**AFT PHARMACEUTICALS LIMITED**
Interim Report for the period ended
30 September 2016

AFT pharmaceuticals
*Working to improve your health*

Momentum is building

yet this is just the b

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# FINANCIAL CALENDAR

| | |
|---|---|
| **Half-Year End** | 30 September 2016 |
| **Interim Results Announcement** | 24 November 2016 |
| **Financial Year End** | 31 March 2017 |
| **Annual Results Announcement** | May 2017 |
| **Annual Meeting** | August 2017 |

This Interim Report is dated 24 November 2016.

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

**David Flacks**
Chairman

**Hartley Atkinson**
Chief Executive Officer

**Full report available online at investors.aftpharm.com**

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

rnational success.

# KEY HIGHLIGHTS

## Operating Revenues

Operating Revenues of $29.8m for the first half of FY2017 to 30 September 2016 (H1FY17) were up 1% over the corresponding six month period ended 30 September 2015 Previous Corresponding Period (PCP).

## Maxigesic

*Maxigesic* is now being sold in six countries – Australia, New Zealand, Italy, United Kingdom, United Arab Emirates and Singapore. A further eight country launches are in progress.

*Maxigesic* licensed in 111 countries up from 98 in FY2016.

## Clinical Studies

Product clinical studies on track with 12 being conducted in FY2017.

## NasoSURF

*NasoSURF* development is on track with engineering pilot batches in production and the first regulatory filing in the key US market planned for this calendar year.

## Research and Development

Research and Development investment in our key global products has increased to $4.5m for the six months (PCP $2.4m) and represents 15% of Operating Revenue (PCP 8%).

## Operating Loss

The operating loss of $8.4m (PCP $3.5m) increased due to increased investment in Research and Development, and the launch of additional promoted over the counter products into Australia and Singapore. Tight control of fixed overheads, including staff numbers, is being maintained.

## Cash Available

Cash available at 30 September 2016 of $16.1m following investment in Research and Development and product launches.

# INTERIM FINANCIAL RESULTS SUMMARY

**Australia Operating Revenue** grew 6% to $14.6m (PCP $13.8m) and this market now makes up 49% of the Group Operating Revenue. *Maxigesic* revenues doubled over PCP as a result of targeted post rescheduling advertising which started in late August and is expected to drive further sales growth through H2FY17. The recent *Crystaderm*, *RestoraNail*, *ZoRub* and *Myconail* launches are looking promising at this early stage. The combination of these products together with strong hospital sales contributed to the 17% overall underlying growth. However, this was pulled back by 11% to the 6% net growth for the market as a whole by the low levels of production for a significant product in the first half. An additional factory for this product has now been commissioned and we are seeing improving supply levels going forward which should increase sales of the product in H2FY17. Additionally, a significant number of new hospital products are being launched in H2FY17 which will improve sales during the remainder of this and the next financial years.

**New Zealand Operating Revenue** declined by 10% to $13.5m (PCP $15.0m) and now represents 45.3% of the Group Operating Revenue. 4% of this decline was due to the manufacturing supply issues of the tender product *Metoprolol* (previously announced to the market). AFT continues to work with PHARMAC to ensure that the ongoing continuity of supply to patients is stabilised.

The remaining 6% decline is due to weaker sales to the Pharmacy channel. Recently released market data on retail sales in Pharmacy indicates that the market is down between 4% to 8% for over the counter and pharmaceutical products. *Maxigesic* sales made by AFT have been affected by this, however *Maxigesic* sales made by Pharmacy to customers are growing at a rate of 18% per annum. Sales of key over the counter products are expected to improve during H2FY17 with significant seasonal promotional programmes underway which are planned to retrieve the shortfalls of the first half.

**Southeast Asia Operating Revenue** doubled to $0.5m (PCP $0.3m) with the launch of *Maxigesic*, *Crystaderm*, *Restoranail* and *Ferro* in Singapore. As with Australia these launches are at an early stage, however the initial indications are that sales are progressing well.

**Rest of World Operating Revenue** of $1.2m overtook the full annual FY2016 Operating Revenue and grew 181% over the PCP $0.4m. This now represents 4.0% of the Group Operating Revenue. Most of the sales were from *Maxigesic* sales to, and royalties from, the licensees in Italy and the United Arab Emirates. These and the United Kingdom licencees report sales well ahead of their expectations. Launches by our licensees are imminent in eight additional countries.

