AFT PHARMACEUTICALS LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 March 2014

AFT PHARMACEUTICALS LIMITED

Financial Statements
For the Year Ended 31 March 2014

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AFT PHARMACEUTICALS LIMITED

Company Directory
As at 31 March 2014

Registered Office
Level 1, A.C. Nielsen House
129 Hurstmere Road
Takapuna
Auckland

Directors
Dr Hartley Atkinson
Marree Atkinson
Jon Lamb
Malcolm Tubby
Doug Wilson

Auditors
PricewaterhouseCoopers
Level 1, Westpac Building,
106 George Street
Dunedin

Solicitors
Harmos Horton Lusk Limited
AJ Pietras & Co
Kemp Strang
Cooley LLP

Bankers
BNZ Bank, New Zealand
NAB Bank, Australia

Date of Formation
4th September 1997

Company Number
873005

Nature of Business
Distribution of pharmaceutical products in New Zealand and Australia and development of pharmaceutical intellectual property.

Shareholders

Dr Hartley Atkinson and Colin McKay as Trustees for the Atkinson Family Trust	1,000	Ordinary Shares
Total Issued Shares	1,000	Ordinary Shares

AFT PHARMACEUTICALS LIMITED

Annual Report
For the Year Ended 31 March 2014

The Directors present herewith this Annual report including Financial Statements of the Company for the year ended 31st March 2014.

Section 211 of the Companies Act 1993 requires the following disclosures:

The business of the Company is a pharmaceutical distributor and developer of pharmaceutical intellectual property.

The nature of the Company's business has not changed during the year.

Auditors

PricewaterhouseCoopers are the Auditors of the Company and Group.
Audit Expenditure was incurred during the year as shown in the Statements of Comprehensive Income.

Directors Disclosures

No Directors acquired or disposed of any interest in shares in the Company or its subsidiary.

The following Directors held office:
Dr Hartley Atkinson
Marree Atkinson
Jon Lamb
Malcolm Tubby
Doug Wilson
No other person was a Director at any time.

Directors Fees

No director's fees were paid during the year. It is noted that Hartley Atkinson, Marree Atkinson and Malcolm Tubby all received a salary as employees from the Company during the year.

Dividends

No dividend was declared or paid during the year (2013: $nil).

Employee Remuneration

Seven employees received remuneration and/or any other benefits exceeding $100,000 during the year:

$100,000 to $109,999	1
$120,000 to $129,999	1
$130,000 to $139,999	1
$140,000 to $149,999	2
$180,000 to $189,999	1
$370,000 to $379,999	1

Director

Dated 18 August 2014

AFT PHARMACEUTICALS LIMITED

Statements of Comprehensive Income
For the Year Ended 31 March 2014

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
REVENUE					
Sales – Net of discounts	4	48,939	40,363	40,673	36,203
TOTAL COST OF SALES		28,609	22,727	28,513	24,740
GROSS PROFIT		20,330	17,636	12,160	11,462
OTHER INCOME					
Management Fees		-	-	640	431
Licensing Income		897	-	897	-
Research and Development Grant		787	536	787	536
		22,014	18,172	14,484	12,429
LESS EXPENSES					
Distribution Costs		1,963	1,405	1,101	820
Registration & License Fees		2,353	1,729	1,540	1,292
Research	5	2,808	2,701	2,808	2,701
Marketing Costs		4,613	3,713	3,242	2,555
Bad Debt & Contingency Provision		90	71	1	(4)
Employee emoluments		7,265	5,837	3,904	3,063
Administration Costs		1,348	1,028	919	797
Rent & Rates		495	418	366	308
TOTAL EXPENSES		20,935	16,903	13,880	11,532
OPERATING PROFIT		1,079	1,269	604	897
Other Expenditure					
Interest Expense		939	609	631	366
Finance Costs		1,090	170	452	72
TOTAL OTHER EXPENDITURE		2,028	779	1,083	438
NET (LOSS)/PROFIT BEFORE DEPRECIATION AND AMORTISATION		(949)	491	(479)	459
Less Depreciation	10	140	136	130	129
Less Amortisation	11	82	49	82	49
OPERATING (LOSS)/PROFIT BEFORE TAX		(1,171)	306	(691)	281
Less Income Tax	6	(59)	134	(6)	76
NET (LOSS)/PROFIT FOR YEAR		(1,113)	172	(686)	206

