AFT pharmaceuticals
Working to improve your health

Now, to our future

ANNUAL REPORT 2019

Full report available online at investors.aftpharm.com

Note: $ in this report are NZ$ unless otherwise stated.

This Annual Report is dated 21 May 2019.

Signed on behalf of the Board of AFT Pharmaceuticals Limited by:

David Flacks
Chairman

Hartley Atkinson
Chief Executive Officer

2019

Now, in the targeted time period of FY2019, we celebrate a significant milestone – a return to operating profitability. It's an accomplishment that we've worked hard to achieve. We continue to drive further value, increasing market share and securing new markets.

2015

In 2015 AFT Pharmaceuticals listed on the NZX to enable the acceleration of bringing key innovative products to global markets, together with expanding home market sales. As with all pharmaceutical development projects, sales and profit would take time, but we have remained steadfastly committed to our strategy and targets.

At a glance

Operating revenue growth

+5%

underlying +14%

Gross profit growth

+15%

underlying +19%

Gross profit margin up to

+48%

Operating profit growth

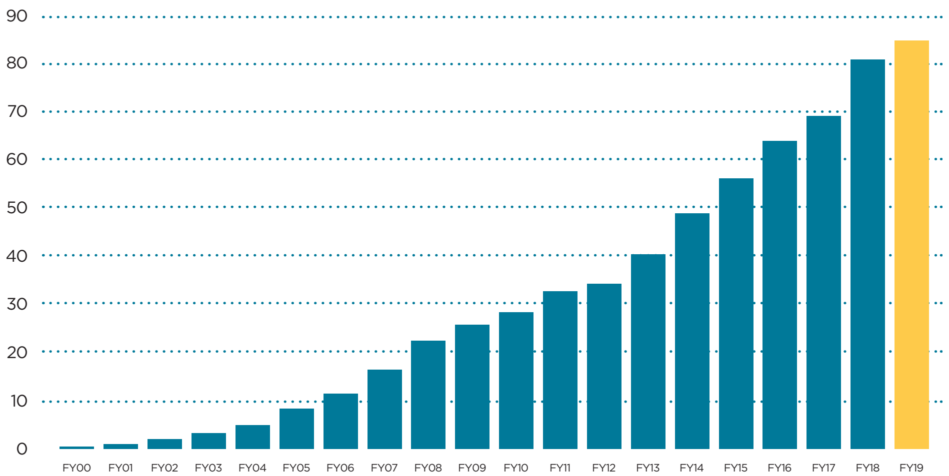
+15%

over FY2018

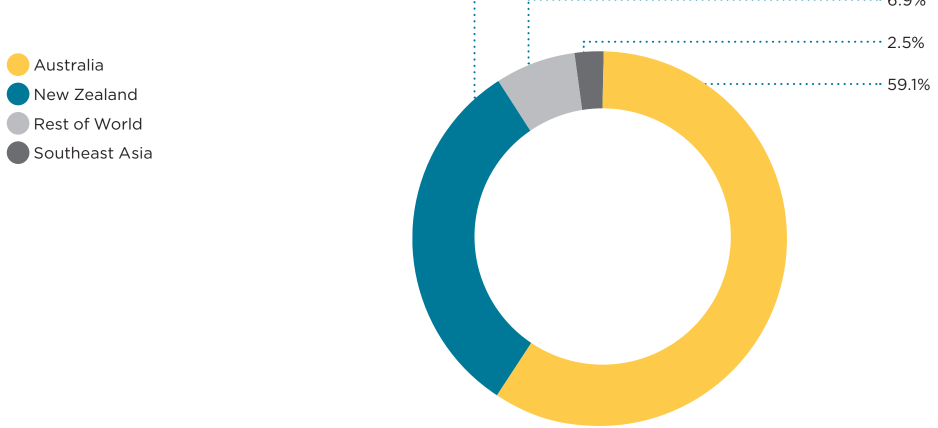
Total operating revenue

$85.1m

Total operating revenue
(NZ$m)



Total operating revenue by market
(Percentage)



Australia

Operating revenue
$50.3m

Number of products
70

Growth drivers

- Over the counter (OTC) products. *Maxigesic, Eyecare range, Ferro range* and other pain products range.
- The continuing significant opportunity for increased *Maxigesic* sales offered by the rescheduling of codeine-based painkillers which became prescription only medicines on 1st February 2018. There was a significant amount of stock piling prior to this change, however, we believe *Maxigesic* sales will benefit as pharmacies and consumers run down their stocks.
- Further expansion of the Hospital portfolio of products such as the antibiotic *Piptaz*.
- Gross profit margins have continued to grow as OTC product sales increase and we expect continued significant sales growth and growth in profit in Australia in FY2020.

New Zealand

Operating revenue
$26.8m

Number of products
115

Growth drivers

- OTC products. *Maxigesic, Eyecare range, Vitamin C Liposachets* and the launch of new products.
- Prescription product growth from new product launches.
- Gross Profit Margins have improved significantly and are now close to the company margin of 48% due to the OTC sales growth and the divestment and cessation of lower margin Hospital and prescription products. This margin is expected to be maintained.

Southeast Asia

Operating revenue
$2.1m

Number of products
9

Growth drivers

- *Maxigesic* launch in Hong Kong and re-launch in Singapore with its re-classification to an OTC product.
- Launch of new Hospital products

Rest of world

Operating revenue
$5.9m

Number of products
5

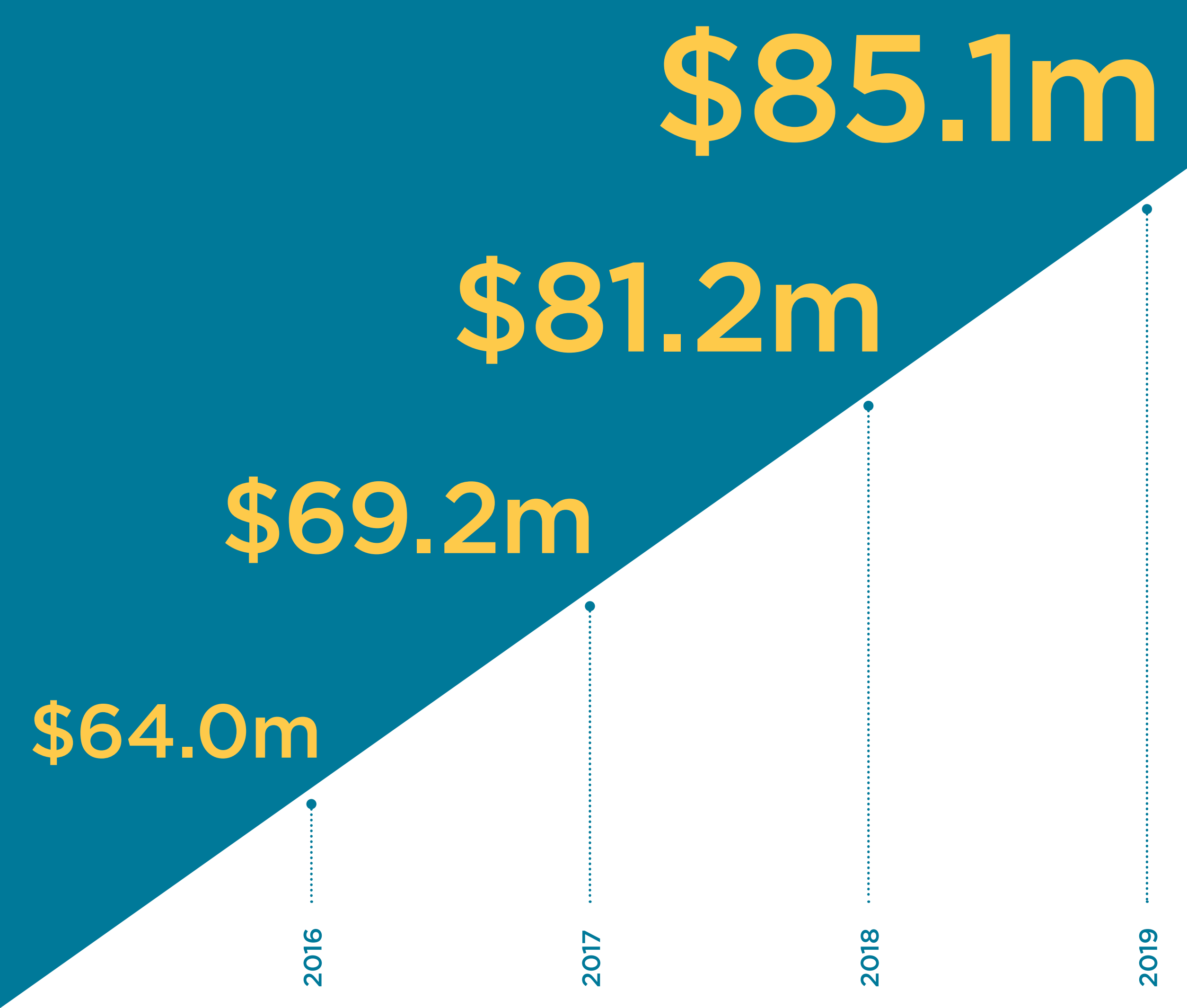
Growth drivers

- Further increase sales of *Maxigesic* through growth in existing markets, additional registrations followed by new launches during FY2020 and following financial years.
- Additional regulatory filings during FY2020 of new dose forms of *Maxigesic*, registrations and then additional sales.
- Sales of *Maxigesic* are expected to grow significantly over the next few years driven by new launches but it is important to note that there is a lag in these sales from the time of an out-licensing agreement due to registration timelines which vary widely country to country and are difficult to estimate with accuracy.

Onwards and upwards

Key highlights

TOTAL OPERATING REVENUE 2016 – 2019



FINANCIAL HIGHLIGHTS (NZ$)

Operating revenue

$85.1m

Operating profit

$6.1m Turnaround of **$16.2m** on PY

Operating cashflow

$1.1m Turnaround of **$10.2m** on PY

Cash available at 31 March 2019

$6.9m

MAXIGESIC

42 countries

Maxigesic currently registered in.
Up from 32 in PY

125+ countries

Maxigesic currently licensed in.

20 countries

Maxigesic plus launch orders under manufacture for 9 new countries.

REGULATORY FILINGS FY2019

Maxigesic IV

Regulatory filings underway in multiple countries.

Maxigesic Oral Liquid

Regulatory filings underway in multiple countries.

Maxigesic Hot Drink Sachets

Preparing first regulatory filings.

Poised for strong growth in earnings

Chairman and CEO's Report

Hartley Atkinson
Founder and CEO

David Flacks
Chairman

Dear shareholders,

AFT Pharmaceuticals is delighted with the progress made in the 2019 financial year.

We have returned to generating positive operating earnings as we benefited from continuing growth in our main over the counter (OTC) medicine portfolio. At the same time we have significantly expanded the pipeline of growth opportunities following the successful conclusion of clinical trials on the key *Maxigesic* pain relief products.

We are now at a pivotal point in our development. We are also now well positioned to continue to build on the strong position we enjoy particularly in OTC medicines in New Zealand and Australia. We have made good progress in Southeast Asia, and we have continued to deliver on the significant out-licensing potential we see for *Maxigesic* in large international markets.

Revenue for the year to 31 March 2019 increased 5% to $85.1 million from $81.2 million in the prior financial year. Adjusting for the divestment of the Group's lower margin hospital products to Baxter Healthcare at the end of the 2018 financial year for New Zealand and the start of the 2019 financial year for Australia, revenue increased 14%.

"We continue to develop and commercialise line extensions of the *Maxigesic* range and other products... all have the potential to generate significant shareholder value and improve healthcare outcomes for patients around the globe."

Operating profit rose strongly to $6.1 million, reversing last year's $10.1 million operating loss by $16.2 million, a result that is in line with the guidance given at the start of the financial year.

The result reflected sales growth, tight control of operating costs and lower research and development expenditure following the successful completion of key clinical trials on the *Maxigesic* intravenous, liquid and tablet formulations.

Operating costs, which exclude financing charges, fell 21% to $36.9 million from $46.5 million at the same time a year ago. This included a 69% reduction in research and development expenditure to $2.6 million from $8.2 million in the same period last year.

Meanwhile selling, distribution and general administrative expenses fell 8% to $33.7 million from $36.8 million in the same period a year ago as the company drove operating efficiencies in sales and distribution, particularly in the second half of the financial year. Losses after tax narrowed to $2.3 million from $12.7 million in the 2018 financial year.

All of AFT's operating divisions are performing well. The Australian, New Zealand and international operations have all contributed to a positive operating result and we expect the Southeast Asian division to achieve the same in the coming year. We have achieved this growth while maintaining tight control on costs and expect to deliver a strongly improved operating earnings in the coming year.

Australia

Sales in Australia increased 2% to $50.3 million from $49.2 million in the same period a year ago. Adjusting for the divestments to Baxter Healthcare, revenue grew by 13%. Operating profits rose strongly from $1.2 million to $5.3 million.

The main OTC channel grew 11%, while *Maxigesic* revenues grew by 14% following regulatory changes, effective in February 2018, that saw codeine-based painkillers becoming prescription only medicines.

The shift has caused some disruption to markets, with Australian pharmacies stocking up on *Maxigesic* in the last quarter of the 2018 financial year in anticipation of this switch. Additionally, consumers stockpiled codeine-based products with some buying up to 12 months' worth of product. However, we believe *Maxigesic* sales will benefits as pharmacies and consumers run down their stocks.

Sales to hospital channels declined with the lower margin product divestments, but this was partially recovered with the introduction of new hospital products, such as antibiotic *Piptaz*, which we expect to drive growth in the channel in the 2020 financial year.

New Zealand

New Zealand revenue fell by 1% to $26.8 million from $27.1 million in the same period a year ago, but revenue was up 5% after adjusting for the divestments to Baxter Healthcare.

Operating profit, which includes Head Office costs, rose to $0.5 million from a $2.7 million loss in the same period a year ago.

Excluding these Head Office costs, which the New Zealand operation carries for the benefit of all territories, operating profits rose $4.1 million to $5.5 million from $1.4 million in the same period a year ago.

The New Zealand OTC channel grew 16% with strong allergy sales supported by growth in the pain and eyecare categories and new product launches of *Vitamin C Liposachets*, *Maxigesic PE* and *Novatears*. New Zealand also benefitted from a 21% increase in *Maxigesic* sales.

These gains were offset by the divestments to Baxter Healthcare and the cessation of our sole supply contract of the cardiovascular drug *Metoprolol*. Final sales of the medication were made in the 2018 financial year.

The New Zealand government appears set to follow Australia's lead in the rescheduling of codeine-based products as early as 2020 and we are monitoring developments closely.

Southeast Asia

Southeast Asia revenue grew by 66% to $2.1 million from $1.3 million in the same period a year ago, reflecting strong growth in OTC revenues including growth in *Maxigesic* tablets, which launched in Malaysia and relaunched in Singapore with its re-classification to an OTC product. Our Hong Kong distributor is meanwhile preparing for a launch of *Maxigesic* in the coming months.

The region posted an operating loss of $0.3 million up from a $0.7 million operating loss in the same period a year ago and we are confident it will turn in a positive operating result in the 2020 financial year.

Rest of World

The Rest of World division, which is mainly focussed on the out-licensing, registration and enabling the sale (via licensees) of the *Maxigesic* range of pain relief products, grew revenue by 63% to $5.9 million from $3.6 million in the same period a year ago. Operating profit rose to $0.6 million from a $7.9 million loss in the same period a year ago reflecting a 87% increase in sales of products and royalties and the reduction in research and development expenditure.

We have now out-licensed *Maxigesic* in its various forms in more than 125 territories. To date our focus has been on the *Maxigesic* tablet form. Key tablet out-licensing additions over the last year included Russia and Switzerland. We are continuing to progress licensing discussions for the oral form in significant territories such as the USA, Canada, Germany, South Korea and Latin America.

Following the successful conclusion of clinical trials, we are now able to turn our attention to the hospital-based intravenous form, *Maxigesic IV*. In the 2019 financial year, we out licensed *Maxigesic IV* in to 6 new countries including Mexico and South Korea.

A key target in the coming year is to increase the number of countries in which *Maxigesic IV* is licensed, which in turn will generate further income prior to these countries registering a product, making sales and AFT earning royalties. At balance date *Maxigesic IV* was licensed in 68 countries up from 62 the same time a year ago.

Product	Maxigesic Tablets			Maxigesic IV			Maxigesic oral solution		
Territories	2019	2018	+%	2019	2018	+%	2019	2018	+%
Licensed	125+	125	-%	68	62	10%	122	118	4%
Registered	42	32	28%	-	-	-%	-	-	-%
Sold in	20	10	100%	-	-	-%	-	-	-%

Maxigesic registrations

The registration of each of our products in each of these territories is the next and most consequential step towards commercialisation of our intellectual property. Registrations now stand at 42, up from 32 in the same period a year ago. They are for the tablet form of *Maxigesic*, leaving a significant pipeline of opportunities still to be developed.

The first *Maxigesic IV* registration, which will be in a market that will facilitate registration in other territories such as the Middle East and Southeast Asia, is expected during the 2020 financial year.

We have meanwhile completed the clinical development work on the oral liquid form of *Maxigesic* and the first regulatory filings have been made in 23 regulated markets. Finally, we are aiming in the 2020 year to file for registration of a faster dissolving version of *Maxigesic* tablets. This follows our licence from a US company of a rapid solution forming technology.

Maxigesic sales

Maxigesic in its various forms is now for sale in 20 countries, up from 10 in the same period last year. Sales in the established United Arab Emirates and Italian markets grew at more than 50% over the 2019 financial year. These sales were supplemented with launches in to new markets, including Ireland, Iraq, El Salvador and Malaysia. Meanwhile, we are processing orders for a further nine countries.

