AFT pharmaceuticals

Working to improve your health

Annual Report 2018

Doing.

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Full report available online at investors.aftpharm.com
Note: $ in this report are NZ$ unless otherwise stated.

This Annual Report is dated 15 June 2018.
Signed on behalf of the Board of AFT Pharmaceuticals Limited by:

David Flacks
Chairman

Hartley Atkinson
Chief Executive Officer

- Clinical development programmes substantially completed
- Gross profit growth 32%

Achieving.

— MAXIGESIC NOW LICENSED IN 125 COUNTRIES.

— MAXIGESIC IV PIVOTAL STUDY SUCCESSFULLY COMPLETED IN THE USA.

— MAXIGESIC PE LAUNCHED IN NEW ZEALAND.

— NASOSURF CLASS 1 REGISTRATION COMPLETED ON SCHEDULE IN USA.

AND THERE'S MORE TO COME.

AFT at a glance

Operating revenue growth
+16%

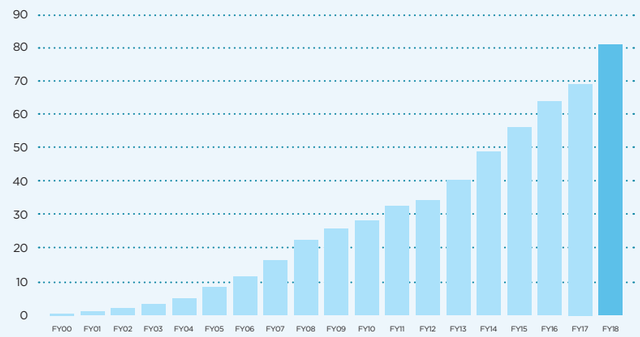
Gross profit
+32%

Australia revenue
+33%
our largest market

Gross profit margin up to
43%

Total operating revenue
$80.1m

Total operating revenue
(NZ$m)



AUSTRALIA

Operating revenue
$49.2m

Number of products
60

Growth drivers

- Over the counter (OTC) products: *Maxigesic*, *Eyecare* Range, *Ferro* Range and Other Pain Products Range. Additional OTC launches to extend *Ferro* Range such as *Ferro Sachets* and selected new products such as *PipTaz* in our hospital range.
- The significant opportunity for increased *Maxigesic* sales offered by the rescheduling of codeine on 1 February 2018 was a key project with *Maxigesic* achieving the largest market share for Paracetamol-Ibuprofen combination products in the period immediately post rescheduling. This will continue to be an ongoing focus during the FY2019 period and onwards.
- Significant sales growth was seen for the *Eyecare* range with increased focus on the optometry channel to drive sales across all channels.
- Margins grew as OTC product sales increased and we expect continued significant sales growth and growth in profit in Australia in FY2019 and onwards.

NEW ZEALAND

Operating revenue
$27.1m

Number of products
104

Growth drivers

- Ongoing growth of higher margin OTC products to reduce reliance of sales from lower margin tender products.
- Gross profit increased by 19% with the gross profit margin improving to 37%.
- It is anticipated that sales will be flat in New Zealand during FY2019, with the divestment of some non-core hospital products, which will result in improving margins as we continue to grow the OTC business.

SOUTHEAST ASIA

Operating revenue
$1.3m

Number of products
8

Growth drivers

- Continued growth from products launched during FY2018.
- Launch *Maxigesic* in Malaysia and grow sales in Singapore and Malaysia during FY2019.

REST OF WORLD

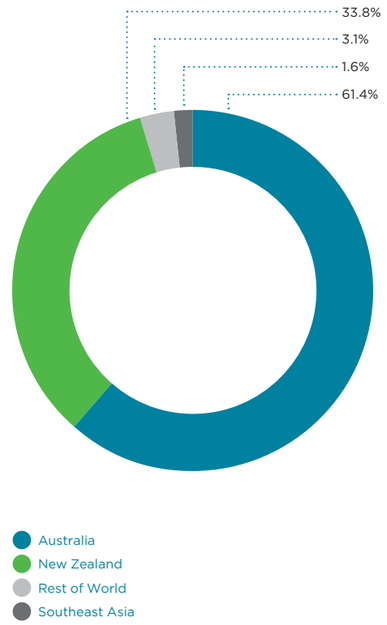
Operating revenue
$2.5m

Number of products
5

Growth drivers

- Further increase sales of *Maxigesic* through growth in existing markets, additional registrations followed by new launches during FY2019 and following financial years.
- Additional regulatory filings during FY2019 of new dose forms of *Maxigesic*, registrations and then additional sales.
- Sales of *Maxigesic* are expected to grow significantly over the next few years driven by new launches, but it is important to note that there is a lag in these sales from the time of an out-licensing agreement due to registration timelines which vary widely country to country and are difficult to estimate with accuracy.

Overall revenue by market
(Percentage)



OUR KEY PRODUCTS

Maxigesic

Successfully completed the developments of existing dose forms and additionally significantly advanced formulation developments for the two new formulations: dry powder sachet and a novel proprietary fast acting formulation which we believe will result in additional clinical benefits. Additional studies are underway this FY2019 period to validate the clinical benefits. The large pivotal *Maxigesic IV* Phase 3 study in 276 bunionectomy patients was successfully completed in Baltimore, Maryland and Austin, Texas which has allowed the first regulatory filings to be completed and further filings are underway. Regulatory filings for both the existing tablet formulation and new dose forms across a significant number of countries to complete registrations and start sales in more territories is well underway.

NasoSURF

Initial Class I registration completed on schedule Dec 2016 in USA. First clinical studies are underway in Australia and New Zealand and a pre-IND (Investigational New Drug) application has been made to the FDA (Food and Drug Administration) in USA with the intention of opening the IND during FY2019 and then commencing larger clinical studies. Filing of Class II registration in USA is targeted for this calendar year.

Maxigesic PE / Maxiclear PE

Development work is concluding and we have recently made the first launch for *Maxigesic PE* in New Zealand. Further regulatory filings will be made in selected territories.

Maxigesic licensed in 125 countries

Global Maxigesic clinical trial substantially completed

Delivering.

Total income
$81.9m

FINANCIAL HIGHLIGHTS (NZ$)

Operating revenue
$80.1m

Operating loss
($10.1m)

Licensing income
$1.8m

Cash available at 31 March 2018
$6.8m

MAXIGESIC

125 countries

Maxigesic currently licensed in or distributed.

10 countries

Maxigesic sold and launched in Australia, Brunei, Israel, Italy, Malta, New Zealand, Serbia, Singapore, United Arab Emirates, and United Kingdom.

CLINICAL TRIAL PROGRAMME FY2018

7 countries

Australia, Jordan, Mexico, New Zealand, Russia, United Kingdom, United States.

7 studies

900+ patients

Maximising.

Chairman and CEO's Report.

Our key efforts are now shifting towards product launches in the out-licensed territories.

Hartley Atkinson
FOUNDER AND CEO

We remain highly committed to commercialising our Key Innovative Products.

