obligation to meet. The liability was not discounted as the consolidated entity had a current obligation to settle the liability.

(v) Securitised receivables

Securitised receivables are recognised on the balance sheet to reflect the fact that the consolidated entity assumes risks and rewards of the receivables collection performance.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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.

(iii) Subsequent Costs

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

(iv) 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 3-15 years
- fixtures and fittings 3 - 20 years

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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.

(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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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 net of any rebates or trade discounts received or receivable. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(j) 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.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the consolidated entity on terms that the consolidated entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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.

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. In determining the appropriate provision for impairment of pharmacy receivables, consideration is given to financial guarantees provided to individual debtors and debtor groups which are recorded as current liabilities where it is considered probable that the guarantees will be called. In assessing collective impairment the consolidated entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(ii) Non-Financial Assets (continued)

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.

(k) 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.

(l) Employee Benefits

(i) Defined Contribution Plans

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

(ii) Defined Benefit Plans

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.

In respect of actuarial gains and losses 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee Benefits (continued)

(ii) Defined Benefit Plans (continued)

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 and TSR performance hurdles and Black-Scholes Option Pricing model for the ROE performance hurdle, taking into account the terms and conditions upon which the instruments were granted.

(m) 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) Onerous leases

A provision for onerous leases is recognised when the expected benefits to be derived by the consolidated entity from a lease contract are lower than the unavoidable cost of meeting its obligations under the lease contract. The provision is measured at the present value of the lower of the expected cost of terminating the lease contract and the expected net cost of continuing with the lease contract.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Provisions (continued)

(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.

(iii) Provision for Sister Club (formerly known as *Clubcard)*

The provision for Sister Club points in the Retail Division which are convertible quarterly by customers in the form of gift vouchers is based upon the expected cost to the consolidated entity on redemption of Sister Club vouchers. A redemption rate is applied based on historical experience and is updated quarterly.

(n) Revenue

(i) Goods Sold and Services Rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, usually when goods are delivered to manufacturing and wholesale customers or the point of sale for retail customers.

Revenue from services represents fees (including licence and franchise fees), commissions earned and Community Service Obligation income earned after meeting government obligations, 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 (Sister Club formerly known as Clubcard)

A provision for loyalty card deferred revenue is recognised as a reduction in sales revenue 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.

(iii) Interest on overdue accounts

Interest revenue is recognised on financial assets on an accrual basis. Interest fee revenue includes interest earned on loans to customers and late fee charges on overdue debtors.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Expenses

(i) Operating Lease Payments

Payments made under non-cancellable 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, ancillary costs incurred in connection with the arrangement of borrowing, the expense associated with unwinding of the discount on provisions and the income associated with unwinding the discount on receivables, lease finance charges, 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 and the cost of other arrangements that bring forward cash receipts are 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.

(p) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Operating Segment

Determination and presentation of operating segments

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment to the gross profit level.

(r) 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.

(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.

(t) Insurance Reimbursements

Insurance reimbursements are recognised when it is virtually certain that the reimbursement will be receivable. Insurance reimbursements where receipt is considered probable, but not virtually certain, are disclosed as a contingent asset but not recognised in the financial results.

The carrying amounts of the consolidated entity's assets, including property, plant and equipment and inventories, damaged by insurable events are written down to recoverable amount or derecognised upon the damage occurring. The insurance reimbursements that relate to these assets are recognised as an offset to the expense in the income statement when virtually certain. Other costs incurred as a result of insurable events are expensed as incurred, and any insurance reimbursement is recognised as other income

2. OPERATING SEGMENTS

AASB 8 Operating Segments requires a management approach under which segment information is presented on the same basis as that used for internal reporting provided to the Chief Operating Decision Maker (COD) of the Group. The CODM has been identified as the Chief Executive Officer (CEO).

For internal reporting and risk management purposes, the consolidated entity is divided into three reportable segments as described below. The reportable segments offer different products and services, and are managed separately because they require different marketing strategies. For each of the reportable segments, the CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the consolidated entity's reportable segments:

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

New Zealand – Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries.

During the period, the Retailing and Pharmacy Distribution business units were restructured and consolidated into a functional reporting structure to the CEO resulting in a change to the business unit reporting.

Monthly management reports now provided to the CEO report business units at a gross margin level only, with functional costs not allocated by business unit. Comparative balances have been represented to conform to the new reporting format.

Gross profit consists of the following:

Pharmacy Distribution

Gross profit from sales inclusive of Community Service Obligation income, banner membership fees and other Pharmacy services.

Retailing

Gross profit from sales inclusive of franchise fees, Sister Club income and net advertising recoveries.

2. OPERATING SEGMENTS (CONTINUED)

In thousands of AUD	Distribution Australia		Retailing Australia		Manufacturing New Zealand		Eliminations		Consolidated	
	Aug 12	**Aug 11**	**Aug 12**	**Aug 11**	**Aug 12**	**Aug 11**	**Aug 12**	**Aug 11**	**Aug 12**	**Aug 11**
Revenue										
External revenue	2,344,783	2,589,888	657,198	636,178	39,344	39,959	-	-	3,041,325	3,266,025
External services	83,021	79,400	90,888	80,465	-	-	-	-	173,909	159,865
Inter-segment revenue*	-	-	-	-	12,215	12,117	(12,215)	(12,117)	-	-
Total segment revenue	2,427,804	2,669,288	748,086	716,643	51,559	52,076	(12,215)	(12,117)	3,215,234	3,425,890
Reportable segment gross profit	193,659	186,190	176,366	163,371	18,997	20,231	-	-	389,022	369,792
Reportable segment profit	-	-	-	-	2,667	2,093	-	-	-	-

* All inter- segment sales are on an arm's length basis.

Reconciliation of reportable segment profit

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Total profit for reportable segments	389,022	369,792
Unallocated amounts		
Other income and expense	17,935	12,444
Warehousing and distribution expenses	(127,522)	(125,369)
Marketing and sales expenses	(156,882)	(194,345)
Administration and general expenses	(68,596)	(65,557)
Insurance from Queensland floods	14,545	(3,627)
Results from operating activities	**68,502**	**(6,662)**
Net financing costs	(25,183)	(24,543)
Share of /profit of equity accounted investments	107	1,228
Consolidated profit/(loss) before tax	**43,426**	**(29,977)**

3. REVENUE, OTHER INCOME AND EXPENSE

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Revenue		
Sales revenue	3,041,325	3,266,025
Service revenue	173,909	159,865
	3,215,234	**3,425,890**
Other income and expense		
Gain on disposal of stores, property, plant and equipment	457	-
Interest fee income	16,407	12,526
Net foreign exchange gain/(loss)	1,071	(82)
	17,935	**12,444**

4. PERSONNEL EXPENSES

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Wages and salaries	149,238	145,158
Other associated personnel expenses	16,007	14,745
Contributions to defined contribution superannuation funds	10,315	9,794
Expenses related to defined benefit superannuation funds	129	119
Equity settled share based payment transactions	434	118
	176,123	**169,934**

5. FINANCE INCOME AND COSTS

Recognised in Profit and Loss

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Interest income on bank deposits	1,670	2,501
Interest income on loans to associates	-	631
Other interest income	219	15
Finance income	**1,889**	**3,147**
Interest expense	(18,309)	(18,513)
Amortisation of prepaid borrowing costs	(4,043)	(3,794)
API rewards	(4,676)	(4,817)
Settlement of New Zealand tax audit	-	(480)
Finance charges – leased assets	(44)	(86)
Finance costs	**(27,072)**	**(27,690)**
Net finance costs	**(25,183)**	**(24,543)**

Interest fee income on overdue debts is presented in other income in Note 3 rather than in net finance costs.