Exact launch timings and the flow of royalties to AFT are difficult to forecast given hurdles ranging from regulatory issues to matters specific to licensees or distributors. However, regardless we see ongoing progress, which will contribute and drive sales growth going forward.

A further income source as sales grow are sales milestone payments, which exist in most of our licensing agreements. For example, the first sales milestone in the European Union of €500k on the *Maxigesic* tablet form was triggered in April.

$85.1m
TOTAL REVENUE
Up from $81.2 million

$6.1m
TOTAL OPERATING PROFIT
Turnaround of $16.2 million

42
TOTAL MAXIGESIC REGISTRATIONS
Up from 32

"We are now at a pivotal point in our development."

Product development

Development of the *Maxigesic* dose forms outlined at the time of our 2015 IPO have been largely completed. In the 2019 financial year the most important development milestone was the successful completion of the large study on *Maxigesic IV*. Some additional studies specific to US registration requirements for the product are underway. Meanwhile, further development work continues on the sachet form and we are working on other line extension ideas for the drug platform.

Our *NasoSURF* nasal drug delivery device is undergoing some redesign following human factor studies. These have been largely completed and we are now targeting a type IIa medical device filing with the FDA this financial year. Market research in the USA and UK identified that our first targeted indication for the device has potential to deliver AFT a significant income stream.

We have completed the initial development work on *Pascomer*, a treatment for a hereditary skin condition. It offers the potential to access a market worth US$400 million to US$450 million in sales. We have opened an Investigational New Drug (IND) application following a successful FDA meeting, which allows us to initiate our first multi-center international clinical study on the medication.

Presently our joint venture partnership DSLP has funded all the development work to date and is funding the first clinical study. We are however actively seeking to out-license the product with interested parties for at least one major territory to minimise our expenditure on this project.

Balance sheet

AFT remains well funded, completing the year with a cash balance of $6.9 million, up from $6.7 million a year ago. Total assets of $62.5 million, up from $56.6 million a year earlier, have increased primarily due to increased working capital and the capitalised components of the investment made into research and development and registrations.

At 31 March 2019, we had an interest-bearing loan from specialist healthcare investor CRG of $41.7 million up from $30.7 million at the same time a year ago. The loan, which attracts an interest rate of 13.5%, matures at the end of the 2020 financial year.

Although CRG has offered to extend the loan, we have begun negotiations with local banks to refinance our facilities at more attractive rates. Reflecting the positive outlook for the business we are confident we will achieve that goal.

As an interim step and to reduce the cost of interest, we have on 21 May 2019 established a $15 million interim facility, which matures on 31 March 2020, from BNZ utilising the existing security arrangements. We will be repaying US$9.5 million of the CRG loan in the next few days.

Outlook

We see significant potential for our products in global markets. The timing is always difficult to forecast with certainty, not least because it is important that we find the right partners to take our products through to commercialisation.

At the same time, we continue to develop and commercialise line extensions of the *Maxigesic* range and other products such as *NasoSurf* and *Pascomer*. Once achieved, all have the potential to generate significant shareholder value and improve healthcare outcomes for patients around the globe.

We have progressed further down the pathway to realisation of this goal since last year which is pleasing but there remains significant work to be done to reach our true potential and fully reward our shareholders.

Despite these challenges we are looking to the remainder of the 2020 financial year with confidence. We are targeting continuing positive cashflow and an operating profit of between $9 million – $12 million. We will update the market at our annual meeting in August.

On behalf the board and shareholders we thank our AFT team for the significant contribution they have made to the success of the company over the last year.

David Flacks
CHAIRMAN

Hartley Atkinson
FOUNDER AND CEO

Full Year Financial Results Summary

The FY2019 results mark the return of the Group to operating profit. This is a result of the ongoing strategy of expanding our presence in our home markets of Australia, New Zealand and Southeast Asia, while succeeding in our key Research and Development programme to also grow our international revenues.

Operating revenues grew 5% to $85.1 million, with an underlying growth rate of 14% (adjusting the prior FY2018 year for divested products). Australia, our largest market, grew by 2% with underlying growth of 13%. New Zealand fell by 1% with underlying growth of 5%. The rest of the world segment grew 63% and Southeast Asia grew 66%.

Gross profit grew 15% to $40.7 million with underlying growth of 19%. Our gross profit margin grew 4 points to 48%. The main driver was from the growth in OTC revenues in all markets.

Licence income from out licensing agreements is now classified as revenue under the new IFRS reporting requirement. Other income comprises the consideration we have received from the divestment of non-core products together with the Callaghan Innovation growth grant that we receive on eligible research and development expenditure.

Research and development expenditure reduced to 4% of revenue with the successful completion of the clinical trial program that we identified at the time of the IPO in December 2015. Selling and distribution expenses reduced to 31% of revenue supporting the OTC products in Australia, New Zealand and Southeast Asia. In total, operating expenses now represent 43% of revenue down from 58% in the prior year.

This growth in revenue and gross profit margin together with cost control, principally reflecting the successful completion of our main clinical trial programme, returned the Group back to generating operating profit for the year of $6.1 million. This represents a turnaround of $16.2 million from FY2018.

SUMMARY FINANCIAL RESULTS

(Year Ended 31 March 2019)

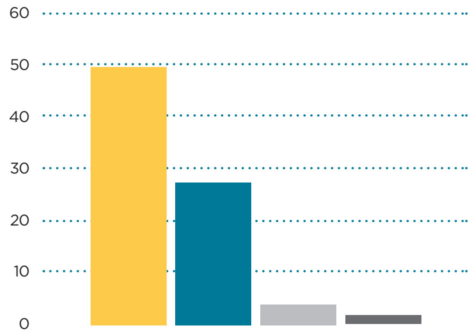
$NZ000s	2019	2018
Revenue	**85,127**	**81,176**
Cost of sales	44,397	45,880
Gross Profit	**40,730**	**35,296**
Other income	2,237	1,130
Selling and distribution expenses	(26,540)	(28,533)
General and administrative expenses	(7,202)	(8,308)
Research and development expenses	(2,588)	(8,230)
Equity Accounted Loss of joint venture entity	(521)	(1,494)
Operating Profit / (Loss)	**6,116**	**(10,139)**

Operating Revenue

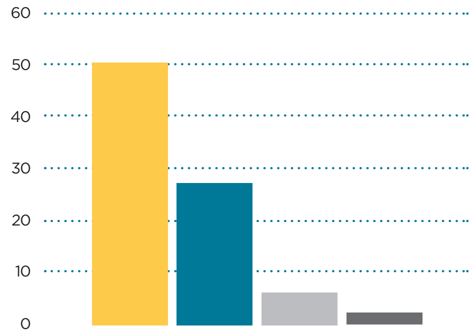
Operating revenue grew 5% to $85.1 million for the year ended 31 March 2019 from $81.2 million for the year ended 31 March 2018. Licence income from out licensing agreements is now classified as revenue under the new IFRS reporting requirement, and the prior comparative period has been restated to include this. Underlying growth was 14% (adjusting the prior year for those hospital product sales which were fully divested by the first quarter of FY2019).

The following tables set out the revenues from our four markets:

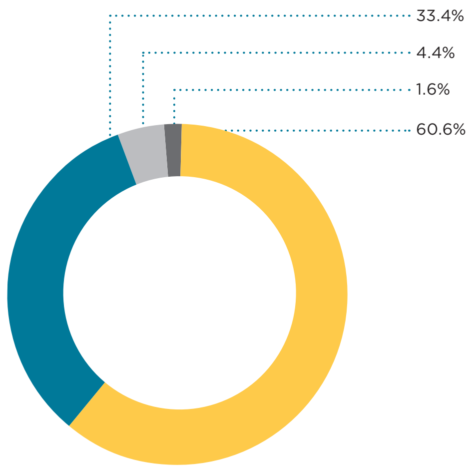
Net revenue FY2018
(NZ$m)



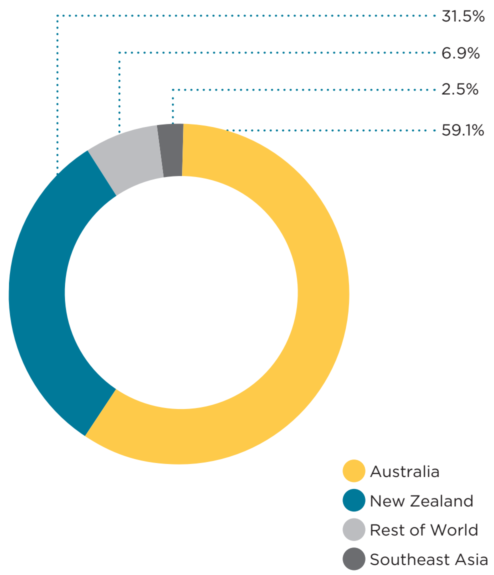
Net revenue FY2019
(NZ$m)



Overall revenue by market FY2018
(Percentage)



Overall revenue by market FY2019
(Percentage)



> "The Group's range of products in Australia will continue to grow strongly and in particular *Maxigesic* due to the re-scheduling of codeine-based painkillers from OTC to prescription."

Australia revenue grew by 2% to $50.3 million from $49.2 million in the prior year. Underlying growth was 13% (adjusting the prior year for the lower margin hospital products, which were divested in the first quarter of FY2019). Australia generates 59% of Group operating revenue.

The main OTC channel grew 11%, *Maxigesic* revenues grew by 14% following the regulatory shift of codeine based painkillers from OTC to prescription only in February 2018.

The hospital channel declined with the hospital product sales divestment and this was partially recovered with the introduction of new products, which we expect to bring growth back in to the hospital channel in FY2020.

New Zealand revenue declined by 1% to $26.8m (PCP $27.1m). Underlying growth was 5% (adjusting the PCP for the hospital product sales which were divested at the end of FY2018). New Zealand generates 32% of Group operating revenue. The main OTC channel grew 16% with strong allergy sales supported by good growth in the pain and eyecare categories and new product launches.

The prescription channel was impacted by the cessation of the sole supply tender prescription product *Metoprolol*, but the upside of this shift, together with the divestments is that gross profit in New Zealand grew by 22%.

Rest of World revenue grew by 63% to $5.9 million from $3.6 million in the prior year. Licence income from out licensing agreements is now classified as revenue under the new IFRS reporting requirement, and the prior year has been restated to include this. Underlying growth for the sale of products and royalties grew by 87%. The Rest of World generates 6.9% of Group operating revenue.

Southeast Asia Revenue grew by 66% to $2.1 million from $1.3 million in the prior year and this market generates 2.6% of Group Operating Revenue. Sales were predominantly in the Singapore and Malaysian markets The Hospital channel accounts for two thirds of the revenue. The OTC channel grew at 67% with strong growth in *Maxigesic* from the launch in Malaysia with the initial sell in to the distributor there, the re-launch in Singapore with its re-classification to an OTC product and the sale of product to the Hong Kong distributor in preparation for launch.

Gross Margin

Gross profit grew 15% to $40.7 million from $35.3 million in the prior year and the gross margin grew 4 points to 48%. Underlying gross profit growth was 19% (adjusting for the hospital product sales). The main drivers for the improvement were from the growth in OTC revenues across all markets and this channel has the highest gross margin. The inclusion of licence income in revenue in line with IFRS reporting requirements increases the margin by around 1%. The gross margin is expected to continue in this range in the future as the Australian and Rest of World OTC revenues continue to grow.

Other Income

Licence income from out licensing agreements is now classified as revenue under the new IFRS reporting requirement, and the prior year has been restated to include this. Other income comprise the contribution we received from the divestment of non-core hospital products together with the Callaghan innovation growth grant that we receive on eligible research and development expenditure.

Operating Overheads

Total research and development investment reduced to $3.1 million from $9.7 million. This includes $0.5 million expensed on Pascomer which under IFRS accounting standards we are required to record as a joint venture equity accounted loss in the consolidated income statement.

The significant reduction in research and development expenditure is as a result of the successful completion of a significant proportion of the clinical trial program that we identified at the time of the IPO in December 2015 [see Section: Maxigesic Development].

Selling and distribution expenses reduced to $26.5 million from the prior year's $28.5 million and these expenses reduced again as a percentage of operating revenue to 31% from 36% in the prior year. They comprise primarily the support of OTC products in the Australian, New Zealand and Southeast Asia markets. We continually monitor this spend and identified some efficiencies which we implemented in the second half of the year in Australia and the Asian markets.

General and administration expenses reduced to $7.2 million from $8.3 million, primarily due to one off legal costs incurred in FY2018 relating to competitor legal action that is challenging certain *Maxigesic* claims. The legal proceedings remain ongoing and AFT remains confident of its legal position.

$63.6m
TOTAL ASSETS

Balance Sheet

Maxigesic. Total assets of $63.6 million rose from $56.6 million primarily due to increased working capital and the capitalised components of the investment made into research and development and registrations.

The cash position of $6.9 million at March 31 2019 is up slightly from the prior year's $6.8 million and reflects the return to positive cash flows from operating activities to $1.1 million from a $9.2 million out flow in the prior year; the reduction in cash required for investing activities (to $4.9 million from $5.9 million) and the reduction in cash generated from financing activities (to $3.7 million from $5.9 million).

Balance sheet changes are primarily working capital driven with current assets rising to $51.3 million compared to $48.3 million in the prior year and trade payables and provisions falling to $16.4 million ($18.5 million in the prior year).

Intangible assets have increased to $8.2 million from $5.1 million, reflecting the capitalised components of the investment made into research and development and registrations. The balance of intangible assets comprise capitalised patents and trademarks. The investment in the *Pascomer* joint venture entity has increased to $3.0 million from $2.1 million in the prior year with spend of $1.4 million on product development.

Our structured term loan from CRG matures on 31 March 2020. Given the return to profitability we expect to have a new long-term facility in place with a local commercial bank prior to 31 March 2020 which, together with the positive operating cashflow surpluses, will enable full repayment of the CRG loan on 31 March 2020.

We are targeting an operating profit in the $9 million to $12 million range and this is based on the following revenue assumptions, together with planned expenditure and no significant unforeseen events.

Maxigesic is currently sold in 20 countries and we have confirmed orders for a further nine countries. During FY2020 it will be launched into more of the 125 + countries in which it is out licensed.

The Group's range of products in Australia will continue to grow strongly and in particular *Maxigesic* due to the re-scheduling of codeine-based painkillers from OTC to prescription only from 1 February 2018.

In addition, we believe that further licensing agreements will be agreed and that we will generate future international revenues for the key innovative products: *Maxigesic*, *Pascomer* and *NasoSurf*.

Given the uncertainty on the timing of new licensing agreements sales, these have not been included in the forecast assumptions other than for a small amount of essentially business as usual upfront license income for *Maxigesic*.

Our key products

Maxigesic

Development of the *Maxigesic* dose forms outlined at the time of our 2015 IPO have been largely completed. In the 2019 financial year the most important development milestone was the successful completion of the large study on *Maxigesic IV*. Some additional studies specific to US registration requirements for the product are underway. Meanwhile, further development work continues on the sachet form and we are working on other line extension ideas for the drug platform.

NasoSURF

NasoSURF nasal drug delivery device is undergoing some redesign following human factor studies. These have been largely completed and we are now targeting a type IIa medical device filing with the FDA this financial year. Market research in the USA and UK identified that our first targeted indication for the device has potential to deliver AFT a significant income stream.

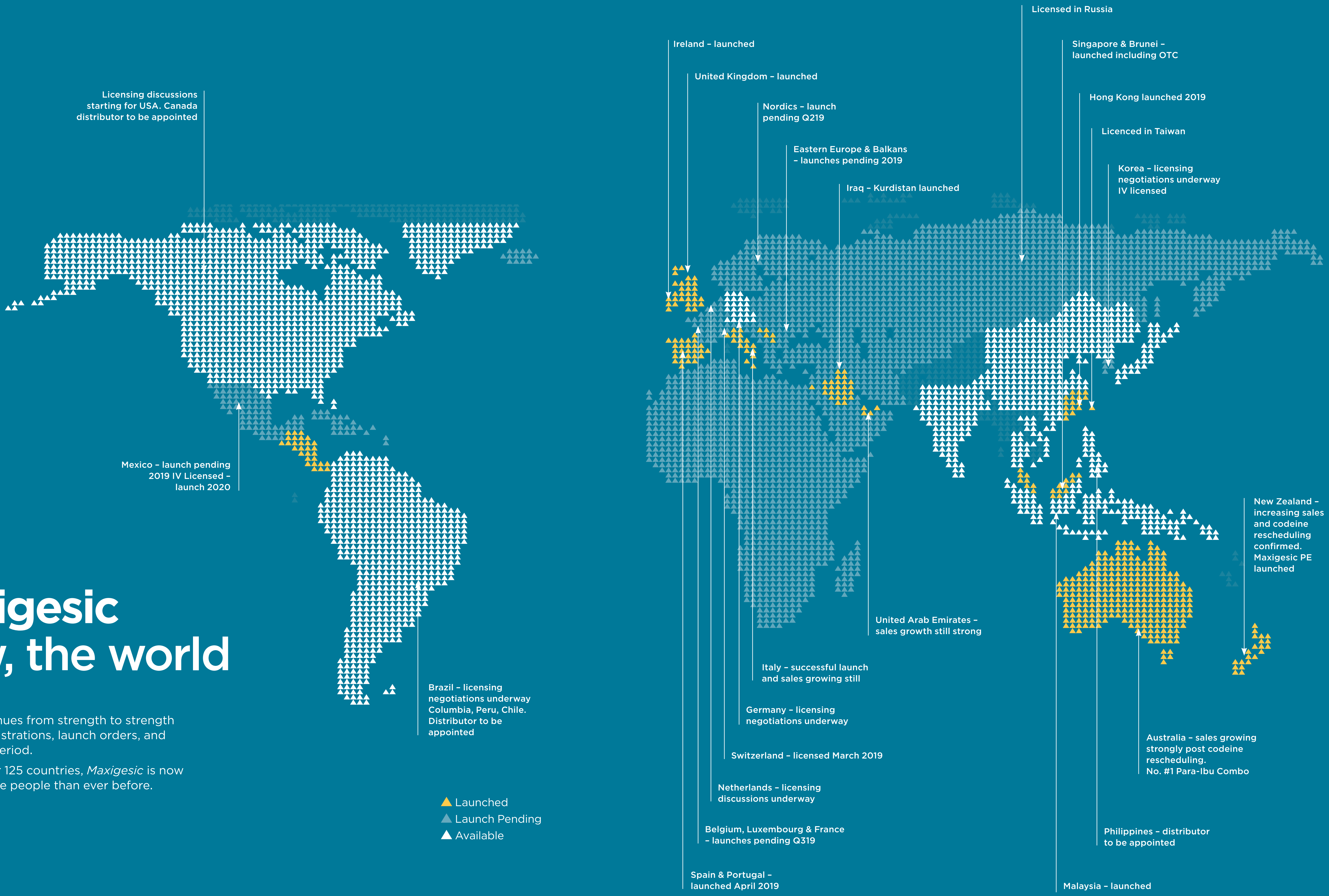
Pascomer

The initial development work on *Pascomer*, a treatment for a hereditary skin condition, has been completed. It offers the potential to access a market worth US$400 million to US$450 million in sales. We have opened an Investigational New Drug (IND) application following a successful FDA meeting, which allows us to initiate our first multi-center international clinical study on the medication.

