

# Cryosite Limited

ABN 86 090 919 476

## Appendix 4D

**Six months ended 31 December 2018 ('current period')  
and 31 December 2017 ('previous corresponding period')**

### **Results for announcement to the market**

#### **1. Details of Reporting Period**

The financial information contained in this report is for the half year ended 31 December 2018. Comparative amounts (unless otherwise indicated) relate to the year ended 31 December 2017.

#### **2. Results for Announcement to the Market**

|   |      |     |    | \$A'000  |
|---|------|-----|----|----------|
| 2.1 Revenue from ordinary activities:   | Up   | 35% | to | 3,953k   |
| 2.2 Profit (loss) from ordinary activities after tax attributable to members: | Down | 47% | to | (1,319)k |
| 2.3 Net profit (loss) for the period attributable to members:                 | Down | 47% | to | (1,319)k |

#### **2.4 Dividends**

The Board of Cryosite has on the 26th February 2019 determined that no interim dividend will be paid

#### **2.5 Commentary on the results to the market:**

An explanation of the result of the current period is set out in the Directors Report contained in the attached audit reviewed half-yearly Financial Report.

#### **3.0 NTA backing**

|  | Current period | Previous<br>corresponding<br>Period |
|--|----------------|-------------------------------------|
| Net tangible asset backing per ordinary security | (2.8) cents    | 4.3 cents                           |

# **CRYOSITE LIMITED**

ABN 86 090 919 476

## **Half-Year Financial Report**

31 December 2018

## Contents

|  | Page  |
|--|-------|
| Directors' Report                                      | 3-6   |
| Auditor's Independence Declaration                     | 7     |
| Directors' Declaration                                 | 8     |
| Interim Consolidated Statement of Comprehensive Income | 9     |
| Interim Consolidated Statement of Financial Position   | 10-11 |
| Interim Consolidated Statement of Changes in Equity    | 12    |
| Interim Consolidated Statement of Cash Flows           | 13    |
| Notes to the Half-Year Financial Statements            | 14-39 |
| Independent Auditor's Review Report                    | 40-41 |

## Directors' Report

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Your directors submit their report for the half-year ended 31 December 2018.

### Directors

The directors of Cryosite Limited and its controlled entities (the "Company") in office during the half year, and until the date of this Report are set out below. Directors were in office for this entire period unless otherwise stated.

Mr. Bryan Dulhunty (Non-Executive Chairman)

Andrew Kroger (Non-Executive Director)

Mrs Nicola Swift (Non-Executive Director)

### Principal Activities

The company's principal activities are the provision of supply chain logistics, management of pharmaceutical products used in clinical trials and biological materials and long term storage of cord blood and tissue samples.

Cryosite operates through two operating segments:

#### *Clinical Trials Logistics & Biorepository*

This business includes biorepository services, clinical trials logistics, commercial drug distribution and the other storage and distribution based services including the importation and distribution of laboratory diagnostic products.

#### *Cord Blood and Tissues Storage*

This business provides long term storage for cord blood and tissue samples.

### REVIEW OF OPERATIONS

Net Operating profit after tax for the six months was a loss of \$(1,319,510) (2017: \$(895,467) which includes an expense of \$1,135,689 relating to the legal settlement with Australian Competition and Consumer Commission ("ACCC") and a profit (loss) after tax of \$(183,819) (2017: \$222,448) from our continuing operations.

#### **Australian Competition and Consumer Commission**

As previously outlined in the 2018 Annual Report, on 23 June 2017 Cryosite entered into an agreement (Sale Agreement) to license, under the Cryosite brand, the collection, processing and storage of umbilical cord blood and tissue (CBT) and to sell certain of its CBT banking assets to Cell Care Australia Pty Ltd (Cell Care).

On the 11th July 2018, the Company was notified by the ACCC that it would commence civil proceedings against Cryosite in the Federal Court of Australia. At the time it was reported that the Company would incur substantial legal costs with the potential to incur financial penalties in the 2019 financial year.

The ACCC alleged in the proceeding that Cryosite breached the CCA by including a competition restraint provision in the Sale Agreement, which required Cryosite to refer all sales enquiries to Cell Care from the date of signing of the contract to the date on which the transaction closed. This constituted a 'cartel provision'.



## Directors' Report

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Further to this, the Company has agreed to a settlement with the Australian Competition and Consumer Commission (ACCC) in relation to the proceeding against Cryosite in the Federal Court of Australia.

While Cryosite agreed to the inclusion of the restraint clause in the Sale Agreement and referred 12 customers to Cell Care under this clause, Cryosite had no intention to breach the CCA and had no awareness that the Sale Agreement contained a clause which would contravene the CCA. It is to be noted that Cryosite retained external lawyers to advise it in relation to the drafting and terms of the Sale Agreement; that Cryosite's external lawyers were involved in the negotiation of the Sale Agreement, but did not raise any concerns about cartel provisions; and any suggested changes to the draft Sale Agreement made by Cell Care were considered and agreed upon by the Board of Cryosite following legal advice.

Cryosite is obviously disappointed to have been party to the proceeding.

Under the terms of the settlement, the ACCC applied to the Federal Court seeking declarations that by entering into the Sale Agreement, Cryosite entered into a contract containing a cartel provision in contravention of section 44ZZRJ of the CCA and that, including by referring 12 customer enquiries, Cryosite gave effect to a cartel provision in contravention of section 44ZZRK of the CCA. The ACCC sought a pecuniary penalty of \$1.1m (including costs) against Cryosite, with Cryosite being allowed to pay the penalty in instalments with \$250,000 (including legal costs) to be paid within 30 day' of the Court's order and the balance to be paid in 10 equal annual instalments from 2020 to 2029. Cryosite agreed to the declarations of contravention and orders against it.

On the 13th February 2019, the Federal Court of Australia approved this settlement.

The Company has taken up these costs as "other liabilities" on the balance sheet as at the 31 December 2018. These costs (after discounting of the non-current portion of the other liabilities) plus the legal costs associated with this action has resulted in total expense of \$1,135,689 being recorded in the profit and loss for this half. Details of these expenses are outlined in Note 16.

### Continuing Operations

#### *Clinical Trials Logistics & Biorepository*

This segment's revenue was \$2,583,882 which was lower by 2% compared the same period in 2017. As previously noted, in June 2018 a large contract was not renewed due to the customer's global strategy to consolidate its warehousing within Australia. This loss in revenue has been compensated by revenue associated with our new offering of a "green" reusable packaging solution called the "Credo Shipper". This offering has been received positively by our clients and are confident of growing this offering.

Additionally, we are starting to generate revenue from new clients due as our marketing and business development function becomes more established and engaged in the industry.

This segment's profit before tax and overhead is \$647,706 (2017: \$1,317,255). Costs were impacted by change in cost base as we moved to our new reusable packaging solution and investment in the marketing and business development function which did not exist in 2017. It should be noted that operational efficiencies have contributed to a better than expected margin.

This segment generated positive cashflows (before overheads) of \$1,066,028 during this period.

## Directors' Report

### *Cord Blood and Tissue Storage*

This segment generated revenue of \$1,368,878 from annual storage plans of \$239,252 and deferred revenue of \$1,129,626 as the result of the adoption of AASB 15.

Annual storage revenue is generated from previous annual plans which are still being invoiced annually until the end of their contracts.

This segment has recorded a profit of \$416,458 (2017: \$40,342) before overheads for the last 6 months.

During this period this segment generated positive cashflows (before overheads) of \$617,799 driven by collection of debtors and ongoing cash from annual plans.