NOTE: This Statement is to be read in conjunction with the Notes to the Financial Statements

AFT PHARMACEUTICALS LIMITED

Statements of Changes in Equity
For the Year Ended 31 March 2014

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
EQUITY AT START OF PERIOD	4,339	4,157	3,897	3,690
Net (Loss) / Profit for Year	(1,113)	172	(686)	206
OTHER MOVEMENTS				
Foreign Exchange Translation Reserve	(169)	10	(0)	-
Capital Raising Expenses	(8)	-	(8)	-
	(177)	10	(8)	-
EQUITY AT END OF PERIOD	3,048	4,339	3,202	3,897
COMPRISING:				
Contributed Equity				
Opening Balance	41	41	41	41
Shares Issued During the Year	-	-	-	-
Capital Raising Expenses	(8)	-	(8)	-
Closing Balance	33	41	33	41
Foreign Exchange Translation Reserve				
Opening Balance	4	4	-	-
Foreign Translation (Loss) / Gain During the year	(169)	10	-	-
Transfer to Retained Earnings	169	(10)	-	-
Closing Balance	4	4	-	-
Retained Earnings				
Opening Balance	4,294	4,111	3,855	3,648
(Loss) / Profit for the Year	(1,113)	172	(686)	206
Foreign Exchange Translation Differences	(169)	10	-	-
Closing Balance	3,012	4,294	3,169	3,855
Total Equity	3,048	4,339	3,202	3,897

NOTE: This Statement is to be read in conjunction with the Notes to the Financial Statements

AFT PHARMACEUTICALS LIMITED

Balance Sheets
As at 31 March 2014

		Consolidated		Parent	
		2014	2013	2014	2013
	Notes	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and Cash Equivalents	7	1,242	1,084	125	288
Income Tax Refund Due	6	109	55	39	74
Accounts Receivable	8	9,638	7,863	9,156	8,460
Inventories	9	12,654	11,699	8,458	7,679
		23,643	20,701	17,779	16,501
NON-CURRENT ASSETS					
Plant & Equipment	10	405	463	378	419
Intangible Assets	11	1,419	1,082	1,419	1,082
Investment/Loan in Subsidiary Company	12	-	-	4,001	4,001
		1,824	1,545	5,797	5,501
TOTAL ASSETS		25,467	22,246	23,576	22,002
CURRENT LIABILITIES					
Cash and Cash Equivalents	7	-	8	-	8
Bank Borrowings – Loan	14	-	-	-	-
GST Payable		297	129	89	128
Accounts Payable	13	8,985	5,236	7,150	5,436
Income tax payable	6	-	-	-	-
		9,282	5,371	7,239	5,571
NON CURRENT LIABILITIES					
Bank Borrowings – Non Current	14	13,137	12,535	13,137	12,535
TOTAL LIABILITIES		22,420	17,907	20,375	18,106
NET ASSETS		3,048	4,339	3,202	3,896
REPRESENTED BY:					
EQUITY					
Share Capital	15	33	41	33	41
Foreign Exchange Translation Reserve	16	4	4	-	-
Retained Earnings	17	3,012	4,294	3,169	3,855
		3,048	4,339	3,202	3,896

Director

18 August 2014

NOTE: This Statement is to be read in conjunction with the Notes to the Financial Statements