Maxigesic Now, the world

Maxigesic continues from strength to strength with further registrations, launch orders, and licenses in the period.

Licensed in over 125 countries, *Maxigesic* is now available to more people than ever before.



Accelerating International growth for Maxigesic

Maxigesic is now for sale in 20 markets, with orders currently under manufacture for a further nine countries and this gives AFT a strong base of consistent sales to drive further launches and new market agreements in the new financial year.

A key focus is Europe and Latin America, with launches confirmed for the first half of this year in the Nordics (five countries), and in the second half in Eastern Europe, the Baltics, France, and Mexico, along with a number of counties in Central America.

The launch of the *Maxigesic* patented formula in France, 'Cetafen', is imminent with our licensee partner Expanscience. We will launch in the second half of this financial year in what is a significant and exciting market. France has the second largest analgesic category in the world, worth over $750 Million USD MAT*.

In Europe, we have submitted applications to register the Intravenous and Oral Liquid forms of *Maxigesic*. This will further expand the product range and drive the long-term growth of *Maxigesic* worldwide.

With these now submitted, there is strong interest from a new mix of licensees focussed on selling non-Opioid analgesia to Hospitals and Clinics.

Executing a number of licensing deals in large countries such as the United States and China of the various dose forms is a key focus throughout the new financial year. This together with growing *Maxigesic* launches in existing markets, ongoing sales in core established markets and new market launches, will deliver strong sales growth for the region now and in the near future.

* Nicholas Hall report October 2017

Dr Hartley Atkinson, Marree Aktinson, and the AFT Malaysia team.

Maxigesic launches in Ireland and Malaysia

Maxigesic launches continued around the globe this year and an important part of this is AFT Pharma helping licensees and distributors with their launches.

Two memorable launches in these last 12 months were Ireland and Malaysia.

The Malaysian launch took place in the middle of 2018. The launch coincided with the historical Malaysian election, which saw the first regime change since the country became independent in 1957.

The result brought the country to a halt as the government changed for the first time in many years and a National holiday was declared for two days after the election.

Despite this, the launch meeting proceeded well with 3 venues, Penang in the North, Ipoh in the center of Malaysia and culminating with the final event at Kuala Lumpur where we were fortunate enough to be allowed to use the New Zealand Ambassador's residence as the launch venue. The company founders, Dr Hartley Atkinson and Marree Atkinson both attended all the meetings and helped our local team (pictured above) with the successful launch together with our distributor, Zuellig Pharma.

On the other side of the globe, the Irish launch occurred in Dublin toward the end of 2018 with our Irish Licensee, Clonmel Healthcare. Dr Hartley Atkinson attended the launch meeting of local doctors and pharmacists to discuss the clinical benefits of *Maxigesic*. Additionally, salesforce training meetings were also held to ensure their team was equipped with the required technical product knowledge. Clonmel Healthcare is the leading supplier of Paracetamol based and Ibuprofen based analgesics to Irish Pharmacies so the combination is a very logical addition to their existing product range. Consequently, in Ireland *Maxigesic* has been called Easolief Duo to fit in with the existing Clonmel Healthcare analgesic product range. The launch meeting was a great success and sales to date are progressing well in the country.

Development and Progress

Maxigesic Development

The successful conclusion this year of several clinical trials of *Maxigesic* represents a significant development that opens the door to the registration and then sale of new therapeutic delivery forms around the globe. However, we are focussed on the important US market.

The pivotal study of the *Maxigesic IV* form has been submitted to a major US journal and we expect publication to follow. Meanwhile, the major US journal Clinical Therapeutics published a study of the US tablet form of *Maxigesic* and it showed that our combination therapy delivered more rapid and effective pain relief than paracetamol or ibuprofen alone.

A study, published in Paediatrics Anaesthesia Journal, showed that *Maxigesic* liquid is a well-tolerated and efficacious analgesic for children (2-12 years of age). A further review of safety data has also been published. These and other studies will back up *Maxigesic* commercialisation and key marketing claims and allow the commencement of regulatory filings of both *Maxigesic IV* and *Maxigesic* liquid. Additional oral dose forms, hot drink sachets and dry stick sachets, are still in development and first regulatory filings are targeted to commence this year.

A pre-New Drug Application (NDA) filing meeting with FDA for *Maxigesic IV* has clarified some additional data requirements and this will result in clinical trial expenditure before the US regulatory filing, which is targeted this year.

Formulation work has been completed on a fast dissolving form, *Maxigesic Rapid*, which utilizes proprietary technology in-licensed from a US company. Presently we are pursuing registration of this dose form in the US.

Additionally, a new product, *Maxigesic Cold & Flu* is being developed and is expected to be commercially attractive for the Australian market and additional territories. The development costs for this program are modest and not expected to contribute significantly to Group research and development costs.

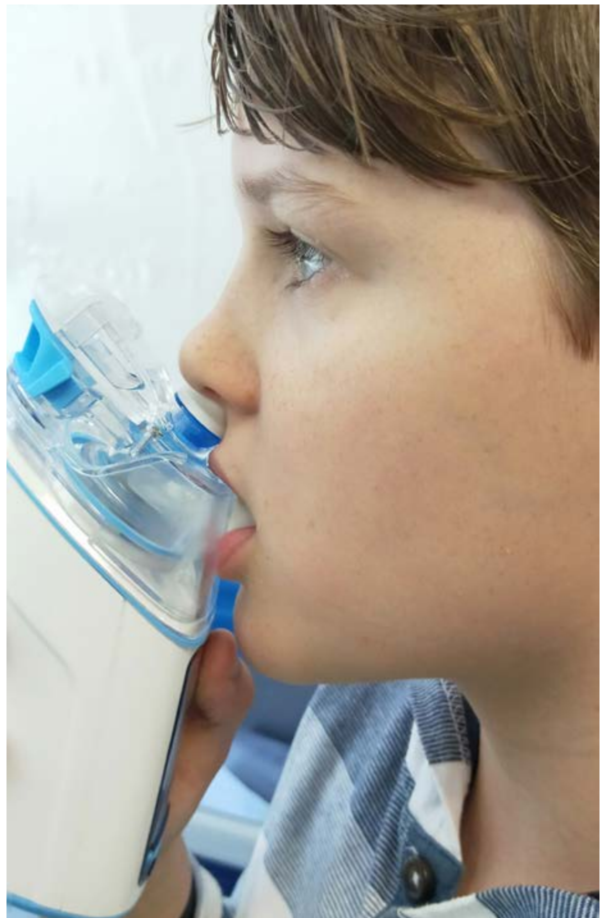
Pascomer Development

The *Pascomer* development program has confirmed the formulation is stable at room temperature. This is a significant result as the active ingredient is easily oxidized in topical formulations. The preclinical development program has now been completed and a successful FDA meeting, in late 2018 allowed us to open an Investigational New Drug (IND) application for the first phase II/III clinical trial. This first global multi-center clinical study (out of two clinical trials) is being funded by our joint venture the DSLP partnership, and ongoing discussions are underway to find a commercialisation partner for at least the US market.

NasoSURF Development

NasoSURF device development has also advanced. Some device redesign was required following the initial human factor studies in USA. This has now been completed. Human factor studies are a relatively new regulatory requirement and a further additional human factor study will still be required.

Class II Medical Device filing in USA was targeted for April/May 2019 but the redesign features identified in the human factor studies and subsequent redesign and testing has delayed this until the end of this year. The key to commercialisation remains the initiation and completion of the clinical programme which is targeted to start towards the end of the current financial year after approval to open an IND is obtained from US FDA.



Child trialling NasoSurf device.

Eyecare product overview

Our portfolio of eye products has been significantly growing with the introduction of new innovative products as well as growth of existing products. We are riding an enormous 'dry eye' wave, and our new product additions could not have come at a better time.

Dry Eye Disease is becoming more and more prevalent worldwide and is the most common ocular dysfunction presenting to primary eye care practitioners.[1] Prevalence rates are likely to rise year on year, particularly due to the ageing population and increased digital screen usage.

There are two types of Dry Eye Disease: Aqueous Deficient Dry Eye, which is caused by a lack of aqueous tear secretion, and Evaporative Dry Eye, which is caused by an increase in tear evaporation. More than one third of Dry Eye Disease is a combination of the two.[2]

Research is continually carried out within this field; in 2017 an extensive report (which took 2 years to complete and involved 150 experts from 23 countries) highlighted the recommendation of a three-step regime for the management of Dry Eye Disease and related eye conditions.[3] The recommended daily routine consists of: heat applied to the eyes, eyelid hygiene, and preservative-free lubricants.

AFT are proud to have a complete range of effective and innovative eye care products on the market to help relieve patients' symptoms. For a preservative-free eye care regime, we have implemented three simple steps: 1) Heat, 2) Cleanse, 3) Hydrate.

In early 2019 we expanded outside of the eye lubricant realm to complete our dry eye range with the introduction of two new products: *Opti-Soothe® Moist Heat Mask* and *Opti-Soothe® Preservative-Free Eyelid Wipes*. The early success of this launch has been in part due to the success of our current eye lubricants *HYLO-Forte®*, *HYLO®-Fresh*, *VitA-POS®*, and *NovaTears®*, along with continued support from many key opinion leaders within the field of optometry and ophthalmology.

The *Opti-Soothe® Moist Heat Mask* serves step one of the daily eye care regime, utilising *HydroBead™* technology to provide the recommended 10 minutes of controlled moist heat to patients.

To cleanse the eye, we have the *Opti-Soothe®* Preservative-Free Eyelid Wipes, which has a unique formulation of Tea Tree Oil, Hyaluronic Acid, Chamomile, and Aloe Vera. The textured wipe is preservative-free, has anti-inflammatory, anti-microbial, moisturising and soothing properties, which are ideal for daily cleansing.

Hydration is the final step. AFT offers two preservative-free eye lubricants which serve different purposes. The HYLO® range uses the patented COMOD® application system which protects the sodium hyaluronate solution from contaminated ambient air, and ensures the precise measured delivery of at least 300 sterile drops without the use of preservatives.

NovaTears®, in-licensed last year, is a unique water-free eye drop specifically designed for Evaporative Dry Eye and Meibomian Gland Dysfunction. NovaTears® utilises patented EyeSol® technology, which lubricates the eye by stabilising and thickening the outer tear film layer. Both HYLO® and NovaTears® can be used for 6 months after opening without the use of preservatives. Patients can use HYLO® first to replenish the aqueous layer of the tear film and NovaTears® second to provide an evaporative barrier.

The AFT eye care portfolio has increasing uptake from patients and healthcare professionals alike which is expected to continue to provide increasing sales in this growing category.

1 Stapleton, F., Alves, M., Bunya, V.Y., Jalbert, I., Lekhanont, K., Malet, F., Na, K.S., Schaumberg, D., Uchino, M., Vehof, J. and Viso, E., 2017. TFOS DEWS II Epidemiology Report. The ocular surface, 15(3), pp.334-365.

2 Lemp MA, Crews LA, Bron AJ, Foulks GN, Sullivan BD. Distribution of aqueous-deficient and evaporative dry eye in a clinic-based patient cohort: a retrospective study. Cornea. 2012 May 1;31(5):472-8.

3 Daniel Nelson, J et al, TFOS DEWS II : New Dry Eye Report Updates Research. The Ocular Surface. 2017

Governance

Directors and management team

AFT has an experienced and balanced Board with a diverse range of skills. The Board comprises an independent Chairman, three other independent directors, one non-executive director and two executive directors. Their names and information about their skills, experience and background, together with information about AFT's management team, are set out below.

BOARD OF DIRECTORS

/ David Flacks

CHAIRMAN AND INDEPENDENT DIRECTOR
Appointed 22 June 2015

David has a number of governance roles and is also a corporate lawyer with boutique corporate law firm Flacks & Wong. David is chair of the NZX Regulatory Governance Committee, Harmoney Corp and biotech start up Upside Biotechnologies, and is a director of the Suncorp NZ group of companies and NZ Venture Investment Fund.

David was previously chair of the NZX Markets Disciplinary Tribunal and was a member of the Takeovers Panel. He also holds a number of pro bono directorships.

David was for many years a senior corporate partner at Bell Gully and was general counsel and company secretary of Carter Holt Harvey during the 1990's. He is a law graduate from Cambridge University.

/ Dr Hartley Atkinson

FOUNDER, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER
Appointed 4 September 1997

Hartley founded AFT in 1997. Before founding AFT, Hartley worked at Swiss multinational pharmaceutical company, Roche, for eight years where he held positions as Sales & Marketing Director, Medical Director, Product Manager and Medical Manager. Prior to his work at Roche, Hartley was a Drug Information Pharmacist and Researcher at the Department of Clinical Pharmacology, Christchurch Hospital. Hartley is the author of a number of scientific publications. Hartley's work has been published in the prestigious The New England Journal of Medicine.

Hartley holds a doctorate in Pharmacology, a Masters in Pharmaceutical Chemistry with distinction, and a Degree in Pharmacy, all from the University of Otago.

/ Maree Atkinson

EXECUTIVE DIRECTOR AND CHIEF OF STAFF
Appointed 4 September 2012

Marree has been involved in all aspects of AFT's business since its establishment in 1997, including roles in sales, regulatory affairs, customer services and logistics. Marree's role as Chief of Staff sees her involved in the day-to-day running of AFT's head office including managing staffing requirements and special projects involving AFT's head and affiliate offices.

Marree is a registered nurse previously practising at Waikato Hospital.

/ Nathan (Nate) Hukill

NON-EXECUTIVE DIRECTOR
Appointed 14 May 2014

Nate is the President and Chairman of CRG, a US-based investment management firm focused on the healthcare industry. Mr. Hukill oversees all aspects of the investment process, including investment sourcing, due diligence, portfolio construction and portfolio management. Mr. Hukill also oversees the investor relations process, including fund raising, reporting and limited partner relationship management. Nate joined CRG in 2009, bringing more than 16 years of investing experience. Prior to joining CRG, he was a Portfolio Manager at Highland Capital, where he invested and managed approximately $4.5 billion in the healthcare, consumer products, and technology sectors. Before Highland Capital, Nate co-founded a pharmaceutical-focused enterprise software company called OpenQ, Inc. He started his career as a credit investor at Salomon Smith Barney where he managed a portfolio of approximately $800 million.

Nate holds a Bachelor of Science in business administration from the University of Colorado and an M.B.A. from the Darden Graduate School of Business at the University of Virginia.

/ Jon Lamb

INDEPENDENT DIRECTOR
Appointed 4 September 2012

Jon has led the strategic planning, marketing and restructuring of various companies throughout his career. He has held various roles at Beecham (a multinational pharmaceutical company that would later merge with a predecessor company to GlaxoSmithKline) including CEO in New Zealand and Marketing Manager in both Australia and South Africa. He has also held roles as CEO of Nylex in New Zealand, Managing Director within the Rural Division of Fletcher Challenge, Director of Southland Frozen Meats and Marketing Director of the New Zealand Kiwifruit Marketing Board (where he was responsible for creating the Zespri brand of kiwifruit, and restructuring Zespri into a retail focussed operation).

More recently, Jon was a Director of Virionyx, a New Zealand company that developed an antiviral drug designed to combat AIDS. He was Deputy Chair of Australian diagnostic company ATF Group that developed a real time tool for measuring the Hepatitis B virus in individual patients.

Jon has been involved with AFT since 2004, firstly as a consultant, and then in his current capacity as a director. Jon is a Member of the Institute of Directors and has a Diploma from the Marketing Institute of the UK (now the Chartered Institute of Marketing).

/ Dr James (Jim) Burns

INDEPENDENT DIRECTOR
Appointed 17 September 2015

Jim has extensive executive experience in pharmaceuticals, biotechnology, medical devices, and diagnostics. Jim has served in leadership roles at large multinational corporations, early-stage companies, venture capital funds and private equity. From 2009-2016, Jim served as Chairman of the Board, Executive Chairman and Chief Executive Officer of Assurex Health, a precision medicine company focused on neuropsychiatric and pain disorders. Previous roles include President & CEO of cancer drug development company CASI Pharmaceuticals; President of MedPointe Pharmaceuticals, a specialty pharmaceutical company; President & CEO of biotechnology company Osiris Therapeutics; General Partner of Healthcare Ventures; Group President of Becton Dickinson, a global medical device company; and Partner at Booz & Company, an international strategy consulting firm.