### *Overheads*

Overhead costs consist of expenses that cannot be directly allocated to the individual business segments. These costs were closely in with the prior year after taking in account the impairment loss of \$39,780 associated the write down of software. The Board will continue to monitor these costs closely to ensure that business is appropriately leveraged with the right amount of overheads in respect to revenue.

### *Cash Position*

Cash on hand decreased by \$(285,450) during the last 6 months resulting a balance of \$4,250,377 (30<sup>th</sup> June 2018: \$4,535,827). The key cashflows movements were:

|  | Clinical Trials<br>Logistics and<br>Biorepository | Cord<br>Blood and<br>Tissue<br>Storage | Overheads          | Total            |
|--|---|--|--------------------|------------------|
| <b>Cashflows from Operating Activities</b>     |   |  |                    |                  |
| Receipts from customers incl GST               | 2,540,027   | 693,299                                | 0                  | 3,233,326        |
| Payments to suppliers and employees incl GST   | (1,473,998)                                       | (75,500)                               | (1,989,429)        | (3,538,927)      |
| Interest received                              | 0   | 0                                      | 3,124              | 3,124            |
| Interest paid                                  | 0   | 0                                      | 0                  | 0                |
| <b>Net Cashflows from Operating activities</b> | <b>1,066,029</b>                                  | <b>617,799</b>                         | <b>(1,986,305)</b> | <b>(302,477)</b> |
| <b>Net Cashflows from Investing activities</b> | <b>0</b>  | <b>0</b>                               | <b>17,026</b>      | <b>17,026</b>    |
| <b>Total Cashflows</b>                         | <b>1,066,029</b>                                  | <b>617,799</b>                         | <b>(1,969,278)</b> | <b>(285,450)</b> |

### **Adoption of Accounting Standard AASB 15**

On the 1st July 2018, the Company adopted Accounting Standard AASB 15 – Revenue from Contracts with Customers. This will have a significant impact on future results of the Cord Blood and Tissue Storage, as the standard changes the timing and recognition of revenue and associated costs of long-term contracts.

As previously noted in our 2018 annual report, the initial effect of the introduction of this standard was to reduce net assets of the Company on the 1st July 2018 as outlined below:

## Directors' Report

|                    |                  | AASB 1015<br>opening<br>adjustment | 1-Jul-18   |
|--------------------|------------------|------------------------------------|------------|
| <b>Assets</b>      | <b>30-Jun-18</b> |                                    |            |
|                    | 7,743,679        | 22,823,305                         | 30,566,984 |
| <b>Liabilities</b> | 5,800,264        | 24,789,440                         | 30,589,704 |
| <b>Equity</b>      | 1,943,415        | (1,966,135)                        | (22,720)   |

AASB 15 resulted in the booking of an opening adjustment to recognize deferred revenue (representing collection and processing fees recognized upfront at the inception of the contract) and deferred costs (representing upfront costs on collection and processing of cord blood and tissue samples) as outlined in Note 4. These deferred balance sheet assets and liabilities will be taken to revenue and expense over the life of each individual contract which ranges from 18 years to 25 years.

For the last 6 months, the total adjustment to the profit and loss statement was:

|                             |           |
|-----------------------------|-----------|
|                             | \$        |
| Deferred Revenue            | 1,129,626 |
| Deferred Costs              | 696,750   |
| Net profit                  | 432,876   |
| Income tax                  | 119,034   |
| Net profit after income tax | 313,842   |

This adjustment was allocated to the Cord Blood and Tissue Storage segment of the business. There is no impact on cash and all adjustments are expected to reverse over the period of the contracts.

Full details of the impact of AASB 15 on the financial results is outlined in Note 4.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

As previously noted in this report, the Company has agreed to settle with the Australian Competition and Consumer Commission (ACCC) in relation to the proceeding against Cryosite in the Federal Court of Australia. On the 13th February 2019, the Federal Court of Australia approved this settlement.

### AUDITORS INDEPENDENCE DECLARATION

A statement of independence has been provided by our auditors, Mazars Australia Pty Limited, and follows this Director's Report on page 4.

Signed in accordance with a resolution of the directors made pursuant to s.306 (3) of the *Corporations Act 2001*.



Bryan Dulhanty  
Chair  
Sydney  
26<sup>th</sup> February 2019

### **Auditors' Independence Declaration**

In relation to our review of the financial report of Cryosite Limited and its controlled entity for the half-year ended 31 December 2018, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Cryosite Limited and its controlled entity during the half-year ended 31 December 2018.

**MAZARS RISK & ASSURANCE PTY LIMITED**



**Paul Collins**  
Director

Sydney, on this 26<sup>th</sup> day of February 2019



## Directors' Declaration

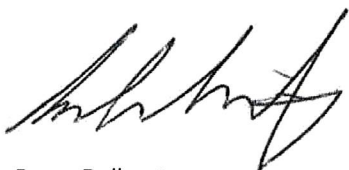
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The Directors of Cryosite Limited declare that:

- The financial statements and notes of Cryosite Limited and its controlled entities for the half-year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
  - complying with Accounting Standards AASB 134 Interim Financial Reporting.
- There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Bryan Dulhunty  
Chair

Sydney  
26<sup>th</sup> February 2019

# Interim Consolidated Statement of Comprehensive Income

For The Half-Year Ended 31 December 2018

|  | Notes     | 31 Dec 2018<br>\$  | 31 Dec 2017<br>\$ |
|--|-----------|--------------------|-------------------|
| <b>Revenues</b>  | <b>5</b>  | <b>3,952,761</b>   | <b>2,909,814</b>  |
| <b>Expenses</b>  |           |                    |                   |
| Costs of providing services  |           | (2,275,022)        | (1,125,714)       |
| Depreciation and amortisation expense  |           | (186,302)          | (167,267)         |
| Marketing expenses   |           | (212,000)          | (79,303)          |
| Occupancy expenses   |           | (314,501)          | (283,001)         |
| Administration expenses  |           | (1,021,599)        | (957,527)         |
| <b>Profit (loss) from continuing operations before tax</b>                     |           | <b>(56,663)</b>    | <b>297,002</b>    |
| Income tax (expense) benefit   | 6 (a)     | (127,158)          | (74,554)          |
| <b>Profit (loss) after tax from continuing operations</b>                      |           | <b>(183,821)</b>   | <b>222,448</b>    |
| <b>Legal settlement, net of tax</b>  | <b>16</b> | <b>(1,135,689)</b> | <b>(163,574)</b>  |
| <b>Profit (loss) after tax from continuing operations and legal settlement</b> |           | <b>(1,319,510)</b> | <b>58,874</b>     |
| <b>Discontinued operations</b>   |           |                    |                   |
| Profit/(loss) after tax from discontinued operations                           | 15        | -                  | (954,341)         |
| <b>Net Profit (loss) attributable to members of the parent</b>                 |           | <b>(1,319,510)</b> | <b>(895,467)</b>  |
| <b>Total other comprehensive income for the half-year, net of tax</b>          |           | <b>-</b>           | <b>-</b>          |
| <b>Total comprehensive income (loss) for the half-year, net of tax</b>         |           | <b>(1,319,510)</b> | <b>(895,467)</b>  |
| <b>Earnings per share (cents per share)</b>                                    |           |                    |                   |
| Basic EPS for the half-year  |           | (2.812)            | (1.911)           |
| Diluted EPS for the half-year  |           | (2.757)            | (1.902)           |
| Basic EPS for the half-year for continuing operations                          |           | (0.121)            | 0.005             |
| Diluted EPS for the half-year for continuing operations                        |           | (0.121)            | 0.005             |