6. MARKETING AND SALES EXPENSES

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Financial guarantee impairment	-	50,000
Other marketing and sales expenses	156,882	144,345
Marketing and sales expenses	**156,882**	**194,345**

7. ACCOUNTING FOR INSURANCE CLAIMS

The consolidated entity's Brisbane Distribution Centre, located near Ipswich, Queensland, suffered material damage as a consequence of the January 2011 flood in south east Queensland. Insurance reimbursements are recognised when, and only when, it is virtually certain that the reimbursement will be received.

Profit/ (Loss) before tax (expense)/benefit has been arrived at after including the following:

	Consolidated	
In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Insurance reimbursement received before 31 August	17,590	53,304
Insurance reimbursement received after 31 August	-	4,052
Insurance reimbursement recognised	**17,590**	**57,356**
Impairment of inventory	-	(42,160)
Impairment of plant and equipment	-	(5,321)
Other flood related expenses	(3,045)	(13,502)
Total flood related expenses	**(3,045)**	**(60,983)**
Net insurance recoveries/(loss) from Queensland flood	**14,545**	**(3,627)**

During the year ended 31 August 2012, the insurance claim with respect to flooding of the Bundamba Distribution Centre was finalised with an additional instalment of $17,590,000 agreed to and received during the period. This represents full and final settlement of the insurance claim and includes realisation of the contingent asset of $9.1 million disclosed in the financial report at 31 August 2011.

The flood related expenses above are attributable to the following functions presented in the income statement:

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Cost of sales	-	42,160
Warehousing and distribution expenses	3,045	18,823
Total flood related expenses	**3,045**	**60,983**

8. INCOME TAX EXPENSE

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	Year ended 31 August 2012	Year ended 31 August 2011
Profit/(loss) before tax	43,426	(29,977)
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	13,028	(8,993)
Increase in income tax expense due to:		
Non-deductible expenses		
- Make-good costs	244	211
- Other	382	350
Effect of tax rate in foreign jurisdictions	(26)	10
Settlement of New Zealand tax audit	-	1,123
Capital works disposed of	-	73
Decrease in income tax expense due to:		
Foreign Exchange gain on dissolution of New Zealand subsidiary	(307)	-
Utilisation of capital losses	(201)	-
Share of associate's net profit	(32)	(368)
	13,088	(7,594)
Adjustment for prior years	55	927
Income tax expense/(benefit) on pre-tax net profit	**13,143**	**(6,667)**

Recognised in the Income Statement

In thousands of AUD	Year ended 31 August 2012	Year ended 31 August 2011
Current tax expense		
Current year	15,809	9,852
Adjustments for prior years	509	7,127
	16,318	16,979
Deferred tax expense		
Current year-origination and reversal of temporary differences	(2,721)	(17,446)
Adjustment for prior years	(454)	(6,200)
	(3,175)	(23,646)
Total income tax expense/(benefit) in income statement	**13,143**	**(6,667)**

Deferred tax recognised in equity

In thousands of AUD	Year ended 31 August 2012	Year ended 31 August 2011
Relating to		
Derivatives	(9)	(892)

9. EARNINGS PER SHARE

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Profit/(loss) attributable to ordinary shareholders	**30,283**	**(23,310)**
In thousands of shares		
Basic weighted average number of ordinary shares for the period	488,116	488,116
Effect of potential ordinary shares on issue	-	-
Diluted weighted average number of ordinary shares for the period	**488,116**	**488,116**
In cents		
Basic earnings per share	6.2	(4.8)
In cents		
Diluted earnings per share	6.2	(4.8)

10. TRADE AND OTHER RECEIVABLES

In thousands of AUD	**As at 31 August 2012**	**As at 31 August 2011**
Current		
Trade receivables	574,667	564,280
Provision for impairment	(32,191)	(19,009)
	542,476	545,271
Amounts receivable as deferred consideration	1,809	1,809
Loans receivable from pharmacy customers	4,764	1,234
Other receivables and prepayments	37,035	41,864
Trade receivables due from associates	109	82
	586,193	**590,260**
Non-current		
Loans receivable from pharmacy customers	77,436	70,790
Provision for impairment	(2,759)	(2,953)
	74,677	67,837
Loans to employees	60	55
Pension asset	1,295	1,304
	76,032	**69,196**

11. INVENTORIES

In thousands of AUD	**As at 31 August 2012**	**As at 31 August 2011**
Raw materials and consumables	3,117	2,870
Work in progress	153	235
Finished goods	315,250	322,615
Less: provision for obsolescence and shrinkage	(4,749)	(5,566)
	313,771	**320,154**

12. SUMMARISED PARENT ENTITY FINANCIALS

In thousands of AUD	**As at 31 August 2012**	**As at 31 August 2011**
Current assets	333,068	362,539
Total assets	1,002,507	1,027,093
Current liabilities	347,430	497,200
Total liabilities	471,426	504,169
Net assets	**531,081**	**522,924**
Equity		
Share capital	566,461	566,461
Reserves	(954)	(1,455)
Retained earnings	(49,403)	(42,082)
Profits reserve	22,299	-
Dividends paid out of profits reserve	(7,322)	-
Total equity	**531,081**	**522,924**
Profit/(loss) after tax	22,299	(49,924)
Other comprehensive income/(expense)	(501)	(2,035)
Total comprehensive income/(expense)	**21,798**	**(51,959)**
Capital commitments of the parent entity at year end	**1,232**	**1,081**

Details of any guarantees and contingencies of the parent entity are included in note 25.

13. CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the consolidated entity of $9,149,000 (31 August 2011: $4,576,000) 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.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

The consolidated entity accounts for investments in associates using the equity method.

In the prior year, the consolidated entity's ownership in CH2 increased from 45.3% to 45.5% as a result of the issue of equity shares of $2.283 million with respect to the settlement of outstanding dividends on Redeemable Preference Shares.