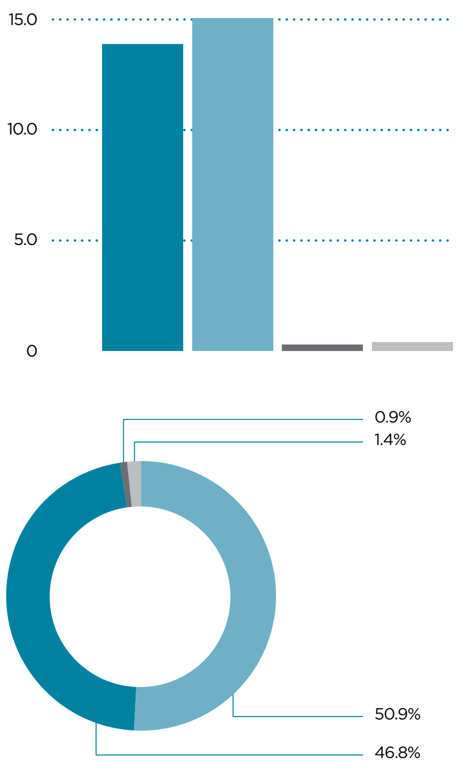
## GROUP OPERATING RESULTS

| $NZ000's | Six month period ended 30 September FY2017 | FY2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| **Revenue** | **29,787** | **29,543** | **+244** | **+1** |
| Cost of Sales | 19,018 | 19,161 | -143 | -1 |
| **Gross Profit** | **10,769** | **10,382** | **+387** | **+4** |
| Other income | 1,007 | 1,328 | -321 | -24 |
| Selling and distribution expenses | (12,575) | (9,525) | +3,050 | +32 |
| General and administrative expenses | (3,135) | (3,302) | -167 | -1 |
| Research and development expenses | (4,276) | (2,406) | +1,870 | +78 |
| Equity accounted loss of joint venture entity | (210) | - | +210 | + + |
| **Underlying operating loss** | **(8,420)** | **(3,523)** | **+4,897** | **+139** |

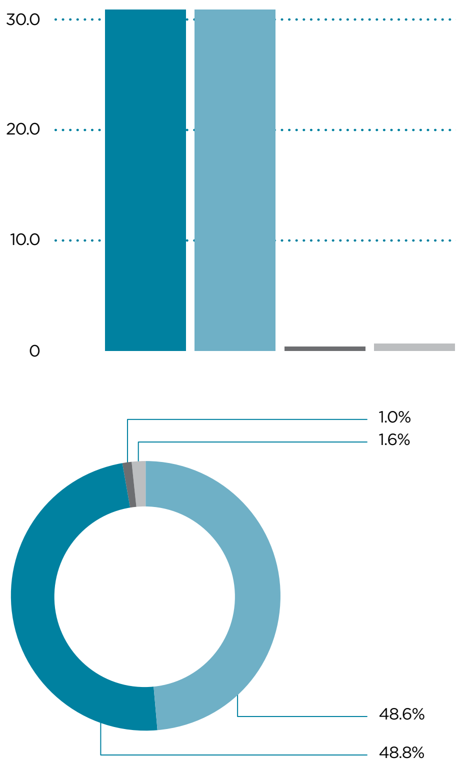
## OPERATING REVENUE

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

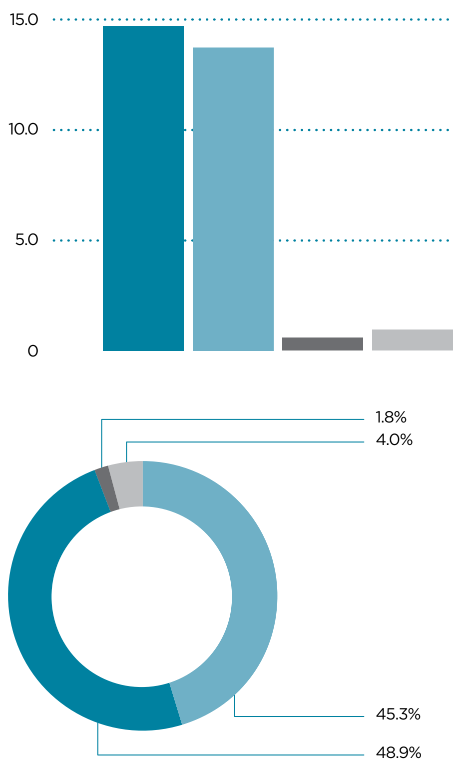
### FY2016 Interim
(NZ$m)




### FY2016 Annual
(NZ$m)




### FY2017 Interim
(NZ$m)




Australia New Zealand Southeast Asia Rest of the World

**Gross Margin**
Gross Profit of $10.7m grew by 3% over the prior year (PCP$10.4m) driven by the Operating Revenue growth primarily in Australia, supported by the growth in the Rest of the World and Southeast Asia and offset by the decline in New Zealand.

The Gross Profit Margin has risen to 36% (PCP 35%). This was driven by growth of the higher margin over the counter products in Australia and the Rest of the World. The weaker New Zealand performance was further hindered by a $0.4million provision against stock damaged in transit from a supplier which is subject to ongoing discussions with the company's insurers, supplier and logistics providers.

We expect the positive impact on Gross Margin to continue as the sales of over the counter products in Australia and International revenues grow.

The strong NZ$ has helped the gross margin to a small degree in Australia and New Zealand. The International sales tend to be in the purchasing currency creating a natural hedge to protect future gross margin swings.