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying note

## Interim Consolidated Statement of Financial Position

As at 31 December 2018

|                                      |       | 31 Dec 2018        | 30 Jun 2018      |
|--------------------------------------|-------|--------------------|------------------|
|                                      | Notes | \$                 | \$               |
| <b>ASSETS</b>                        |       |                    |                  |
| <b>Current Assets</b>                |       |                    |                  |
| Cash and cash equivalents            | 11    | 4,250,377          | 4,535,827        |
| Trade and other receivables          |       | 1,140,622          | 1,359,131        |
| Inventories                          |       | 23,945             | 23,845           |
| Prepayments                          |       | 192,697            | 289,078          |
| Income tax receivable                |       | 19,027             | 21,680           |
| Other assets                         |       | 152,277            | 152,277          |
| Deferred costs                       | 4     | 1,387,343          | -                |
| <b>Total Current Assets</b>          |       | <b>7,166,288</b>   | <b>6,381,838</b> |
| <b>Non-Current Assets</b>            |       |                    |                  |
| Trade and other receivables          |       | 229,848            | 243,264          |
| Prepayments                          |       | 299,282            | 290,205          |
| Deferred tax asset, net              | 6 (b) | 2,436,114          | 148,938          |
| Deferred costs                       | 4     | 13,922,944         | -                |
| Plant and equipment                  | 12    | 496,072            | 622,654          |
| Intangible assets                    | 14    | 10,000             | 56,780           |
| <b>Total Non-Current Assets</b>      |       | <b>17,394,260</b>  | <b>1,361,841</b> |
| <b>TOTAL ASSETS</b>                  |       | <b>24,560,548</b>  | <b>7,743,679</b> |
| <b>LIABILITIES</b>                   |       |                    |                  |
| <b>Current Liabilities</b>           |       |                    |                  |
| Trade and other payables             |       | 512,973            | 455,046          |
| Unearned income                      |       | -                  | 425,414          |
| Deferred revenue                     | 4     | 2,254,867          | -                |
| Other liabilities                    |       | 200,000            | -                |
| Provisions                           |       | 213,498            | 261,156          |
| <b>Total Current Liabilities</b>     |       | <b>3,181,338</b>   | <b>1,141,616</b> |
| <b>Non-Current Liabilities</b>       |       |                    |                  |
| Trade and other payables             |       | 441,682            | 441,682          |
| Unearned income                      |       | 26,055             | 3,998,804        |
| Deferred revenue                     | 4     | 21,401,931         | -                |
| Other liabilities                    |       | 625,607            | -                |
| Provisions                           |       | 200,000            | 218,162          |
| <b>Total Non-Current Liabilities</b> |       | <b>22,695,275</b>  | <b>4,658,648</b> |
| <b>TOTAL LIABILITIES</b>             |       | <b>25,876,613</b>  | <b>5,800,264</b> |
| <b>NET ASSETS</b>                    |       | <b>(1,316,065)</b> | <b>1,943,415</b> |

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying note.

## Interim Consolidated Statement of Financial Position

As at 31 December 2018

|                       |       | 31 Dec 2018        | 30 Jun 2018      |
|-----------------------|-------|--------------------|------------------|
|                       | Notes | \$                 | \$               |
| <b>EQUITY</b>         |       |                    |                  |
| Contributed equity    |       | 5,861,788          | 5,861,788        |
| Share rights reserves |       | 66,503             | 40,339           |
| Accumulated losses    |       | (7,244,356)        | (3,958,712)      |
| <b>TOTAL EQUITY</b>   |       | <b>(1,316,065)</b> | <b>1,943,415</b> |

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes



## Interim Consolidated Statement of Changes in Equity

For The Half-Year Ended 31 December 2018

| Notes                        | Contributed<br>capital<br>\$ | Accumulated<br>losses<br>\$ | Reserves<br>\$ | Total equity<br>\$ |
|------------------------------|------------------------------|-----------------------------|----------------|--------------------|
| <b>At 1 July 2018</b>        | <b>5,861,788</b>             | <b>(3,958,712)</b>          | <b>40,339</b>  | <b>1,943,415</b>   |
| AASB 15 adjustment           | -                            | (1,966,135)                 | -              | (1,966,135)        |
| Profit (loss) for the period | -                            | (1,319,509)                 | -              | (1,319,509)        |
| Performance rights granted   | -                            | -                           | 26,164         | 26,164             |
| <b>At 31 December 2018</b>   | <b>5,861,788</b>             | <b>(7,244,356)</b>          | <b>66,503</b>  | <b>(1,316,065)</b> |
| <b>At 1 July 2017</b>        | <b>5,861,788</b>             | <b>(2,718,273)</b>          | <b>5,091</b>   | <b>3,148,606</b>   |
| Profit (loss) for the period | -                            | (895,467)                   | -              | (895,467)          |
| Performance rights granted   | -                            | -                           | 10,544         | 10,544             |
| <b>At 31 December 2017</b>   | <b>5,861,788</b>             | <b>(3,613,740)</b>          | <b>15,635</b>  | <b>2,263,683</b>   |

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

## Interim Consolidated Statement of Cash Flow

For The Half-Year Ended 31 December 2018

|   | Notes     | 31 Dec 2018<br>\$ | 31 Dec 2017<br>\$ |
|---|-----------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>                           |           |                   |                   |
| Receipts from customers   |           | 3,233,326         | 3,879,768         |
| Payments to suppliers and employees                                   |           | (3,538,927)       | (4,314,282)       |
| Finance income  |           | 3,124             | 4,707             |
| <b>Net cash flows from operating activities</b>                       |           | <b>(302,477)</b>  | <b>(429,807)</b>  |
| <b>Cash flows from investing activities</b>                           |           |                   |                   |
| Purchase of plant and equipment                                       |           | (12,938)          | (131,545)         |
| Interest received – term deposits                                     |           | 29,965            | 25,526            |
| Intangible – Capitalised software implemented or in development phase |           | -                 | (192,206)         |
| <b>Net cash flows (used in) from investing activities</b>             |           | <b>17,027</b>     | <b>(298,225)</b>  |
| <b>Net cash flows (used in) financing activities</b>                  |           | <b>-</b>          | <b>-</b>          |
| Net increase/(decrease) in cash and cash equivalents                  |           | (285,450)         | (728,032)         |
| Cash and cash equivalents at beginning of period                      |           | 4,535,827         | 5,089,581         |
| <b>Cash and cash equivalents at end of period</b>                     | <b>10</b> | <b>4,250,377</b>  | <b>4,361,549</b>  |

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2017

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## 1. CORPORATE INFORMATION

The financial report of Cryosite Limited and the controlled entity (the Group) for the half-year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 26<sup>th</sup> February 2019.

Cryosite Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

This general purpose condensed financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 *Interim Financial Reporting* ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2018 and considered together with any public announcements made by Cryosite Limited during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations of the ASX listing rules.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statement except for AASB 15 – Revenue from Contracts with Customers and AASB 9 – Financial Instruments that were newly adopted during the period.

### (a) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### (b) Changes in accounting policy, accounting standards and interpretations

#### (i) Amendments to AASBs and the new Interpretation that are mandatorily effective for the current period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective the current half-year.

- AASB 2016-5 Amendments to Australian Accounting Standard – Classification and Measurement of the Share-based Payment Transactions
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty of Income Tax Treatments
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The adoption of amending Standards does not have any impact on the disclosures or the amount recognised in the Group's interim consolidated financial statements.