Jim is a Board Leadership Fellow of the National Association of Corporate Directors (NACD), a Director of Vermillion (NASDAQ), and a Director of Precera Bioscience. Jim earned B.S. and M.S. degrees in biological sciences from the University of Illinois, an M.B.A. from DePaul University, and a D.L.S. from Georgetown University.

/ Dr John Douglas (Doug) Wilson

INDEPENDENT DIRECTOR
Appointed 4 September 2012

Doug was an Associate Professor at the Auckland Medical School before taking a role as Senior Vice President and Head of Medicine and Regulatory Affairs in the US for German drug company Boehringer Ingelheim Pharmaceuticals. He then carried these same responsibilities to Boehringer's worldwide medical research group in Germany, overseeing all research and drug development programmes. He supervised sixteen drugs to the US market through FDA and many others into global markets. Since his return to New Zealand, Doug has been a consultant to pharmaceutical and biotech companies in New Zealand, Australia, Italy, the UK, Ireland and New York. He has been a director of Neuren Pharmaceuticals, of a drug discovery company Phylogica in Perth Australia, and of Adherium - a medical device company. He is currently Chief Medical Officer of Ferghana Partners, an investment bank in the health care space in New York and London.

Doug has a medical degree from New Zealand, is a Fellow of the Royal Australian College of Physicians, a Fellow of the College of Pathologists of Australia and has a PhD from the University of London.

MANAGEMENT TEAM

/ Malcom Tubby

CHIEF FINANCIAL OFFICER

Malcolm is a qualified Chartered Accountant in the United Kingdom and New Zealand with a wealth of senior corporate governance expertise in the commerce sector including roles in significant public companies as Chief Financial Officer. He has experience in senior positions in public and private companies in pharmaceuticals, beverages, insurance and aged care facilities in Australia and New Zealand. Malcolm has been involved in the AFT board since its foundation. Malcolm is also the CFO for AFT Pharmaceuticals.

/ Ioana Stanescu

HEAD OF DRUG DEVELOPMENT

Ioana has overall responsibility for the research & development functions of the company. She has more than 20 years' experience in the pharmaceutical industry with previous positions, including VP QA & Regulatory Affairs, Head of Vaccine Business Area at FIT Biotech Ltd, and a World Health Organisation adviser performing institutional assessments of National Regulatory Authorities within Central and Eastern Europe. She has coordinated a variety of European FP6 and FP7 funded research grants. In 1999 she was selected as an Expert by the European Health Committee - Council of Europe to participate in the coordinated research study of viral inactivation of labile blood products. She is also a Member of the European QP Association.

/ Vladimir Illievski

REGULATORY AFFAIRS MANAGER

Vladimir was born and raised in Macedonia. He holds a master's degree in Pharmacy from the University of Ljubljana, Slovenia, where he started his career as a pre-clinical researcher before moving to New Zealand. Prior to joining AFT Pharmaceuticals, Vladimir worked for Douglas Pharmaceuticals in various roles including as QC and QA analyst and regulatory/senior regulatory associate. He joined AFT Pharmaceuticals in 2006 as Regulatory Affairs Manager. Vladimir has responsibility for product registrations in various countries such as New Zealand, Australia, South-East Asia (Malaysia, Singapore, Hong Kong, Philippines) as well as the European Union and USA.

/ Louise Clayton

DIRECTOR INTERNATIONAL BUSINESS

Louise has worked with brands within the supplement, OTC, Health, and Beauty Channels. Her experience has given her the opportunity to drive international brands through a variety of management roles encompassing sales, brand marketing, product sourcing/new product development, and new market expansion. She has over 20 years' functional experience with International business, key accounts, sales and marketing teams, with a core focus on brand growth and development within local and International markets such as Australia, US, Asia, UK, and ROW.

/ Calvin Mackenzie

GENERAL MANAGER AUSTRALIA

Calvin joined AFT in February 2010 and has since led AFT's Australian team and is responsible for AFT's business in Australia. Calvin has over 20 years' experience in the pharmaceutical industry in a diverse range of roles with a pharmacy, medical and specialist focus for brand originator and generic companies including Johnson & Johnson, Janssen Cilag, Arrow and Sigma. Calvin has significant experience in building high-performing sales teams.

/ Scott Crawford

GENERAL MANAGER – PROMOTED PRODUCTS AUSTRALASIA & SOUTHEAST ASIA

Scott joined AFT in March 2013 and is responsible for the OTC sales in New Zealand across all retail channels including pharmacy, supermarkets and petrol & convenience. His role involves the account management, field supervision and trade marketing. Scott has over 20 years' experience in fast-moving consumer goods in both Australia and New Zealand and has previously held roles with Red Bull and Ferrero Rocher.

/ Murray Keith

GROUP MARKETING MANAGER

Murray joined AFT in October 2011 and has since been responsible for managing the marketing function of AFT, with a primary focus on the Australian and New Zealand markets. His extensive marketing career prior to joining AFT includes roles within Nestlé, Lion Nathan, Bay of Plenty Rugby, Nestlé Purina, New Zealand Lotteries and Fonterra Brands (Tip Top).

Corporate Governance

The Board and management of AFT Pharmaceuticals Limited (AFT or the Company) are committed to ensuring that AFT maintains corporate governance practices in line with best practice and adheres to the highest ethical standards.

The Board has had regard to the NZX Listing Rules and a number of corporate governance recommendations when establishing its governance framework, including the Third Edition of the Australian Securities Exchange (ASX) Corporate Governance Council Principles and Recommendations (notwithstanding AFT is not required to follow these recommendations due to its ASX Foreign Exempt Listing) and the revised NZX Corporate Governance Code 1 January 2019 (NZX Code).

The NZX Listing Rules require AFT to formally report its compliance against the recommendations contained in the NZX Code. How AFT has implemented these recommendations is set out in AFT's Corporate Governance Statement. The Board considers that AFT's corporate governance structures, practices and processes have followed all of the recommendations in the NZX Code in the financial year to 31 March 2019.

AFT's Corporate Governance Statement and governance charters and policies can be found on the investor centre of the Company's website – investors.aftpharm.com/Investors/. AFT's corporate governance charters and policies have been approved by the Board and are regularly reviewed by the Board and amended (as appropriate) to reflect developments in corporate governance practices.

Stock Exchange Listings

AFT is listed on the New Zealand stock exchange (NZX Main Board) and on the Australian stock exchange (ASX) as an ASX Foreign Exempt Listing. As an ASX Foreign Exempt Listing, AFT needs to comply with the NZX Listing Rules (other than as waived by NZX) but does not need to comply with the vast majority of the ASX Listing Rule obligations.

AFT is incorporated in New Zealand.

Towards sustainability

AFT is strongly committed to sustainability and contributing positively to the development of the world, and we've continued to demonstrate this commitment over the last year.

The table (below) details our initiatives in relation to the Sustainable Development Goals (SDGs) as the SDGs are a way to see how our community initiatives relate to a larger vision for positive change. To assist with understanding how these initiatives align with our business, we have organised them under three areas of focus, Innovate, Respect, and Perform.

On the following pages are just a few examples of how we deliver on these initiatives in our day-to-day business.

Innovate

Providing medicines for a diverse range of patients

- 29 AFT products on the World Health Organisation Model list of essential medicines
- Products range from juvenile- to aged-specific
- Products distributed for use in hospitals, prescription and general medicines

3 GOOD HEALTH AND WELL-BEING · 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH · 11 SUSTAINABLE CITIES AND COMMUNITIES

Innovating medicines to improve the health of our end customers

- Developing products that we genuinely believe will improve the health of our end customers.
- Repurposing existing approved pharmaceuticals to minimise risk to user of our products
- Innovating new delivery methods for improved delivery of medication. For example, via the development of the *NasoSURF*.

3 GOOD HEALTH AND WELL-BEING · 8 DECENT WORK AND ECONOMIC GROWTH · 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Providing medicines solutions for under-privileged or under-represented groups

- Making medicines available for rare diseases, designated with orphan status under the US Food and Drug Administration.
- Donate medicines to under-privileged groups, such as patients in the Pacific Islands.
- Work with government agencies to make specific medicines available to under-privileged groups.

3 GOOD HEALTH AND WELL-BEING · 5 GENDER EQUALITY · 10 REDUCED INEQUALITIES

Respect

Being a trustworthy partner

- All of our critical product suppliers have been risk assessed.
- 20 or so partnerships in Pharmaceuticals

16 PEACE, JUSTICE AND STRONG INSTITUTIONS · 17 PARTNERSHIPS FOR THE GOALS

Providing a great work place

- Diversity in the workplace with 21 cultures represented amongst the staff of 88
- 58% of staff are female with 40% of senior executives female

4 QUALITY EDUCATION · 5 GENDER EQUALITY

Protecting the environment

- Donating product that would otherwise be wasted to charity organisations
- Working with suppliers (within regulatory guidelines) to reduce packaging or use eco-packaging, wherever possible while preserving the integrity of the product

6 CLEAN WATER AND SANITATION · 7 AFFORDABLE AND CLEAN ENERGY · 13 CLIMATE ACTION

Perform

Delivering continued growth

- 16% growth in underlying operating revenues
- Return to profitability

8 DECENT WORK AND ECONOMIC GROWTH · 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Local and global community support

/ Bringing hope and health to disadvantaged people in Australia and Vietnam

AFT was approached by Dr Nguyen Nguyen, the WA Representative on behalf of the AusViet Charity Foundation. This foundation is a non-profit charity established in 2015 by a number of Australian professionals who want to serve the community by bringing hope and health to disadvantaged people in Australia and Vietnam.

Their mission goals are:

- Support Australian communities especially during major disasters,
- Provide assistance in Vietnam during natural disasters,
- Provide health education to Vietnamese people, and
- One annual charity trip to Vietnam to provide medical and dental care and humanitarian aid to disadvantaged villages.

Their annual Vietnam mission trip takes place in July-August of each year and in 2018 they went to Tra Cu (about 150km south of Ho Chi Minh City) in southern Vietnam. The population of Tra Cu is about 200 000, and over 80% of families are classified as poor.

While there, they:

- Conducted **1,000** general medical examinations, which included providing education, doing basic investigations such as blood tests and ultrasounds, distribution of medications where appropriate and referrals where necessary.
- Conducted **1,000** dental assessments, mainly on children and provided dental care, education and treatment where possible.
- Performed **100** cataract surgeries to restore vision.
- Distributed **1,000** school gift packs for poor children, which included notebooks, pens, carry bags and other stationary.
- Distributed **300** food parcels for poor families in the region.

All these services were provided completely free and were carried out by qualified Australian health professionals in collaboration with local Vietnamese health professionals.

AFT supplied them with the following products:

50
ALLERSOOTH TABLET PACKS

200
CANDACORT CREAM TUBES

5,000
LAX-TAB TABLETS

18,000
FERRO-TAB TABLETS

60,000
CALCI-TAB TABLETS

/ AFT Pharmaceuticals & Les Mills 21 Day Challenge

At AFT we recognise the benefits that something as simple as daily exercise can have.

Being physically active helps to fight fatigue, reduce stress levels, boost mood and self-confidence, improve productivity and general health. We teamed up with Les Mills and encouraged our employees to participate in daily exercise by participating in a 21-day challenge.

Employees who participated were put through an introductory personal training session, along with a BMI (body mass index) test as a starting point to base their goals for the next 21 days.

We encouraged each other with incentives and had weekly Group updates to go over each person's progress and for a bit of competition, who was leading in the challenges set with Les Mills.

We found that the event sparked new conversations amongst employees, encouraging friendly competition and motivation to participate in daily exercise throughout the office.

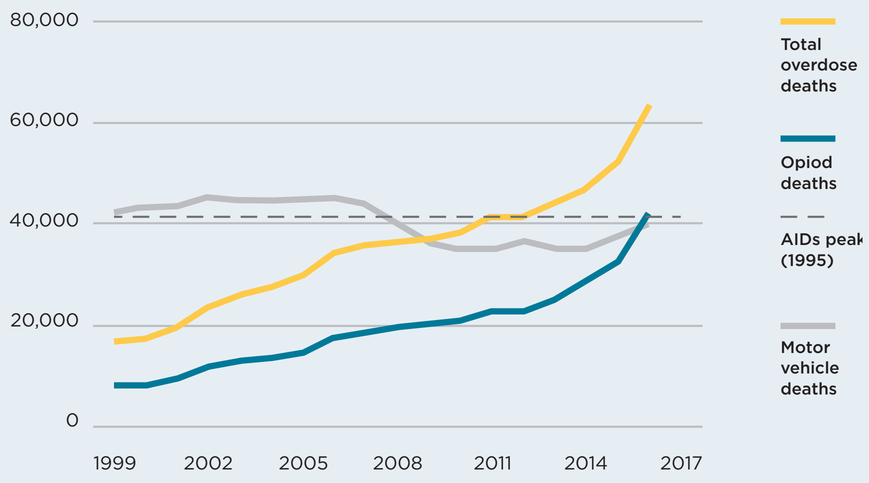
AFT team setting goals for the Les Mills 21-day challenge

/ ESG Opioid Crisis

Concern is building around world, but especially in the United States, about the overuse of prescription opioid medicines. The death rates in the US resulting from opioid overdose has now exceeded the peak death rate at the height of the AIDs epidemic [Source US National Center for Health Statistics].

A key problem is that patients start on opioids in hospital and are then discharged with an outpatient script leading to addiction problems in a proportion of patients. *Maxigesic* IV and tablets offer an alternative non opioid analgesic thereby creating new options for post-operative pain management.

Locally in Australia and New Zealand the epidemic has turned attention on OTC codeine formulations. Again *Maxigesic* offers a good alternative to codeine analgesics.



Source: US National Center for Health Statistics, CDC Wonder

/ Kiwis Thinking About Health (KTAH) and Maxigesic

AFT New Zealand have selected three worthy local charities to support that will make a significant impact to their make needed services.

The charities are:

- **HeartKids**
- **Lifeline**
- **Look Good Feel Better**

Over the six months February to July 2019, AFT is donating $1 from each *Maxigesic* and *Maxigesic PE* purchased from a participating Pharmacy in New Zealand. The shopper receives a $1 token with each purchase and gets to choose 1 of the 3 charities to receive the donation.

To date, we have over 600 out of the 950 New Zealand pharmacies supporting this activity and the funds raised for charity will be announced in August 2019.

2019 Financial Statements

Contents

Deloitte.

Independent Auditor's Report

To the Shareholders of AFT Pharmaceuticals Limited

Opinion

We have audited the consolidated financial statements of AFT Pharmaceuticals Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2019, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 35 to 64, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Material uncertainty related to going concern

We draw attention to the going concern disclosure in note 1(b) of the financial statements, which indicates there is a material uncertainty concerning the Group's ability to repay its existing interest bearing liabilities which mature on 31 March 2020. Note 1(b) sets out the Group's plans to repay these interest bearing liabilities through a combination of new financing, generating sufficient operating cash flows and potentially also raising additional funds from issuing new shares. As stated in note 1(b), these events or conditions, along with other matters as set forth in note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $1 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Research and development costs As disclosed in notes 7 and 13 and the related accounting policies set out in note 4(i) and 4(w), the Group is involved in the research and development of new products and variants of existing products. During the year ended 31 March 2019, product research and development costs of $2.366 million were incurred. Of this total, $0.914 million was expensed through profit or loss and $1.452 million has been capitalised as intangible assets. Judgement is required in assessing whether research and development costs for each project should be capitalised or expensed in accordance with the relevant financial reporting framework. A key consideration that impacts whether costs should be capitalised is the technical feasibility of completing the development of a new product, which generally includes demonstrating approval of the product by the relevant market regulatory authority. We consider this to be key audit matter because of the level of judgment involved in considering whether it is appropriate to capitalise these costs.	In performing our procedures we: a) understood management's processes and controls to assess the appropriate accounting treatment for each project; b) determined whether the Group's accounting policies are consistent with requirements of the relevant accounting standards; c) obtained an analysis from management as to the status of each individual project and corroborated with operational management; d) tested a sample of costs expensed to supporting documentation to verify the amounts being expensed and the status of the project; e) considered whether the costs tested as part of our sample in (d) should have been capitalised; f) tested a sample of costs capitalised to supporting documentation to verify the amounts being capitalised and the status of the project; g) considered whether the expenses tested as part of our sample in (f) should have been expensed; h) challenged whether management's treatment of the costs is appropriate.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Jason Stachurski, Partner
for Deloitte Limited
Auckland, New Zealand
21 May 2019

This audit report relates to the consolidated financial statements of AFT Pharmaceuticals Limited (the 'Company') for the year ended 31 March 2019 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 21 May 2019 to confirm the information included in the audited consolidated financial statements presented on this website.