David Flacks
CHAIRMAN

We are pleased to have completed our second full financial year as a listed company and to have made further significant progress on development and commercialisation of our key innovative products in addition to expanding our Australasian business.

Our operating revenues grew 16% to $80.1m, with our largest market Australia growing at a significant 33%. Importantly, our overall company gross profit grew by 32% as our margins expanded from 38% in the prior year to 43% this financial year. This has been driven by increases in sales of over the counter (OTC) products consistent with our strategy.

Further important advancements in product development and registrations were made during the year. While these are not immediately apparent in FY2018 income, again they are important building blocks for future sales growth and profitability.

Additional out-licensing agreements were finalised for *Maxigesic* during the year such that there are now 125 countries licensed – a significant number for any pharmaceutical company. Progress has been made on additional out-licensing agreements for larger markets with discussions and diligence underway, but these were not finalised during FY2018 which in turn has impacted licensing income during this time period. However, we are confident that additional deals will be closed during the FY2019 time period.

Our key efforts are now shifting towards product launches in the out-licensed territories. We have reorganised our internal regulatory and development teams around this key task in order to focus upon delivering these required results. The timing of these product launches are dictated by registration timelines and these vary considerably country by country. Many are also dependent upon registering first in key EU territories which creates an additional time lag. As a result, the income flow from out-licensing deals is not immediate, which has significantly impacted the international sales growth (27%) during the FY2018 time period. Although we successfully achieved registration across almost all of Europe, the process was significantly delayed by referral to a committee of the European Medicine Agency (EMA) called CHMP (Committee for Medical Products in Humans). However we are now able to get licences granted across Europe and further launches will occur during FY2019 which will in turn drive more significant growth in International sales.

Additionally, the granted *Maxigesic* registrations in Germany and UK will allow filings in a significant number of secondary markets such as Africa, CIS and Middle East which are also underway during the FY2019 time period. The new market launches are expected to continue and roll out over the next four to five years which is important to drive a significant increase in International sales.

Maxigesic IV development in adults has essentially been completed with successful conclusion of the pivotal large clinical study in USA. The first filings have already been made as previously targeted and further filings will be completed over this coming FY2019 year. Licensing agreements for this product have the potential to deliver more significant licensing payments and discussions and diligence now are underway in order to achieve these goals.

Development has continued successfully for further dose forms of *Maxigesic*. The *Maxigesic Oral* Suspension large clinical study has been completed and further regulatory filings will be made during this FY2019 year. Further work continues on *Maxigesic Sachets* and *Maxigesic PE* formulations which will be concluded in the FY2019 time period. Additionally, technology has been licensed from a USA company to develop a faster acting version of *Maxigesic* with the initial development work concluded. Additional Intellectual Property (IP) has been also developed around the new dose forms which will be useful in protecting the overall *Maxigesic* brand.

Overall we have made significant progress with *Maxigesic* but the contribution to sales will only become apparent as launches are increased from the current 10 countries to at least 125 countries. Additionally the new dose forms will then further drive sales growth.

Development work with other Key Innovative Products has proceeded well with our *NasoSURF* pre-IND meeting held with FDA for the first major indication. Following the FDA meeting feedback which clarifies the development process, we are targeting filing of an application for type IIa medical device registration towards the end of this calendar year. Once achieved, this allows initiation of formal out-licensing negotiations. Market research in USA and UK identified that our first targeted indication has a significant potential income stream.

Gross profit up
32%

Maxigesic IV **development in adults has essentially been completed with successful conclusion of the pivotal large clinical study in USA.**

Our *Pascomer* (previously *Pascoderm*) Key Innovative Product project is progressing with initial development work and pre-IND FDA meeting completed and we are now seeking to open an IND with FDA in order to commence clinical studies. A detailed market study with payors has refined a target market of around $400-450m sales in USA/EU. Out-licensing discussions with interested parties are underway although timing remains difficult to predict with any degree of certainty.

In our combined local markets of Australia and New Zealand, we have continued to improve sales of higher margin OTC products. In the New Zealand market the top-line sales declined due to the loss in sales of some lower margin tender products such as metoprolol. However the gross profit in New Zealand grew by 19% despite the decline in top-line revenue. Furthermore we divested some lower margin hospital products to Baxter in New Zealand and expect to complete the same deal for Australia by June this current FY2019 year which overall will contribute positively to our financial position.

Maxigesic sales have grown significantly in Australia following the rescheduling of codeine which occurred on 1 February 2018. The sales uplift was somewhat delayed as consumers had stock-piled codeine ahead of the switch date. However sales still lifted significantly and despite competitor Paracetamol-Ibuprofen products spending very significantly on product promotion, we achieved a market leading sales position in the period following 1 February 2018 rescheduling. Although we still have ongoing work to consolidate our position and further expand sales, the initial progress has been pleasing and our salesforce in Australia has worked with great passion to deliver this result against large multinational competitors.

We have maintained continuing tight overhead control on fixed costs such as staff numbers and completed the year with a cash balance of around $7m and with many of our expensive Research and Development (R&D) projects such as the *Maxigesic IV* study completed.

Our R&D costs are now able to be significantly reduced given that we have concluded much of the development work outlined in our IPO documents. We will look to moderate our R&D spend in order to achieve a clear path to profitability.

We had always targeted break-even in either the FY2018 or FY2019 time periods with the former target dependent upon a significant licensing agreement. The timing of licensing agreements is always difficult to forecast with certainty. Finalising with a suitable partner is paramount rather than completing an agreement with an unsuitable partner in order to make a pre-announced deadline. However with the increasing sales, increasing gross profit and lower R&D spend, we are confident of break-even in the FY2019 year independent of licensing income from additional agreements.

We highly value the support of our shareholders, many of whom we know personally or who are AFT customers that we are able to speak with at the various trade displays in Australasia. It is worthwhile to note that our main shareholders (Atkinson Family Trust and CRG) and directors all maintain significant exposure to AFT which we believe indicates confidence in the Company's prospects.

We remain highly committed to commercialising our Key Innovative Products which, once achieved, will create significant sales and profits and additionally improve healthcare outcomes for patients around the globe. As with all pharmaceutical development projects, there is a development and regulatory phase prior to sales starting and then growing.

We would like to thank all stakeholders in our business and reconfirm again that our company directors and staff are working very hard to achieve our potential.

David Flacks
CHAIRMAN

Hartley Atkinson
FOUNDER AND CEO

Full year financial results summary

The FY2018 results reflect the ongoing strategy of expanding our presence in our home markets of Australia, New Zealand and Southeast Asia, while succeeding in our key Research and Development programmes for our innovative products to also grow our international revenues.

Operating revenues grew 16% to $80.1m. Australia, our largest market, grew by 33%. New Zealand declined by 7%. Southeast Asia grew 28% and Rest of World grew 27%.

Gross margin improved by 5% to 43%. The main driver was from the growth in over the counter (OTC) revenues in Australia and New Zealand.

Licensing income comprises the milestone payments received from out licensing arrangements we have in our Rest of World markets and the fees we have received from the divestment of non-core hospital products. It is classified in the financial statements as other income. This remained in the same range as prior year at $1.8m (PCP $1.6m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements, together with the divestment fees.