#### **New Standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the adoption of new standards effective as of 1 July 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### **AASB 9 Financial Instruments**

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 July 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The impact of adopting AASB 9 follows:

##### *(a) Classification and measurement*

The classification and measurement requirements of AASB 9 did not have a significant impact on the Group.

##### *(b) Impairment*

The adoption of AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

In August 2018 the Group undertook a detailed review of current debtors as well as the history of collections and write offs. Using this analysis and taking into account revenue history, it was concluded that trade receivables required an expected loss provision of \$66,735. Consequently, the provision for bad debts was increased by \$66,735 on the 31<sup>st</sup> December 2018.

As of the 1<sup>st</sup> July 2018 management determined deficiencies existed on the aged trade debtors listing that precluded the Group to reliably measure the impact of AASB 9 on the opening balances.

The Company also assessed its prepayments for impairment as this includes costs incurred in relation to the implementation & development of applications. The review included assessing future cash benefits from the use of the application and determining an estimate value of the application. It was concluded that the current value is not impaired.

##### *(c) Hedge accounting*

The hedge accounting requirements of AASB 9 did not have a significant impact on the Group.



## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *IFRS 15 ("AASB 15") Revenue from Contracts with Customers*

IFRS 15 Revenue from Contracts with Customers ('AASB 15') introduces a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received for that transfer. The standard became effective from 1 July 2018.

The Company has elected to apply the modified retrospective transition method with respect to implementation of AASB 15. In this case AASB 15 is applied retrospectively to only the current period presented in the financial statements with no restatement of the comparative period. As such, the cumulative effect of initially applying AASB 15 will be recognised as an adjustment to retained earnings as at 1 July 2018 (the date of initial application). On this basis, there is no impact to retained earnings as at the 31<sup>st</sup> December 2017.

Cord Blood and Tissue Storage segment is impacted by AASB 15 in respect to cord blood and tissue contracts.

The introduction of AASB 15 has a significant impact on the reported revenue and costs and balance sheet of the Company. It is important to note there is no change to the expected timing or amount of cash impact collected from the cord blood and tissue contracts. These balance sheet assets and liabilities will then be taken to revenue and expensed over the life of each individual contract which ranges from 18 years to 25 years.

It should be noted that the Company has obtained legal advice which confirms that if any impact from AASB 15 adoption leads to negative net assets, the ability for the Company to declare dividends in the future will be impacted.

The impact of adopting AASB 15 on the half-year financial report is presented in Note 4.

##### **Accounting Standards issued but not yet effective and adopted**

*IFRS 16 Leases.* Recognise right of use assets and liabilities arising from all leases, with exceptions for low value and short term leases. The standard will be effective from 1 January 2019.

The Group has determined not to early adopt this standard and assessed that the impact is not significant as the existing lease term is current at reporting period.

##### **(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Cryosite Limited and its subsidiary ('the Group') as at the half-year ended 31 December 2018.

Subsidiaries are all entities (including structured 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 to direct the activities of 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 Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The financial statements of the subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Cryosite Limited are accounted for at cost in the separate financial statements of the parent entity, less any impairment charges.

#### (d) Foreign currency translation

Both the functional and presentation currency of Cryosite Limited and its Australian subsidiary is Australian dollars (\$). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

#### (e) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant & equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| Major depreciation rates are:  | 2018          | 2016          |
|--------------------------------|---------------|---------------|
| Leasehold improvements         | Lease term    | Lease term    |
| Plant and equipment:           |               |               |
| - Fixtures and fittings        | 5 – 10 years  | 5 – 10 years  |
| - Information technology       | 2 - 3 years   | 2 - 2.5 years |
| - Warehouse equipment          | 4 - 10 years  | 4 - 10 years  |
| - Office furniture & equipment | 2.5 – 8 years | 2.5 – 8 years |
| Plant & equipment under lease  | 5 years       | 5 years       |

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Board.

#### (g) Intangible assets

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### (g) Intangible assets (continued)

##### *Software development*

Software development costs are capitalised at the direct costs and amortised on a straight line basis over the period of their expected benefit being their finite life of 3 years. Amortisation starts at the time that the technology is activated and is used by both internal and external customers. The capitalised costs of platform technology include the direct costs of external consultants and any supporting software acquired from a third party.

The assessment of useful life is reviewed annually by the Board to determine whether the assumptions made continue to be appropriate and supportable. If not, the useful life assessment is changed on a prospective basis.

#### (h) Prepayments

Payments made in advance of services are recognized at the time of payment and classed as prepayments on the balance sheet. As the services are incurred, the relevant amounts are recognized as an expense in the profit and loss statement.

Costs incurred in relation to the implementation & development of applications are capitalised as a prepayment reflecting the economic benefits to be consumed over the contract service period. Any costs in relation to training & data conversion are expensed as incurred.



## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An assessment confirmed that these costs do not meet the recognition criteria as capitalized costs under AASB 138, specifically the control criteria. This is on the basis the hardware and applications are controlled by the contracted service provider and cannot be transferred to another party or host under the agreement. In absence of specific guidance under AASB, the accounting hierarchy under AASB 108 para 12 has been applied which allows the use of recent pronouncements of other standard setting bodies.

#### (i) Inventories

Inventories consist of consumables used in the provision of services. Inventories are valued at the lower of cost and net realisable value. Cost is determined by actual purchase price. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### (j) Trade and other receivables

Trade receivables (current), which generally have 30 day terms, are recognised initially at fair value less an allowance for impairment as per AASB 9 requirements.

The adoption of AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing AASB 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to record an allowance for ECL's for all loans and other debt financial assets not held at FVPL.

The Group's ECL is based on an estimated percentage of past due receivables that are expected to default based on historical experience.

Trade receivables (non-current), which generally have terms in excess of 24 months, are carried at their net present value. The expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate of 13.9% (2017:13.9%).

#### (k) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, in hand and short-term deposits with an original maturity 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.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (l) Trade and other payables

Trade and other payables are carried at amortised costs and due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.



## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Employee leave benefits

##### *Wages, salaries and annual leave*

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 other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. Unused sick leave on termination of employment is forfeited.

##### *Long service leave*

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal, or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### (o) Share-based payment transactions

The group provides benefits to employees (including executive directors) of the Group in the form of share based payment transactions, whereby the employees render services in exchange for rights over shares ('equity-settled transactions') under the Cryosite Employee Incentive Plan (CEIP) or individually negotiated share based payment arrangements.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions').

## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it was granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

In the case where outstanding equity-settled awards have expired, the relevant amounts in respect to these awards in the share option reserves are transferred to retained earnings.

#### (p) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (q) Revenue from contracts with customers

###### Rendering of services

The Group provides the following services:

- a. Collection, processing and storage of cord blood and tissue samples; and,
- b. Clinical trial, logistics and biorepository services

The Group identified that the above services are distinct and have assessed the revenue recognition in accordance with AASB 15 separately.

###### Revenue from cord blood and cord tissue storage

Prior to the adoption of AASB 15, the Group accounted for the collection and processing of cord blood and tissue samples as a separate performance obligation from the storage service. Accordingly, upfront fees and costs related to collection and processing activities are recognised immediately as revenue and costs at the inception of the contract while the storage fee component is recognised as unearned revenue and amortised throughout the contract term of either 18 or 25 years.