Consolidated Income Statement

For the year ended 31 March 2019

$NZ000's	Note	2019	2018
Revenue	5	85,127	81,176
Cost of sales		(44,397)	(45,880)
Gross profit		**40,730**	**35,296**
Other income	6	2,237	1,130
Selling and distribution expenses	7(a)	(26,540)	(28,533)
General and administrative expenses	7(a)	(7,202)	(8,308)
Research and development expenses	7(a)	(2,588)	(8,230)
Equity accounted loss of joint venture entity	14(b)	(521)	(1,494)
Operating profit/(loss)		**6,116**	**(10,139)**
Finance income		42	125
Interest expense	7(a)	(5,394)	(3,496)
Other finance costs	7(a)	(3,023)	844
Loss before tax	7(a)	**(2,259)**	**(12,666)**
Tax expense	8(a)	(168)	(58)
Loss after tax attributable to owners of the parent		**(2,427)**	**(12,724)**
Basic and diluted loss per share ($)	26	(0.03)	(0.14)

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

$NZ000's	2019	2018
Loss after tax	**(2,427)**	**(12,724)**
Other comprehensive income		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	101	74
Other comprehensive income for the year, net of tax	**101**	**74**
Total comprehensive loss for the year attributable to owners of the parent	**(2,326)**	**(12,650)**

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

$NZ000's	Note	Share capital	Redeemable preference shares reserve	Share options reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance at 31 March 2017		**62,944**	**-**	**295**	**256**	**(44,025)**	**19,470**
Loss after tax		-	-	-	-	(12,724)	(12,724)
Other comprehensive income		-	-	-	74	-	74
Total comprehensive income		-	-	-	74	(12,724)	(12,650)
Preference dividends accumulated	27	-	483	-	-	-	483
Issue of share capital		1,065	-	-	-	-	1,065
Movement in share options reserve		-	-	135	-	-	135
Capital raising expenses	18	(266)	-	-	-	-	(266)
Preference dividends paid or accumulated	27	-	-	-	-	(895)	(895)
Balance at 31 March 2018		**63,743**	**483**	**430**	**330**	**(57,644)**	**7,342**
Loss after tax		-	-	-	-	(2,427)	(2,427)
Other comprehensive income		-	-	-	101	-	101
Total comprehensive income		**-**	**-**	**-**	**101**	**(2,427)**	**(2,326)**
Preference dividends accumulated	27	-	758	-	-	-	758
Movement in share options reserve		-	-	252	-	-	252
Preference dividends paid or accumulated	27	-	-	-	-	(935)	(935)
Balance at 31 March 2019		**63,743**	**1,241**	**682**	**431**	**(61,006)**	**5,091**

Consolidated Balance Sheet

As at 31 March 2019

$NZ000's	Note	2019	2018
Assets			
Current assets			
Inventories	9	25,158	24,412
Trade and other receivables	10	19,187	16,954
Cash and cash equivalents	11	6,916	6,770
Derivative assets	21	-	176
Total current assets		**51,261**	**48,312**
Non-current assets			
Property, plant and equipment	12	357	330
Intangible assets	13	8,239	5,118
Deferred income tax assets	8	705	708
Investment in joint venture entity	14(b)	3,033	2,135
Total non-current assets		**12,334**	**8,291**
Total assets		**63,595**	**56,603**
Liabilities			
Current liabilities			
Trade and other payables	15	15,098	17,391
Provisions	16	1,270	1,098
Current income tax liability		145	118
Derivative liabilities	21	241	-
Interest bearing liabilities	17	41,750	-
Total current liabilities		**58,504**	**18,607**
Non-current liabilities			
Interest bearing liabilities	17	-	30,654
Total liabilities		**58,504**	**49,261**
Equity			
Share capital	18	63,743	63,743
Retained earnings		(61,006)	(57,644)
Share options reserve	20(b)	682	430
Redeemable preference shares reserve		1,241	483
Foreign currency translation reserve		431	330
Total equity		**5,091**	**7,342**
Total liabilities and equity		**63,595**	**56,603**
Net tangible assets per ordinary share		$0.03	$0.02

For and on behalf of the Board who authorised these financial statements for issue on 21 May 2019.

David Flacks
Chairman

Hartley Atkinson
Managing Director and
Chief Executive Officer

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

$NZ000's	Note	2019	Restated 2018
Cash flows from Operating Activities			
Receipts from customers		84,131	79,278
Payments to suppliers and employees		(82,915)	(88,296)
Tax (paid)/received		(149)	(149)
Net cash generated from/(used in) operating activities	19	**1,067**	**(9,167)**
Cash flows from Investing Activities			
Purchases of property, plant and equipment		(140)	(70)
Purchases of intangible assets		(3,325)	(2,783)
Investment in joint venture		(1,419)	(3,002)
Net cash used in investing activities		**(4,884)**	**(5,855)**
Cash flows from Financing Activities			
Proceeds from issue of share capital		-	1,065
Share issue costs		-	(188)
Dividends paid		(134)	(412)
New borrowings	17	7,417	7,135
Interest received		42	125
Interest and finance costs paid*		(3,602)	(1,862)
Net cash generated from financing activities		**3,723**	**5,863**
Net decrease in cash		(94)	(9,159)
Impact of foreign exchange on cash and cash equivalents		240	24
Opening cash and cash equivalents		6,770	15,905
Closing cash and cash equivalents		**6,916**	**6,770**

*Interest and financing costs paid and interest received, which were previously shown as operating activities, have been presented as Financing activities on a basis consistent with Operating profit in the Consolidated Income Statement (refer also note 19).

Notes to the Financial Statements

For the year ended 31 March 2019

1. (a) General information

AFT Pharmaceuticals Limited (the "Company") is a company that is incorporated and domiciled in New Zealand. It is registered under the Companies Act 1993. These financial statements comprise AFT Pharmaceuticals Limited and its subsidiaries (together referred to as the "Group"). The Group is a pharmaceutical distributor and developer of pharmaceutical intellectual property.

The Company is a FMC reporting entity under the Financial Markets Conduct Act 2013.

The financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. As Group financial statements are prepared and presented for AFT Pharmaceuticals Limited and its subsidiaries, separate financial statements for AFT Pharmaceuticals Limited are not required to be prepared under the Companies Act 1993.

These financial statements are authorised for issue on 21 May 2019 by the Directors.

1. (b) Going concern assumption

At 31 March 2019, the Group has an interest bearing loan from CRG of $41.7m ($30.7m at 31 March 2018) and held a cash balance of $6.9m ($6.8m as at 31 March 2018). The movement in the loan during the year came from a draw down of USD$5m, capitalised interest of $1.7m and the balance from movement in foreign currency exchange rates.

The Group generated an operating profit for the year ended 31 March 2019 of $6.1m, of which the second half of the year generated $6.2m (operating loss for the year ended 31 March 2018 of $10.1m) and a net operating cash inflow for the year ended 31 March 2019 of $1.1m, of which the second half of the year generated an inflow of $3.2m (net operating cash outflow for the 12 months ended 31 March 2018 of $9.2m).

The CRG loan is due for repayment in full on 31 March 2020 (refer to note 17).

The Directors have a reasonable expectation that the Group will be in a position to repay this loan on or before 31 March 2020 from a combination of positive operating cash flows, refinancing from debt market sources and issuance of new equity, if required. Accordingly, the Directors have adopted the going concern assumption for the purposes of the preparation of these financial statements. The Directors are conscious that their reasonable expectations are based on what they consider to be the likely outcomes of these future events and for this reason they consider that a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern and therefore may result in the Group's inability to realise its assets and settle its liabilities in the normal course of business.

Positive operating cash flows

The Directors have approved internal forecasts for the two financial years through to 31 March 2021, considered achievability of the assumptions under these forecasts, tested for sensitivity, reviewed the existing working capital against Group requirements and considered forecast compliance with applicable and anticipated debt covenants. The forecasts for both financial years 2020 and 2021 indicate the continuation of positive operating cash flow surpluses and a return to profit after tax. The key revenue assumptions, which like all assumptions, are subject to a degree of uncertainty are:

- the launch of *Maxigesic* into further new licensed markets. It is currently sold in 20 countries and there are currently confirmed orders for a further nine countries. It is licensed for 128 countries.
- the continued sales growth for the Group's range of products in Australia and in particular *Maxigesic* due to the re-scheduling of codeine-based painkillers from over-the-counter to prescription only from 1 February 2018 (*Maxigesic* is codeine-free and is therefore exempt and remains available over-the-counter).

In addition, the Group is confident of its ability to execute further licensing agreements and to generate future international revenues for the key innovative products: *Maxigesic*, *Pascomer* and *NasoSurf*. Given the uncertainty on the timing of these, they have not been included in the forecast assumptions other than for a small amount of upfront license income for *Maxigesic*.

Refinancing from debt market sources

The Group expect to have a new long-term facility in place with a local commercial bank prior to 31 March 2020 which, together with the positive operating cash flow surpluses, will enable full repayment of the CRG loan on 31 March 2020. The Group is currently in discussion with two local commercial banks.

As an interim step towards this and in order to reduce the cost of interest, the Group has on 21 May 2019 established a $15m interim facility, which matures on 31 March 2020, from the Bank of New Zealand utilising the existing security arrangements and will be used to repay US$9.5m of the CRG loan.

Issuance of new equity

The Directors are confident that, having raised capital most recently in May 2017, new capital could be accessed through the Company's listing on NZX and ASX, if required.

2. Adoption of new and revised standards

New and amended NZ IFRS Standards that are effective for the current year.

(a) Impact of initial application of NZ IFRS 9 Financial Instruments

In the current year, the Group has applied NZ IFRS 9 Financial Instruments (as revised in 2014) and the related consequential amendments to other NZ IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of NZ IFRS 9 allow an entity not to restate comparatives. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments. Additionally, the Group adopted consequential amendments to NZ IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019 and to the comparative period.

NZ IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,

2) Impairment of financial assets, and

3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied NZ IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(i) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of NZ IFRS 9) is 1 April 2018. Accordingly, the Group has applied the requirements of NZ IFRS 9 to instruments that continue to be recognised as at 1 April 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018.

All recognised financial assets that are within the scope of NZ IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

(ii) Impairment of financial assets

NZ IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances (refer note 4(n)).

The application of NZ IFRS 9 has had no material impact on the measurement of the Group's financial assets.

(iii) Classification and measurement of financial liabilities

The application of NZ IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

(iv) General hedge accounting

The application of the NZ IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

2. Adoption of new and revised standards (continued)

(b) Impact of application of NZ IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied NZ IFRS 15 Revenue from Contracts with Customers (as amended in May 2016) which is effective for an annual period that begins on or after 1 January 2018. NZ IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in NZ IFRS 15 to deal with specific scenarios.

The Group has applied NZ IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in NZ IFRS 15:C5(a), and (b), or for modified contracts in NZ IFRS 15:C5(c) but using the expedient in NZ IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 April 2018.

The Group's accounting policies for its revenue streams are disclosed in detail in note 4 below. Apart from reclassifying the Group's revenue transactions, the application of NZ IFRS 15 has not had an impact on the financial position and/or financial performance of the Group. The amount, after reclassification, of each financial statement line item affected by the application of NZ IFRS 15 is illustrated below.

$NZ000's	2019	2018
Revenue from sale of goods	83,649	79,882
Revenue from royalties	255	189
Revenue from licensing income	1,223	1,105*
Total revenue	**85,127**	**81,176**
Research and development grant	378	409
Other income	1,859	721
Total other income	**2,237**	**1,130**

* This was included in Other income in the FY2018 Financial Statements.

3. New and revised NZ IFRS standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied a number of the new and revised NZ IFRS Standards that have been issued but are not yet effective.

The Directors do not expect that the adoption of these Standards will have a material impact on the financial statements of the Group in future periods, except as noted below:

NZ IFRS 16 leases

General impact of application of NZ IFRS 16 leases

NZ IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. NZ IFRS 16 will supersede the current lease guidance including NZ IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of NZ IFRS 16 for the Group will be 1 April 2019. The Group has chosen not to adopt the full retrospective application of NZ IFRS 16 in accordance with NZ IFRS 16:C5(a). Consequently, the Group will not restate the comparative information.

In contrast to lessee accounting, NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to NZ IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with NZ IAS 17 and NZ IFRIC 4 will continue to apply to those contracts entered or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. NZ IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

– The right to obtain substantially all of the economic benefits from the use of an identified asset; and

– The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in NZ IFRS 16 to all contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract).

In preparation for the first-time application of NZ IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in NZ IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting operating leases

NZ IFRS 16 will change how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off-balance sheet.

On initial application of NZ IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under NZ IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under NZ IFRS 16, right-of-use assets will be tested for impairment in accordance with NZ IAS 36 Impairment of Assets.

This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by NZ IFRS 16. As at 31 March 2019, the Group has non-cancellable operating lease commitments of $3.2m.

A preliminary assessment indicates that all of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group expects to recognise a right-of-use asset and a corresponding lease liability in respect of all these leases. The impact on profit or loss is to decrease selling and distribution expenses and to increase general administrative and interest expenses. Lease liability incentives of $0.1m previously recognised in respect of the operating leases will be derecognised and the amount factored into the measurement of the right-to-use assets and lease liabilities.

Under NZ IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under NZ IFRS 16 would be to increase the cash generated by operating activities and to increase net cash used in financing activities by the same amount.

4. Statement of accounting policies

The financial statements have been prepared under the historical cost convention with the exception of derivative instruments revalued to fair value.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS), and interpretations issued by the IFRS Interpretations Committee (IFRIC) applicable to companies reporting under NZ IFRS.

The accounting policies presented below have been applied consistently to all periods presented in these consolidated financial statements, except that certain items in the Financial Statements have been reclassified as set out in note 2(b) and on the face of the statement of cash flows.

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities and the results of the parent and its subsidiaries controlled during the period.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

4. Statement of accounting policies (continued)

The acquisition method of accounting is used to account for the subsidiaries of the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Joint venture

Where the Company has joint control in a joint venture, the principles of equity accounting are adopted. In these cases, the Company's investment is recognised in the balance sheet and its share of after tax profits less losses of the joint venture are recognised in the profit and loss, with the value of the Company's investment carrying value adjusted accordingly.

(c) Critical accounting estimates and judgements

In preparing these financial statements the Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The treatment of research and development costs (detailed within notes 4(i) and 13), and the appropriateness of the Going Concern assumption (refer to note 1(b)) are considered critical estimates and judgements.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(iii) Foreign operations

The results and balance sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions.
- exchange differences arising are recognised in other comprehensive income and accumulated in equity.

(e) Revenue recognition

Revenue comprises the fair value for:

- the sale of goods, excluding Goods and Services Tax, rebates and discounts, which are recognised when control of the product is transferred to the customer
- royalties owing on licensees' sale of product which are recognised when licensee has sold the product;
- licence income, which is recognised when the Company has completed substantially all of its obligations under the licensing agreement and through until the expected finalisation of the event. The Company's obligations are a) the provision of territorial rights to the Company's intellectual property and b) the provision and support of the documentation required to enable registration of the product in the territory.

(f) Other income recognition

Other income comprises research and development grant and other income:

- Research and development grant

  Research and development grant income is recognised when eligible research and development expenses are incurred and conditions relating to the grant are satisfied.

(g) Finance income recognition

Finance income comprises interest income that is recognised on a time-proportion basis using the effective interest method.

(h) Property, plant and equipment

All plant and equipment is stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the diminishing value method which apportions the cost of the assets over their useful lives. The Group has the following classes of property, plant and equipment and depreciation rates:

Category	Depreciation rate (%)
Plant and machinery	21% to 80%
Furniture and fixtures	9% to 60%
Vehicles	26% to 36%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds to carrying amounts and are included in the income statement.

(i) Intangible assets

Capitalised development costs and capitalised registration costs

Development and registration projects are regularly reviewed throughout the year by a staff committee comprising the CEO, CFO, GM Development and Financial Controller. The status of each project is measured against the requirements of NZ IAS 38 and the relevant costs incurred during the financial year are capitalised where projects meet those criteria. The criteria considered in this assessment are:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) the Group's intention to complete the intangible asset and use or sell it.

(c) the Group's ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) the Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Finite useful life

Acquired patents, capitalised development costs, capitalised registration costs and software have a finite life and are carried at cost less accumulated amortisation. Patents are amortised over a useful economic life of 20 years, capitalised development costs and capitalised registration costs over the period of expected benefit, and software over 3 – 4 years.

Indefinite useful life

Acquired trademarks are considered to have an indefinite useful life while they continue to protect revenue streams. Trademarks are carried at cost less accumulated impairment. Indefinite useful life assets are tested for impairment annually or when impairment indicators exist. The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

4. Statement of accounting policies (continued)

(j) Goods and services tax (GST)

The income statement and the statement of comprehensive income have been prepared so that all components are stated exclusive of New Zealand, Australian and Malaysian GST. Malaysia ceased to impose GST during the reporting period. All items in the balance sheet are stated net of GST, with the exception of accounts receivable and payable which include GST invoiced. All components of the statement of cash flows are stated exclusive of GST.

(k) Income tax

The income tax expense recognised for the period is based on the accounting profit or loss, adjusted for non-taxable and non-deductible differences.

Current tax is calculated by reference to the amount of income tax payable calculated using tax laws that are enacted or substantively enacted at balance date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset or liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Leased assets

Operating leases are those in which all the risks and rewards are substantially retained by the lessor. Lease payments are charged in the income statement on a straight line basis over the term of the lease.

(n) Trade receivables

The Group has applied the simplified approach to providing for expected credit losses, which requires the recognition of a lifetime expected loss provision for trade and other receivables. NZ IFRS 9 now requires the Group to consider future potential credit losses and consider items such as forecasted economic conditions. Nevertheless the Group does not expect any significant expected credit losses due to the nature of the distribution and regulatory licensing structure of the industry.

(o) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. These amounts are incurred and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value plus transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs are expensed as incurred.

(q) Share capital

Ordinary shares and Redeemable Preference shares are classified as equity.

(r) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(s) Employee entitlements

Liabilities for wages and salaries, including non monetary benefits and annual leave, expected to be settled within 12 months of the reporting date are recognised in trade payables or provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements that are not expected to be settled within 12 months is carried at the present value of estimated future cash flows.

(t) Share based payments

The Company has a share option plan for employees of the Group. In accordance with the terms of the plan, as approved by the Directors at meetings, employees at the time of the Company's initial NZX and ASX listing in December 2015 and again in June 2018 were granted share purchase options.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights.

Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the performance-based formula approved by the Directors at previous board meetings.

The formula rewards employees to the extent of the Group's and the individual's achievement judged against both qualitative and quantitative criteria including the following financial and operational measures:

- market share
- net profit
- target sales thresholds
- product registration and licensing targets

Staff share options are valued at fair value at the grant date as calculated independently using the Black Scholes model (refer note 20(b)).

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity- settled employee benefits reserve.

(u) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Indefinite useful life assets are tested for impairment annually and whenever there are indicators of impairment while finite useful life assets are tested only when there are indicators of impairment.