Research and development declined to 10% of revenues as we completed the significant proportion of our current development programme of our key products. Selling and distribution declined to 36% of revenue supporting the OTC products in Australia, New Zealand and Southeast Asia. In total, operating expenses represented 58% of revenue (PCP 63%).

These factors culminated in the reduction in the operating loss for the year to $10.1m.

SUMMARY FINANCIAL RESULTS
(For the year ended 31 March 2018)

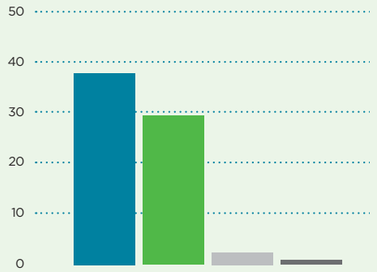
$NZ000's	2018	2017
Revenue	**80,071**	**69,205**
Cost of sales	(45,880)	(43,207)
Gross profit	**34,191**	**25,998**
Other income	2,235	2,659
Selling and distribution expenses	(28,533)	(25,964)
General and administrative expenses	(8,308)	(5,851)
Research and development expenses	(8,230)	(11,227)
Equity accounted loss of joint venture entity	(1,494)	(414)
Operating loss	**(10,139)**	**(14,799)**

Operating revenue

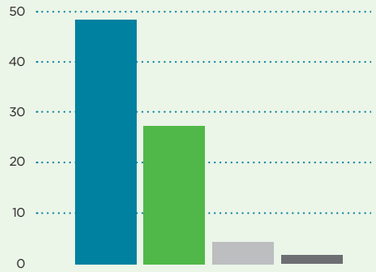
Operating revenue grew 16% to $80.1m for the year ended 31 March 2018 from $69.2m for the year ended 31 March 2017 due primarily to the growth in our primary Australian market.

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

Net revenue FY2017
(NZ$m)



Net revenue FY2018
(NZ$m)

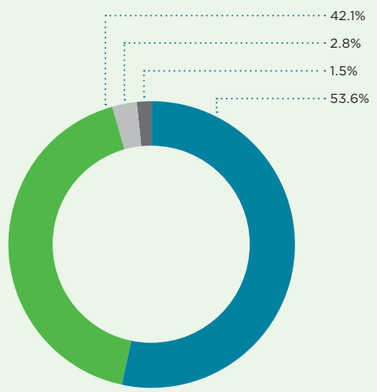


Operating revenues FY2018

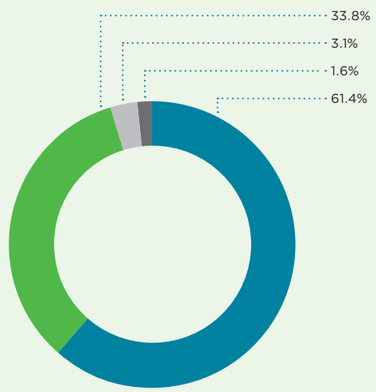
$80.1m

16%

Overall revenue by market FY2017
(Percentage)



Overall revenue by market FY2018
(Percentage)



Australia revenue grew by 33% to $49.2m (PCP $37.1m) and this market now makes up 61% of group operating revenue. With strong growth in its main OTC channel, *Maxigesic* revenues grew by 65% with significant growth from 1 February 2018 following the regulatory shift of codeine based painkillers from OTC to prescription only. Other core products such as the *Ferro* range, ***Eyecare*** range and other pain range also grew well. The hospital channel again had strong growth and these two channels drove the growth.

New Zealand revenue declined 7% down to $27.1m (PCP $29.2m) and now represents 34% of the group operating revenue. The decline was due to AFT ceasing the sole supply tender product *Metoprolol* in FY2018. OTC sales recovered this year following the small decline in the Pharmacy channel in the previous year, which is pleasing given the higher margins in OTC products. This assisted an increase of 19% in gross profit compared with prior year. The hospital channel had good growth over a wide range of products.

Southeast Asia revenue grew by 28% to $1.3m (PCP $1.0m) and this market stays steady at 1.6% of group operating revenue. Sales were predominantly in the Singapore market where product registration is generally quicker to obtain. The hospital channel still accounts for most of the revenue from this market. That said, OTC grew at 48% and we expect more of the growth to come from this channel going forward.

Rest of World revenue grew by 27% to $2.5m (PCP $2.0m) and this market now makes up 3.1% of the group operating revenue. Most of the revenues are from sales and royalties of *Maxigesic*. For example, sales to the United Arab Emirates have grown by 30%, while in Italy in market sales made by the licensee have grown well. Launches are also dictated by regulatory timelines which influence the new market timelines. These were negatively impacted by slower than expected registrations in the EU. However these registrations have now been achieved and launches are anticipated to get back on track this current financial year.

Gross margin

Gross margin of 43% for FY2018 improved by 5% from 38% for FY2017. The main drivers for the improvement were from the growth in OTC revenues primarily in Australia and to a lesser extent by the OTC revenue recovery in New Zealand. The OTC channel has the highest gross margin. The growth in gross margin is expected to continue as the Australian and Rest of World OTC revenues grow.

Other income

Licensing income comprises the milestone payments received from out licensing arrangements we have in our Rest of World markets and the fees we have received from the divestment of non-core hospital products. It is classified in the financial statements as other income. This remained in the same range at $1.8m (PCP $1.6m), with a combination of new out licensing agreements commencing and milestone payments on existing agreements, together with the divestment fees.

Operating overheads

Total research and development investment reduced to $9.7m (PCP $11.6m). This includes the $1.5m spend on *Pascomer* which under IFRS accounting standards we are required to record as joint venture equity accounted loss in the consolidated income statement. A large portion of total research and development spend was on the *Maxigesic IV* clinical trial in the United States which has now concluded with strongly positive results.

Selling and distribution expenses increased to $28.5m (PCP $25.9m). However, these expenses declined as a percentage of operating revenue to 36% (PCP 38%). They comprise primarily the support of OTC products in the Australia, New Zealand and Southeast Asia markets.

General and administration expenses increased to $8.3m (PCP $5.9m) primarily due to one off legal costs incurred relating to competitor legal action challenging certain *Maxigesic* claims. AFT remains confident of its legal position with the outcome of the claims due during FY2019.

Balance sheet

Total assets of $56.6m (PCP $58.3m) have reduced primarily due to the investment made into research and development. Working Capital requirements remained the same at $22.9m with close management of inventory levels and debtor management.

The cash position of $6.8m at 31 March 2018 (PCP $15.9m) reflects primarily the $12.7m loss due to investment into research and development, the US$5m drawdown under the debt facility and the $1.1m equity raise from the share placement in May 2017.

The balance sheet is primarily working capital driven. Intangible assets are growing and are now $5.1m (PCP $2.5m). This year, we have capitalised $2.5m of development costs which relate to the new delivery forms of *Maxigesic*. The balance of intangible assets comprise capitalised patents and trademarks. The investment in the *Pascomer* joint venture entity has increased to $2.1m (PCP $0.6m) with spend of $3.0m on product development.