**Other Income**
Licensing Income, which are the milestone payments received from the out licensing arrangements we have in our Rest of the World markets, are classified in the Financial Statements as Other Income. This was $0.7m for the period (PCP $0.9m), with a combination of new out licensing agreements commencing and milestone payments, on existing agreements.

The balance of the other income is the Callaghan growth grant that we receive on eligible research and development expenditure. The growth grant does not allow expenses incurred offshore as eligible which has limited this support. By necessity much of our clinical trial programme is required to be conducted off shore simply because New Zealand does not have either the patient base and/or the infrastructure and/or expertise for some of our trials. We work closely with the Callaghan Innovation in a number of other areas and we highly value the benefits that we have been able to achieve from our collaborations.

**Operating Overheads**
Research and Development investment increased to $4.5m from $2.4m in the prior year, with the accelerated investment in clinical trial spend enabled from our IPO in December 2015. This includes the $0.2m spend on *Pascomer* which under GAAP accounting we are required to record as joint venture equity accounting in the consolidated Income Statement.

Selling and Distribution expenses increased to $12.6m (PCP $9.5m) with the launch of over the counter products in the Australian and Singapore markets plus the advertising of *Maxigesic* in Australia after the scheduling change which occurred on 1 July 2016. We anticipate good revenue growth in these products through to the end of the year following this initial investment in their launch.

General and Administration expenses were flat at $3.1m (PCP $3.3m). Staff numbers were kept steady and fixed costs are under tight control.

**Cash Flow and Balance Sheet**

Total assets of $53.8m are down on the year end's $65.3m largely due to the investment made into research and development and the launch of primarily established over the counter products into Australia and Singapore. Working Capital requirements increased slightly with the $3.8m increase in Inventory to $21.4m primarily for the stock build up for the summer months, together with the $0.6m reduction in creditors offset by the $3.6m reduction in debtors to $12.8m.

Cash holdings of $16.1m are down from the $28.0m at year end primarily reflecting the Profit and Loss related investment made into research and development and product launches. The balance sheet remains primarily working capital with the only intangible of significance being the $2.5m of capitalised patents and trademarks.

The long term CRG loan has the option for further draw-downs which we have no current plans to exercise.

Total Liabilities lowered to $35.8m from $37.1m at the year-end due primarily to the favourable revaluation of the US$ denominated term loan.

**Outlook**

Timing issues and product supply shortages have limited the sales growth in the Home Markets in H1FY17. However it is anticipated that sales growth will accelerate in H2FY17 with increasing over the counter sales following launches and promotions and the introduction of a significant number of new hospital products in Australia where additional contracts for over A$3m per annum have been secured. Significant seasonal promotional programmes will be implemented in New Zealand and Australia consistent with prior practice.

These are expected to drive sales during the second half of the year, which historically has always been greater than the first half due to seasonality.

The out-licensing programme is proceeding well with the key parameter being increasing registrations and launches in International Territories. Further licensing agreements are currently at term sheet negotiation and a number of these are for more significant markets than previous agreements. Successful conclusion will generate significant upfront and milestone payments. However the exact timing is not possible to accurately estimate.

Timing of International Sales is still very difficult to determine due to multiple countries and differing regulatory requirements and related timelines. However the estimates from licensees indicate that sales made by AFT are likely to increase significantly over the next five years.

Clinical development programmes are progressing well and successful and timely completion remains a critical factor in achieving these estimates.

The *NasoSURF* development has progressed significantly during the last six months. The key parameter is to generate supportive clinical data for registration in the key US and EU markets. Following initial clinical trial results out-licensing will be initiated with negotiations planned to start in FY2018.

We remain confident in our plans and progress that we articulated during our initial public offer in December 2015 and continue to target a return to profitability during the FY2018/FY2019 time period.

# FINANCIAL STATEMENTS



## CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2016

| $NZ000's | Note | Unaudited 6 months ended 30 Sep 2016 | Restated Unaudited 6 months ended 30 Sep 2015 |
|---|---|---|---|
| Revenue | | 29,787 | 29,543 |
| Cost of sales | | (19,018) | (19,161) |
| **Gross Profit** | | **10,769** | **10,382** |
| Other income | | 1,007 | 1,328 |
| Selling and distribution expenses | | (12,575) | (9,525) |
| General and administrative expenses | | (3,135) | (3,302) |
| Research and development expenses | | (4,276) | (2,406) |
| Equity accounted loss of joint venture entity | | (210) | - |
| **Underlying Operating Loss** | | **(8,420)** | **(3,523)** |
| Finance income | | 291 | 6 |
| Finance costs | 2 | (1,560) | (1,754) |
| Other gains/(losses) | 2 | (1,260) | (135) |
| **Loss before tax** | | **(10,949)** | **(5,406)** |
| Tax expense | | (51) | (386) |
| **Loss after tax attributable to owners of the parent** | | **(11,000)** | **(5,792)** |
| Basic and diluted earnings per share ($) | | (0.40) | (4.91) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2016