(v) Derivative financial instruments

The Group benefits from the use of derivative financial instruments to manage foreign currency exposures. The fair value of forward exchange contracts is calculated using discounted cash flows by reference to contractual exchange rates for contracts in place and the forward exchange rate at year-end, considered level 2 of the fair value hierarchy.

(w) Research and development

Research is the original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. This includes: direct and overhead expenses for research, pre-clinical trials and costs associated with clinical trial activities. All research costs are expensed when incurred.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

Development is the application of research findings to a plan or design for the production of new or substantially improved processes or products prior to the commencement of commercial production. When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, expenditure that is directly attributable or reasonably allocated to that project is recognised as a development asset. The asset will be amortised from the date of commencement of commercial production of the product to which it relates on a straight line basis over the life of the relevant patent or period of expected benefit. Development assets are reviewed annually for any impairment in their carrying value.

(x) Earnings per share

Basic earnings per share is computed by dividing net earnings (after Preference dividends) by the weighted average number of ordinary shares outstanding during each period.

5. Revenue from operations

$NZ000's	2019	2018
Sale of goods	83,649	79,882
Royalty income	255	189
Licensing income	1,223	1,105
Total revenue	**85,127**	**81,176**

FY2018 Licensing income has been reclassified from Other income as they represent revenues from contracts with customers consistent with NZ IFRS 15.

6. Other income

$NZ000's	2019	2018
Research and development grant	378	409
Other income	1,859	721
Total other income	**2,237**	**1,130**

7(a). Net operating profit

$NZ000's	Note	2019	2018
(Loss) before tax		**(2,259)**	**(12,666)**
After charging the following specific expenses:			
Finished goods material component of cost of goods sold		43,272	45,404
Inventory write off		1,125	476
Audit fees and review of financial statements	7(b)	156	193
Rental expense – premises		580	528
Operating leases – motor vehicles and equipment		463	450
Share options expense		252	135
Short-term employee emoluments:			
Selling and distribution expenses		7,184	6,683
General and administrative expenses		1,929	1,899
Research and development expenses		1,540	1,282
		10,653	9,864
Research and development expenses:			
Product development		914	6,521
New market development		1,674	1,709
		2,588	8,230
Depreciation:			
Plant and machinery		82	88
Furniture and fixtures		25	27
Vehicles		8	11
		115	126
Amortisation (included in General and Administration expenses):			
Patents		128	115
Software		54	99
Development costs		22	-
		204	214
Finance costs:			
Interest		5,394	3,496
Foreign exchange losses/(gains)		2,624	(438)
Derivative losses/(gains)		417	(380)
Other financing costs/(gains)		(18)	(26)
		8,417	2,652

7(b). Fees paid to auditors

$NZ000's	2019	2018
Audit of financial statements		
Audit of annual financial statements	131	129
Review of half year financial statements	25	64
Total fees for audit and review services	**156**	**193**
Other services		
Tax due diligence services – Deloitte	19	19
Other services	15	-
Total fees paid to auditors	**190**	**212**
Deloitte	190	148
PwC	-	64

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

8. Income tax

$NZ000's	2019	2018
(a) Tax expense		
Loss before tax	**(2,259)**	**(12,666)**
Tax calculated at domestic tax rates applicable	(630)	(1,862)
Expenses not deductible	82	43
Tax losses recognised	546	2,323
Previous year losses now utilised	-	(603)
Non resident withholding tax	170	160
Prior year adjustment	-	(3)
Tax expense/(benefit)	**168**	**58**
Comprising:		
Current tax	171	(40)
Deferred tax	(3)	98
	168	**58**

$NZ000's	2019	2018
(b) Deferred tax balance		
Deferred tax asset	705	708
	705	**708**

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. As at 31 March 2019, the Group recognised deferred tax assets on temporary differences totalling $705,000 (2018: $708,000) since it was foreseeable that temporary differences could be offset against future taxable profits. On the basis of the approved business plans of subsidiaries, AFT Pharmaceuticals Limited considers it probable that temporary differences can be offset against future taxable profits. There is no expected change in capital structure in the near future which is expected to affect the recoverability of the recognised deferred tax assets.

The movement in deferred tax is:

$NZ000's	Provisions	Recognised tax loses	Total
1 April 2017	**610**	**-**	**610**
Movements	98	-	98
31 March 2018	**708**	**-**	**708**
Movements	(479)	-	(479)
Recognition of losses	-	476	476
31 March 2019	**229**	**476**	**705**

The amount of tax losses carried forward that is available for future utilisation is $54,734,235 (FY2018: $45,964,000. A deferred tax asset of $476,447 has been recognised in relation to these losses.

$000's	2019	2018
(c) Imputation and franking credits available for use		
NZD	-	252
AUD	319	319

9. Inventories

$NZ000's	2019	2018
Finished goods	25,805	25,664
Provision for obsolescence	(647)	(1,252)
	25,158	**24,412**

Inventory on hand comprises pharmaceutical goods ready for resale.
The value of inventory is transferred to cost of sales in the income statement when sold.

10. Trade and other receivables

$NZ000's	2019	2018
Trade receivables	20,775	19,854
Provision for bad debt	(31)	(31)
Less provision for customer rebates	(4,466)	(5,044)
Prepayments	2,909	2,175
	19,187	**16,954**

Ageing of overdue trade debtors

$NZ000's	1-30 Days	31-60 Days	61-90 Days	90+ Days	Total
31 March 2019	3,272	-	6	370	**3,648**
31 March 2018	2,797	433	24	14	**3,268**

All balances are expected to be settled within the next 12 months.

The expected credit loss allowance provision has been determined as follows:

As at 31 March 2019 $NZ000's	Current	+1 Month	>1 Month	Total
Expected loss rate	*	*	0.084%	
Gross Carrying Amount	17,127*	3,272*	376	20,775
Expected credit loss allowance provision				31
Short-term loss allowance provision				0
Long-term loss allowance provision				31

*Expected credit losses are negligible.

The average credit period on sale of goods is 49 days. No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as forecast direction of conditions at the reporting date.

As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

No bad debt expense has been recorded for the current year.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

11. Cash and cash equivalents

$NZ000's	2019	2018
Cash at bank	6,897	6,745
Cash on hand	19	25
Total cash	**6,916**	**6,770**

Cash at bank earns, on average, less than 1% of interest.

12. Property, plant and equipment

$NZ000's	Plant and machinery	Furniture and fixtures	Vehicles	Total
(a) Cost				
Balance 31 March 2017	**798**	**414**	**218**	**1,430**
Additions	43	12	15	70
Disposals	-	-	(32)	(32)
Balance 31 March 2018	**841**	**426**	**201**	**1,468**
Additions	131	9	-	140
Disposals	-	(1)	(27)	(28)
Balance 31 March 2019	**972**	**434**	**174**	**1,580**
(b) Depreciation				
Balance 31 March 2017	**(636)**	**(221)**	**(187)**	**(1,044)**
Depreciation	(88)	(27)	(11)	(126)
Disposals	-	-	32	32
Balance 31 March 2018	**(724)**	**(248)**	**(166)**	**(1,138)**
Depreciation	(82)	(25)	(8)	(115)
Disposals	-	-	30	30
Balance 31 March 2019	**(806)**	**(273)**	**(144)**	**(1,223)**
(c) Carrying amounts				
Balance 31 March 2018	**117**	**178**	**35**	**330**
Balance 31 March 2019	**166**	**161**	**30**	**357**

13. Intangible assets

$NZ000's	Trademarks	Capitalised registration costs	Capitalised development costs	Patents	Software	Total
(a) Cost						
Balance 31 March 2017	**610**	**-**	**-**	**2,173**	**514**	**3,297**
Additions	84	-	2,465	234	1	2,784
Disposals	-	-	-	-	-	-
Balance 31 March 2018	**694**	**-**	**2,465**	**2,407**	**515**	**6,081**
Additions	111	1,430	1,452	315	17	3,325
Disposals	-	-	-	-	-	-
Balance 31 March 2019	**805**	**1,430**	**3,917**	**2,722**	**532**	**9,406**
(b) Amortisation						
Balance 31 March 2017	**-**	**-**	**-**	**(437)**	**(312)**	**(749)**
Amortisation	-	-	-	(115)	(99)	(214)
Disposals	-	-	-	-	-	-
Balance 31 March 2018	**-**	**-**	**-**	**(552)**	**(411)**	**(963)**
Amortisation	-	-	(22)	(128)	(54)	(204)
Disposals	-	-	-	-	-	-
Balance 31 March 2019	**-**	**-**	**(22)**	**(680)**	**(465)**	**(1,167)**
(c) Carrying amounts						
Balance 31 March 2018	**694**	**-**	**2,465**	**1,855**	**104**	**5,118**
Balance 31 March 2019	**805**	**1,430**	**3,895**	**2,042**	**67**	**8,239**

Trademarks are acquired to protect the current and future revenue streams of the Group.
They are considered to have an indefinite useful life while they continue to protect revenue streams.
During the year $1,430,000 of Registration costs were recognised where there is a high likelihood of gaining a registration and generating future revenue.

14(a). Investment in subsidiaries

	Interest held 2019 %	Interest held 2018 %	Country of incorporation	Principal activities
AFT Pharmaceuticals (AU) Pty Ltd	100%	100%	Australia	Distribution of pharmaceuticals in Australia
AFT Pharmaceuticals Singapore Pte Ltd	100%	100%	Singapore	Registration of pharmaceuticals in Singapore
AFT Pharmaceuticals (S.E. Asia) Sdn Bhd	100%	100%	Malaysia	Distribution of pharmaceuticals in Malaysia
AFT Orphan Pharmaceuticals Limited	65%	65%	New Zealand	No activity
AFT Limited Partner Limited	100%	100%	New Zealand	Partner in Dermatology Specialties LP
AFT Dermatology Limited	100%	100%	New Zealand	Distribution of pharmaceuticals

All subsidiaries have a balance date of 31 March.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

14(b). Investment in joint venture partnership

$NZ000's	2019	2018
Interest in joint venture company at cost	5,764	4,345
Accumulated equity accounted earnings/(losses) of joint venture partnership	(2,731)	(2,210)
Net equity investment in joint venture partnership	**3,033**	**2,135**

The joint venture partnership of the Group and its activities are as follows:

	2019 % Interest held	2018 % Interest held
Dermatology Specialties LP (incorporated in New Zealand)	50%	50%

Principal activities: Development and distribution of pharmaceuticals

$NZ000's	2019	2018
Balance at start of year	2,135	627
Investment during the year	1,419	3,002
Share of current year loss	(521)	(1,494)
Dividend received	-	-
Balance at end of year	**3,033**	**2,135**

The following table summarises the financial information relating to the Group's joint venture partnership and represents 100% of the joint venture partnership net assets, revenues and net profits.

$NZ000's	2019	2018
Extracts from joint venture partnership balance sheet (unaudited)		
Current assets	352	-
Non-current assets	2,214	2,189
Current liabilities	(96)	(96)
Non-current liabilities	-	-
Net assets	**2,470**	**2,093**
Extracts from joint venture partnership income statement (unaudited)		
Revenue	-	-
Net loss after taxation	(1,042)	(2,989)

The joint venture did not have any contingent liabilities or capital commitments at balance date (2018: nil).

AFT Pharmaceuticals Limited has contributed cash and assets, whilst the JV partner has contributed intellectual property that is not reflected in the JV accounts.

15. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. These amounts are incurred and are usually paid within 30 days of recognition.

$NZ000's	2019	2018
Trade payables	6,673	7,335
GST payable	884	1,189
Employee entitlements	1,299	932
Other payables	6,242	7,935
	15,098	**17,391**

16. Provisions

$NZ000's	2019	Additional provisions	Utilised	2018	Additional provisions	Utilised	2017
Supplier rebates	1,270	1,270	(1,098)	1,098	1,098	(564)	564
	1,270	**1,270**	**(1,098)**	**1,098**	**1,098**	**(564)**	**564**

Supplier rebates are based on profit sharing arrangements with suppliers which are estimated on achieving expected set margin targets and are expected to be utilised within the next 12 months. These are included as an expense in Cost of sales.

17. Interest bearing liabilities

$NZ000's	2019	2018
CRG loans	41,750	30,654
	41,750	**30,654**

$NZ000's	2019	2018
Opening balance of CRG loan 1 April	**30,654**	**23,426**
Capitalised interest	1,746	1,130
Additional loans drawn down	7,417	7,135
Loss/(gain) on FX translation	1,933	(1,046)
Closing balance 31 March	**41,750**	**30,654**

The term loan agreement with CRG commenced in May 2014 and had a facility draw down of up to USD$30 million by October 2016. USD$15 million was drawn down. Initially this facility was for a six year term with the first four years being interest only, and the principal to be repaid in equal quarterly instalments in years five and six.

In September 2017, a new loan facility of USD$10 million was entered into, which includes a minimum mandatory drawdown of USD$5 million on or before 31 March 2018. This was drawn down in December 2017. The second drawdown for the balance was made in August 2018.

The repayment terms for all facilities were amended in September 2017 to interest only until maturity, and the principal to be repaid in full on 31 March 2020.

The loans have a general security over the assets of the Group together with a group guarantee. Interest is fixed at 13.5% p.a. The loans are denominated in United States dollars (USD) and during the period NZD$1,933,000 (FY2018 gain $1,046,000) was recognised as unrealised foreign exchange losses. The carrying amount of the CRG loans are substantially in line with the fair market value as at balance sheet date.

All covenants relating to the loan and BNZ facility have been complied with during the year (refer note 25).

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

18. Share capital

Ordinary shares and Redeemable preference shares are classified as equity.

	Shares		Shares	
	2019 Number	2018 Number	2019 $'000	2018 $'000
Ordinary share capital	97,308,019	97,308,019	57,058	57,058
Less capital-raising costs	-	-	(2,439)	(2,439)
Redeemable Preference Shares	3,330,000	3,330,000	9,124	9,124
	100,638,019	**100,638,019**	**63,743**	**63,743**

$NZ000's	2019	2018
Share capital at beginning of the year	63,743	62,944
Issue of Ordinary shares	-	1,065
Less capital raising costs	-	(266)
	63,743	**63,743**

The redeemable preference shares, issued in March 2017, attract a dividend of 9.4% accruing quarterly, which may be satisfied in cash either in full or in part or deferred indefinitely at the Company's absolute discretion.

They do not carry any right to vote except at meetings of an 'interest group' of holders of redeemable shares.

They may be redeemed at the option of the Company at any time two years or more after issue. On redemption, the Company would pay the issue price plus unpaid dividends accrued to the date of redemption. The redemption can only be settled in cash.

After three years from issue, they may be converted to ordinary shares at the option of the holder in multiples of 100,000. The holder would receive one ordinary share for every redeemable share held and a number of ordinary shares calculated by dividing the amount of any accumulated dividends by the issue price. Conversion of the redeemable preference shares may only be settled through the issuance of shares. Once the holder has elected to convert, neither the issuer nor the holder can be obligated to settle in any other manner.

Optional conversion events arise if one of a number of conditions occur. These conditions were notified to NZX and ASX at the time of issue of the redeemable preferences shares and are available on the Company website (www.aftpharm.com).

FY2018

In May 2017, a share purchase plan was issued to existing shareholders, who could elect to purchase shares @NZ$2.25 per share (AUD$2.11) which was a 3% discount to the volume weighted average price of an AFT share on the NZX main board for the 5 day period ending on 23 May 2017. Shareholders could subscribe for a minimum of $1,000 and maximum of $15,000 worth of shares at that price. Shareholders subscribed for 473,181 ordinary shares, raising $1,064,657.

19. Reconciliation of loss after tax with net cash flow from operating activities

$NZ000's	2019	Restated 2018
Loss after tax	(2,427)	(12,724)
Non-cash items:		
Depreciation	115	126
Amortisation	204	214
Impact of foreign exchange on cash and cash equivalents	240	24
Share options expense	252	135
Interest and financing expense	5,376	3,025
Unrealised (gain)/loss on foreign currency movements	1,339	(1,070)
Provision for tax	168	(143)
Interest received	(42)	(125)
Share in loss of JV entity	521	1,494
Movement in working capital:		
(Increase)/decrease in inventories	(746)	(2,214)
(Increase)/decrease in trade, other receivables and derivatives	(2,054)	(1,080)
Increase/(decrease) in trade, other payables and derivatives	(1,879)	3,171
Net cash generated from/(used in) operating activities	**1,067**	**(9,167)**

Interest and financing costs and interest received, which were previously shown as operating activities, have been presented as Financing activities on a basis consistent with the Consolidated Income Statement.

20(a). Related parties

The Group had related party relationships with the following entities:

Related party	Nature of relationship
CRG	Shareholder of both ordinary shares and redeemable preference shares
Atkinson Family Trust	Shareholder of both ordinary shares and redeemable preference shares

The following transactions were carried out with these related parties:

(i) Loans

$NZ000's	2019	2018
CRG (refer note 17)	41,750	30,654
Total loan balances	**41,750**	**30,654**

(ii) Interest expense

$NZ000's	2019	2018
CRG	5,238	3,432

(iii) Dividends on redeemable Preference shares

$NZ000's	2019	2018
CRG	726	698
Atkinson Family Trust	209	197

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

20(a). Related parties (continued)

Key management compensation

$NZ000's	2019	2018
Directors fees	292	286
Executive salaries	1,078	1,084
Short-term benefits	190	127
Options expense	126	29
Key management compensation	**1,686**	**1,526**

Key management includes external Directors, the Chief Executive Officer, the Chief of Staff, the Chief Financial Officer and the Director of International Business Development. These positions are mainly responsible for the planning, controlling and directing the activities of the business. The Chief of Staff is the spouse of the Chief Executive Officer.