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AFT PHARMACEUTICALS LIMITED

Statements of Cash Flows

For the Year Ended 31 March 2014

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Operating Activities					
Cash was provided from:					
Receipts from Customers		47,713	38,481	28,679	22,111
Interest Received		282	287	282	287
Management Fee Received		-	-	640	431
		47,995	38,768	29,601	22,829
Cash was applied to:					
Payments to Suppliers		(40,460)	(37,495)	(25,798)	(24,053)
Payments to Employees		(5,445)	(4,047)	(3,010)	(2,646)
Tax Paid		4	(416)	40	(323)
Interest Paid		(2,028)	(779)	(1,083)	(438)
		(47,929)	(42,737)	(29,852)	(27,460)
Net Cash Outflow from Operating Activities	18	66	(3,970)	(250)	(4,630)
Investing Activities					
Cash was applied to:					
Purchase of Plant and Equipment		(82)	(120)	(86)	(104)
Patents, Trademarks and Software Purchased		(419)	(367)	(419)	(367)
Loan to Shareholder Repaid		-	-	-	-
		(501)	(487)	(505)	(471)
Net Cash Outflow from Investing Activities		(501)	(487)	(505)	(471)
Financing Activities					
Cash was provided from:					
Bank Borrowings		601	7,884	601	7,884
		601	7,884	601	7,884
Cash was applied to:					
Repayment of bank borrowings		-	-	-	-
		-	-	-	-
Net Cash Inflow from Financing Activities		601	7,884	601	7,884
Net Increase / (Decrease) in Cash Held		165	3,427	(155)	2,782
Add Opening Cash Balance Brought Forward		1,077	(2,350)	280	(2,503)
Ended Cash Carried Forward	7	1,242	1,076	125	280

NOTE: This Statement is to be read in conjunction with the Notes to the Financial Statements

1. GENERAL INFORMATION

The financial statements presented here are for the entity AFT Pharmaceuticals Limited, a registered Company under the Companies Act 1993. The Company is a pharmaceutical distributor business, incorporated and domiciled in New Zealand.

AFT Pharmaceutical Limited is a reporting entity under the Financial Reporting Act 1993. These Financial Statements have been prepared in accordance with the Financial Reporting Act 1993.

These financial statements are authorised for issue on 15 August 2014 by the Directors.

2. STATEMENT OF ACCOUNTING POLICIES

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis have been used.

(a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards.

Accounting policies applied in these financial statements comply with NZ IFRS issued and effective as at the time of preparing these statements as applicable to the Company as a profit-oriented entity. The Company and Group is in compliance with International Financial Reporting Standards (IFRS).

The accounting policies presented below have been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in accordance with NZ IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The most significant of these that impact on these financial statements are the calculation of depreciation of plant and equipment, accrued expenses and the assessment of any potential uncollectible accounts receivable.

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. Figures are rounded to the nearest thousand dollars.

(b) Principles of consolidation

Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of the parent as at 31 March 2014 and the results of its subsidiary for the year then ended. AFT Pharmaceuticals Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are AFT Pharmaceuticals Pty Ltd in Australia, AFT Pharmaceuticals (SE Asia) SDN BHD in Malaysia and AFT Pharmaceuticals Singapore PTE LTD in Singapore.

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) Principles of consolidation (Continued)

Subsidiaries (Continued)

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The purchase method of accounting is used to account for the subsidiary by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statements of comprehensive income.

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

(iii) Foreign operations

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

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

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(d) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised when a Company and Group have delivered a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction.

(ii) Sales of Services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest Income
Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Plant and Equipment

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

Depreciation of plant and equipment is calculated using the diminishing value method which is apportions the cost of the assets over their useful lives. Rates set out in the Income Tax Act 2004 are used to write off the assets over their useful lives. The Company and Group have the following classes of fixed assets and depreciation rates:

Category	*Depreciation Rate (%)*
Plant & Machinery	21% to 80%
Fixtures & Fittings	9% to 60%
Vehicles	26% to 36%

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

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

(f) Intangible assets

Trademarks and Patents
Patent costs have a finite useful life. Patent costs are capitalised and written off over the useful economic life of 20 years. It is the intention of the company to renew its trademarks in perpetually. Accordingly, trademark costs are capitalised and will only be written off if a trademark should no longer be of any value to the company.

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(g) **Goods & Services Tax**
The Statements of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of account receivables and payables.