| $NZ000's | Unaudited 6 months ended 30 Sep 2016 | Restated Unaudited 6 months ended 30 Sep 2015 |
|---|---|---|
| **Loss after tax** | **(11,000)** | **(5,792)** |
| **Other comprehensive income/(loss)** | | |
| May be subsequently reclassified to profit and loss: | | |
| Foreign currency translation reserve | 707 | (460) |
| **Other comprehensive income/(loss) for the period, net of tax** | **707** | **(460)** |
| **Total comprehensive loss for the period attributable to owners of the parent** | **(10,293)** | **(6,252)** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

| $NZ000's | Note | Share capital | Share options reserve | Cash flow hedge reserve | Foreign currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 31 March 2015** | | **12,892** | **-** | **(305)** | **166** | **(10,732)** | **2,021** |
| **Restated unaudited** | | | | | | | |
| Loss after tax | | - | - | - | - | (5,792) | (5,792) |
| Other comprehensive income | | - | - | - | (460) | - | (460) |
| Reclassification of FCTR to retained earnings | | - | - | - | 264 | (264) | - |
| Transfer to current year earnings | | - | - | 305 | - | - | 305 |
| Issue of share capital | 4 | 9,392 | - | - | - | - | 9,392 |
| Capital raising expenses | | (548) | - | - | - | - | (548) |
| Dividends paid and provided | 5 | - | - | - | - | (960) | (960) |
| **Balance as at 30 September 2015** | | **21,736** | **-** | **-** | **(30)** | **(17,748)** | **3,958** |
| **Audited** | | | | | | | |
| Loss after tax | | - | - | - | - | (7,475) | (7,475) |
| Other comprehensive income/(loss) | | - | - | - | (70) | - | (70) |
| Issue of share capital | 4 | 32,675 | - | - | - | - | 32,675 |
| Movement in share options reserve | | - | 65 | - | - | - | 65 |
| Capital raising expenses | | (509) | - | - | - | - | (509) |
| Dividends paid and provided | 5 | - | - | - | - | (414) | (414) |
| **Balance as at 31 March 2016** | | **53,902** | **65** | **-** | **(100)** | **(25,637)** | **28,230** |
| **Unaudited** | | | | | | | |
| Loss after tax | | - | - | - | - | (11,000) | (11,000) |
| Other comprehensive income/(loss) | | - | - | - | 707 | - | 707 |
| Movement in share options reserve | | - | 117 | - | - | - | 117 |
| Dividends paid and provided | 5 | - | - | - | - | - | - |
| **Balance as at 30 September 2016** | | **53,902** | **182** | **-** | **607** | **(36,637)** | **18,054** |

# CONSOLIDATED BALANCE SHEET

As at 30 September 2016

| $NZ000's | Note | Unaudited as at 30 Sep 2016 | Audited as at 31 Mar 2016 | Restated Unaudited as at 30 Sep 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Inventories | 7 | 21,451 | 17,686 | 15,072 |
| Trade and other receivables | | 12,748 | 16,288 | 12,224 |
| Cash and cash equivalents | | 16,054 | 28,055 | 10,016 |
| Current income tax asset | | 19 | 26 | 113 |
| **Total current assets** | | **50,272** | **62,055** | **37,425** |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 421 | 407 | 449 |
| Intangible assets | | 2,450 | 2,111 | 1,853 |
| Deferred income tax assets | | 490 | 546 | 45 |
| Derivative assets | 8 | - | - | 917 |
| Investment in joint venture entity | | 177 | 185 | - |
| **Total non-current assets** | | **3,538** | **3,249** | **3,264** |
| **Total assets** | | **53,810** | **65,304** | **40,689** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | 11,131 | 10,428 | 9,684 |
| Provisions | | 1,841 | 3,083 | 2,326 |
| Derivative liabilities | 8 | 745 | 402 | - |
| **Total current liabilities** | | **13,717** | **13,913** | **12,010** |
| **Non-current liabilities** | | | | |
| Interest bearing liabilities | 3 | 22,039 | 23,161 | 24,721 |
| **Total liabilities** | | **35,756** | **37,074** | **36,731** |
| **EQUITY** | | | | |
| Share capital | 4 | 53,902 | 53,902 | 21,736 |
| Retained earnings/(losses) | | (36,637) | (25,637) | (17,748) |
| Share options reserve | | 182 | 65 | - |
| Foreign currency translation reserve | | 607 | 100 | (30) |
| **Total equity** | | **18,054** | **28,230** | **3,958** |
| **Total liabilities and equity** | | **53,810** | **65,304** | **40,689** |

For and on behalf of the Board who authorised those Financial Statements for issue on 24 November 2016.