Under AASB 15, the Group assessed that the collection, processing and storage services for cord blood and tissue samples constitute a single performance obligation because none of the services are distinct and marketed independently of the others. In addition, it was determined that the performance obligation is performed over time (i.e throughout the storage contract period of 18 or 25 years).

The Group performed a re-allocation of the contract consideration to recognise upfront revenue and costs throughout the life of the storage contract. This resulted to the recognition of “Deferred revenue” and “Deferred costs” in the balance sheet as at 1 July 2018. These balance sheet items will unwind to revenue and costs for the remaining contract period.

###### Revenue from clinical trials, logistics and biorepository services

Revenue from clinical trials pertain to processing and distribution of samples for clinical testing. The Group has assessed that each sample processed is distinct from each other and that asset is transferred to the customer at the completion of the service. Accordingly, the Group assessed that the performance obligation is satisfied at a point in time and revenue is recognised as and when the customer obtains control of the asset.

The revenue recognition policy for clinical trials under AASB 15 is consistent with the provisions of the old standard, AASB 118 – Revenue; hence, clinical trials revenue is not impacted by the adoption of AASB 15.

###### Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

###### Dividend income

Dividends: revenue is recognised when the Company’s right to receive the payment is established.



## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (r) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future tax profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (s) Contributed equity

Contributed capital bears no special terms or conditions affecting income or capital entitlements of the shareholders. Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (t) Share options reserve

The share options reserve captures the equity component of the company's equity settled transactions of the share based payments schemes.

#### (u) Impairment of assets

Assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### (v) Earnings per share

Basic EPS is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Diluted EPS is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### (w) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principle market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability accessible to the Group.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in the highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For the purpose of fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

#### (x) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period



## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### **(y) Non-current assets (or disposal groups) and discontinued operations held for sale**

A discontinued operation is a component of an entity that either has been disposed of, discontinued or is classified as held for sale, and

- (i) represents a separate major line of business or geographical area of operations;
- (ii) is part of a single co-ordinated plan to dispose of a separate major line or geographical area of operations; or,
- (iii) is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note 14. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 3. SIGNIFICANT EVENTS AND TRANSACTIONS

As previously outlined in the 2018 Annual Report, on 23 June 2017 Cryosite entered into an agreement (Sale Agreement) to license, under the Cryosite brand, the collection, processing and storage of umbilical cord blood and tissue (CBT) and to sell certain of its CBT banking assets to Cell Care Australia Pty Ltd (Cell Care).

On the 11th July 2018, the Company was notified by the ACCC that it would commence civil proceedings against Cryosite in the Federal Court of Australia. At the time it was reported that the Company would incur substantial legal costs with the potential to incur financial penalties in the 2019 financial year.

The ACCC alleged in the proceeding that Cryosite breached the CCA by including a competition restraint provision in the Sale Agreement, which required Cryosite to refer all sales enquiries to Cell Care from the date of signing of the contract to the date on which the transaction closed. This constituted a 'cartel provision'.

Further to this, the Company has agreed to a settlement with the Australian Competition and Consumer Commission (ACCC) in relation to the proceeding against Cryosite in the Federal Court of Australia.

While Cryosite agreed to the inclusion of the restraint clause in the Sale Agreement and referred 12 customers to Cell Care under this clause, Cryosite had no intention to breach the CCA and had no awareness that the Sale Agreement contained a clause which would contravene the CCA. It is to be noted that Cryosite retained external lawyers to advise it in relation to the drafting and terms of the Sale Agreement; that Cryosite's external lawyers were involved in the negotiation of the Sale Agreement, but did not raise any concerns about cartel provisions; and any suggested changes to the draft Sale Agreement made by Cell Care were considered and agreed upon by the Board of Cryosite following legal advice.

Under the terms of the settlement, the ACCC applied to the Federal Court seeking declarations that by entering into the Sale Agreement, Cryosite entered into a contract containing a cartel provision in contravention of section 44ZZRJ of the CCA and that, including by referring 12 customer enquiries, Cryosite gave effect to a cartel provision in contravention of section 44ZZRK of the CCA. The ACCC sought a pecuniary penalty of \$1.1m (including costs) against Cryosite, with Cryosite being allowed to pay the penalty in instalments with \$250,000 (including legal costs) to be paid within 30 day' of the Court's order and the balance to be paid in 10 equal annual instalments from 2020 to 2029. Cryosite agreed to the declarations of contravention and orders against it.

On the 13th February 2019, the Federal Court of Australia approved this settlement.

The Company has taken up these costs as "other liabilities" on the balance sheet as at the 31 December 2018. These costs (after discounting of the non-current portion of the other liabilities) plus the legal costs associated with this action has resulted in total expense of \$1,135,689 being recorded in the profit and loss for this half. Details of these expenses are outlined in Note 16.

#### 4. TRANSITION TO AASB 15

The consolidated entity has elected to adopt a modified retrospective application of the standard as permitted by AASB 15. The standard has therefore been applied to the current financial year only with an adjustment to opening retained earnings to reflect the cumulative impact of adoption on all contracts that were incomplete as at 1 July 2018. Comparative figures are therefore not affected.



## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 4. TRANSITION TO AASB 15 (continue)

The adjustment to opening statement of financial position is a decrease in equity by \$1,964,675.

The current financial year impact on the financial statements of adopting AASB 15 as compared to AASB 111, AASB 118 and related interpretations that were in effect before change, is as follows:

#### *Statement of profit or loss and other comprehensive income*

|   | 2018<br>AASB 15<br>\$ | 2018<br>AASB 111/118<br>\$ | Variance<br>\$ |
|---|-----------------------|----------------------------|----------------|
| <b>Revenues</b>   | 3,919,664             | 2,823,135                  | 1,129,626      |
| <b>Expenses</b>   |                       |                            |                |
| Costs of providing services   | (2,275,022)           | (1,578,272)                | 696,750        |
| Depreciation and amortisation expense                                 | (186,302)             | (186,302)                  | -              |
| Marketing expenses  | (212,000)             | (212,000)                  | -              |
| Occupancy expenses  | (314,501)             | (314,501)                  | -              |
| Administration expenses   | (1,021,599)           | (1,021,599)                | -              |
| <b>Profit from continuing operations before tax</b>                   | (56,662)              | (489,538)                  | 432,876        |
| Income tax (expense) benefit  | (127,158)             | (8,124)                    | (119,034)      |
| <b>Profit after tax from continuing operations</b>                    | (183,820)             | (497,622)                  | 313,842        |
| <b>Legal settlement, net of tax</b>                                   | (1,135,689)           | (1,135,689)                | -              |
| <b>Discontinued operations</b>  |                       |                            |                |
| Profit/(loss) after tax from discontinued operations                  | -                     | -                          | -              |
| <b>Net Profit attributable to members of the parent</b>               | (1,319,509)           | (1,633,351)                | 313,842        |
| <b>Total other comprehensive income for the half-year, net of tax</b> | -                     | -                          | -              |
| <b>Total comprehensive income for the half-year, net of tax</b>       | (1,319,509)           | (1,633,351)                | 313,842        |

## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

### 4. TRANSITION TO AASB 15 (Continued)

*Statement of financial position*

|                                 | 2018<br>AASB 15<br>\$ | 2018<br>AASB 111/118<br>\$ | Variance<br>\$    |
|---------------------------------|-----------------------|----------------------------|-------------------|
| <b>ASSETS</b>                   |                       |                            |                   |
| <b>Current Assets</b>           |                       |                            |                   |
| Cash and cash equivalents       | 4,250,377             | 4,250,377                  | -                 |
| Trade and other receivables     | 1,140,622             | 1,140,622                  | -                 |
| Inventories                     | 23,945                | 23,945                     | -                 |
| Prepayments                     | 192,697               | 192,697                    | -                 |
| Income tax receivable           | 19,027                | 19,027                     | -                 |
| Other assets                    | 152,277               | 152,277                    | -                 |
| Deferred costs                  | 1,387,343             | -                          | 1,387,343         |
| <b>Total Current Assets</b>     | <b>7,166,288</b>      | <b>5,778,945</b>           | <b>1,387,343</b>  |
| <b>Non-Current Assets</b>       |                       |                            |                   |
| Trade and other receivables     | 229,848               | 229,848                    | -                 |
| Prepayments                     | 299,282               | 299,282                    | -                 |
| Deferred tax assets, net        | 2,436,114             | 140,813                    | 2,295,301         |
| Deferred costs                  | 13,922,944            | -                          | 13,922,944        |
| Plant and equipment             | 496,072               | 496,072                    | -                 |
| Intangible assets               | 10,000                | 10,000                     | -                 |
| <b>Total Non-Current Assets</b> | <b>17,394,260</b>     | <b>1,176,015</b>           | <b>16,218,245</b> |
| <b>TOTAL ASSETS</b>             | <b>24,560,548</b>     | <b>6,954,960</b>           | <b>17,605,588</b> |

## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

### 4. TRANSITION TO AASB 15 (Continued)

|                                      | 2018<br>AASB 15<br>\$ | 2018<br>AASB 111/118<br>\$ | Variance<br>\$     |
|--------------------------------------|-----------------------|----------------------------|--------------------|
| <b>LIABILITIES</b>                   |                       |                            |                    |
| <b>Current Liabilities</b>           |                       |                            |                    |
| Trade and other payables             | 512,973               | 512,973                    | -                  |
| Deferred revenue                     | 2,254,867             | -                          | 2,254,867          |
| Other liabilities                    | 200,000               | 200,000                    | -                  |
| Provisions                           | 213,498               | 213,498                    | -                  |
| <b>Total Current Liabilities</b>     | <b>3,181,338</b>      | <b>926,471</b>             | <b>2,254,867</b>   |
| <b>Non-Current Liabilities</b>       |                       |                            |                    |
| Trade and other payables             | 441,682               | 441,682                    | -                  |
| Unearned income                      | 26,055                | 26,055                     | -                  |
| Deferred revenue                     | 21,401,931            | -                          | 21,401,931         |
| Other liabilities                    | 625,607               | 625,607                    | -                  |
| Provisions                           | 200,000               | 200,000                    | -                  |
| <b>Total Non-Current Liabilities</b> | <b>22,695,275</b>     | <b>1,293,344</b>           | <b>21,401,931</b>  |
| <b>TOTAL LIABILITIES</b>             | <b>25,876,613</b>     | <b>2,219,815</b>           | <b>23,656,798</b>  |
| <b>NET ASSETS</b>                    | <b>(1,316,065)</b>    | <b>4,735,145</b>           | <b>(6,051,210)</b> |
| <b>EQUITY</b>                        |                       |                            |                    |
| Contributed equity                   | 5,861,788             | 5,861,788                  | -                  |
| Share rights reserves                | 66,503                | 66,503                     | -                  |
| Accumulated losses                   | (7,244,356)           | (7,558,198)                | 313,842            |
| <b>TOTAL EQUITY</b>                  | <b>(1,316,065)</b>    | <b>(1,629,907)</b>         | <b>313,842</b>     |

#### *Explanation of significant changes*

The consolidated entity previously recognised revenue from cord blood services as follow:

- Revenue from the rendering of non-storage services, such as collection and processing of biological samples, is recognised upon the delivery of the service to the customers; and,
- Revenue from storage services is recognised over the period of the storage contract. Where the Group has a long term contract with its customers to provide cord blood services, a receivable is recognised at its net present value with a corresponding amount recognised as unearned income in the statement of financial position.

AASB 15 required the collection, processing and storage services to be treated as a single performance obligation as none of the services are marketed as a stand-alone service. Consequently, the timing of revenue recognition and profit for cord blood and cord tissue collection and processing services has changed with the related revenue now recognised over time in accordance with the contract term of 18 or 25 years.

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 4. TRANSITION TO AASB 15 (Continued)

Deferred revenue represents the upfront collection and processing fees recognized immediately to revenue at inception of the contract. Deferred costs represents upfront costs, such as laboratory fees, attributable for the collection and processing of cord blood and tissue samples. These are capitalised and amortised over the remaining life of the storage contracts.

#### 5. REVENUE AND EXPENSES

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

##### (i) Revenue

|  | 2018<br>\$       | 2017<br>\$       |
|--|------------------|------------------|
| <i>Customer contract revenues</i>        |                  |                  |
| Sales of goods and rendering of services | 2,562,247        | 2,604,759        |
| Storage Revenue *                        | 1,333,913        | 251,673          |
| Interest income on customer contracts    | 23,504           | 23,608           |
|  | <u>3,919,664</u> | <u>2,880,040</u> |
| <br><i>Other revenue</i>                 |                  |                  |
| Bank interest                            | 33,097           | 29,774           |
|  | <u>33,097</u>    | <u>29,774</u>    |
|  | <u>3,952,761</u> | <u>2,909,814</u> |

##### (ii) Expenses

Major items included within expenses follow:

|                   |                  |                  |
|-------------------|------------------|------------------|
| Employee benefits | <u>1,246,136</u> | <u>1,629,544</u> |
|-------------------|------------------|------------------|

\* The consolidated entity has adopted AASB 15 'Revenue from Contracts with Customers' using the modified retrospective application method. Refer to Note 4 for impact.

## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

### 6. INCOME TAX

| (a) Income Tax Expense   | 2018             | 2017           |
|--|------------------|----------------|
|  | \$               | \$             |
| Accounting profit/(loss) before tax  | (1,192,351)      | (1,156,560)    |
| At the statutory income tax rate of 27.5% (2017: 30%)                                  | 327,896          | 346,968        |
| Other items (net)  | (455,054)        | (85,875)       |
| <b>Income tax benefit /(expense) reported in the statement of comprehensive income</b> | <b>(127,158)</b> | <b>261,093</b> |
| Income tax benefit/(expense) is attributable to the following:                         |                  |                |
| - Continuing operations  | (127,158)        | (74,554)       |
| - Legal settlement (Note 15)   | -                | 70,102         |
| - Discontinued operations (Note 14)  | -                | 265,545        |
|  | <b>(127,158)</b> | <b>261,093</b> |

### (b) Recognised deferred tax assets and liabilities

Deferred taxes at 31 December 2018 and 30 June 2018 relates to the following:

|  | 31 Dec 2018      | 30 June 2018   |
|--|------------------|----------------|
|  | \$               | \$             |
| <b><u>Deferred taxes arising from AASB 15 adoption</u></b>           |                  |                |
| Deferred tax asset on deferred revenue                               | 6,505,630        | -              |
| Deferred tax liability on deferred costs                             | (4,210,329)      | -              |
| Net deferred tax asset – AASB 15                                     | 2,295,301        | -              |
| <b><u>Deferred taxes arising from normal business operations</u></b> |                  |                |
| Post-employment benefits   | 58,358           | 70,340         |
| Provision for tax and audit fees                                     | 16,001           | 15,753         |
| Provision for doubtful debts   | 23,618           | 12,537         |
| Impairment and depreciation of plant & equipment for book purposes   | 50,296           | 58,628         |
| <b>Deferred tax assets</b>   | <b>148,273</b>   | <b>157,258</b> |
| Prepayments  | (875)            | (1,763)        |
| Consumables  | (6,585)          | (6,557)        |
| <b>Deferred tax liabilities</b>                                      | <b>(7,460)</b>   | <b>(8,320)</b> |
| Net deferred tax asset – normal operations                           | 140,813          | 148,938        |
| <b>Net deferred tax assets</b>                                       | <b>2,436,114</b> | <b>148,938</b> |



## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

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#### 6. INCOME TAX (continued)

At 31 December 2018 the Group has unconfirmed tax losses arising in Australia of \$1,849,027 (June 2018: \$981,322) that are available for offset against future taxable profits of the company.