The consolidated entity has the following investments in associates:

				Ownership	
Venture	**Principal Activities**	**Country**	**Reporting Date**	**31 August 2012**	**31 August 2011**
CH2 Holdings Pty Ltd	Hospital supplies distribution	Australia	30 June	45.5%	45.5 %

Details of Investments in Associates

In thousands of AUD	**Revenues 100%**	**Profit/(Loss) 100%**	**Share of associates net profit/(loss) recognised**	**Net assets as reported by associate 100% at its June end reporting period**	**Share of associate's net assets equity accounted (including goodwill)**
For the year ended 31 August 2012					
CH2 Holdings Pty Ltd	788,853	235	107	49,249	27,922
For the year ended 31 August 2011					
CH2 Holdings Pty Ltd	793,786	2,711	1,228	48,876	27,815

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

In accordance with Accounting Standard AASB 136, the investment has been reviewed for possible impairment by comparing the carrying amount with the higher of its value in use (VIU) and fair value less costs to sell. VIU was determined by discounting the future cash flows generated from the continued operation of the underlying business of the associate and based on the following assumptions:

- Cash flows were projected based on actual results and the three year business plan – cash flows beyond the three year period are extrapolated using a growth rate of 5% for years four and five.
- Terminal value growth rates after five years are based on current market factors and the associate's management opinion and are 3.25%.
- A post tax discount rate of 12.00% has been used in discounting the projected cash flows and in terminal values.

The value of the investment was reviewed with no impairment in the consolidated financial statements as the calculated value was higher than the value carried in the consolidated entity.

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). These assumptions are based on a long term view of future cash flows from the continued operation of the business and does not necessarily represent the realisable value of the company's investment in the event of a sale at the current point in the economic cycle.

Sensitivity to changes in assumptions

The value in use calculation is particularly sensitive to projected growth rates in the cash flows from operations, terminal value growth rate and discount rate. A reduction in projected trading results of greater than 7% in the forecast period would result in an impairment charge.

A reduction in the terminal growth rate of 50bps or an increase in the discount rate of 30bps would result in the VIU approaching the carrying value.

On 21 September 2012 the Directors' of CH2 received an indicative, non-binding offer to acquire CH2. CH2 and shareholders have not accepted any offer, but have permitted due diligence to be conducted and have entered into negotiations. Following appropriate processes and subject to negotiating satisfactory terms, a sale of CH2 may occur within the current financial year. API is continuing to review its strategy in respect of its investment in CH2 and whether it will participate in any formal offers put forward.

Results of Associates

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Share of associate profit before income tax	149	1,791
Share of income tax expense	(42)	(563)
Share of associates net profit accounted for using the equity method	**107**	**1,228**

Commitments

In thousands of AUD	**As at 31 August 2012**	**As at 31 August 2011**
Share of associates operating lease rentals		
Within one year	1,814	1,967
One year or later and no later than five years	3,325	4,778
Later than five years	-	279
	5,139	**7,024**

15. 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 2012**	**31 August 2011**	**31 August 2012**	**31 August 2011**	**31 August 2012**	**31 August 2011**
Property, plant and equipment	331	-	(748)	(2,919)	(417)	(2,919)
Intangible assets	-	-	(148)	(148)	(148)	(148)
Unrealised foreign exchange losses	191	129	-	-	191	129
Employee benefits	5,273	5,062	-	-	5,273	5,062
Provisions	25,155	25,210	-	-	25,155	25,210
Costs of equity raising	499	748	-	-	499	748
Derivatives	843	892	-	-	843	892
Other items	5,972	5,001	-	-	5,972	5,001
Tax loss carried forward	-	209	-	-	-	209
Tax assets / (liabilities)	**38,264**	**37,251**	**(896)**	**(3,067)**	**37,368**	**34,184**

Change in Deferred Tax Asset

In thousands of AUD	**31 August 2012**	**31 August 2011**
Balance at 1 September	34,184	9,646
Recognised in income statement	3,175	23,646
Recognised directly in equity	9	892
Balance as at 31 August	**37,368**	**34,184**

16. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD **Cost**	Land and Buildings	Plant and Equipment	Leased Plant and Equipment	Capital Works in Progress	Total
Balance at 1 September 2010	**13,361**	**191,906**	**10,565**	**2,575**	**218,407**
Additions	-	933	-	18,834	19,767
Reclassification of assets	-	15,987	584	(16,571)	-
Transfer of assets to intangibles	-	-	-	(102)	(102)
Disposals	(2,780)	(11,585)	(207)	(78)	(14,650)
Effect of movement in foreign exchange	65	104	-	2	171
Balance at 31 August 2011	**10,646**	**197,345**	**10,942**	**4,660**	**223,593**
Additions	-	318	-	19,641	19,959
Reclassification of assets	-	12,816	-	(12,816)	-
Transfer of assets to intangibles	-	-	-	(215)	(215)
Disposal	(653)	(2,557)	(629)	(36)	(3,875)
Effect of movement in foreign exchange	(217)	(338)	-	(6)	(561)
Balance at 31 August 2012	**9,776**	**207,584**	**10,313**	**11,228**	**238,901**

In thousands of AUD	Land and Buildings	Plant and Equipment	Leased Plant and Equipment	Capital Works in Progress	Total
Depreciation and impairment losses					
Balance at 1 September 2010	**(3,713)**	**(78,843)**	**(7,566)**	**-**	**(90,122)**
Depreciation charge for the period	(278)	(16,224)	(1,066)	-	(17,568)
Disposals	(471)	4,492	127	-	4,148
Effect of movements in foreign exchange	(49)	(73)	-	-	(122)
Balance at 31 August 2011	**(4,511)**	**(90,648)**	**(8,505)**	**-**	**(103,664)**
Depreciation charge for the period	(288)	(16,857)	(442)	-	(17,587)
Reclassification of assets	-	(603)	603	-	-
Disposals	172	2,260	574	-	3,006
Effect of movements in foreign exchange	86	208	-	-	294
Balance at 31 August 2012	**(4,541)**	**(105,640)**	**(7,770)**	**-**	**(117,951)**
Carrying amounts					
At 1 September 2010	9,648	113,063	2,999	2,575	128,285
At 31 August 2011	6,135	106,697	2,437	4,660	119,929
At 31 August 2012	5,235	101,944	2,543	11,228	120,950

Financing costs are expensed in the income statement except where they relate to the financing of projects under construction, where they are capitalised up to the date of commissioning.

17. INTANGIBLE ASSETS

In thousands of AUD	Goodwill	Brand names	Software	Development Costs	Total
Cost					
Balance at 1 September 2010	**92,447**	**99,000**	**18,877**	**533**	**210,857**
Transfer from property, plant and equipment	-	-	102	-	102
Disposals	-	-	-	(51)	(51)
Effect of movements in foreign exchange	243	-	-	3	246
Balance at 31 August 2011	**92,690**	**99,000**	**18,979**	**485**	**211,154**
Transfer from property, plant and equipment	-	-	215	-	215
Effect of movements in foreign exchange	(810)	-	-	(15)	(825)
Balance at 31 August 2012	**91,880**	**99,000**	**19,194**	**470**	**210,544**
Amortisation and impairment losses					
Balance at 1 September 2010	**-**	**-**	**(13,371)**	**(394)**	**(13,765)**
Amortisation for the period	-	-	(2,583)	(88)	(2,671)
Disposals	-	-	-	48	48
Effect of movements in foreign exchange	-	-	-	(5)	(5)
Balance at 31 August 2011	**-**	**-**	**(15,954)**	**(439)**	**(16,393)**
Amortisation for the period	-	-	(2,538)	(40)	(2,578)
Effect of movements in foreign exchange	-	-	-	13	13
Balance at 31 August 2012	**-**	**-**	**(18,492)**	**(466)**	**(18,958)**
Carrying amounts					
At 1 September 2010	92,447	99,000	5,506	139	197,092
At 31 August 2011	92,690	99,000	3,025	46	194,761
At 31 August 2012	91,880	99,000	702	4	191,586