The Company is pleased to note that, given their satisfaction with the progress of the company, CRG the holder of the long term loan to AFT has removed the requirement for any repayment of the loan prior to its maturity in March 2020 and has made available a further US$5m draw down at the Company's option prior to 30 September 2018.

OTC products already launched in FY2017 will continue to drive sales growth in Australia. The codeine opportunity, whilst being difficult to accurately forecast, is significant given that 750 million tablets of codeine-based OTC products were sold in Australia every year. In New Zealand, Medsafe have announced a similar codeine rescheduling which will occur in the 2020 year. This will again offer a further opportunity to expand *Maxigesic* sales in our New Zealand market.

Australia revenue grew by 33% to $49.2m (PCP $37.1m) and this market now makes up 61% of Group Operating Revenue.

Rest of World revenue grew by 27% to $2.5m (PCP $2.0m) and this market now makes up 3.1% of Group Operating Revenue.

Growing OTC sales

Australia.

Codeine rescheduling switch in Australia significantly lifts sales

▲ **$49.2m**
FY2018

▲ **$37.1m**
FY2017

▲ **$31.2m**
FY2016

AUSTRALIA REVENUE

Australia's Therapeutic Goods Association (TGA) confirmed an interim decision that shifted codeine based painkillers from being an over the counter (OTC) product in Australia to a prescription only product. This change consequently commenced on 1 February 2018 despite opposition from incumbents and vested interest groups. We have also now seen in New Zealand an announcement that Medsafe has a similar codeine rescheduling which will occur in the 2020 year.

The switch in Australia offered a significant sales upside for *Maxigesic* as consumers sought an alternative OTC analgesic after the rescheduling of OTC codeine. Evidence of consumers stock-piling codeine ahead of 1 February emerged which delayed the uptake of alternatives such as *Maxigesic*. We undertook careful evaluation of the market switch potential and increased significantly our stockholdings of *Maxigesic* which proved to be very important as sales increased significantly around 1 February and have held up subsequently.

Our sales force in Australia has worked very hard and with great passion to outline the benefits of *Maxigesic* to pharmacy in Australia. This has resulted in great support at pharmacy which translated to *Maxigesic* being the leading Paracetamol-Ibuprofen combination after the switch date. Although there is another combination of Paracetamol-Ibuprofen in the market the *Maxigesic* combination cannot be copied as it is patent protected in Australia until around mid-2028.

Consequently a number of different brands of the alternative combination are available. However *Maxigesic* delivers a greater maximum daily dose of active ingredients than alternatives: Paracetamol 4000mg+ Ibuprofen 1200mg/day compared with Paracetamol 1500mg+ Ibuprofen 600mg/day. Promotion of our points of differentiation has and continues to be important given that we do not have the promotional budgets of some of our large multinational competitors. However extensive work in pharmacy from our sales force together with a different style of advertising featuring the inventor of *Maxigesic* has helped us achieve significant market share and sales on a limited budget. In fact even an ex Australian Prime Minister was spotted purchasing a pack of *Maxigesic* recently in a Melbourne pharmacy.

New markets. New opportunities.

Progressing Key Innovative Products

A GLOBAL LINE EXTENSION FOR MAXIGESIC PRODUCTS IS UNDERWAY.

A DRY POWDER VERSION OF MAXIGESIC BEING FORMULATED.

FY2018 SAW THE SUBSTANTIAL COMPLETION OF THE GLOBAL MAXIGESIC IV CLINICAL TRIAL PROGRAMME.

Maxigesic development and progress

Significant progress was made during FY2018 in completing the *Maxigesic* clinical trial programme with studies around the world: *Maxigesic IV* in Austin, Texas and Baltimore, Maryland USA; *Maxigesic Junior* in Hamilton and Auckland New Zealand, Melbourne, Australia and Guadalajara and Morelia, Mexico.

These studies require extensive collaboration and are all managed by AFT from New Zealand and our study monitors visit the trial sites to ensure that the study protocols are being followed by the medical staff at the trial sites. Our lead clinical trial monitor, Irenee Stewart, has been with AFT for more than five years and enjoys the challenge of travelling to remote sites and interacting with the site staff to ensure that all aspects of the study are completed according to tight regulatory rules of Good Clinical Practice (GCP). Irenee was previously an experienced nurse working in ICU and Cardiac Care Departments at Waikato Hospital. The importance of this was recently emphasized when the pivotal *Maxigesic* tablet study site in USA at Austin Texas was audited by USA FDA who unexpectedly arrived to conduct a week long audit process reviewing all the documentation. As expected the study passed the audit procedure without any major data queries but again this emphasises the importance of good GCP procedures.

On the formulation side, we are collaborating with a French company to develop a dry powder version of *Maxigesic* that can be taken without water. This is technically challenging since the Paracetamol in *Maxigesic* naturally has a bitter aftertaste and the Ibuprofen component will result in an irritating feeling to the throat.

Many different versions of coating have been used and taste tested. The final formulation has been chosen and optimisation work is underway which has also resulted in additional intellectual property patent filings which is important to protect the final product from competitor copycat versions.

A similar approach was used for *Maxigesic IV* where we partnered with a European company to develop a stable IV liquid formulation of *Maxigesic*. Technically this was challenging as Paracetamol tends to degrade in solution and turns a bright yellow colour with the formation of potentially toxic oxidative by-products. The collaboration was able to develop a stable *Maxigesic IV* formulation which has resulted in a further generation of IP to protect the *Maxigesic IV* formulation in addition to patents around *Maxigesic IV*.

A significant amount of development work has been concluded and a key requirement is now to complete registration of both *Maxigesic* and the line extensions globally, which is a significant exercise. We have reorganised our internal approach to this with the creation of specialist regulatory managers to drive this process. Additionally a new Project Manager and International QA Manager position has been created and the position filled through an internal promotion. Ongoing evaluation of business requirements and structure is of prime importance as the process of registering and launching in some 125 countries around the globe, albeit with local licensees, is a significant quantum shift for our business which has traditionally been focused upon Australia and New Zealand.

NasoSURF nebuliser

An improved approach to medicine delivery

Development of AFT's new nasal delivery system, *NasoSURF*, is well under way and on track for FDA and EU filings for a Class II medical device registration in this coming financial year.

Currently there are other ultrasonic and mechanical nebulisers used in hospitals but these are typically large, bulky, requiring an external power source and a pump or a fan to deliver generated aerosols over a number of minutes. The *NasoSURF* nebulizer in contrast is a highly compact, efficient and portable device driven by a cell phone sized battery. It is used to deliver medication to the patient via the nose in literally a few breaths by virtue of its patented ultrasonic transducer and mesh technology.

Recently a Human Factor Evaluation (HFE) study was performed in Minneapolis (USA) involving healthcare professionals and potential users.