**David Flacks**
Chairman

**Hartley Atkinson**
Managing Director and
Chief Executive Officer

# CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 September 2016

| $NZ000's | Note | Unaudited 6 months ended 30 Sep 2016 | Unaudited 6 months ended 30 Sep 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 33,422 | 30,968 |
| Interest received | | 186 | 6 |
| Payments to suppliers and employees | | (42,051) | (33,559) |
| Tax (paid)/received | | (4) | (18) |
| Interest and finance cost paid | | (1,823) | (1,068) |
| **Net cash used in operating activities** | 6 | **(10,270)** | **(3,671)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property, plant and equipment | | (72) | (105) |
| Sale of property, plant and equipment | | - | 11 |
| Investment in joint venture | | (201) | - |
| Purchases of intangible assets | | (413) | (238) |
| **Net cash used in investing activities** | | **(686)** | **(332)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | 4 | - | 9,392 |
| Share issue costs | | - | (548) |
| Dividends paid | 5 | - | (727) |
| **Net cash generated from financing activities** | | **-** | **8,117** |
| Net (decrease)/increase in cash | | (10,956) | 4,114 |
| Impact of foreign exchange on cash and cash equivalents | | (1,045) | 1,202 |
| Opening cash and cash equivalents | | 28,055 | 4,700 |
| **Closing cash and cash equivalents** | | **16,054** | **10,016** |

# NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 September 2016

## 1. GENERAL INFORMATION

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

These consolidated interim financial statements were approved by the Directors on 24 November 2016, and are not audited, but reviewed by PricewaterhouseCoopers in accordance with the New Zealand Standard on Review Engagement 2410.

## 2. BASIS OF PREPARATION

These general purpose financial statements for the six months to 30 September 2016 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS 34, Interim Financial Reporting. The Group is a for-profit entity for the purposes of complying with NZ GAAP.

These consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements for the year ended 31 March 2016, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

All accounting policies have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 March 2016, as described in those annual financial statements.

The comparatives for the six months ended 30 September 2015 have been adjusted to correct the accounting for derivatives which did not qualify for hedge accounting. Finance costs have been reduced by $917k, and the tax charge in profit or loss has increased by $342k. The net effect of these adjustments is a credit to profit or loss of $575k which has been transferred from OCI (and hence the cash flow hedging reserve) to profit or loss (and hence to retained earnings). No correction was made to the period ending 31 March 2015 as no material impact was identified for that period but the amount existing in the hedging reserve has been adjusted in the comparative period with a net debit of $305k recognised in profit or loss. FX gains and losses have also subsequently been reclassified from finance costs to other gains/losses.

## 3. INTEREST BEARING LIABILITIES

| $NZ000's | Unaudited as at 30 Sep 2016 | Audited as at 31 Mar 2016 | Unaudited as at 30 Sep 2015 |
|---|---|---|---|
| CRG (Capital Royalty Group) loans | 22,039 | 23,161 | 24,721 |

The term loan agreement with CRG commenced in May 2014 and has a facility to be drawn down up to US$30million. It is for a six year term for which the first four years only interest is payable, with the principal to be repaid in equal quarterly instalments in years five and six. There are two covenants under the CRG Loan Agreement. The first requires a minimum bank balance of NZ$4million at each month end. The second is for revenues (inclusive of licence fees) to exceed NZ$73.5million for the 2017 financial year. The Group has complied with the covenants during the period, and anticipates compliance for the full financial year based primarily on expected continued growth in Australian and International revenues and the usual seasonal increase in New Zealand and Australian sales in the second half of the financial year.

On 22 November 2016 CRG granted the Group an option to lower the revenue covenant to NZ$67.75million (currently NZ$73.5million) for the 2017 financial year, NZ$74.5million (currently NZ$84.0million) for the 2018 financial year and NZ$85.0million (currently NZ$96.0million) for the 2019 financial year.

Whilst we do not currently anticipate exercising this option, it allows the Group to focus on the significant medium to long term growth opportunities from its key innovative products, particularly *Maxigesic* and *NasoSURF* in its international markets which presently represent a only a small proportion of Group Revenues. The Group will monitor progress through the second half of this financial year and take a conservative approach to exercising this option prior to year-end.

The loan has a general security over the assets of the Group together with a group guarantee. Interest is fixed at 13.5% p.a. The fair value of the CRG loan is $18.9million (30 September 2015 $24million; 31 March 2016 $19.9million) based on a discounted cash flow calculation considered to be level 3 in the fair value hierarchy.

The loan is denominated in United States dollars (USD) and during the period NZ$1.1million was recognised as unrealised foreign exchange gains.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 September 2016

## 4. SHARE CAPITAL

### 31 March 2015:

119,600 Series A Preferred Shares were authorised, issued, fully paid with no par value in May 2014. The Series A Preferred Shares carried a yield of net 6% payable to the holder in cash quarterly or at the election of the company satisfied by the issue of further shares. All dividends were paid in cash during the period. There were a total of 140,000 Series A Preferred Shares as at 31 March 2015. The Series A Preferred shares converted to ordinary shares immediately before the closing of the public offering of shares in the company which resulted in a market capitalisation of the company of at least US$150million. The Series A Preferred shares carried voting rights on all shareholder resolutions, with each Series A Preferred share carrying one vote for each ordinary share into which it is able to convert.