17. 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 (CGU) containing Goodwill and Brand Names

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

Goodwill

In thousands of AUD	**31 August 2012**	**31 August 2011**
Australian pharmaceutical distribution	29,418	29,418
Australian retailing	35,664	35,664
New Zealand manufacturing	26,798	27,608
	91,880	**92,690**

Assumptions

The assumptions used for determining the recoverable amount of each asset and CGU are based on past experience and expectations for the future. Cashflow projections have been based on Board approved budgets and the Board approved five year strategic plan. These forecasts use management estimates to determine income, expenses, working capital movements, capital expenditure and cashflows for each CGU.

The projected cashflows for each CGU are discounted using an appropriate discount rate and terminal growth rate applicable to each CGU. Management apportions a reasonable allocation of its corporate overhead and supply chain distribution costs to the Retailing and Pharmacy Distribution CGU based on a reasonable allocation methodology. The Retailing and Pharmacy Distribution CGU's are particularly sensitive to the allocation of supply chain distribution costs.

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

Terminal value growth rates for each individual CGU after five 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 terminal values. An impairment charge would arise if there was an increase in the pre-tax discount rate of 340bps for the Retailing CGU, 30bps for the Pharmacy Distribution CGU or 200bps for the Manufacturing CGU.

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).

17. INTANGIBLE ASSETS (CONTINUED)

Sensitivity to changes in assumptions

Pharmacy Distribution

The Company has modelled the recent structural changes in the industry and believe that the recoverable amount exceeds its carrying value after considering the supply chain distribution charge. An adverse movement in one or more of the following assumptions may result in an impairment in future periods;

- gross margin trading expenses relative to sales;
- selling prices; and / or Pharmacists' trading terms; and
- synergies from supply chain improvements.

Retailing

The Company has forecasted the expected growth of the Priceline business over the next five year strategic plan period. Management has identified the following three key assumptions for which a reasonable possible change could cause the carrying amount to exceed the VIU:

- long term retail sales growth;
- expected additional Priceline stores to be opened over the five year forecast period; and
- merchandising initiatives.

The Company has modelled a 50% reduction in long term retail sales growth which indicates that the VIU would approach, but not be lower than, the carrying amount and therefore no impairment charge would arise.

The Company has modelled a 50% reduction in expected additional Priceline stores to be opened over the five year forecast period which indicates that the VIU would approach, but not be lower than, the carrying amount and therefore no impairment charge would arise.

The Company has modelled a 50% reduction in merchandising initiatives which indicates that the VIU would approach, but not be lower than, the carrying amount and therefore no impairment charge would arise.

Manufacturing

The Company has forecasted expected growth of the New Zealand business over the next five years. The Company has modelled a 50% reduction in contract renewals which indicates the VIU would approach, but not be lower than, the carrying amount and therefore no impairment charge would arise.

Brand names

In thousands of AUD	**31 August 2012**	**31 August 2011**
Australian pharmaceutical distribution		
- Soul Pattinson brand name	37,500	37,500
Australian retailing		
- Priceline brand name	61,500	61,500
	99,000	**99,000**

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.

18. TRADE AND OTHER PAYABLES

In thousands of AUD	31 August 2012	31 August 2011
Current		
Trade payables	529,468	530,073
Accrued expenses and other payables	33,342	39,016
	562,810	**569,089**
Non-current		
Other payables	**12,477**	**11,330**

19. LOANS AND BORROWINGS

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

In thousands of AUD	31 August 2012	31 August 2011
Current liabilities		
Customer deposits	7	7
Insurance premium funding	3,758	3,249
Finance lease liabilities	348	544
Securitisation of trade receivables	40,000	179,469
Cash advance facility - secured	-	4,795
	44,113	**188,064**
Non-current liabilities		
Finance lease liabilities	121	469
Securitisation of trade receivables	109,895	-
Cash advance facilities - secured	10,621	-
	120,637	**469**
Financing Facilities		
Bank overdraft - secured	12,327	12,397
Standby letters of credit	500	100
Cash advance facility - secured	120,000	95,000
Securitisation of trade receivables	345,000	345,000
	477,827	**452,497**
Facilities utilised at reporting date [1]		
Bank overdraft – secured	-	-
Standby letters of credit	91	-
Cash advance facility – secured	10,621	4,795
Securitisation of trade receivables	149,895	179,469
	160,607	**184,264**
Facilities not utilised at reporting date[2]		
Bank overdraft – secured	12,327	12,397
Standby letters of credit	409	100
Cash advance facility – secured	109,379	90,205
Securitisation of trade receivables	195,105	165,531
	317,220	**268,233**

1. Average used facilities during the year was $258,667,234 (2011:$280,382,150)
2. Average unused facilities during the year was $209,590,382 (2011:$174,015,111).

19. LOANS AND BORROWINGS (CONTINUED)

Bank Overdraft

The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of $12,327,000 (31 August 2011: $12,397,000) to entities in the Australian Pharmaceutical Industries Limited Group. The facility is subject to set off arrangements between the consolidated entity 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 available to be drawn down over the next year and is subject to annual review.

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 $120,000,000. The borrowings are secured by way of fixed and floating charge over the assets of the consolidated entity. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

Securitisation

Refer Note 23.

Finance Lease Liabilities

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

	Minimum Lease Payments 31 August	Interest 31 August	Principal 31 August	Minimum Lease Payments 31 August	Interest 31 August	Principal 31 August
In thousands of AUD	**2012**	**2012**	**2012**	**2011**	**2011**	**2011**
Less than one year	362	14	348	588	44	544
Between one and five years	124	3	121	486	17	469
	486	**17**	**469**	**1,074**	**61**	**1,013**

The consolidated entity leases plant and equipment under finance leases expiring within five years. At the end of the lease term the 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.

20. EMPLOYEE BENEFITS

Current

In thousands of AUD	As at 31 August 2012	As at 31 August 2011
Liability for long service leave	5,094	4,986
Liability for annual leave	9,158	8,956
	14,252	**13,942**
Non-current		
Liability for long service leave	**4,298**	**3,935**

(a) Defined Benefit Plan

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

In thousands of AUD	31 August 2012	31 August 2011
Fair value of fund assets - funded	2,207	2,308
Present value of funded obligations	(2,146)	(2,281)
Present value of net fund assets	61	27
Unrecognised actuarial losses	1,234	1,277
Recognised asset for defined benefit obligations (see below)	**1,295**	**1,304**

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

In thousands of AUD	31 August 2012	31 August 2011
Net defined benefit asset at beginning of the period	1,304	1,286
Contributions received	120	137
Expense recognised in the income statement	(129)	(119)
Net defined benefit asset at end of the period	**1,295**	**1,304**

(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 $10,444,000 for the year ended 31 August 2012 (year ended 31 August 2011: $9,794,000).