The outcome of this study showed that the general design and device functionality was on track but a few design enhancements were identified that could both increase the user experience and the clinical applicability of the device. With this in mind, the AFT design and technical team have used this knowledge combined with feedback from the FDA to further improve the device and user experience as well as ways to reduce the ongoing manufacturing costs. Device enhancement prototyping is well underway and the manufacturing development/commercialisation is on schedule for the regulatory filings in the USA and EU as planned.

We have also initiated a development programme with a French company for a specific formulation and dosage delivery system that can be used together with *NasoSURF*. This system will be used with *NasoSURF* in the clinical development studies for FDA which are expected to occur this financial year.

International growth for Maxigesic

The commercial realisation of our licensing agreements in over 125 countries is a key focus for us in FY2019. Registration progress was slower than originally expected as the *Maxigesic* regulatory application was considered by CHMP, the European medicine agency committee which resulted in a delay of approximately nine months. However we have achieved registration in 23 European countries with the goal to achieve registrations in a further 12 countries this FY2019 year. This is an important step towards achieving revenue goals over the coming years as *Maxigesic* registration must precede product launches.

Attaining these registrations and executing successful launches in core markets, whilst maintaining growth in established markets such as Italy and the UAE will drive growth.

A key focus in FY2019 is Europe and Asia where launches are confirmed for the first half of this year in Malaysia, Singapore (OTC Launch post re-classification), and Ireland. Further launches are planned in at least 20 countries in the Central American region and multiple European countries.

Registration is imminent in Mexico with our licensee partner Expanscience. We aim to launch in the second half of this financial year in this strong emerging market where fast acting analgesic combinations form a growing segment* for the 123 million population.

Our German license has been granted which aids registration submissions into regions throughout CIS, MENA and Africa as those countries rely upon this license for the registration process.

Over the next year AFT will submit *Maxigesic* line extensions for registration with our key licensee partners to further expand the product range and drive the long term growth worldwide.

We expect a number of additional licensing deals to be announced over this FY2019 year which together with growing *Maxigesic* tablet sales from existing markets, new market launches from existing licensees, new market launches from new licensees and then launches of additional dose forms, will drive significant sales in the International division over the next three to five years.

NEW MARKET LAUNCHES WILL DRIVE INTERNATIONAL SALES OVER THE NEXT THREE TO FIVE YEARS.

20+ PRODUCT LAUNCHES IN CENTRAL AMERICA AND EUROPE.

REGISTRATION IN 23 EUROPEAN COUNTRIES ACHIEVED.

*Nicholas Hall report Nov 2017

Governance

Directors and management team

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

Board of Directors

David Flacks

CHAIRMAN AND INDEPENDENT DIRECTOR

Appointed 22 June 2015

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

David was chair of the NZX Markets Disciplinary Tribunal until June 2017 and was previously a member of the Takeovers Panel. He also holds a number of pro bono directorships.

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

Dr Hartley Atkinson

FOUNDER, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed 4 September 1997

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

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

Marree Atkinson

EXECUTIVE DIRECTOR AND CHIEF OF STAFF

Appointed 4 September 2012

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

Marree is a registered nurse previously practising at Waikato Hospital.

Nathan (Nate) Hukill

NON-EXECUTIVE DIRECTOR

Appointed 14 May 2014

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

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

Jon Lamb

INDEPENDENT DIRECTOR

Appointed 4 September 2012

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

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

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

Dr John Douglas (Doug) Wilson

INDEPENDENT DIRECTOR

Appointed 4 September 2012

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

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

Dr James (Jim) Burns

INDEPENDENT DIRECTOR

Appointed 17 September 2015

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

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

Management team

Malcolm Tubby
CHIEF FINANCIAL OFFICER

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

Ioana Stanescu
HEAD OF DRUG DEVELOPMENT

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

Vladimir Ilievski
REGULATORY AFFAIRS MANAGER

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

Louise Clayton
DIRECTOR INTERNATIONAL BUSINESS

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

Calvin Mackenzie
GENERAL MANAGER AUSTRALIA

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

Scott Crawford
GENERAL MANAGER – PROMOTED PRODUCTS AUSTRALASIA & SOUTHEAST ASIA

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

Murray Keith
GROUP MARKETING MANAGER

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

Corporate Governance

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

The Board has had regard to the NZX Listing Rules and a number of corporate governance recommendations when establishing its governance framework, including the latest Australian Securities Exchange (ASX) Corporate Governance Council Principles and Recommendations (notwithstanding AFT is not required to follow these recommendations due to its ASX Foreign Exempt Listing) and the revised NZX Corporate Governance Code 2017 (NZX Code).

The NZX Listing Rules require AFT to formally report its compliance against the recommendations contained in the NZX Code. How AFT has implemented these recommendations is set out in AFT's Corporate Governance Statement. The Board considers that AFT's corporate governance structures, practices and processes have followed all of the recommendations in the NZX Code in the financial year to 31 March 2018.

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

STOCK EXCHANGE LISTINGS

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

AFT is incorporated in New Zealand.

OVERVIEW OF AFT'S GOVERNANCE STRUCTURE

The AFT Board of Directors has been appointed by shareholders to protect and enhance the long-term value of AFT and to act in the best interests of AFT and all of its shareholders. The Board is the ultimate decision-making body of the Company and is responsible for the corporate governance of the Company. The role and responsibilities of the Board are set out in the Board Charter, which can be found on the investor centre of the Company's website.

The Board currently comprises an independent non-executive chair, three other independent non-executive directors, one non-executive director and two executive directors, as detailed on pages 20 and 21 of this Annual Report.

The Board has established three standing Board Committees to assist in the execution of its responsibilities:

- an Audit and Risk Committee;
- a Remuneration and Nominations Committee; and
- a Regulatory and Product Development Oversight Committee.

Details of the roles and responsibilities of these committees are described in their respective charters, which can be found on the investor centre of the Company's website.

Sustainability

For us, sustainability means aligning our goals with the interests of society. We believe that by acting sustainably we contribute positively towards the development of the world.

The Sustainable Development Goals (SDGs) are a set of global initiatives set up by the United Nations for everyone to contribute to. For AFT, the SDGs are a way to see which areas of sustainability we are directly contributing to and how our community initiatives relate to a larger vision for positive change. AFT's Environmental, Social and Corporate Governance (ESG) framework remains under development and will continue to be progressed over time.

AFT has been committed to sustainability for many years and contributes to a number of the 17 SDG's identified by the United Nations.