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

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

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

(i) **Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(k) **Accounts Receivable**
Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Bad debts are written off in the year in which they are identified. Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company and Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statements of Comprehensive Income. Post due assets are any assets which have not been updated by the counterparty within its key terms when contractually due and which are not impaired assets.

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

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

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

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

Borrowing costs are expensed as incurred.

(n) **Share capital**
Ordinary shares are classified as equity.

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

(p) **Employee Entitlements**
Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick 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 and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of estimated future cash flows.

(q) **Impairment of Non-Financial Assets**
Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(r) **Critical Accounting Estimates and Assumptions**
In preparing these financial statements the Company and Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations or future events that are believed to be reasonable under the circumstances. The main estimates and assumptions used are depreciation of fixed assets and amortisation of patents. It is not expected that these estimates and assumptions will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 2014 reporting periods. The Group's and Company's assessment of the impact of these new standards and interpretations is set out below.

NZ IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2015)
The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities. When the standard is adopted, it is not expected to result in a change in measurement for financial assets as the current categorisation of loans and receivables is expected to remain the same. The Company would not have any transactions to disclose under the new IAS 1 and IFRS 7 disclosure requirements relating to gain or loss arising on de-recognition of financial assets measured at amortised cost. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Company does not have any such liabilities. The de-recognition rules have been transferred from NZ IAS 139 Financial Instruments: Recognition and Measurement and have not been changed. The Company has not yet decided when to adopt NZ IFRS 9.

Other standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 April 2013 or later, but the Company has not early adopted them as they are not applicable to the Company, or the interpretation of the standards as clarified by amendments was the same as already applied by the Company.

Application of these standards, amendments and interpretations is not expected to have a material impact on AFT Pharmaceuticals Limited financial position and results in the period of initial application.

4. REVENUE FROM OPERATIONS	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Sales	64,457	50,374	42,815	37,818
Less discounts given	(15,519)	(10,011)	(2,142)	(1,616)
Net Sales	48,938	40,363	40,673	36,202

5. RESEARCH	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Third Party Costs - Per Income Statement	2,808	2,701	2,808	2,701
Other Internal Costs	1,101	626	1,101	626
Total Research Costs	3,909	3,327	3,909	3,327

'Other Internal Costs' are shown within Employee emoluments, Administration Costs and Rent and Rates within the Income Statement and incorporates staff costs split by time worked on research projects.

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6. INCOME TAX

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
(a) **Income tax expense**				
Net (Loss) / Profit before Income tax	(1,171)	306	(691)	281
Tax calculated at domestic tax rates applicable to profits in respective countries	(335)	88	(193)	79
Plus Entertainment expense not deductible	12	8	5	6
Tax effect of permanent difference	162	39	37	(9)
Tax losses not recognised (net NRWT)	124	-	124	-
Over/(under) prior year	(22)	-	22	-
Total tax expense	(59)	134	(6)	76
Comprising:				
Current Tax	(59)	134	(6)	76
Deferred Tax	-	-	-	-
	(59)	134	(6)	76
(b) **Current tax**				
Opening balance – payable	18	194	36	150
Tax on current year profit	(59)	134	(6)	76
Less provisional tax and RWT paid	150	(310)	9	(190)
Closing balance – payable	109	18	39	36
(c) **Imputation Credit Account**				
At balance date imputation credits available to the shareholders were:				
Opening balance	2,182	2,122	1,397	1,406
Payments/(Refunds) to Inland Revenue Department	209	60	86	(9)
Closing balance	2,391	2,182	1,483	1,397

7. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Cash at Bank	1,242	1,084	125	288
Cash at Bank (Overdraft)	-	(8)	-	(8)
	1,242	1,076	125	280

8. ACCOUNTS RECEIVABLE

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Trade Debtors	8,587	6,723	2,252	3,624
Prepayments	1,051	1,139	551	551
Owing by Subsidiary Company	-	-	6,354	4,285
	9,638	7,863	9,156	8,460

9. INVENTORIES

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Stock on Hand	12,841	11,699	8,645	7,679
Less Inventory Provision	(187)	-	(187)	-
	12,654	11,699	8,458	7,679

Inventories are finished goods on hand at balance date and comprise pharmaceutical supplies at cost.