20. EMPLOYEE BENEFITS (CONTINUED)

(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 defined performance conditions are achieved.

The Performance Rights granted on 12 May 2010 (2009 grant) did not vest and lapsed on 31 August 2012.

On10January 2011, performance rights (the 2010 grant) were granted with a performance period commencing 1 September 2010 and ending 31 August 2013. The performance condition, being API's return on equity ('ROE') for the exercise of performance rights will be assessed at the Remuneration Committee meeting following the 31 August 2103 year end.

On 24 February 2012, performance rights (the 2011 grant) were granted with a performance period commencing 1 September 2011 and ending 31 August 2014. The performance condition, being API's return on equity ('ROE') for the exercise of performance rights will be assessed at the Remuneration Committee meeting following the 31 August 2104 year end.

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.

20. EMPLOYEE BENEFITS (CONTINUED)

(c) Share Based Payments (continued)

The terms and conditions of the grants at 31 August 2012 are as follows. All performance rights are settled by physical delivery of shares:

Grant date / employee entitled	Number of instruments	Vesting conditions	Contractual life of Performance Rights
Performance rights to key management personnel and senior employees– Performance period to Aug 2013	2,033,400	Three years of service and cumulative ROE with a minimum of 18.5% permitting exercise of 50% of the rights and 25% achievement to exercise 100% of the rights and proportionate between these two levels.	3 years
Performance rights to key management personnel and senior employees– Performance period to Aug 2014	3,061,577	Three years of service and cumulative ROE with a minimum of 21.5% permitting exercise of 50% of the rights and 25.6% achievement to exercise 100% of the rights and proportionate between these two levels.	3 years
	5,094,977		

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

In thousands of performance rights	Number of performance rights 31 August 2012	Number of performance rights 31 August 2011
Outstanding at the beginning of the period	3,739	2,410
Forfeited/Lapsed during the period	(1,992)	(1,211)
Exercised during the period	-	-
Granted during the period	3,348	2,540
Outstanding at the end of the period	**5,095**	**3,739**
Exercisable at the end of the period	-	-

20. EMPLOYEE BENEFITS (CONTINUED)

(c) Share Based Payments (continued)

Fair value of performance rights and assumptions

	Key Management Personnel and Senior Managers	
	31 August 2012	
	1 Sept 2010	1 Sept 2011
Performance period commences and performance condition	**ROE**	**ROE**
Grant date	10 Jan 11	24 Feb 12
Fair value at measurement date	$0.35	$0.24
Share price	$0.41	$0.29
Exercise price	-	-
Expected volatility (expressed as weighted average)	40%	40%
Performance Rights life (expressed as weighted average life)	3yrs	3yrs
Expected dividends	5.0%	7.5%
Risk-free interest rate (based on national government bonds)	5.12%	3.71%

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 and, senior executives 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

In thousands of AUD	31 August 2012	31 August 2011
Performance rights granted in 2008 – equity settled	-	28
Performance rights granted in 2009 – equity settled	-	(196)*
Performance rights granted in 2010 – equity settled	189	286
Performance rights granted in 2011 – equity settled	245	-
Total expense recognised as employee costs	**434**	**118**

*Reflects the reversal of expenses previously recognised for performance rights forfeited in the prior period.

21. PROVISIONS

In thousands of AUD	Directors' retirement scheme	Provision for dismantling	Provision for financial guarantees	Provision for onerous leases	Other	Total
Balance at 1 September 2011	351	3,601	38,032	330	2,818	45,132
Provisions made during the year	-	550	-	743	16,134	17,427
Provisions used during the year	-	(270)	-	(300)	(15,423)	(15,993)
Provision reversed during the year	-	-	(9,472)	-	-	(9,472)
Unwind of discount	-	233	-	-	-	233
Balance at 31 August 2012	**351**	**4,114**	**28,560**	**773**	**3,529**	**37,327**
Current	-	470	28,560	231	3,529	32,790
Non-current	351	3,644	-	542	-	4,537
	351	**4,114**	**28,560**	**773**	**3,529**	**37,327**

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 consolidated entity 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.

Financial guarantees

Guarantees are issued to pharmacists on the basis of being fully recoverable from the pharmacist. Guarantees are typically recovered in line with pharmacy refinancing timetables. In the prior financial year it was assessed that it was probable that guarantees would be called in the foreseeable future and accordingly a provision for the maximum potential obligation was recognised. During the year financial guarantees of $2.5 million were released to profit and loss following the refinancing of the pharmacy customer. The balance of the financial guarantee provision reversed during the financial year, was transferred to the provision for impairment losses in respect of trade receivables (refer Note 23).

Onerous leases

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. The consolidated entity has reassessed the remaining obligation for the discounted future lease payments. The obligation at 31 August 2012 is $25,000.

In 2006 the Group entered into a non-cancellable property lease as part of a wider pharmacy lease arrangement. The facility has been sublet for the remaining lease term, however as the rental income is lower than the rental expense, the obligation for the discounted future payments, net of expected rental income, has been provided for.

Other

Other consists only of provision for Sister Club points in the Retail Division which are convertible quarterly by customers in the form of gift vouchers. The provision is based upon the expected cost to the consolidated entity on redemption of Sister Club vouchers. A redemption rate is applied based on historical experience and is updated quarterly.

22. CAPITAL AND RESERVES

Share capital

In thousands of shares	Ordinary shares 31 August 2012	31 August 2011
Shares on issue at the beginning of the period – fully paid	488,116	488,116
Shares on issue at the end of the period – fully paid	488,116	488,116

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of a winding up of the Company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.

Translation reserve

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

Equity reserve

The equity reserve relates to share-based payment transactions measured at fair value.

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 year the company recognised the following dividends:

$7.322 million was paid on 15 December 2011 in respect of earnings for the year ended 31 August 2011. It was unfranked and at the rate of 1.5 cents per share.

An interim dividend (paid out of profits earned in the first six months of the 2012 financial year) in respect of half year ended 29 February 2012 amounting to $7.322 million paid on 5 June 2012. It was at the rate of 1.5 cent per share, fully franked.

On 25 October 2012 a final dividend of 1.5cents per share (payable out of profits earned in the 2012 financial year), fully franked to be paid on 14December 2012, amounting to $7.322 million was declared.

Dividend Franking Account

In thousands of AUD	The Company 31 August 2012	31 August 2011
30 per cent franking credits available to shareholders of the Company for subsequent financial years	**42,887**	**29,833**

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 $3,137,888 (31 August 2011: $Nil).

23. 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).

23. FINANCIAL INSTRUMENTS (CONTINUED)

Guarantees

Financial guarantees are initially recognised at fair value. 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 AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

During the previous year, the consolidated entity assessed that it was probable that guarantees would be called in the foreseeable future, and accordingly recorded a provision for the maximum potential obligation that the consolidated entity had an obligation to meet. The liability was discounted as the consolidated entity had a current obligation to settle the liability.