#### 7. DIVIDENDS PAID OR PROPOSED

No dividends have been provided for at the reporting date (30 June 2018: Nil).

#### 8. CONTINGENT LIABILITIES

The Company is not aware of any contingent liabilities or contingent assets at reporting date.

#### 9. SUBSEQUENT EVENTS

On the 13<sup>th</sup> February 2019, the Federal Court of Australia approved a settlement between the Company and the Australian Competition and Consumer Commission ('ACCC') in relations to proceedings against the Company. Details are outline in Note 3 of these accounts.

#### 10. SEGMENT INFORMATION

##### Identification of Reportable Segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The segment information provided is consistent with the internal management reporting.

Two reportable segments have been identified as follows:

|  |   |
|--|---|
| <b>Cord Blood and Tissue Storage</b>               | Storage of cord blood and tissue samples  |
| <b>Clinical Trials Logistics and Biorepository</b> | Biorepository services, clinical trials logistics, commercial drug distribution and the other storage and distribution based services including the importation and distribution of laboratory diagnostic products. |

The accounting policies used by the Company in reporting segments internally are the same as those contained in note 1 to the accounts and in the 30 June 2018 annual financial report.

## Notes to the Consolidated Financial Statements

For The Half-Year Ended 31 December 2018

### Operating Segments

2018

| Operating Segment                     | Clinical Trials<br>Logistics and<br>Biorepository | Cord Blood<br>and Tissue | Unallocated | Total       |
|---------------------------------------|---|--------------------------|-------------|-------------|
| Revenue                               | 2,562,247   | 1,357,417                | 33,097      | 3,952,761   |
| Net profit before tax                 | 647,706   | 416,458                  | (1,120,827) | (56,663)    |
| tax                                   |   |                          |             | (127,158)   |
| Net profit after tax                  |   |                          |             | (183,821)   |
| Legal Settlement, net of tax          |   |                          |             | (1,135,689) |
| Total Comprehensive Income net of tax |   |                          |             | (1,319,510) |
| Segment Assets 31 December 2018       | 1,315,191   | 22,401,214               | 5,054,473   | 28,770,878  |
| Segment Liabilities 31 December 2018  | 189,893   | 28,334,864               | 1,562,186   | 30,086,943  |
| Depreciation and Amortisation         | (57,859)  | (62,370)                 | (66,073)    | (186,302)   |

2017

| Operating Segment                     | Clinical Trials<br>Logistics and<br>Biorepository | Cord Blood<br>and Tissue | Unallocated | Total     |
|---------------------------------------|---|--------------------------|-------------|-----------|
| Revenue                               | 2,604,759   | 275,281                  | 29,713      | 2,909,754 |
| Net profit before tax                 | 1,317,255   | 40,342                   | (1,060,594) | 297,003   |
| tax                                   |   |                          |             | (74,555)  |
| Net profit after tax                  |   |                          |             | 222,448   |
| Legal Settlement, net of tax          |   |                          |             | (163,573) |
| Discontinued Operations               |   |                          |             | (954,341) |
| Total Comprehensive Income net of tax |   |                          |             | (895,466) |
| Segment Assets 30th June 2018         | 1,284,519   | 1,026,461                | 5,432,699   | 7,743,679 |
| Segment Liabilities 30th June 2018    | 177,168   | 4,865,900                | 757,196     | 5,800,264 |
| Depreciation and Amortisation         | (59,172)  | (74,334)                 | (33,761)    | (167,267) |

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 11. CASH AND CASH EQUIVALENTS

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December 2018:

|                          | 31 Dec 2018      | 30 June 2018     |
|--------------------------|------------------|------------------|
|                          | \$               | \$               |
| Cash at bank and in hand | 215,642          | 534,181          |
| Short-term deposits      | 4,034,735        | 4,001,646        |
|                          | <u>4,250,377</u> | <u>4,535,827</u> |

#### *Change in comparative figures*

During the period, the Company has modified the statement of financial position where bank guarantee of \$152,227 was previously included as part of short term deposits is now presented separately under "Other assets".

Comparative amounts in the statement of financial position were reclassified in order to be consistent with current year presentation. The effect of the above reclassification follows:

#### Statement of Financial Position for the period ended 30 June 2018

|                           | As previously presented | Reclassification | As represented |
|---------------------------|-------------------------|------------------|----------------|
| Cash and cash equivalents | 4,688,104               | (152,227)        | 4,535,877      |
| Other assets              | -                       | 152,227          | 152,227        |



## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2018, the Company acquired assets with a cost of \$12,938. (30 June 2018: \$181,515).

|  | Leasehold<br>improvements | Fixtures<br>and fittings | Information<br>technology | Warehouse<br>equipment | Office<br>furniture &<br>equipment | Total              |
|--|---------------------------|--------------------------|---------------------------|------------------------|------------------------------------|--------------------|
|  | \$                        | \$                       | \$                        | \$                     | \$                                 | \$                 |
| <b>Cost</b>                                      |                           |                          |                           |                        |                                    |                    |
| At 30 June 2018                                  | 211,613                   | 133,829                  | 263,378                   | 4,313,674              | 31,254                             | 4,953,748          |
| Additions  | -                         | -                        | -                         | 12,938                 | -                                  | 12,938             |
| <b>At 31 December<br/>2018</b>                   | <b>211,613</b>            | <b>133,829</b>           | <b>263,378</b>            | <b>4,326,612</b>       | <b>31,254</b>                      | <b>4,966,686</b>   |
| <b>Accumulated Depreciation</b>                  |                           |                          |                           |                        |                                    |                    |
| At 30 June 2018                                  | (200,734)                 | (78,986)                 | (229,253)                 | (3,805,997)            | (16,124)                           | (4,331,094)        |
| Depreciation<br>charge for the 6<br>months       | (1,105)                   | (3,497)                  | (11,399)                  | (120,962)              | (2,557)                            | (139,520)          |
| <b>At 31 December<br/>2018</b>                   | <b>(201,839)</b>          | <b>(82,483)</b>          | <b>(240,652)</b>          | <b>(3,926,959)</b>     | <b>(18,681)</b>                    | <b>(4,470,614)</b> |
| <b>Net book value –<br/>30 June 2018</b>         | <b>10,879</b>             | <b>54,843</b>            | <b>34,125</b>             | <b>507,677</b>         | <b>15,130</b>                      | <b>622,654</b>     |
| <b>Net book value –<br/>31 December<br/>2018</b> | <b>9,774</b>              | <b>51,346</b>            | <b>22,726</b>             | <b>399,653</b>         | <b>12,573</b>                      | <b>496,072</b>     |