Providing medicines for a diverse range of patients	• 29 AFT products on the World Health Organisation Model list of essential medicines • Products range from juvenile- to aged-specific • Products distributed for use in hospitals, prescription and general medicines	
Innovating medicines to improve the health of our end customers	• Developing products that we genuinely believe will improve the health of our end customers. • Repurposing existing approved pharmaceuticals to minimise risk to user of our products • Innovating new delivery methods for improved delivery of medication. For example, via the development of the *NasoSURF*.	
Providing medicines solutions for under-privileged or under-represented groups	• Making medicines available for rare diseases, designated with orphan status under the US Food and Drug Administration. • Donate medicines to under-privileged groups, such as patients in the Pacific Islands. • Work with government agencies to make specific medicines available to under-privileged groups.	
Being a trustworthy partner	• All of our critical product suppliers have been risk assessed. • 20 or so partnerships in Pharmaceuticals	
Protecting the environment	• Donating product that would otherwise be wasted to charity organisations • Working with suppliers (within regulatory guidelines) to reduce packaging or use eco-packaging, wherever possible while preserving the integrity of the product	
Delivering continued growth	• 16% growth in operating revenues • Significant reduction in operating losses	
Providing a great work place	• Diversity in the workplace with 22 cultures represented amongst the staff of 88 • 61% of staff are female with 40% of senior executives female	

Enhancing lives in Fiji

An ESG case study

June 2017, the New Zealand pharmacy sales team went to Suva Fiji to assist our local Fiji distributor to utilise some of our excess inventory from New Zealand to enhance the lives of the less fortunate in Fiji.

Lice is a major issue in Fiji so we distributed lice treatments to Fiji schools through the federal government body. We also provided this to other Fiji government institutions such as hospitals, prisons and the military barracks.

The New Zealand sales team donated their time to help educate healthcare professionals in Suva.

Tina Boyes, Jamie Lee Rummins and Rebecca Rodonich with women and children from the poverty campaign.

FY18

Financial Statements.

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Deloitte.

Independent Auditor's Report

To the Shareholders of AFT Pharmaceuticals Limited

Opinion

We have audited the consolidated financial statements of AFT Pharmaceuticals Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2018, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 31 to 57, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

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

Audit materiality

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter and the results of our work
Research and development costs As disclosed in note 6 and note 12, the Group is involved in the research and development of new products and variants of existing products. During the year ended 31 March 2018, research and development costs of $8,986 million were incurred. Of this total, $6,521 million was expensed through profit or loss and $2,465 million has been capitalised as intangible assets. Judgement is required in assessing whether research and development costs for each project should be capitalised or expensed in accordance with the relevant financial reporting framework. A key consideration that impacts whether costs should be capitalised is the technical feasibility of completing the development of a new product, which generally includes demonstrating approval of the product by the relevant market regulatory authority.	In performing our procedures we: a) understood management's processes and controls to assess the appropriate accounting treatment for each project; b) determined whether the Group's accounting policies are consistent with requirements of the relevant accounting standards; c) obtained an analysis from management as to the status of each individual project and corroborated with operational management; d) tested a sample of costs expensed to supporting documentation to verify the amounts being expensed and the status of the project; e) determined whether the costs tested as part of our sample in (d) should have been capitalised; f) tested a sample of costs capitalised to supporting documentation to verify the amounts being capitalised and the status of the project; g) determined whether the expenses tested as part of our sample in (f) should have been expensed; h) challenged whether management's treatment of the costs is appropriate.

Other information

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

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

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

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Jason Stachurski, Partner
for Deloitte Limited
Auckland, New Zealand
23 May 2018

This audit report relates to the consolidated financial statements of AFT Pharmaceuticals Limited (the 'Company') for the year ended 31 March 2018 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 23 May 2018 to confirm the information included in the audited consolidated financial statements presented on this website.

Consolidated Income Statement

For the year ended 31 March 2018

$NZ000's	Note	2018	2017
Revenue	4	80,071	69,205
Cost of sales		(45,880)	(43,207)
Gross Profit		**34,191**	**25,998**
Other income	5	2,235	2,659
Selling and distribution expenses	6(a)	(28,533)	(25,964)
General and administrative expenses	6(a)	(8,308)	(5,851)
Research and development expenses	6(a)	(8,230)	(11,227)
Equity accounted loss of joint venture entity	13(b)	(1,494)	(414)
Operating Loss		**(10,139)**	**(14,799)**
Finance income		125	347
Finance costs	6(a)	(2,652)	(3,878)
Loss before tax	6	**(12,666)**	**(18,330)**
Tax expense	7	(58)	(58)
Loss after tax attributable to owners of the parent		**(12,724)**	**(18,388)**
Basic and diluted loss per share ($)	25	(0.13)	(0.19)

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

$NZ000's	2018	2017
Loss after tax	**(12,724)**	**(18,388)**
Other comprehensive income		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	74	356
Other comprehensive income/(loss) for the year, net of tax	**74**	**356**
Total comprehensive loss for the year attributable to owners of the parent	**(12,650)**	**(18,032)**

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

$NZ000's	Note	Share capital	Redeemable preference shares reserve	Share options reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance 31 March 2016		**53,902**	**-**	**65**	**(100)**	**(25,637)**	**28,230**
Loss after tax		-	-	-	-	(18,388)	(18,388)
Other comprehensive income		-	-	-	356	-	356
Total comprehensive income		-	-	-	356	(18,388)	(18,032)
Issue of redeemable preference shares	17	9,124	-	-	-	-	9,124
Movement in share options reserve		-	-	230	-	-	230
Capital raising expenses	17	(82)	-	-	-	-	(82)
Balance 31 March 2017		**62,944**	**-**	**295**	**256**	**(44,025)**	**19,470**
Loss after tax		-	-	-	-	(12,724)	(12,724)
Other comprehensive income		-	-	-	74	-	74
Total comprehensive income		**-**	**-**	**-**	**74**	**(12,724)**	**(12,650)**
Preference dividends accumulated	17	-	483	-	-	-	483
Issue of share capital		1,065	-	-	-	-	1,065
Capital raising expenses	17	(266)	-	-	-	-	(266)
Movement in share options reserve		-	-	135	-	-	135
Preference dividends paid or accumulated	17	-	-	-	-	(895)	(895)
Balance 31 March 2018		**63,743**	**483**	**430**	**330**	**(57,644)**	**7,342**

Consolidated Balance Sheet

As at 31 March 2018

$NZ000's	Note	2018	2017
Assets			
Current assets			
Inventories	8	24,412	22,198
Trade and other receivables	9	16,954	16,051
Cash and cash equivalents	10	6,770	15,905
Derivative assets	20	176	-
Total current assets		**48,312**	**54,154**
Non-current assets			
Property, plant and equipment	11	330	386
Intangible assets	12	5,118	2,548
Deferred income tax assets	7	708	610
Investment in joint venture entity	13(b)	2,135	627
Total non-current assets		**8,291**	**4,171**
Total assets		**56,603**	**58,325**
Liabilities			
Current liabilities			
Trade and other payables	14	17,391	14,549
Provisions	15	1,098	564
Current income tax liability		118	112
Derivative liabilities	20	-	204
Total current liabilities		**18,607**	**15,429**
Non-current liabilities			
Interest bearing liabilities	16	30,654	23,426
Total liabilities		**49,261**	**38,855**
Equity			
Share capital	17	63,743	62,944
Retained earnings		(57,644)	(44,025)
Share options reserve	19(b)	430	295
Redeemable preference shares reserve		483	-
Foreign currency translation reserve		330	256
Total equity		**7,342**	**19,470**
Total liabilities and equity		**56,603**	**58,325**
Net tangible assets per ordinary share		$0.02	$0.17

For and on behalf of the Board who authorised these financial statements for issue on 23 May 2018.