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 may be hedged on a fixed rate basis. At 31 August 2012, the consolidated entity had entered into four interest rate swaps with a notional contract amount of $150,000,000 with maturity dates ranging from February 2013 to June 2014 and fixed rates ranging from 5.15% to 5.19%. 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.

Securitisation

The consolidated entity has access to funds as a result of the securitisation of current trade receivables provided the receivables meet certain criteria. There are two separate programs which have limits of $275,000,000 and $70,000,000 (31 August 2011: $275,000,000 and $70,000,000). 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. As at 31 August 2012 the weighted average rate was 5.70% (31 August 2011: 6.92%).Settlement of the funds is monthly and daily respectively. These agreements expire in May 2015.

23. FINANCIAL INSTRUMENTS (CONTINUED)

The funds able to be drawn down under either securitisation facility are limited by the existence of qualifying trade receivables at the time of drawdown which may be less than the unutilised amount otherwise available under the facility (set out in Note 19). The trade receivables are collaterised in full against amounts drawn down.

The facility imposes rights and obligations on API with respect to the quality and maintenance of the receivables, collection of receivables, settlement and reporting to the financier. API has complied with its obligations under the facility throughout the financial year.

The consolidated entity has the discretion and intention to extend a portion of this facility for at least 12 months from the balance date. The amount that has been determined as non-current is the lowest expected balance of the facility in the 12 month period post balance date based on board approved budgets.

At 31 August 2012, $130,000,000 and $19,894,947respectively were drawn down on these programs by the consolidated entity (31 August 2011: $155,000,000 and $24,469,153).The trade receivables and loans and borrowings relating to these transactions are recognised on the statement of financial position.

Credit Risk

Exposure to credit risk

The consolidated entity's exposure to credit risk as at the reporting date was in relation to the carrying amounts of current and non-current trade receivables (note 10), other receivables (note 10), cash deposits and the amount disclosed in respect of contingent liabilities arising from financial guarantees provided to pharmacy customers (note 25).

Concentrations of credit risk

Concentrations of credit risk arise from customers that have similar characteristics and are affected in a similar manner where there are changes in economic, regulatory or other conditions. In this regard, the economic entity has a significant concentration of credit risk associated with the pharmacy and retail industries in Australia.

Trade Receivables

Details of the ageing of Trade receivables and the impairment losses recorded at the reporting date are set out below:

In thousands of AUD	**31 August 2012**	**31 August 2011**
Not past due	471,134	474,658
Past due 0-30 days	22,004	26,261
Past due 31+ days	81,529	63,361
Sub-total	574,667	564,280
Impairment	(32,191)	(19,009)
	542,476	**545,271**

The movement in the provision for impairment losses in respect of Trade Receivables was as follows:

In thousands of AUD	**31 August 2012**	**31 August 2011**
Balance at start of year	19,009	11,047
Amounts provided during the year	18,353	9,397
Amounts transferred from provision for financial guarantees	6,972	11,968
Amounts written off during the year	(12,143)	(13,403)
Balance at end of year	**32,191**	**19,009**

23. FINANCIAL INSTRUMENTS (CONTINUED)

Loans receivable from Pharmacy customers

Historically, the consolidated entity has provided financial assistance to certain pharmacy customers in the form of long term loans. The loan agreements include an annual interest rate of up to 12.5% and for the majority of the loans, full repayment due in October 2013.

The consolidated entity seeks to obtain collateral wherever long term funding arrangements are agreed to. This collateral may include personal guarantees and formal charges over pharmacy assets. The security held by the consolidated entity over pharmacy assets is generally in the form of a second-ranking charge after the security held by the pharmacist's financiers.

As the due date for repayment approaches, management makes a determination of the most advantageous mechanism to realise the value of the loans and receivables, which may involve:

- Settlement of the loans and receivables in full (which normally requires refinancing by the pharmacy customer with an external financier);
- Re-negotiating the terms and conditions of the loans, including the interest rate and repayment date; and/or
- Enforcing the company's security rights through liquidation of assets held as collateral.

Non-current loans receivable

In thousands of AUD	**31 August 2012**	**31 August 2011**
Loans receivable	77,436	70,790
Provision for Impairment	(2,759)	(2,953)
	74,677	**67,837**

In determining the provision for impairment for both Trade receivables and Loans receivable from Pharmacy customers, the Directors have taken into account the value of collateral held, the history of collections and overdues of individual debtors, financial guarantees provided to individual debtors and debtor groups which are recorded as current liabilities where it is considered probable that the guarantees will be called, the risks associated with general trading conditions and the specific circumstances of individual pharmacy debtors. Where appropriate, advice from independent valuation experts has been obtained to support the valuation of assets held as collateral for long term and past-due debts.

The determination of the impairment provisions is necessarily based on a number of best-estimate assumptions and is subject to inherent uncertainties based on information available at balance date. These uncertainties include general economic and trading conditions, the valuation of assets held as security (and the priority rights of other financiers over those assets), the regulatory environment, the ability of pharmacy customers to obtain external finance, estimates of the timing of repayment or enforcement of security rights and other factors impacting the pharmacy industry.

23. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity Risk

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

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 2012						
Non-derivative financial liabilities						
Finance lease liabilities	469	486	362	124	-	-
Customer deposits	7	7	7	-	-	-
Insurance premium funding	3,758	3,758	3,758	-	-	-
Trade and other payables	575,287	575,287	562,810	8,493	1,785	2,199
Cash Advance facility	10,621	10,621	-	10,621	-	-
	590,142	**590,159**	**566,937**	**19,238**	**1,785**	**2,199**
31 August 2011						
Non-derivative financial liabilities						
Finance lease liabilities	1,013	1,074	588	346	140	-
Customer deposits	7	7	7	-	-	-
Insurance premium funding	3,249	3,249	3,249	-	-	-
Trade and other payables	580,419	580,419	569,089	8,163	3,167	-
Cash Advance facility	4,795	4,795	4,795	-	-	-
	589,483	**589,544**	**577,728**	**8,509**	**3,307**	**-**

Cash Flow Hedges

The following table indicates the periods in which the cash flows and profit and loss impact associated with derivatives that were designated as cash flow hedges existing as at 31 August 2012are expected to occur:

31 August 2012

In thousands of AUD **Consolidated and the Company**	**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-Liability	(2,811)	(2,811)	(910)	-	(1,901)	-	-

31 August 2011

In thousands of AUD **Consolidated and the Company**	**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-Liability	(2,907)	(2,907)	-	-	(1,645)	(1,262)	-

23. 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.