All shares have equal voting rights.

### 31 March 2016:

During May, June and July 2015 the Group issued 54,120 new Series B Preferred Shares at US$129 each to existing shareholders, Directors and a group of specialist pharmaceutical investors. These were fully subscribed and increased equity by NZD$9.4million. The series B Preferred shares carried a yield of net 5% payable in cash quarterly.

The Series B Preferred Shares converted 1:1 automatically immediately before the closing of the public offering of shares in the company which resulted in a market capitalisation of the company of at least US$150million. The Series B Preferred Shares did not carry voting rights other than on class matters particular to the Series B Preferred Shares.

On 22 December 2015, the company completed an Initial Public Offering (IPO), culminating with dual listing on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). This IPO involved raising $32.6m of new equity, all being Ordinary shares, the conversion of all Preference shares (both A and B) to Ordinary shares, and the sell down by the Atkinson Family Trust of 1.07 million shares. In addition 7,700 Ordinary shares were issued to staff at nil consideration.

At 31 March 2016 there were 96,834,838 Ordinary shares on issue.

In addition, staff of AFT Pharmaceuticals Limited were issued with 861,000 options to purchase one ordinary share per option in the company at the issue price of NZ$2.80 per share. 166,963 of these options may be exercised after 22 December 2017 with the balance exercisable on 22 December 2018 or later.

## 5. DIVIDENDS PAID

### Ordinary shares

No dividends have been paid or declared for the ordinary shares.

### Series A Preferred Shares

A dividend of 6% per annum was paid on 14 July 2015 for the quarter ended 30 June 2015, which together with supplementary dividends, amounted to NZ$349,083.

A dividend of 6% per annum was provided for the quarter ended 30 September 2015, which together with supplementary dividends, amounted to NZ$372,565.

A dividend of 6% per annum was paid for the period of 82 days to December 21 2015, which together with supplementary dividends, amounted to NZ$314,022.

### Series B Preferred Shares

A dividend of 5% per annum was paid on 14 July 2015 for the quarter ended 30 June 2015 amounting to NZ$65,633.

A dividend of 5% per annum was provided for the quarter ended 30 September 2015 amounting to NZ$137,435.

A dividend of 5% per annum was provided for the period of 82 days to December 21 2015 amounting to NZ$137,223.

## 6. RECONCILIATION OF LOSS AFTER TAX WITH NET CASH FLOW FROM OPERATING ACTIVITIES

| $NZ000's | Unaudited as at 30 Sep 2016 | Restated Unaudited as at 30 Sep 2015 |
|---|---|---|
| Loss after tax | (11,000) | (5,792) |
| Non-cash items: | | |
| Depreciation | 66 | 67 |
| Amortisation | 74 | 54 |
| Impact of foreign exchange on cash and cash equivalents | 1,045 | (1,777) |
| Movement in working capital: | | |
| (Increase) in inventories | (3,765) | (404) |
| Decrease/(increase) in trade and other receivables | 3,540 | (714) |
| Increase in trade and other payables | 845 | 1,459 |
| Foreign currency revaluation of loan | (1,122) | 3,441 |
| Increase/(decrease) in income tax | 47 | (5) |
| **Net cash (used in)/generated from operating activities** | **(10,270)** | **(3,671)** |

## 7. INVENTORIES

The company has provided for a write down of inventory value of $450k as a provision against stock damaged whilst in transit to the company's premises. Discussions are continuing with the company's insurers and the suppliers of the stock and logistics services for reimbursement of this stock.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 September 2016

## 8. SEGMENT REPORTING

| | Operating Segments | | | | |
|---|---|---|---|---|---|
| **Unaudited September 2016 $NZ000's** | **Australia** | **New Zealand** | **Asia** | **Rest of World** | **Total** |
| **Revenue** | **14,569** | **13,498** | **543** | **1,177** | **29,787** |
| Other income | - | - | - | 1,007 | 1,007 |
| Depreciation and amortisation | 12 | 125 | 3 | - | 140 |
| **Loss before tax** | **(2,831)** | **(4,493)** | **(664)** | **(2,961)** | **(10,949)** |
| Finance income | - | (291) | - | - | (291) |
| Finance costs | 2 | 1,558 | - | - | 1,560 |
| Other (gains)/losses | 357 | 801 | 102 | - | 1,260 |
| **Total assets** | **10,143** | **44,560** | **(893)** | **-** | **53,810** |
| Property, plant and equipment | 57 | 349 | 15 | - | 421 |
| Intangible assets | - | 2,450 | - | - | 2,450 |
| **Capital expenditure** | **2** | **679** | **5** | **-** | **686** |