10. PLANT & EQUIPMENT

(a) Cost and Book Value

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Plant and Machinery	397	321	307	233
Plus Additions	79	90	76	74
Less Disposals	-	-	-	-
Less Accumulated Depreciation	(359)	(285)	(293)	(225)
	117	126	90	82
Furniture and Fixtures	345	315	345	315
Plus Additions	14	30	14	30
Less Disposals	-	-	-	-
Less Accumulated Depreciation	(142)	(113)	(142)	(113)
	217	232	217	232
Vehicles	303	303	303	303
Plus Additions	-	-	-	-
Less Disposals	(32)	-	(32)	-
Less Accumulated Depreciation	(200)	(198)	(200)	(198)
	71	105	71	105
Total Plant and Equipment	405	463	378	419

10. PLANT & EQUIPMENT (Continued)

(b) Depreciation Charge

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Plant and Machinery	79	58	69	51
Furniture and Fixtures	30	32	30	32
Vehicles	31	46	31	46
	140	136	130	129

11. INTANGIBLE ASSETS

(a) Trademarks

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
At cost	165	128	165	128
Plus Additions	18	37	18	37
	183	165	183	165

Trademarks that do not have a finite life have not been amortised. Trademarks that no longer have a value or generate revenue are written off.

(b) Patents

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
At cost	894	675	894	675
Plus Additions	491	330	491	330
Less Accumulated Amortisation	(174)	(111)	(174)	(111)
	1,211	894	1,211	894

Patents are amortised over their lifetime.

(c) Software

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
At cost	182	182	182	182
Plus Additions	22	-	22	-
Less Accumulated Amortisation	(179)	(160)	(179)	(160)
	25	22	25	22
Total Intangible Assets	1,419	1,082	1,419	1,082

(d) Amortisation Charge

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Patents	63	39	63	39
Software	19	10	19	10
	82	49	82	49

12. INVESTMENT/LOAN IN SUBSIDIARY COMPANIES

The consolidated financial statements incorporate the assets, liabilities and results of AFT Pharmaceuticals Pty Limited. The principal activity of the subsidiary is a pharmaceutical distributor operating in Australia and has a 31 March 2014 balance date. The holding at 31 March 2014 is 100% (2013: 100%).

The investment held in AFT Pharmaceuticals Limited is 1,000 ordinary shares at Aus$1 each.

There is an interest bearing intercompany loan of NZ$4,000,000 between AFT Pharmaceuticals Limited and AFT Pharmaceuticals Pty Limited.

The consolidated financial statements incorporate the assets, liabilities and results of AFT Pharmaceuticals (SE Asia) SDN BHD. The subsidiary was established on 30 September 2011. The principal activity of the subsidiary is the registration of pharmaceutical's in Malaysia and has a 31 March 2014 balance date. The holding at 31 March 2014 is 100%.

The investment held in AFT Pharmaceuticals Limited is 2 ordinary shares at RM1 each.

The consolidated financial statements incorporate the assets, liabilities and results of AFT Pharmaceuticals Singapore PTE LTD. The subsidiary was established on 10 September 2012. The principal activity of the subsidiary is the registration of pharmaceutical's in Singapore and has a 31 March 2014 balance date. The holding at 31 March 2014 is 100%.

The investment held in AFT Pharmaceuticals Limited is 100 ordinary shares at SG$1 each.

13. ACCOUNTS PAYABLE

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Trade Payables	6,291	4,619	5,050	4,263
Employee entitlements	327	207	183	170
Accrued expenses	2,367	409	1,237	536
Owing to Subsidiary Company	-	-	680	467
	8,985	5,235	7,150	5,436

14. INTEREST BEARING LIABILITIES

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Current				
BNZ Term Loans	-	-	-	-
	-	-	-	-
Non-Current				
BNZ Term Loans	13,137	12,535	13,137	12,535
	13,137	12,535	13,137	12,535

14. INTEREST BEARING LIABILITIES (Continued)

The BNZ bank loans and facility of the parent and subsidiary are secured by the assets of the Company, a guarantee from the H&M Atkinson Family Trust and by a mortgage over property of the H&M Atkinson Family Trust. Interest rates range from 5.49% to 6.35 % per annum. The loans were repaid in May 2014.