Consolidated		**31 August 2012**						**31 August 2011**					
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**
Cash and cash equivalents	28	2.59%	19,549	19,549	-	-	-	4.50%	34,605	34,605	-	-	-
Restricted cash (Aspire cash reserve)	10	3.75%	4,974	4,974	-	-	-	4.70%	6,117	6,117	-	-	-
Loans receivable from pharmacy customers*	10	7.78%	77,436	-	-	77,436	-	8.08%	70,790	-	-	70,790	-
Securitised trade receivables	19	5.70%	(149,895)	(40,000)	-	(109,895)	-	6.92%	(179,469)	(179,469)	-	-	-
Finance lease liabilities*	19	5.91%	(469)	(348)	(121)	-	-	7.00%	(1,013)	(544)	(331)	(138)	-
Bank overdrafts and cash advance facility	19	6.92%	(10,621)	-	(10,621)	-	-	6.43%	(4,795)	(4,795)	-	-	-
Insurance premium funding	19	2.89%	(3,758)	(3,758)	-	-	-	2.72%	(3,249)	(3,249)	-	-	-
Employee Loans	10	7.40%	60	-	-	-	60	7.80%	55	-	-	-	55
			(62,724)	**(19,583)**	**(10,742)**	**(32,459)**	**60**		**(76,959)**	**(147,335)**	**(331)**	**70,652**	**55**

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

23. 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.

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 unless any hedges became ineffective.

Cash flow sensitivity analysis for variable rate instruments

A strengthening by 100 basis points in interest rates at the reporting date would have increased (or in the event of a commensurate weakening, decreased) profit or loss and equity (pre-tax) by the amounts shown below for the consolidated entity. This analysis assumes that all other variables remain constant.

	Profit/(loss)		Equity	
In thousands of AUD	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
31 August 2012				
Variable rate instruments	(1,360)	1,360	-	-
Interest rate swap	1,500	(1,500)	1,397	(1,397)
Cash flow sensitivity (net)	**140**	**(140)**	**1,397**	**(1,397)**
31 August 2011				
Variable rate instruments	(1,435)	1,435	-	-
Interest rate swap	1,500	(1,500)	2,793	(2,793)
Cash flow sensitivity (net)	**65**	**(65)**	**2,793**	**(2,793)**

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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

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 2012	31 August 2011
Loans and borrowings	6.0% -8.0%	6.0% -8.5%
Leases	5.0% - 6.0%	6.0% - 7.0%
Receivables	8.0%-10.0%	8.0%-10.0%

24. COMMITMENTS

Operating Leases - Leases as Lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	31 August 2012	31 August 2011
Less than one year	39,578	40,984
Between one and five years	94,608	82,442
More than five years	54,392	27,944
	188,578	**151,370**

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 2012, $54,693,808 was recognised by the consolidated entity as an expense in the profit and loss in respect of operating leases and other related occupancy costs (31 August 2011: $51,502,911).

Certain leases are subject to contingent rental clauses calculated as a percentage of revenue earned in excess of pre-determined thresholds set out in the lease agreements. The consolidated entity recognises these amounts as an expense in the period where it is anticipated these thresholds will be reached.

With certain franchise arrangements, the consolidated entity continues to hold the head lease and recharges the franchisee the appropriate rental charge. For those leases, the franchisee is invoiced in advance and offset against the rental charge from the landlord.

Capital Commitments

In thousands of AUD	31 August 2012	31 August 2011
Contracted but not provided for or payable:		
Within one year	3,980	6,214
One year or later and no later than five years	-	-
Later than five years	-	-
	3,980	**6,214**

25. CONTINGENCIES

Contingent liabilities

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.

		Consolidated		The Company	
In thousands of AUD		**Year ended 31 August 2012**	**Year ended 31 August 2011**	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Guarantee of bank facilities to controlled entities	(i)	-	-	6,981	8,397
Contingent liability for potential Sister Club voucher redemptions	(ii)	314	880	-	-

(i) These guarantees all relate to the parent entity.

(ii) The contingent liability for Sister Club 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.

The parent entity has entered into a deed of cross guarantee with the effect that Australian Pharmaceuticals Industries Limited guarantees debts in respect of its subsidiaries.

Further detail of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note 27.

Contingent assets

The Directors are of the opinion that the following should not be recognised in the financial statements as the inflow of economic benefits, while probable, is not virtually certain. When it becomes virtually certain that an inflow of economic benefits will arise, the asset and related income will be recognised in the financial statements in the period in which the change occurs.

		Consolidated		The Company	
In thousands of AUD		**Year ended 31 August 2012**	**Year ended 31 August 2011**	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Insurance receivable	(i)	-	9,127	-	9,127

(i) The contingent asset related to future potential reimbursements considered probable but not virtually certain with respect to the Queensland flood loss insurance claim.

26. CONSOLIDATED ENTITIES

	Note	Ownership interest	
		31 August 2012	**31 August 2011**
Parent Entity			
Australian Pharmaceutical Industries Limited			
Subsidiaries			
Thrift Chemist Merchandising Pty Limited		100	100
Australian Pharmaceutical Industries (Queensland) Pty Limited	(ii)	100	100
API Victoria Pty Limited	(ii)	100	100
Soul Pattinson (Manufacturing) Pty Limited		100	100
API Financial Services Australia Pty Limited	(ii)	100	100
Pharma-Pack Pty Limited		100	100
API (Canberra) Pty Limited		100	100
Canberra Pharmaceutical Supplies Trust		100	100
Stevens KMS Equities Limited	(i)	100	100
API Healthcare Nominees (NZ) Limited	(i)	100	100
API Healthcare Holdings (NZ) Unit Trust	(i)	-	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 Ltd	(i)	100	100
Garrett Investments Limited	(i)	100	100
Healthcare Manufacturing Group Limited	(i)	100	100
Synapse Finance Pty Ltd	(ii)	100	100
New Price Retail Finance Pty Ltd	(ii)	100	100
New Price Retail 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	(ii)	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) 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 98/1418.

All subsidiaries have a balance date equivalent to the parent entity.

27. 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 Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors reports.

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 condensed 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 2012 is set out as follows:

Summarised Statement of Comprehensive Income, Retained Profits and Reserves

	Closed Group	
In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Profit/(loss) before tax	25,813	(35,908)
Income tax (expense)/benefit	(6,035)	10,390
Profit/(loss) after tax	**19,778**	**(25,518)**
Other comprehensive income/(expense)	68	(2,035)
Total comprehensive income/(loss) for the period	**19,846**	**(27,553)**
(Accumulated losses)/retained earnings at beginning of the year	(3,956)	33,765
Profit/(loss) after tax	-	(25,518)
Dividends recognised during the year	(7,322)	(12,203)
Accumulated losses at end of the year attributable to equity holders	**(11,278)**	**(3,956)**
Reserves at beginning of the year	(1,455)	462
Profits reserve	19,778	-
Dividend paid out of profits reserve	(7,322)	-
Other comprehensive income/(expense)	68	(2,035)
Share based payment transactions	434	118
Reserves at the end of the year attributable to equity holders	**11,503**	**(1,455)**