#### 13. RELATED PARTY TRANSACTIONS

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending 31 December 2018 and 31 December 2017 as well as balances with related parties as at 30 June 2018:

|                                       | 31 Dec 2018      | 30 June 2018 | 31 Dec 2017      |
|---------------------------------------|------------------|--------------|------------------|
|                                       | \$               | \$           | \$               |
| Owed by Cryosite Distribution Pty Ltd | -                | -            | -                |
| Owed to Cryosite Distribution Pty Ltd | <b>1,544,427</b> | 196,574      | <b>1,728,718</b> |

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 14. NON-CURRENT ASSETS - INTANGIBLE ASSETS

|  | Software<br>\$   | Total<br>\$      |
|--|------------------|------------------|
| <b>Cost</b>                              |                  |                  |
| At 30 June 2018                          | 294,615          | 294,615          |
| Additions                                | -                | -                |
| <b>At 31 December 2018</b>               | <b>294,615</b>   | <b>294,615</b>   |
| <b>Amortisation and impairment</b>       |                  |                  |
| At 30 June 2018                          | (237,835)        | (237,835)        |
| Amortisation for the 6 months            | (7,000)          | (7,000)          |
| Impairment loss                          | (39,780)         | (39,780)         |
| <b>At 31 December 2018</b>               | <b>(284,615)</b> | <b>(284,615)</b> |
| <b>Net book value – 30 June 2018</b>     | <b>56,780</b>    | <b>56,780</b>    |
| <b>Net book value – 31 December 2018</b> | <b>10,000</b>    | <b>10,000</b>    |

#### Software Development

The Company has invested in the development of in-house software to enhance its operating capability. These costs include the direct costs of external consultants and any supporting software acquired from a third party.

The Company assesses the impairment of non-financial assets at each reporting date. The Company assessed these software assets and concluded that these assets were impaired by \$39,780.

#### 15. DISCONTINUED OPERATIONS

On 31<sup>st</sup> October 2017, the Company completed the closure of the laboratory operations and the departure of staff associated with the collection and processing of cord blood and tissue samples. The Company will continue to service its existing storage contracts until the full contract terms of either 18 or 25 years.

As result of the decision to cease the collection and processing of cord blood and tissue samples, the board reviewed all non-financial assets associated with these operations and, as a result of this review, concluded that these assets were impaired. Consequently, they resolved to write down these assets by the following amounts:

|                               |                |
|-------------------------------|----------------|
| Property, plant and equipment | 115,012        |
| License fees                  | 231,860        |
| Intellectual property         | 91,510         |
| Software                      | 117,204        |
| <b>Total impairment loss</b>  | <b>555,586</b> |

No impairment was deemed necessary for the assets related to the storage and maintenance of cord blood and tissue samples.

The results of operations related to collection and processing of cord blood and tissue samples are presented below:

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

#### 15. DISCONTINUED OPERATIONS (continue)

|  | <u>31 Dec 2017</u>          |
|--|-----------------------------|
|  | \$                          |
| Revenue  | 232,492                     |
| Expenses   | (896,792)                   |
| Impairment loss  | (555,586)                   |
|  | <u>                    </u> |
| Pre-tax profit/(loss) for the financial year                               | (1,219,886)                 |
| Income tax credit/(expense)  | 265,545                     |
|  | <u>                    </u> |
| Post-tax profit/(loss) for the financial year from discontinued operations | <u>(954,341)</u>            |

The run-off storage income from existing cord blood and storage contracts are presented as part of continuing operations from Cord Blood and Tissue

#### 16. LEGAL SETTLEMENT

|   | <u>31 Dec 2018</u>          | <u>31 Dec 2017</u>          |
|---|-----------------------------|-----------------------------|
|   | \$                          | \$                          |
| Penalty from ACCC   | (1,050,000)                 | -                           |
| Less discount factor due to payment plan                            | (a) 224,393                 | -                           |
| Discounted penalty from ACCC  | (825,607)                   | -                           |
| Legal fees paid to ACCC   | (50,000)                    | -                           |
| Final ACCC settlement   | (a) (875,607)               | -                           |
| Final settlement  | -                           | (195,000)                   |
| Legal expenses incurred   | (260,082)                   | (198,676)                   |
| Provision for employee claims reversed                              | -                           | 130,000                     |
| Accruals reversed   | -                           | 30,000                      |
|   | <u>                    </u> | <u>                    </u> |
| Pre-tax profit/(loss) for the financial year                        | (1,135,689)                 | (233,676)                   |
| Income tax credit/(expense)   | -                           | 70,102                      |
|   | <u>                    </u> | <u>                    </u> |
| Post-tax profit/(loss) for the financial year from legal settlement | <u>(1,135,689)</u>          | <u>(163,574)</u>            |

#### 2018

On the 13<sup>th</sup> February 2019, the Company settled with the Australian Competition and Consumer Commission (ACCC) in relation to the proceeding against Cryosite in the Federal Court of Australia.

Under the terms of the settlement, the Company agreed to pay a pecuniary penalty of \$1.1m (including costs) to the ACCC, with Cryosite being allowed to pay the penalty in instalments with \$250,000 (including \$50,000 in legal costs) to be paid within 30 days of the Court's order and the balance to be paid in 10 equal annual instalments from 2020 to 2029. Background details to this settlement are outlined in Note 3.

## Notes to the Consolidated Financial Statements

### For The Half-Year Ended 31 December 2018

2017

As noted in the 30 June 2017 annual report, a former Director and former employee made a claim against the company in respect to statutory entitlements and an additional termination entitlements. This claim was subsequently settled by the company.

(a) The accounting treatment of the ACCC penalty is as follows;

|                 | Penalty            | PL Impact        | Balance Sheet<br>Impact | Classification                |
|-----------------|--------------------|------------------|-------------------------|-------------------------------|
|                 | \$                 | \$               | \$                      |                               |
| Legal fees      | \$50,000           | \$50,000         | \$50,000                | Current other payables        |
| Initial Payment | \$200,000          | \$200,000        | \$200,000               | Current other liabilities     |
| Payment plan*   | \$850,000          | \$625,607        | \$625,607               | Non-current other liabilities |
| <b>Total</b>    | <b>\$1,100,000</b> | <b>\$875,607</b> | <b>\$875,607</b>        |                               |

\*The payment plan of \$850,000 has been discounted by \$224,393 over a 10 year period using a discount rate of 6% to reflect the 10 equal annual instalments of \$85,000.



## **Independent Auditor's Review Report to the members of Cryosite Limited**

### **Conclusion**

We have reviewed the accompanying half-year financial report of Cryosite Limited and its controlled entities (the "Group"), which comprise the statement of financial position as at 31 December 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies, other selected explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cryosite Limited and its controlled entities is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

### **Directors' responsibility for the half-year financial report**

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors' determine is necessary to enable the presentation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cryosite Limited and its controlled entities during the half-year ended 31 December 2018, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



MAZARS

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

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

### **MAZARS RISK & ASSURANCE PTY LIMITED**

**Paul Collins**  
Director

Sydney, on this 26<sup>th</sup> day of February 2019

MAZARS RISK & ASSURANCE PTY LIMITED  
ABN: 39 151 805 275

LEVEL 12, 90 ARTHUR STREET, NORTH SYDNEY NSW 2060 PO BOX 1994, NORTH SYDNEY NSW 2059  
TEL: +61 2 9922 1166 - FAX: +61 2 9922 2044  
EMAIL: [audit@mazars.com.au](mailto:audit@mazars.com.au)

LIABILITY LIMITED BY A SCHEME, APPROVED UNDER THE PROFESSIONAL STANDARDS LEGISLATION