There are two financial covenants. The first requires the borrower to maintain consolidated interest coverage at 1.75 times. The second requires that the debt not secured by mortgage does not exceed the total of 75% of New Zealand debtors, 50% of Australian debtors and 50% of total inventory.

The Company and Group are required to comply with the capital requirements imposed by the bank. During 2014 and 2013 they complied with all such requirements.

15. CAPITAL

	Consolidated and Parent	
	2014	2013
	$'000	$'000
Issued Capital		
Opening balance – 1,000 Ordinary Shares fully paid	41	41
Capital Raising Expense	(8)	-
Closing balance – 1,000 Ordinary Shares fully paid	33	41

All shares are owned by Atkinson Family Trust.
The par value of shares is $1. All shareholders have equal voting rights.

16. FOREIGN EXCHANGE TRANSLATION RESERVE

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Opening Balance	4	4	-	-
Closing Balance	4	4	-	-

17. RETAINED EARNINGS

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Opening Balance	4,294	4,112	3,855	3,648
(Loss) / Profit for the Year	(1,113)	172	(686)	206
Foreign Exchange Translation Differences	(169)	10	-	-
Closing Balance	3,012	4,294	3,169	3,855

18. RECONCILIATION OF PROFIT AFTER TAX WITH NET CASHFLOWS FROM OPERATIONS

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
(Loss) / Profit after Tax	(1,113)	172	(686)	206
Non Cash Items				
Depreciation	140	136	130	129
Amortisation	82	49	82	49
Interest on amounts owed from shareholders	-	-	-	-
	(891)	357	(474)	384
Movements in Working Capital Items:				
(Increase)/Decrease in Accounts Receivable	(1,775)	(2,873)	(696)	(1,010)
(Increase)/Decrease in Stock on Hand	(955)	(2,988)	(780)	(1,664)
(Increase)/Decrease in Prepayments	(18)	18	51	10
Increase/(Decrease) in Accounts Payable	3,592	1,815	1,653	1,834
Increase/(Decrease) in Interco Account Payable	-	-	-	(4,000)
Increase/(Decrease) in Income Tax Payable	(55)	(249)	35	(225)
Increase/(Decrease) GST Payable	168	(50)	(39)	40
Net Cash Inflow/Outflow from Operating Activities	66	(3,970)	(250)	(4,630)

19. RELATED PARTIES

(a) Shareholder

Transactions with the shareholder arise from dividends paid and drawings. Balances at 31 March 2014 are set out in note 13. Transactions were as follows:-

	Consolidated 2014 $'000	Consolidated 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Opening balance (net asset)	-	-	-	-
Dividends paid to shareholder	-	-	-	-
Drawings	-	-	-	-
Interest payable by shareholder	-	-	-	-
Closing Balance - liability /(asset)	-	-	-	-

(b) Related Entities

AFT Pharmaceuticals Limited traded on normal arm's length basis with this company.

	Sales		Expenses		Accounts Receivable		Accounts Payable	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
AFT Pharmaceuticals Pty Limited (Subsidiary)	11,769	8,754	1,132	438	6,073	4,005	-	401

Dr H Atkinson is a director of the above Company.

19. RELATED PARTIES (Continued)

Also a management fee of $639,989 (2013: $454,000) is charged by the Company to the subsidiary.

(c) Remuneration
The payment of key management remuneration was $350,000 for the year ended 31 March 2014 (2013: $370,000).

The spouse of the Managing Director is employed as an administrator at the company. Her remuneration was $70,000 for the year ended 31 March 2014 (2013: $83,000). This payment is based on a normal arm's length basis. The spouse is also a Director.

20. FINANCIAL RISK MANAGEMENT

(a) Managing financial risk
The Company's activities expose it to various financial risks as detailed below.