David Flacks
Chairman

Hartley Atkinson
Managing Director and
Chief Executive Officer

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

$NZ000's	Note	2018	2017
Cash flows from Operating Activities			
Receipts from customers		79,278	66,491
Interest received		125	347
Payments to suppliers and employees		(88,296)	(83,043)
Tax (paid) / received		(149)	16
Interest and finance cost paid		(1,862)	(2,873)
Net cash used in operating activities	18	**(10,904)**	**(19,062)**
Cash flows from Investing Activities			
Purchases of property, plant and equipment		(70)	(122)
Purchases of intangible assets		(2,783)	(620)
Investment in joint venture		(3,002)	(856)
Net cash used in investing activities		**(5,855)**	**(1,598)**
Cash flows from Financing Activities			
Proceeds from issue of share capital		1,065	9,124
Share issue costs		(188)	(82)
Dividends paid		(412)	-
New borrowings	16	7,135	-
Net cash generated from financing activities		**7,600**	**9,042**
Net decrease in cash		(9,159)	(11,618)
Impact of foreign exchange on cash and cash equivalents		24	(457)
Opening cash and cash equivalents		15,905	27,980
Closing cash and cash equivalents		**6,770**	**15,905**

Notes to the Financial Statements

For the year ended 31 March 2018

1. General information

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

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

These financial statements are authorised for issue on 23 May 2018 by the directors.

2. Statement of accounting policies

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

(a) Basis of preparation

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

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

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities and the results of the parent and its subsidiaries controlled at year end.

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

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

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

Joint venture

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

(c) Critical accounting estimates and judgements

In preparing these financial statements the Group made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The recognition of deferred tax (detailed within note 7) and treatment of research and development costs (detailed within note 12) are considered critical estimates and judgements. It is not expected that these estimates and judgements will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

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

(e) Revenue recognition

Revenue comprises the fair value for the sale of goods, excluding Goods and Services Tax (GST), rebates and discounts.

- The sales of goods are recognised when the product is delivered to the customer.
- Royalties are recognised when licencees have made sales of product which attract royalties to the Company.

(f) Other income recognition

Other income comprises research and development grant and licensing income:

- Research and development grant

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

- Licencing income

  Licencing income comprises milestone payments due under licencing agreements. Milestone payments represent a minor portion of the economic benefits of the licencing agreements (the primary benefits being the sale of product and royalties earned on licensee sales). The milestones are recognised as income according to the terms of each licencing agreement.

(g) Finance income recognition

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

2. Statement of accounting policies (continued)

(h) Property, plant and equipment

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

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

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

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

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

(i) Intangible assets

Finite useful life

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

Indefinite useful life

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

(j) Goods and services tax (GST)

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

(k) Income tax

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

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

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

(l) Inventories

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

(m) Leased assets

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

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts and provision for customer rebates. Bad debts are written off in the year in which they are identified. Collectibility of trade receivables is reviewed on an ongoing 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 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 income statement.

(o) Trade payables

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

(p) Borrowings

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

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

(q) Share capital

Ordinary shares, and the now-converted preferred shares, are classified as equity. Both carried equal voting rights. Preferred shares attracted a dividend yield. Redeemable preference shares also form part of share capital.

(r) Cash and cash equivalents

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

(s) Employee entitlements

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

(t) Impairment of non-financial assets

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

(u) Derivative financial instruments

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

2. Statement of accounting policies (continued)

(v) Research and development

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

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

(w) Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period. Preferred shares are considered to be anti-dilutive for the earnings per share calculation.

(x) Change in classification

During 2018, the Group modified the classification of provisions for customer rebates from "Provisions" to "Trade and Other Receivables" to reflect more appropriately the receipts expected from customers.

Comparative amounts in the Balance Sheet were restated for consistency. As a result, for FY2017, $3,386k was reclassified from "Provisions" to "Trade and Other Receivables". Additionally, $75k which is held on term deposit for an NZX bond has been reclassified from "Cash" to "Prepayments".

(y) Correction of error

During 2018, the Group determined that goods in transit should be accounted for according to Incoterms, other than for specific ownership terms in the contracts. Previously, the Group recognised inventory once it had inspected and accepted the goods as per its rights under the contracts. As a result of this change, as at 31 March 2017 there was $3,480k of goods in transit which had not been recorded. As a consequence, inventories and trade and other payables were understated. The change has been recorded in these financial statements by restating each of the affected financial statement line items for prior periods.

The following table summarises the impact on the Group's consolidated financial statements, of items (x) and (y).

Consolidated Balance Sheet

For the year ended 31 March 2017

		Impact of correction of error	
$NZ000's	As previously reported	Adjustments	As restated
Inventories	18,718	3,480	22,198
Trade and other receivables	19,362	(3,311)	16,051
Cash	15,980	(75)	15,905
Total current assets	**54,060**	**94**	**54,154**
Total assets	**58,231**	**94**	**58,325**
Trade and other payables	11,069	3,480	14,549
Provisions	3,950	(3,386)	564
Total current liabilities	**15,335**	**94**	**15,429**
Total liabilities	**38,761**	**94**	**38,855**

There is no impact on the Group's total equity, basic or diluted earnings per share, net tangible assets per ordinary share, total comprehensive loss or cash flows for the year ended 31 March 2017.

3. Standards or interpretations not yet effective

No new standards that have been issued and are effective for the periods beginning 1 April 2017 are considered to materially impact the recognition, measurement or disclosure of these financial statements. Below are new standards and amendments that have been issued that are not yet effective:

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to classify equity instruments that are not held for trading at fair value through comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 in the period beginning 1 April 2018, however, no material impact is expected as no derivatives used by the Company currently qualify for hedge accounting.

NZ IFRS 15 'Revenues from Contracts with Customer'

The Group will implement the new standard effective 1 April 2018. The new standard will replace NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts'. NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised and also contains new requirements related to presentation. The core principle in that framework is that revenue should be recognised dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognising revenue when or as performance obligations are satisfied. Judgement will need to be applied, including making estimates and assumptions for multiple-element contracts in identifying performance obligations, in constraining estimates of variable consideration and in allocating the transaction price to each performance obligation and to lease components (if any). The new standard will result in an increased volume of disclosure information in the Consolidated Financial Statements.

Changes introduced by the standard relevant to AFT

The new standard provides new requirements and additional guidance that are relevant to the AFT Group, notably in the following areas:

- the Group's "Sale of goods" are derived from the sale of pharmaceuticals where control transfers to our customer and our performance obligations are satisfied at the time of shipment to or receipt of the products by the customer. We do not expect NZ IFRS 15 to significantly change the timing or amount of revenue recognised under these agreements.
- the Group's "Royalty income" consists of royalty income from the out-licensing of intellectual property (IP), which is recognised as earned. We do not expect NZ IFRS 15 to significantly change the timing or amount of revenue recognised on these royalty arrangements as the standard's royalty exception will apply to these revenues.
- out-licensing contracts may be entered into with no further obligations or may include commitments to late-stage development, regulatory approval or manufacturing. These may be settled by a combination of up-front payments, milestone payments, and reimbursement for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of NZ IFRS 15, is not straight forward and requires some judgement. Depending on the conclusion, this may result in all revenue from the contract being estimated at inception and either recognised at a point in time or spread over the time. The outcome under the new standard may differ to the Group's current treatment. The new standard provides an exemption for sales-based royalties for licences of intellectual property which will continue to be recognised as revenue as underlying sales are incurred. Based on the Group's current out-licencing contracts, the impact of the new standard is however not considered to be material.