27. DEED OF CROSS GUARANTEE (CONTINUED)

Summarised Statement of Financial Position

In thousands of AUD	Closed Group As at 31 August 2012	Closed Group As at 31 August 2011
Assets		
Cash and cash equivalents	7,641	64,261
Trade and other receivables	479,185	458,139
Inventories	181,700	185,086
Total current assets	668,526	707,486
Trade and other receivables	239,173	365,285
Investments	148,321	128,506
Investments accounted for using the equity method	27,922	27,815
Deferred tax assets	26,697	23,101
Property, plant and equipment	64,933	70,210
Intangible assets	111,321	113,644
Total non-current assets	618,367	728,561
Total assets	**1,286,893**	**1,436,047**
Liabilities		
Trade and other payables	502,583	632,298
Loans and borrowings	44,110	180,017
Employee benefits	8,403	8,427
Provisions	28,973	38,033
Income tax payable	9,006	5,594
Total current liabilities	593,075	864,369
Trade and other payables	5,732	5,509
Loans and borrowings	115,984	466
Employee benefits	2,064	1,898
Provisions	3,352	2,755
Total non-current liabilities	127,132	10,628
Total liabilities	**720,207**	**874,997**
Net assets	**566,686**	**561,050**
Equity		
Share capital	566,461	566,461
Reserves	11,503	(1,455)
Accumulated losses	(11,278)	(3,956)
Total equity	**566,686**	**561,050**

28. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	**Year ended 31 August 2012**	**Year ended 31 August 2011**
Cash Flows from Operating Activities		
Profit/(loss) for the period	30,283	(23,310)
Adjustments for:		
Depreciation	17,587	17,568
Amortisation	2,578	2,671
Foreign exchange (gains)/losses	(1,071)	82
Share of profit of associates net of dividends received	(107)	(1,228)
Net loss on sale of stores, property, plant and equipment	392	789
Equity-settled share-based payment expenses	434	118
Net finance cost	25,183	24,543
Income tax expense/(benefit)	13,143	(6,667)
Decrease in trade and other receivables	2,799	113,430
Decrease in inventories	6,383	1,994
Decrease in trade and other payables	(5,641)	(91,704)
(Decrease)/increase in provisions and employee benefits	(7,132)	39,827
	84,831	**78,113**
Net interest paid	(25,183)	(20,953)
Income taxes paid	(11,832)	(11,952)
Net Cash from Operating Activities	**47,816**	**45,208**

In thousands of AUD	**As at 31 August 2012**	**As at 31 August 2011**
Cash and cash equivalents	19,549	34,605
Cash and cash equivalents in the statement of cash flows	**19,549**	**34,605**

29. RELATED PARTIES

Key management personnel compensation

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

In AUD	Year ended 31 August 2012	Year ended 31 August 2011
Short-term employee benefits	2,952,226	3,621,623
Post employment benefits	163,358	185,531
Share based payments	301,099	104,960
	3,416,683	**3,912,114**

Individual Directors and executives compensation disclosures

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

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

Certain members of key management personnel are Directors of an associate entity (as discussed in Note 14) 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 are also directors of companies that 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 and the companies they represent are on the same terms and conditions as those entered into by other entities, employees or customers and are trivial or domestic in nature.

29. 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 2011	Purchases	Sales	Held at 31 August 2012
Directors				
Mr P R Robinson	202,168	-	-	202,168
Mr M Hampton	200,000	-	-	200,000
Ms E C Holley	16,667	-	-	16,667
Mr R D Millner	755,001	200,000	-	955,001
Mr S P Roche	336,667	340,000	-	676,667
Ms L Ausburn	83,334	-	-	83,334
Mr G Masters	93,000	125,000	-	218,000
Executives				
Mr P Sanguinetti	8,334	-	-	8,334

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 2010	Purchases	Sales	Held at 31 August 2011
Directors				
Mr P R Robinson	202,168	-	-	202,168
Mr M Hampton	108,334	91,666	-	200,000
Ms E C Holley	16,667	-	-	16,667
Mr R D Millner	755,001	-	-	755,001
Mr S P Roche	336,667	-	-	336,667
Ms L Ausburn	83,334	-	-	83,334
Mr G Masters	-	93,000	-	93,000
Executives				
Mr J Meiliunas	292,609	-	-	292,609
Mr P Sanguinetti	8,334	-	-	8,334
Mr P Hourihan	-	11,466	(11,466)	-
Mr T Mullins	-	20,000	-	20,000

29. RELATED PARTIES (CONTINUED)

Performance rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in Australian Pharmaceutical Industries Limited held directly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 Sept 11	Granted as compensation	Exercised	Other changes*	Held at 31 Aug 12	Vested during the year	Vested and exercisable at 31 Aug 12
Directors							
Mr S P Roche	827,900	**811,161	-	(330,900)	1,308,161	-	-
Executives							
Mr S Arthurson	174,400	188,953	-	-	363,353	-	-
Mr R Vincent	445,400	306,977	-	(178,000)	574,377	-	-
Mr P Sanguinetti	318,700	203,488	-	(127,400)	394,788	-	-
Mr G Fallet	399,000	255,814	-	(159,500)	495,314	-	-

	Held at 1 Sept 10	Granted as compensation	Exercised	Other changes*	Held at 31 Aug 11	Vested during the year	Vested and exercisable at 31 Aug 11
Directors							
Mr S P Roche	610,500	497,000	-	(279,600)	827,900	-	-
Executives							
Mr S Arthurson	-	174,400	-	-	174,400	-	-
Mr R Vincent	329,800	267,400	-	(151,800)	445,400	-	-
Mr P Sanguinetti	238,800	191,300	-	(111,400)	318,700	-	-
Mr M Langham	266,900	218,600	-	(121,400)	364,100	-	-
Mr T Mullins	-	232,600	-	-	232,600	-	-
Mr G Fallet	159,500	239,500	-	-	399,000	-	-

* Other changes represent performance rights that expired or were forfeited during the year.
No options held by key management personnel are vested but not exercisable at 31 August 2011 or 2012.

** Subject to shareholder approval.

29. 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 120,214,969 shares (31 August 2011: 120,214,969 shares) in the Company at year end 31 August 2012.

During the year, further performance rights were issued by the Company to key management personnel and certain senior executives.

Non Key Management Personnel Disclosures

Associates

During the year ended 31 August 2012, associates purchased goods from the consolidated entity in the amount of $414,861 (year ended 31 August 2011: $743,206) and at 31 August 2012 associates owed the consolidated entity $109,330 (31 August 2011: $82,185). Transactions with associates are priced on an arm's length basis.

No dividends were received from associates during the period ended 31 August 2012 nor for the period ended 31 August 2011.

30. AUDITORS' REMUNERATION

	Consolidated	
In AUD	Year ended 31 August 2012	Year ended 31 August 2011
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	512,100	500,800
Overseas KPMG firms:		
Audit and review of financial reports	42,630	33,200
	554,730	**534,000**
Other services		
Auditors of the Company		
KPMG Australia:		
Other assurance services	41,475	5,250
Other advisory services	-	40,109
Overseas KPMG firms:		
Taxation services	10,669	11,400
	606,874	**590,759**

31. SUBSEQUENT EVENTS

On 25 October 2012, a final dividend of 1.5 cents per share, to be paid on 14 December 2012, amounting to $7.322 million was declared.