| **Restated Unaudited September 2015 $NZ000's** | **Australia** | **New Zealand** | **Asia** | **Rest of World** | **Total** |
|---|---|---|---|---|---|
| **Revenue** | **13,823** | **15,034** | **259** | **427** | **29,543** |
| Other income | - | - | - | 1,328 | 1,328 |
| Depreciation and amortisation | 11 | 108 | 2 | - | 121 |
| **Loss before tax** | **(1,404)** | **(3,224)** | **(456)** | **(322)** | **(5,406)** |
| Finance income | - | (6) | - | - | (6) |
| Finance costs | - | 1,754 | - | - | 1,754 |
| Other (gains)/losses | (352) | 470 | 17 | - | 135 |
| **Total assets** | **12,481** | **28,608** | **(400)** | **-** | **40,689** |
| Property, plant and equipment | 70 | 369 | 10 | - | 449 |
| Intangible assets | - | 1,853 | - | - | 1,853 |
| **Capital expenditure** | **(294)** | **(47)** | **(2)** | **-** | **(343)** |

## 9. FOREIGN EXCHANGE RISK

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

Forward foreign exchange contracts are entered into to reduce exposure to risk associated with foreign exchange volatility:

| Forward Foreign Exchange Contracts | | | | |
|---|---|---|---|---|
| **Buy Currency** | **Buy Currency Amount ('000)** | **Sell Amount NZD ('000)** | **30 Sep 2016 Value NZD ('000)** | **Fair Value NZD ('000)** |
| EUR | 3,136 | 5,212 | 4,902 | (310) |
| GBP | 556 | 1,163 | 1,003 | (160) |
| USD | 3,280 | 4,825 | 4,550 | (275) |
| **Total as at 30 September 2016:** | | | | **(745)** |

All contracts mature within one year from 30 September 2016.

| Forward Foreign Exchange Contracts | | | | |
|---|---|---|---|---|
| **Buy Currency** | **Buy Currency Amount ('000)** | **Sell Amount NZD ('000)** | **31 Mar 2016 Value NZD ('000)** | **Fair Value NZD ('000)** |
| EUR | 3,500 | 5,914 | 5,815 | (99) |
| GBP | 610 | 1,358 | 1,278 | (80) |
| USD | 5,755 | 8,626 | 8,403 | (223) |
| **Total as at 31 March 2016:** | | | | **(402)** |

All contracts mature within one year from 31 March 2016.

| Forward Foreign Exchange Contracts | | | | |
|---|---|---|---|---|
| **Buy Currency** | **Buy Currency Amount ('000)** | **Sell Amount NZD ('000)** | **30 Sep 2015 Value NZD ('000)** | **Fair Value NZD ('000)** |
| EUR | 1,725 | 2,667 | 3,070 | 403 |
| GBP | 200 | 403 | 480 | 77 |
| USD | 1,870 | 2,512 | 2,949 | 437 |
| **Total as at 30 September 2015:** | | | | **917** |

All contracts mature within one year from 30 September 2015.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 September 2016

## 10. RELATED PARTIES

The Group had related party relationships with the following entities:

| Related party | Nature of relationship |
|---|---|
| Redvers Limited | Common Director |
| Mainz Consulting Limited | Common Director |
| CRG (Capital Royalty Group) | Shareholder |

The following transactions were carried out with these related parties:

### (i) Consultation fees

| $NZ000's | Unaudited as at 30 Sep 2016 | Audited as at 31 Mar 2016 | Unaudited as at 30 Sep 2015 |
|---|---|---|---|
| Redvers Limited | - | 113 | 113 |
| Mainz Consulting Limited | - | 21 | 18 |
| **Total consultation fees** | **-** | **134** | **131** |

These consultancy services ceased following completion of the IPO. Both Jon Lamb (Redvers) and Doug Wilson (Mainz) now receive directors fees for their services provided as directors, together with compensation set at a daily rate should they perform any duties outside the scope of their roles as directors.

### (ii) Loans

| $NZ000's | Note | Unaudited as at 30 Sep 2016 | Audited as at 31 Mar 2016 | Unaudited as at 30 Sep 2015 |
|---|---|---|---|---|
| CRG (Capital Royalty Group) | 3 | 22,039 | 23,161 | 24,721 |
| **Total loan balances** | | **22,039** | **23,161** | **24,721** |

### (iii) Key management compensation

| $NZ000's | Unaudited as at 30 Sep 2016 | Audited as at 31 Mar 2016 | Unaudited as at 30 Sep 2015 |
|---|---|---|---|
| Directors fees | 138 | 187 | - |
| Other Director remuneration | - | 134 | - |
| Executive salaries | 827 | 1,067 | 694 |
| Short term benefits | 40 | 39 | - |
| **Key management compensation** | **1,005** | **1,427** | **694** |

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

## 11. CONTINGENT LIABILITIES

In May 2015, AFT Pharmaceuticals Ltd signed as guarantor of AFT Pharmaceuticals Pty Ltd for its 5-year lease contract with Shannon Wicks Pty Ltd for the premises occupied in Sydney, Australia. The company has placed NZD$75,000 on term deposit with the BNZ. This sum is security for a guarantee issued by the BNZ in favour of the NZX, should the company ever default on any of its payment obligations to NZX.