20(b). Staff share options

Staff share options are exercisable at the price of $2.80 each, being the issue price of a share at the time of the Company's initial listing on NZX and ASX. The vesting period is generally up to four years however this varies according to various performance criteria. Other than in limited circumstances options are forfeited if an employee leaves the Group before the options vest. The options are valued at fair value as calculated independently using the Black Scholes model. The options vest over up to four years from date of issue.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Average exercise price $ per share	Options	Average exercise price $ per share	Options
Balance at beginning of year	2.80	693,312	2.80	850,000
Issued	2.80	525,000	-	-
Forfeited	2.80	(17,668)	2.80	(156,688)
Exercised	-	-	-	-
Lapsed	-	-	-	-
Balance at end of year	**2.80**	**1,200,644**	**2.80**	**693,312**

Weighted average share price for options exercised during the period $nil (2018: $nil).
Of the 1,200,664 outstanding options, 715,664 are currently exercisable (2018: 135,969).

Share options outstanding at the end of the year have the following expiry dates, exercise dates and exercise prices:

Expiry month	Exerciseable month	Exercise price	2019	2018
April 2020	December 2017	2.80	135,969	135,969
April 2020	December 2018	2.80	554,695	557,343
April 2020	March 2019	2.80	25,000	-
June 2022	Various	2.80	485,000	-
Total share options outstanding			**1,200,664**	**693,312**

The weighted average remaining contractual life of options outstanding at the end of the period was 2.5 years (2018: 2 years).

Share options reserve

$NZ000's	2019	2018
Balance at beginning of year	(430)	(295)
Current year amortisation	(252)	(135)
Balance at end of year	**(682)**	**(430)**

No share options were exercised during the reporting period. The options outstanding at 31 March 2019 had a weighted average exercise price of $2.80 and a remaining average contractual life of 2.5 years. In the reporting period, options were granted on 15 June 2018. The aggregate of the estimated fair values of the options granted at that date is $326,000.
The inputs into the Black Scholes model are as follows:

	15 June 2018
Weighted average share price	$2.38
Weighted average exercise price	$2.80
Expected volatility	40%
Expected life	4 years
Risk-free rate	2.09%
Expected dividend yields	Nil

21. Financial risk management

(a) Managing financial risk

The Group's activities expose it to various financial risks as detailed below.

- Market risk

Management is of the opinion that the Group's exposure to market risk at balance date is defined as:

Risk factor	Description	Sensitivity
(i) Currency risk	Exposure to changes in foreign exchange rates on assets and liabilities of the subsidiaries, and USD denominated borrowings	As below
(ii) Interest rate risk	Exposure to changes in interest rates on borrowings	As below
(iii) Other price risk	No commodity securities are bought, sold or traded	Nil

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

21. Financial risk management (continued)

• Foreign exchange risk

The Group benefits from the use of derivative financial instruments to manage foreign currency exposures.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates at year end and the contract exchange rates, considered level 2 of the fair value hierarchy.

The Group purchases goods and services from overseas suppliers in a number of currencies, primarily AUD, USD, EUR and GBP and has borrowings that are denominated in US dollar amounts. This exposes the Group to foreign currency risk. The Group manages foreign currency risk through use of derivative arrangements, in particular forward exchange contracts. The exposure is monitored on a regular basis based on Group foreign exchange policies. Future revenues from markets outside Australasia will be denominated primarily in USD and EUR which will provide a natural hedge against these costs.

In the current year (FY2019) Foreign Exchange losses totalled $3,041,044 (2018: $817,992 gain) of which $1,933,053 (2018: $1,046,000 gain) were unrealised losses on the USD denominated CRG loan. Future revenues derived in USD will be used towards repaying a portion of this debt as it falls due. The balance of the losses are derived from the restatement of the cash balances at the spot rate on the year end balance date of 31 March 2019 and the change in spot rates during the time between when revenues, receipts and expenses are recorded in the general ledger and when they are paid/received.

In total, the Group had financial assets and liabilities denominated in the following currencies:

	FY2019			FY2018	
Financial Assets NZ$000's	Currency	Financial Liabilities NZ$000's	Financial Assets NZ$000's	Currency	Financial Liabilities NZ$000's
13,931	AUD	4,015	12,960	AUD	4,366
1,650	USD	42,698	134	USD	33,596
904	MYR	37	202	MYR	62
542	SGD	177	251	SGD	24
203	EUR	696	30	EUR	2,897
5	GBP	175	-	GBP	64

A 1% increase or decrease in foreign exchange rates on assets and liabilities will reduce/increase equity by $144,000 (2018: $111,000) and reduce/increase the profit or loss by $368,000 (2018: $354,000). A sensitivity analysis is done on the basis of year end expenses.

The following forward foreign exchange contracts were held at the end of the 2019 financial year:

Forward Foreign Exchange Contracts

Buy currency	Buy currency amount ('000)	Sell amount $NZ000's	Buy amount 31-Mar-19 $NZ000's	Fair value $NZ000's
EUR	3,300	5,735	5,963	(228)
GBP	155	302	305	(3)
USD	4,205	6,192	6,202	(10)
Total liability as at 31 March 2019				**(241)**

All contracts mature within one year from 31 March 2019.

The following forward foreign exchange contracts were held at the end of the 2018 financial year:

Forward Foreign Exchange Contracts

Buy currency	Buy (sell) currency amount ('000)	Sell (buy) amount $NZ000's	Buy (sell) amount 31-Mar-18 $NZ000's	Fair value $NZ000's
EUR	2,550	4,290	4,394	104
GBP	197	365	387	22
USD	6,000	8,268	8,318	50
Total asset as at 31 March 2018				**176**

• Interest rate risk

Borrowings are at a fixed interest rate, which exposes the Group to fair value interest rate risk. There are no specific derivative arrangements to manage this risk.

• Credit risk

Financial instruments, which potentially subject the Group to credit risk, principally consist of accounts receivable. Regular monitoring is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

The Group has one significant concentration of credit risk at 31 March 2019 with the largest debtor being $7,232,700 (2018: $3,510,000). There has been no past experience of default and no indications of default in relation to this debtor.

The Group's cash and short-term deposits are placed with high credit quality financial institutions. Accordingly, the Group has no significant concentration of credit risk other than bank deposits, with 7.2% of total assets at the Bank of New Zealand (2018: 8.3%), 3.3% at NAB Bank (2018: 3.8%). The carrying value of financial assets represents the maximum exposure to credit risk.

• Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from the need to borrow funds for working capital. The Directors monitor the risk on a regular basis and actively manage the cash available to ensure the net exposure to liquidity risk is minimised. Since May 2014, there has been an on demand $1m BNZ overdraft facility.

The liquidity/maturity profile of the liabilities is as follows:

Liquidity Profile

$NZ000's 31 March 2019	< 1 Year	1-2 Years	2-5 Years	> 5 Years	Total
Trade and other payables	(15,098)	-	-	-	(15,098)
Borrowings	(47,482)	-	-	-	(47,482)
Derivative instruments (outbound)	(12,470)	-	-	-	(12,470)
Derivative instruments (inbound)	12,229	-	-	-	12,229
Totals	**(62,821)**	**-**	**-**	**-**	**(62,821)**
31 March 2018					
Trade and other payables	(16,122)	-	-	-	(16,122)
Borrowings	(2,806)	(36,458)	-	-	(39,264)
Derivative instruments (outbound)	(12,747)	-	-	-	(12,747)
Derivative instruments (inbound)	12,923	-	-	-	12,923
Totals	**(18,752)**	**(36,458)**	**-**	**-**	**(55,210)**

(b) Fair values

The carrying value of financial assets and liabilities (trade receivables and trade payables) approximates their fair value. Trade receivables are valued net of provision and trade payables are valued at their original amounts by contract.

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

22 . Segment reporting

$NZ000's 31 March 2019	Australia	New Zealand	Southeast Asia	Rest of world	Total
	Operating Segments				
Revenue – Sale of goods	50,304	26,796	2,142	4,407	83,649
Revenue – Royalties	-	-	-	255	255
Revenue – Licencing	-	-	-	1,223	1,223
Total Revenue	**50,304**	**26,796**	**2,142**	**5,885**	**85,127**
Other income	1,860	-	-	377	2,237
Depreciation and amortisation	29	284	5	-	318
Equity accounted loss of joint venture entity	-	-	-	(521)	(521)
Operating Profit/(loss)	**5,321**	**537**	**(343)**	**601**	**6,116**
Finance income/(loss)	-	42	-	-	42
Interest expense	(1,333)	(3,985)	(76)	-	(5,394)
Other finance gains/(losses)	447	(3,483)	13	-	(3,023)
Gain/(loss) before tax	**4,435**	**(6,889)**	**(406)**	**601**	**(2,259)**
Total Assets	24,582	35,653	327	3,033	63,595
Property, plant and equipment	52	292	13	-	357
Intangible assets	-	-	-	8,239	8,239
Investment in joint venture entity	-	-	-	3,033	3,033
Total liabilities	**4,890**	**53,567**	**47**	**-**	**58,504**
Capital expenditure	**39**	**99**	**2**	**-**	**140**

31 March 2018	Australia	New Zealand	Southeast Asia	Rest of world	Total
Revenue – Sale of goods	49,193	27,096	1,286	2,307	79,882
Revenue – Royalties	-	-	-	189	189
Revenue – Licencing	-		-	1,105	1,105
Total Revenue	**49,193**	**27,096**	**1,286**	**3,601**	**81,176**
Other income	-	721	-	409	1,130
Depreciation and amortisation	25	308	7	-	340
Equity accounted loss of joint venture entity	-	-	-	(1,494)	(1,494)
Operating Profit/(loss)	**1,253**	**(2,693)**	**(792)**	**(7,907)**	**(10,139)**
Finance income	4	121		-	125
Interest expense	(1,041)	(2,455)	-	-	(3,496)
Other finance gains/(losses)	322	428	94		844
Gain/(loss) before tax	**538**	**(4,599)**	**(698)**	**(7,907)**	**(12,666)**
Total Assets	25,706	28,622	140	2,135	56,603
Property, plant and equipment	39	274	17	-	330
Intangible assets	-	-	-	5,118	5,118
Investment in joint venture entity	-	-	-	2,134	2,134
Total liabilities	**5,221**	**43,954**	**86**	**-**	**49,261**
Capital expenditure	**11**	**50**	**9**	**-**	**70**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). For the purposes of NZ IFRS 8 the CODM is a group comprising the Board of Directors, together with the Chief Executive Officer, the Chief of Staff, the Chief Financial Officer and the Director of International Business Development. This has been determined on the basis that it is this group that determines the allocation of the resources to segments and assesses their performance.

The Group has four operating segments based on geographical location reportable under NZ IFRS 8, as described below, which are the Group's strategic groupings of business units. The following summary describes the operations in each of the Group's reporting segments:

New Zealand – Includes the Head Office function for the Group, supplier relationships and procurement of all stock for the Group, all regulatory activity, all marketing activity and all finance activity. The sales and distribution activity principally relates to the New Zealand market.

Australia – Includes the sales and distribution activity relating to the Australian market.

Southeast Asia – Includes the sales and distribution activity relating to the Southeast Asian market (Brunei, Hong Kong, Malaysia, Philippines, Singapore and Vietnam).

Rest of World – Includes the out-licensing of IP developments to markets in which AFT does not have a presence and the export of products to export markets. The costs of research and development and new market development activity not specific to the other segments are expensed to this segment.

Major Customers – Revenues from one customer of the Australian segment (being a licensed wholesaler) represents approximately NZ$21.4m (2018: NZ$20.2m) and from one customer of the New Zealand segment (also being a licensed wholesaler) represents approximately $13.6m (2018: $14.6m) of the Group's total revenues.

23. Contingent liabilities

In May 2015, AFT Pharmaceuticals Limited signed as guarantor of AFT Pharmaceuticals (AU) Pty Limited for its five-year lease contract with Investec Limited for the premises occupied in Sydney, Australia. A deposit of AUD$75,000 has been placed with NAB as security for this lease. The Company has also placed NZD$75,000 on term deposit with the BNZ as security for a guarantee issued by the BNZ in favour of the NZX, should the Company ever default on any of its payment obligations to NZX.

24. Commitments

(a) Capital commitments

The Group has no capital commitments at 31 March 2019 (2018: nil).

(b) Lease commitments

Operating leases are those in which all the risks and rewards are substantially retained by the lessor. Lease payments are charged in the income statement on a straight-line basis over the term of the lease.

$NZ000's	2019	2018
Due within one year	845	843
Due later than one year but within five years	1,697	1,953
Due later than five years	701	1,065
	3,243	**3,861**

The above includes leases for property (with lease terms of 2 to 8 years) and vehicles and equipment (with lease terms of up to 4 years).

(c) Other commitments

The Company has entered into contracts to complete clinical trials overseas. These contracts call for stage or milestone payments to be made progressively when those stages or milestones are achieved. Certain conditions allow for the termination of the trials, with future obligations extinguished. The aggregate expected amounts to be paid under these contracts is $2.2m (2018: $4.0m).

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

25. Management of capital

The Group's objectives when managing capital are:

To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholders and to maintain a strong capital base to support the development of its business.

The Group meets these objectives through a mix of equity capital and borrowings. The level and mix of capital is determined by the Group's internal Corporate Governance Policies.

Under the CRG Loan Agreement, there is a covenant requiring a minimum bank balance of NZ$4m at each month end.

Under the existing BNZ facility, there is a covenant requirement that the facility, comprising an overdraft and letter of credit facility, must not exceed the total of 70% of acceptable debtors plus 40% of acceptable stock.

The Group has complied with both the CRG and BNZ covenants during the 2019 and 2018 financial years.

In March 2017 the Group issued 3,330,000 Redeemable Preference Shares raising $9.1m, and in May 2017 an issue of ordinary shares was offered to existing shareholders, resulting in the issue of 473,181 ordinary shares and raising an additional $1,064,657. Details are covered in note 18.

26. Earnings per share

Basic earnings per share is computed by dividing net earnings attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during each period.

$NZ000's	2019	Restated 2018
Earnings used in the calculation of basic and diluted earnings per share		
Loss after tax	(2,427)	(12,724)
Less Redeemable Preference shares dividend	(935)	(895)*
Net Loss after tax attributable to Ordinary shareholders	(3,362)	(13,619)
Weighted average ordinary shares for the purposes of basic and diluted earnings per share	97,308,019	97,248,871
Basic and diluted loss per share ($)	(0.03)	(0.14)*

* The financial statements for FY2018 reflected the earnings per share before allowing for the Redeemable preference share dividend.

27. Dividends per share

No dividends have been declared to the ordinary shareholders of the parent company during the current year, nor in FY2018.

Gross dividends of $935k (2018:$895k) were declared on the Redeemable Preference Shares, with $178k (2018:$412k) paid or payable in cash and withholding taxes, and $758k (2018:$483k) accumulated in a reserve for future settlement per the terms described at note 18.

28. Subsequent events

Apart from the BNZ facility referred to in note 1(b), there were no events occurring after balance date that require disclosure at the time these accounts were authorised.

Statutory Disclosures

Non-executive Director Remuneration

AFT's shareholders have approved a total cap of $575,000 per annum for Non-executive Directors' fees, for the purposes of the NZX Listing Rules. This annual fee pool has not been increased since it was approved by shareholders in 2015. The current approved Directors' fees payable are set out in the table below. With the return of the Company to profitability and having held Directors' fees at the same level since AFT listed in 2015, the Board will undertake a review of Directors' fees during the current financial year to ensure that the Company is offering appropriate levels of remuneration to both existing and prospective Directors. More information about the remuneration payable to Directors is set out in AFT's Corporate Governance Statement which is located on the investor centre of the Company's website.

The current approved fixed annual fees payable to Non-executive Directors are detailed below (as mentioned above, these fees may be subject to review during the current financial year):

	Position	Fees per annum (paid in NZD except where stated)
Board of Directors	Chair	$95,000
	Non-Executive Director	$40,000[1]
Audit and Risk Committee	Committee Chair	$7,500
	Committee Member	$5,000[2]
Remuneration and Nominations Committee	Committee Chair	$7,500
	Committee Member	$5,000[2]
Regulatory and Product Development Oversight Committee	Committee Chair	$7,500
	Committee Member	$5,000

[1] Fee payable to non-United States (US) based Directors. US based Directors receive USD$50,000.

[2] Fee payable to non-US based Directors. US based Directors receive USD$5,000.

Non-executive Directors received the following Directors' fees, remuneration and other benefits from the Company in the year ended 31 March 2019:

	Remuneration and value of other benefits received in FY2019[2]					
Name of Director	Non-Executive Directors' Board Fees	Audit and Risk Committee Fees	Remuneration and Nominations Committee Fees	Regulatory and Product Development Oversight Committee Fees	Shares and Other Payments or Benefits[1]	Total Remuneration
Jim Burns[2]	$74,884	$7,489	$7,488	-	-	**$89,861**
David Flacks	$95,000 (Chairman)	$5,000	-	-	-	**$100,000**
Nate Hukill[3]	-	-	-	-	-	**-**
Jon Lamb	$40,000	$7,500 (Chairman)	$7,500 (Chairman)	-	-	**$55,000**
Doug Wilson	$40,000	-	-	$7,500 (Chairman)	-	**$47,500**
Total	**$249,884**	**$19,989**	**$14,988**	**$7,500**	**-**	**$292,361**

[1] In addition to Directors' fees, AFT meets costs incurred by Non-executive Directors that are incidental to the performance of their duties. This includes paying the costs of Directors' travel. As these costs are incurred by AFT to enable Directors to perform their duties, no value is attributable to them as benefits to Directors for the purposes of this table.

[2] Fees disclosed in NZD. Jim Burns receives fees paid in USD. These fees have been converted into NZD in the above table, calculated at an exchange rate of 1: 0.668.

[3] Nate Hukill agreed not to receive any Directors' fees during the financial year ended 31 March 2019.

Statutory Disclosures (continued)

Executive Director Remuneration

The Executive Directors, Hartley Atkinson and Marree Atkinson, receive remuneration and other benefits in their respective executive roles as Chief Executive Officer and Chief of Staff and, accordingly, do not receive Directors' fees.