- **Market Risk**

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

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

- **Foreign Exchange risk**

A 1% increase or decrease in foreign exchange rates on assets and liabilities will reduce/increase equity by $6,000. There will be no effect on profit because differences in translation go directly to the reserve which is a component of equity.

- **Interest rate risk**

A 1% increase or decrease in interest rates on borrowings will reduce/increase the profit reported by $55,000 and reduce/increase equity by the same amount.

- **Credit risk**

Financial instruments which potentially subject the Company and Group to credit risk principally consist of accounts receivable advances to shareholders. In the normal course of business the Company and Group incurs credit risk from trade receivables. Regular monitoring of receivables is undertaken to ensure that the credit exposure remains within the Company's and Group's normal terms of trade.

There are no significant concentrations of credit risk at 31 March 2014 with the largest debtor (excluding transactions with the subsidiary) being $1,480,618 (2013: $1,255,010). There are past due receivables at 31 March 2014 totalling $286,589 (2013: nil). There are no impaired receivables at 31 March 2014 (2013: nil).

- **Liquidity**

Liquidity risk is the risk that the Company and Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from the need to borrow funds for working capital. The Directors monitor the risk on a regular basis and actively manage the cash available to ensure the net exposure to liquidity risk is minimised. All

20. FINANCIAL RISK MANAGEMENT (Continued)

- **Liquidity (Continued)**

liabilities (except amounts owing to shareholders which are not expected to be repaid before 31 March 2014 and the Bank borrowings) are due for repayment within 0-3 months. The liquidity/maturity profile of the liabilities is as follows:

2014

Liquidity profile							
Group	**On demand**	**Due 0-1 month**	**Due 1-6 month**	**Due 6-12 month**	**Due 1-2 Years**	**Due 2-5 Years**	**GROUP Total**
Payables & Accruals	-	6,058	2,927	-	-	-	8,985
GST Payable	-	297	-	-	-	-	297
Bank Borrowing	-	-	-	-	-	13,137	13,137
	-	6,355	2,927	-	-	13,137	22,419

2013

Liquidity profile							
Group	**On demand**	**Due 0-1 month**	**Due 1-6 month**	**Due 6-12 month**	**Due 1-2 Years**	**Due 2-5 Years**	**GROUP Total**
Accounts Payable	-	2,400	6,341	-	-	-	8,741
GST Payable	-	129	-	-	-	-	129
Bank Overdraft	(1,077)	-	-	-	-	-	(1,077)
Income Tax payable	-	18	-	-	-	-	18
Bank Borrowing	-	-	-	-	-	12,535	12,535
	(1,077)	2,547	6,341	-	-	12,535	20,346

2014

Liquidity profile							
PARENT	**On demand**	**Due 0-1 month**	**Due 1-6 month**	**Due 6-12 month**	**Due 1-2 Years**	**Due 2-5 Years**	**PARENT Total**
Accounts Payable	-	4,223	2,927	-	-	-	7,150
GST Payable	-	89	-	-	-	-	89
Bank Borrowing	-	-	-	-	-	13,137	13,137
	-	4,312	2,927	-	-	13,137	20,376

2013

Liquidity profile							
PARENT	**On demand**	**Due 0-1 month**	**Due 1-6 month**	**Due 6-12 month**	**Due 1-2 Years**	**Due 2-5 Years**	**PARENT Total**
Accounts Payable	-	1,553	2,826	-	-	-	4,379
GST Payable	-	128	-	-	-	-	128
Bank Overdraft	(280)	-	-	-	-	-	(280)
Income Tax payable	-	37	-	-	-	-	37
Bank Borrowing	-	-	-	-	-	12,535	12,535
	(280)	1,718	2,826	-	-	12,535	16,799

20. FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair Values

The fair value of assets and liabilities equate to their book values. The fair value of borrowings, based on interest rates prevailing at balance date is also not significantly different to the $13,136,696 carrying value at 31 March 2014 as the impact of discounting is not significant.

(c) Unrecognised Financial Instruments

There are no unrecognised financial instruments at 31 March 2014 (2013: nil).

21. SEGMENT REPORTING

The Company distributes pharmaceutical products in New Zealand and Australia.