## 12. CAPITAL COMMITMENTS

The Group has no capital commitments at 30 September 2016 (31 March 2016: nil; 30 September 2015: nil).

## 13. SUBSEQUENT EVENTS

There were no material events occurring after balance date and before the date of approval of the financial statements requiring recognition or disclosure.

# INDEPENDENT REVIEW REPORT
to the shareholders of AFT Pharmaceuticals Limited

## REPORT ON THE FINANCIAL STATEMENTS

We have reviewed the accompanying interim consolidated financial statements of AFT Pharmaceuticals Limited, ("the Company") on pages 9 to 18 which, comprise the balance sheet as at 30 September 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with the NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Other than in our capacity as auditors we have no relationship with, or interests in, the Group.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

## RESTRICTION ON DISTRIBUTION OR USE

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review 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 shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants | Auckland

24 November 2016

# NZX WAIVERS

On 21 December 2015, NZX granted the Company a waiver from NZX Main Board Listing Rule 5.2.3 in respect of its quoted shares ("Shares") for a period of 12 months to the extent the Rule requires the Company to have at least 25% of Shares held by Members of the Public holding at least a Minimum Holding (as that term is defined in the NZX Main Board Listing Rules). The waiver was granted on the following conditions:

- The escrow agreements entered into by the Atkinson Family Trust ("AF Trust") and the CRG funds provides for the release of shares from escrow once the Company's preliminary announcement is made for the financial year ending 31 March 2017. Additionally, the AF Trust escrow agreement provides for the release of 15% of the Shares held by the AFT Trust to be released from escrow 6 months after the Company's listing;
- NZX receives an undertaking from the AF Trust that it will not increase its holding in the Company during the term of the waiver, otherwise than as a result of an allotment pursuant to an offer or issue of shares that is made pro-rata to all shareholders;
- At least 10% of Shares are held by Members of the Public, with each Member of the Public holding at least a Minimum Holding;
- The Company clearly and prominently discloses this waiver, its conditions, and its implications in the Company's half year and annual reports, and in any offer documents relating to any offer of Shares undertaken by the Company, during the period of the waiver;
- The Company makes an announcement to the market on the day of its listing of the results of the initial public offer, including the number of Members of the Public holding at least a Minimum Holding of Shares and the percentage of Shares held by Members of the Public holding at least a Minimum Holding;
- The Company notifies NZX as soon as practicable if there is any material reduction to the total number of Members of the Public holding at least a Minimum Holding of Shares, and/or the percentage of Shares held by Members of the Public holding at least a Minimum Holding, as announced by AFT on the days of its listing;
- The Company consistently monitors the total number of Members of the Public holding Shares and the percentage of Shares held by Members of the Public holding at least a Minimum Holding; and
- AFT provides NZX with a written quarterly update of the total number of Members of the Public holding Shares holding at least a Minimum Holding and the percentage of Shares held by Members of the Public holding at least a Minimum Holding. The quarterly updates are from the date the waiver is granted, for the period of the waiver. The updates are to be provided to NZX within ten business days of the end of each quarter.

The implication of the waiver is that the Shares may not be widely held and that there may be reduced liquidity in the Shares following quotation. A copy of the waiver can be viewed at www.aftpharm.com.

# DIRECTORY

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

| | |
|---|---|
| **Registered Office** | Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand<br>+64 9 488 0232<br>www.aftpharm.com<br><br>Mertons, Level 7, 330 Collins Street, Melbourne, Victoria 3000, Australia<br>+61 3 8689 9997 |
| **Principal Administration Office** | Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand<br>+64 9 488 0232<br>www.aftpharm.com<br><br>113 Wick Road, North Ryde NSW 2113, Australia<br>+61 2 9420 0420<br>ARBN: 609 017 969 |
| **Directors** (as at date of this Interim Report) | Dr Hartley Atkinson<br>Marree Atkinson<br>James (Jim) Burns<br>David Flacks<br>Nathan (Nate) Hukill<br>Jon Lamb<br>Dr Douglas (Doug) Wilson |
| **Share Registrar** | Computershare Investor Services Limited<br>Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622, New Zealand<br>+64 9 488 8777<br>enquiry@computershare.co.nz<br><br>Computershare Investor Services Pty Limited<br>Yarra Falls, 452 Johnston Street, Abbotsford VIC 3001, Australia<br>+61 3 9415 4083<br>enquiry@computershare.co.nz |
| **Auditor** | PricewaterhouseCoopers<br>Level 22, PwC Tower, 188 Quay Street, Auckland 1010, New Zealand<br>+64 9 355 8000 |

AFT pharmaceuticals

Working to improve your health