The table below sets out the total remuneration and value of other benefits earned by, or paid, to each Executive Director of AFT during, and in respect of, the financial period ended 31 March 2019:

	Base Salary	Taxable Benefits[1]	Subtotal	Pay for Performance			Total Remuneration
				STI	LTI[4]	Subtotal	
Hartley Atkinson	$430,616	$5,988	$436,604	$119,843[2]	-	$119,843	$556,447
Marree Atkinson	$116,378	-	$116,378	$11,400[3]	-	$11,400	$127,778

[1] Taxable benefits include a car allowance.

[2] The short-term incentive stated was earned in FY2018 and paid in FY2019. Hartley Atkinson earned a short-term incentive for FY2019 of $144,594 from a full potential of $252,200. This will be paid in FY2020.

[3] The short-term incentive stated was earned in FY2018 and paid in FY2019. Marree Atkinson earned a short-term incentive for FY2019 of $11,559. This will be paid in FY2020.

[4] Neither Executive Director was issued any form of long-term incentive during the financial period.

Employee Remuneration

The table below sets out the number of employees or former employees of AFT and its subsidiaries, not being Directors of AFT, who, in their capacity as employees received remuneration and other benefits during the period ended 31 March 2019 totalling at least $100,000 per annum. The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars.

Remuneration Range (NZD)	Total Number of Employees
$100,000-$110,000	7
$110,001-$120,000	7
$120,001-$130,000	6
$130,001-$140,000	7
$140,001-$150,000	1
$150,001-$160,000	-
$160,001-$170,000	-
$170,001-$180,000	-
$180,001-$190,000	2
$190,001-$200,000	-
$200,001-$210,000	-
$210,001-$220,000	2
$220,001-$230,000	1
$240,001-$250,000	1
$260,001-$270,000	2
$270,001-$280,000	1
$280,001-$290,000	1
$440,001-$450,000	1
$550,001-$560,000	1
Total number of employees and former employees	**40**

The table includes base salaries and short-term incentives paid during FY2019 and long-term incentives vested or exercised during FY2019. The table does not include long-term incentives that have been granted and have not yet vested. Where the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme are included in the above table. Where the individual works in Australia contributions of 9.5% of gross earnings towards Australian Superannuation are included in the above table.

Diversity

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2018 and 31 March 2019 are set out in the table below:

	Female				Male			
	2019		2018		2019		2018	
	No.	%	No.	%	No.	%	No.	%
Directors	1	14%	1	14%	6	86%	6	86%
Officers[1]	4	40%	4	40%	6	60%	6	60%
Senior employees[2]	2	33%	2	29%	4	66%	5	71%
Overall workforce	48	58%	54	61%	35	42%	34	39%

[1] Officers are considered to be the CEO and his direct reports (Management Team). Note that CEO, Hartley Atkinson, and Chief of Staff, Marree Atkinson are included in both the number of Directors and Officers reported.

[2] Senior employees are considered to be direct reports to Officers.

The Board's assessment of AFT's performance against its Diversity and Inclusion Policy is set out in AFT's Corporate Governance Statement, which can be found on the investor centre of the Company's website.

Board and Committee Attendance

The table below shows the number of Board and Committee meetings each Director was eligible to attend and attended during the year ended 31 March 2019:

Director	Board	Audit and Risk Committee	Remuneration and Nominations Committee	Regulatory and New Product Development Committee
Hartley Atkinson	10/10	-	3/3	2/2
Marree Atkinson	10/10	-	-	2/2
Jim Burns	10/10	4/4	3/3	-
David Flacks	10/10	4/4	-	-
Nate Hukill	7/10	-	-	-
Jon Lamb	10/10	4/4	3/3	-
Doug Wilson	10/10	-	-	2/2

Director Independence

As at 31 March 2019 (and the date of this Annual Report), the Board comprised seven Directors:

- David Flacks – Independent, Non-executive Director and Chairman
- Jon Lamb – Independent, Non-executive Director
- Doug Wilson – Independent, Non-executive Director
- Jim Burns – Independent, Non-executive Director
- Nate Hukill – Non-independent, Non-executive Director
- Hartley Atkinson – Executive Director and Chief Executive Officer
- Marree Atkinson – Executive Director and Chief of Staff

A biography of each Director is set out on pages 22 and 23 of this Annual Report.

The Board has determined, based on information provided by Directors regarding their interests and the criteria specified in the Board Charter, that as at 31 March 2019 (and the date of this Annual Report) David Flacks, Jon Lamb, Doug Wilson and Jim Burns are Independent Directors. The Board has also determined that Hartley Atkinson and Marree Atkinson are not Independent Directors owing to also being executives and having major shareholding interests in AFT. The Board has also determined that Nate Hukill is not independent owing to his relationship with CRG, a major shareholder in AFT.

Statutory Disclosures (continued)

Director Interest Disclosures

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. All of those interests (and any changes to interests) notified and recorded in AFT's Interests Register during the financial year ended 31 March 2019 (and subsequently) are set out below:

Director	Entity	Relationship
Hartley Atkinson	AFT Dermatology Limited	Director
	AFT Limited Partner Limited	Director
	AFT Orphan Pharmaceuticals Limited	Director
	AFT Pharmaceuticals Pty Limited	Director
	AFT Pharmaceuticals Singapore PTE Limited	Director
	AFT Pharmaceuticals (SE Asia) SDN BHD	Director
	Atkinson Family Trust	Trustee/Discretionary Beneficiary
	Dermatology Specialties, L.P.	Director of AFT Limited Partner Limited (LP of Dermatology Specialties)
	DSGP Limited	Director
Marree Atkinson	Atkinson Family Trust	Discretionary Beneficiary
James Burns	Phenomics Health Inc	Director/Appointed Executive Chairman
	Precera Bioscience Inc	Director
	Vermillion, Inc	Director
	VisionGate Inc	Appointed Director
David Flacks	Asteron Life Limited	Director
	Flacks & Wong Limited	Director
	Harmoney Corp Limited	Chairman
	NZ Venture Investment Fund	Director/Appointed Deputy Chairman
	NZX Regulatory Governance Committee	Chairman
	Upside Biotechnologies Limited	Chairman
	Vero Insurance New Zealand Limited	Director
	Vero Liability Insurance New Zealand Limited	Director
Nate Hukill	Capital Royalty Group entities	President/Shareholder/Appointed Managing Partner
	CRG Investment Committee	Chairman
	Piedmont Evergreen	Appointed Partner
	Valeritas Inc	Director
Jon Lamb	Coronation Equities Limited	Director
	Culture Check Limited	Director
	Project X Trustee Limited	Director
	Redvers Limited	Director
	Rivers One Limited	Trustee
	Three Dots Limited	Director
	Zoono Limited	Chairman
Doug Wilson	Ferghana Partners Inc	Appointed Consultant
	Mainz Consulting Limited	Director
	Malaghan Institute	Member of Commercial Committee
	Ryman Healthcare	Member of Clinical Governance Committee

There were no entries in the Interests Register for the purposes of section 140(1) of the Companies Act 1993 during the financial year ended 31 March 2019.

In accordance with Section 148(2) of the Companies Act 1993, Directors disclosed the following acquisitions or disposals of relevant interests in AFT ordinary shares during the financial year ended 31 March 2019:

Name	Date of Acquisition /Disposal	Number of Shares Acquired /(Disposed)	Nature of Relevant Interest	Details of Acquisition/Disposal	Consideration Paid/Received (NZD)
James Burns	21-Aug-18	25,000 ordinary shares	Registered holder and beneficial owner of ordinary shares.	On market acquisition during permitted trading period.	$56,400
David Flacks	12-Dec-18	30,000 ordinary shares	Joint registered holder and beneficial owner of ordinary shares as trustee of Waitemata Family Trust.	On market acquisition during permitted trading period.	$65,901

In accordance with the NZX Listing Rules, as at 31 March 2019, Directors had a relevant interest in AFT ordinary shares as follows:

Name	Relevant Interest	Percentage
Hartley Atkinson[1]	72,964,942	74.983%
Jon Lamb	207,972	0.214%
David Flacks	145,431	0.149%
James Burns	125,417	0.129%
Doug Wilson	56,689	0.058%

[1] Hartley Atkinson also has a relevant interest in 730,000 redeemable preference shares (21.9% of the total redeemable preference shares on issue), which may in the future convert into ordinary shares.

For the purposes of section 161 of the Companies Act 1993, the following entries were made in the Interests Register in relation to the payment of remuneration and other benefits to Directors during the financial year ended 31 March 2019:

Date	Director	Particulars of Board Authorisation
26 April 2018	Hartley Atkinson Marree Atkinson	The payment of remuneration and the provision of other benefits by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of amendment to the relevant employment agreement.
22 May 2018	Hartley Atkinson Marree Atkinson	The payment of short-term incentive (STI) remuneration by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of STI notification.

For the purposes of section 162 of the Companies Act 1993, an entry was made in the Interests Register in relation to insurance effected for Directors of AFT, in relation to any act or omission in their capacity as Directors.

Shareholdings

As at 30 April 2019 there were 97,308,019 AFT ordinary shares on issue, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

Size of Shareholding	Number of Ordinary Holders		Number of Ordinary Shares	
1 to 1,000	364	38.72%	177,202	0.18%
1,001 to 5,000	358	38.09%	968,414	1.00%
5,001 to 10,000	110	11.70%	834,920	0.86%
10,001 to 50,000	82	8.72%	1,601,776	1.65%
50,001 to 100,000	9	0.96%	580,008	0.60%
100,001 and over	17	1.81%	93,145,699	95.71%
Total	**940**	**100.0%**	**97,308,019**	**100.0%**

Statutory Disclosures (continued)

Shareholdings (continued)

As at 30 April 2019 there were 54 individuals holding a total of 1,200,664 options to acquire shares issued by AFT under its employee long-term incentive scheme. The options are unlisted and carry no voting rights.

As at 30 April 2019, there were five shareholders holding a total of 3,330,000 redeemable preference shares issued by AFT. The redeemable preference shares may convert into ordinary shares in certain circumstances. The redeemable preference shares are unlisted and do not carry any right to vote except at meetings of an "interest group" of holders of redeemable shares.

There is currently no on-market buy-back of the Company's ordinary shares.

Set out below are details of the 20 largest holders of AFT ordinary shares as at 30 April 2019:

	Shareholder[1]	Number of Ordinary Shares Held	%
1.	Hartley Atkinson + Colin McKay <Atkinson Family A/C>	72,964,942	74.98%
2.	Capital Royalty Partners II – Parallel Fund B (Cayman) L.P.	6,499,508	6.68%
3.	National Nominees New Zealand Limited – NZCSD <NNLZ90>	3,468,810	3.56%
4.	Capital Royalty Partners II – Parallel Fund A L.P.	3,285,589	3.38%
5.	Capital Royalty Partners II L.P.	2,444,415	2.51%
6.	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited – NZCSD <SUPR40>	992,867	0.95%
7.	JPMorgan Chase Bank NA NZ Branch – Segregated Clients Acct – NZCSD <CHAM24>	797,986	0.82%
8.	Capital Royalty Partners II (Cayman) L.P.	769,503	0.79%
9.	FNZ Custodians Limited	477,225	0.49%
10.	HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90>	460,827	0.47%
11.	Rivers One Limited	207,972	0.21%
12.	Hamish Stewart Atkinson + Karen Winifred Atkinson + Andrew John Marriott <HS & KW Atkinson Family A/C>	190,000	0.20%
13.	David Mark Flacks + Adina Rita Betty Halpern <The Waitemata Family A/C>	145,431	0.15%
14.	Joeri Yvonne Jozef Sels	135,400	0.14%
15.	James Burns	125,417	0.13%
16.	Joseph Wallace Carson	125,000	0.13%
17.	Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>	124,807	0.13%
18.	BNP Paribas Nominees Pty Ltd <IB Au Noms Retailclient DRP>	91,740	0.09%
19.	Barbara Tubby + Colin Tubby + Malcolm Tubby <Jembag Investment A/C>	75,218	0.08%
20.	Custodial Services Limited <A/C 4>	71,445	0.07%

[1] The shareholding of New Zealand Central Securities Depository Limited (custodian for members trading through NZClear) has been re-allocated to the applicable members.

According to notices given to AFT under the Financial Markets Conduct Act 2013, the following persons were substantial product holders in AFT as at 31 March 2019 in respect of the number of quoted voting products noted below. As at the balance date (31 March 2019) there were 97,308,019 ordinary shares on issue:

Substantial Product Holder	Number of Ordinary Shares in which Relevant Interest is Held	% of Class Held at Date of Last Notice
Capital Royalty Partners Funds[1]	12,999,015	13.36%
Hartley Campbell Atkinson and Colin McKay as Trustees of the Atkinson Family Trust	72,964,942	74.98%

[1] Funds detailed in the substantial product holder notice.

Subsidiary Company Directors

The following fees were paid to Directors of subsidiary companies during the year ended 31 March 2019. No other Directors of subsidiary companies received Directors' fees:

- Raymond McGregor received A$12,000 during the financial year ended 31 March 2019 in his capacity as a Director of AFT Pharmaceuticals (AU) Pty Limited.
- Hawksford Singapore Pte Ltd received SG$3,600 during the year ended 31 March 2019 in relation to Leong Wai Kuan acting as a Director of AFT Pharmaceuticals Singapore Pte Limited.
- Ilium Corporate Management SDN BHD received MYR3,600 during the year ended 31 March 2019 in relation to Khafnena Binti Khanafiah and Irdawati Binti Mohamad acting as Directors of AFT Pharmaceuticals (SE Asia) SDN BHD.

The following people held office as Directors of subsidiary companies as at 31 March 2019:

Subsidiary	Directors
AFT Pharmaceuticals (AU) Pty Limited (Australia)	Hartley Atkinson, Raymond MacGregor
AFT Pharmaceuticals (SE Asia) SDN BHD (Malaysia)	Hartley Atkinson, Khafnena Binti Khanafiah, Irdawati Binti Mohamad
AFT Pharmaceuticals Singapore Pte Limited (Singapore)	Hartley Atkinson, Leong Wai Kuan
AFT Orphan Pharmaceuticals Limited	Hartley Atkinson, Andrew Moore, Giles Moss, Malcolm Tubby
AFT Dermatology Limited	Hartley Atkinson
AFT Limited Partner Limited	Hartley Atkinson
DSGP Limited	Hartley Atkinson, Michael Derby

There were no entries made in the subsidiary company Interest Registers during the financial reporting period.

NZX Waivers

On 21 December 2015, as part of AFT's initial public offering, NZX granted the Company a waiver from NZX Main Board Listing Rule 5.2.3 in respect of its quoted shares (Shares) for a period of 12 months to the extent the Rule required the Company to have at least 25% of Shares held by Members of the Public holding at least a Minimum Holding (as that term is defined in the NZX Main Board Listing Rules). NZX granted further waivers from Rule 5.2.3 on 21 December 2016 and 20 December 2017. Each for a further period of 12 months.

On 17 December 2018, NZX granted a further waiver from Rule 5.2.3 for the period from 17 December 2018 until AFT transitioned to the revised NZX Listing Rules dated 1 January 2019 (Revised NZX Listing Rules). AFT transitioned to the Revised NZX Listing Rules on 1 April 2019. Under the Revised NZX Listing Rules spread requirements are no longer an ongoing obligation for listed issuers and, accordingly, no further waiver is required to be relied upon by AFT in respect of spread requirements.

The 17 December 2018 waiver was granted on the following conditions:

- NZX receives an undertaking from the Atkinson Family Trust (AF Trust) that it will not increase its holding of Shares in AFT during the term of the waiver, otherwise than as a result of an allotment pursuant to an offer or issue of Shares that is made pro-rata to all AFT shareholders;
- At least 10% of Shares are held by more than 500 Members of the Public, with each Member of the Public holding at least a Minimum Holding;
- AFT clearly and prominently discloses this waiver, its conditions and its implications in AFT's annual report, and in any Offer Documents relating to any offer of Shares undertaken by AFT, during the period of the waiver; and
- AFT monitors and notifies NZX as soon as practicable if there is any material reduction to the total number of Members of the Public holding at least a Minimum Holding of Shares and/or the percentage of Shares held by Members of the Public holding at least a Minimum Holding.

The implication of the 17 December 2018 waiver (and the previous waivers granted) is that the Shares may not be widely held and that there may be reduced liquidity in the Shares following quotation. A copy of each waiver can be viewed at www.aftpharm.com.

Statutory Disclosures (continued)

Donations

No donations were made to charities or political parties during the financial reporting period.

Credit Rating

AFT does not currently have an external credit rating status.

Directory

AFT is a company incorporated with limited liability under the New Zealand Companies Act 1993 (Companies Office registration number 873005).

Registered Office	Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 0232 www.aftpharm.com Mertons, Level 7, 330 Collins Street, Melbourne, Victoria 3000, Australia +61 3 8689 9997
Principal Administration Office	Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 0232 www.aftpharm.com 113 Wicks Road, North Ryde NSW 2113, Australia +61 2 9420 0420 ARBN: 609 017 969
Directors (as at date of this annual report)	Dr Hartley Atkinson Marree Atkinson Dr James (Jim) Burns David Flacks Nathan (Nate) Hukill Jon Lamb Dr Douglas (Doug) Wilson
Share Registrar	Computershare Investor Services Limited Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 8777 enquiry@computershare.co.nz Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street, Abbotsford VIC 3001, Australia +61 3 9415 4083 enquiry@computershare.co.nz
Auditor	Deloitte Deloitte Centre, 80 Queen Street, Auckland 1140, New Zealand +64 9 303 0700

Financial calendar

Annual Meeting	2 August 2019
Half-year End	30 September 2019
Half-year Results Announcement	November 2019
Financial Year End	31 March 2020

Notes

AFT pharmaceuticals

Working to improve your health