22. CONTINGENT LIABILITIES

At balance date there are no known contingent liabilities at 31 March 2014 (2013: nil).

23. COMMITMENTS

(a) Capital Commitments

The Company has no capital commitments at 31 March 2014 (2013: nil)

(b) Lease Commitments

The Group leased the business premises for $158,000 plus GST per annum for the first 2 years and $271,000 for the following 2 years, for an initial term of four years, with Rights of Renewal in four years and a Final Expiry Date of 17 April 2021.

	Consolidated		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Due within one year	546	601	343	316
Later than 1 year but no later than 5 years	684	560	445	282
Later than 5 years	-	-	-	-
	1,230	1,160	788	598

24. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are:

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

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

There are two financial covenants. The first requires the borrower to maintain consolidated interest coverage at 1.75 times. The second requires that the debt not secured by mortgage does not exceed the total of 75% of New Zealand debtors, 50% of Australian debtors and 50% of total inventory.

24. MANAGEMENT OF CAPITAL (Continued)

The Company and Group are required to comply with the capital requirements imposed by the bank. During 2014 and 2013 they complied with all such requirements.

The BNZ loans and facility are secured by the assets of the Company and its subsidiary, AFT Pharmaceuticals Pty Ltd, a mortgage of a property of the H&M Atkinson Family Trust. The BNZ loans are repayable in 3 years.

There have been no un-authorised breaches during the 2014 and 2013 financial year. The interest covenant was breached for the reporting period ending 30 September 2013 and this breach was waived by the BNZ. The Company monitor these ratios and are in regular communication with the lender in accordance with the terms of the loan. Subsequent to year end the BNZ loans were replaced by long term loans from Capital Royalty. The Company retains a facility with the BNZ which is detailed in the subsequent events note below.

25. SUBSEQUENT EVENTS

On 14 May 2014 the company split the 1,000 ordinary shares in the ratio 1:1200, to total 1,200,000 shares.
On the same day it re-classified 20,400 ordinary shares into series A preference shares and issued 119,600 new series A preference shares at US$100 each, introducing new equity into the company of US$11,960,000 before equity raising costs.

On 30 April 2014 the company entered into a term loan agreement with Capital Royalty Partners II L.P. and Capital Royalty Partners AA – Parallel Fund "A" L.P. (together "Capital Royalty") for US$30,000,000. The loan is for six years, with the first four years interest only and the principle to be repaid in equal quarterly instalments in years five and six.

Security over the loans is a general security over assets of the company and its subsidiaries, who are also guarantors to the loan.

The financial covenants on the loan are a) Minimum Liquidity of NZ$4,000,000 at each month end and b) Minimum Revenue of at least NZ$47,500,000 for financial year ended 31 March 2014, NZ$60,000,000 for financial year ended 31 March 2015, and thereafter incremental growth of NZ$10,000,000 for each financial year.

The first borrowing of US$10,000,000 was received on 14 May 2014 and used, together with some of the new equity to repay the BNZ loans. The second borrowing of US$5,000,000 will occur prior to 30 April 2015. A third borrowing of US$15,000,000 is at the option of the company.

The remaining facility with the BNZ is a $1,000,000 on demand overdraft, together with Letter of Credit and forward foreign exchange cover. Security is over the debtors and inventory of the company and Australian subsidiary, AFT Pharmaceuticals Pty Ltd. The financial covenant is for the utilised facility to be lower than 70% of debtors plus 40% of the inventory.

pwc

Independent Auditors' Report
to the shareholder of AFT Pharmaceuticals Limited

Report on the Financial Statements
We have audited the financial statements of AFT Pharmaceuticals Limited on pages 4 to 23, which comprise the balance sheets as at 31 March 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, AFT Pharmaceuticals Limited or its subsidiaries.

Independent Auditors' Report

AFT Pharmaceuticals Limited

Opinion

In our opinion, the financial statements on pages 4 to 23:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company and the Group as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholder, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholder those matters which we are required to state to the shareholder in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
20 August 2014

Dunedin