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

3. Standards or interpretations not yet effective (continued)

Transition approach and use of practical expedients

The Group will apply the full retrospective method for the transition. Certain practical expedients permitted by the standard during the transition will also be used, notably the relief to not restate contracts that began and were completed in FY2018 or were completed before 1 April 2017 and to not provide in FY2019 the disclosure requirement as per NZ IFRS 15 paragraph 120 for the comparative FY2018 period ('amount of the transaction price allocated to the remaining performance obligations'). Since the new standard, including the use of practical expedients, is not expected to materially modify the timing or amounts of revenue recognised for FY2018, no restatement is expected to be necessary.

Presentational changes

As a result of implementing NZ IFRS 15, the Group will make a presentational change to the consolidated income statement in FY2019 and will create new notes for Revenue and Other Income to include the increased volume of required disclosure information.

NZ IFRS 16 Leases

Under adoption of the new NZ IFRS 16, a portion of the annual operating lease costs, which are currently fully recognised as a functional expense, will be recorded as interest expense. The capitalised value of the leases will be amortised as depreciation, while the lease liability will be amortised as ongoing lease payments are made.

In addition, a portion of the annual lease payments recognised in the cash flow statement as a reduction of the lease liability, will be recognised as an outflow from financing activities. These are currently fully recognised as an outflow from operating activities.

The Group does not expect the changes to significantly affect overall cashflow nor expenses and net profit, however the costs will be recognised in different classifications (interest, depreciation and liability reduction).

There are no other NZ IFRS or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. Revenue from operations

$NZ000's	2018	2017
Sale of goods	79,882	69,047
Royalty income	189	158
Total revenue	**80,071**	**69,205**

5. Other income

$NZ000's	2018	2017
Research and development grant	409	512
Licensing income	1,826	1,597
Other income	-	550
Total other income	**2,235**	**2,659**

In FY2017, the Company purchased emergency supplies of Metoprolol at a cost of $823,000, which was damaged in transit and written off as part of Cost of Sales during the year. An insurance recovery of $550,000 was made against this cost, which was reported as other income.

6(a). Net operating profit

$NZ000's	Note	2018	2017
Loss before tax		**(12,666)**	**(18,330)**
After charging the following specific expenses:			
Finished goods material component of cost of goods sold		45,404	41,671
Inventory write off		476	1,536
Audit fees and review of financial statements	6(b)	193	149
Rental expense – premises		528	502
Operating leases – motor vehicles and equipment		450	422
Share options expense		135	230
Short-term employee emoluments:			
Selling and distribution expenses		6,683	6,233
General and administrative expenses		1,899	1,594
Research and development expenses		1,282	1,362
		9,864	9,189
Research and development expenses:			
Product development		6,521	9,222
New market development		1,709	2,005
		8,230	11,227
Depreciation:			
Plant and machinery		88	99
Furniture and fixtures		27	29
Vehicles		11	15
		126	143
Amortisation (included in General and Administration expenses):			
Patents		115	99
Software		99	84
		214	183
Finance costs:			
Interest		3,496	3,186
Foreign exchange losses/(gains)		(818)	710
Other financing costs		(26)	(18)
		2,652	3,878

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

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

6(b). Fees paid to auditors

$NZ000's	2018	2017
Audit of financial statements		
Audit of annual financial statements – Deloitte (2017: PwC)	129	126
Review of half year financial statements - PwC	64	23
Total fees for audit and review services	**193**	**149**
Other services		
Tax due diligence services – Deloitte	19	-
Total fees paid to auditors	**212**	**149**
Deloitte	148	-
PwC	64	149

7. Income tax

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

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

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

$NZ000's	2018	2017
(a) Tax expense		
Loss before tax	**(12,666)**	**(18,330)**
Tax calculated at domestic tax rates applicable*	(1,862)	(5,049)
Expenses not deductible	43	84
Current year losses not recognised	2,323	5,094
Previous year losses now utilised	(603)	(197)
Non resident withholding tax	160	121
Prior year adjustment	(3)	5
Tax expense/(benefit)	**58**	**58**
Comprising:		
Current tax	(40)	117
Deferred tax	98	(59)
	58	**58**

* Calculated using the pre tax profit / loss and tax rate in New Zealand (28%) and Australia (30%)

$NZ000's	2018	2017
(b) Deferred tax balance		
Provisions	708	610
	708	**610**

Deferred tax assets relating to unused tax loss carry-forwards and to deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences. As at 31 March 2018, the Group recognised deferred tax assets on temporary differences totalling $708,000 (2017: $610,000) since it was foreseeable that temporary differences could be offset against future taxable profits. On the basis of the approved business plans of subsidiaries, AFT Pharmaceuticals Limited considers it probable that temporary differences can be offset against future taxable profits. There is no expected change in capital structure in the near future which is expected to affect the recoverability of the recognised deferred tax assets.

The amount of tax losses carried forward that is available for future utilisation is $45,964,000 (FY2017: $39,815,000). No deferred tax asset has been recognised in relation to these losses.

$NZ000's	2018	2017
(c) Imputation and franking credits available for use		
NZD	252	600
AUD	319	319

8. Inventories

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

$NZ000's	2018	Restated 2017
Finished goods	25,664	22,526
Provision for obsolescence	(1,252)	(328)
	24,412	**22,198**

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

9. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts and provision for customer rebates. Bad debts are written off in the year in which they are identified. Collectibility 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 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 income statement. Customer rebates are based on the customer's ability to achieve certain sales targets and are computed using the expected rebate percentage for sales made during the period.

$NZ000's	2018	Restated 2017
Trade receivables	19,823	17,403
Less provision for customer rebates	(5,044)	(3,386)
Prepayments	2,175	2,034
	16,954	**16,051**

Ageing of overdue trade debtors but not considered impaired

$NZ000's	1-30 Days	31-60 Days	61-90 Days	90+ Days	Total
31 March 2018	2,797	433	24	14	**3,268**
31 March 2017	323	167	3	-	**493**

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

10. Cash and cash equivalents

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

$NZ000's	2018	Restated 2017
Cash at bank	6,745	15,876
Cash on hand	25	29
Total cash	**6,770**	**15,905**

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

11. Property, plant and equipment

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing proceeds to carrying amounts and are included in the income statement.

$NZ000's	Plant and machinery	Furniture and fixtures	Vehicles	Total
(a) Cost				
Balance 31 March 2016	**694**	**396**	**218**	**1,308**
Additions	104	18	-	122
Disposals	-	-	-	-
Balance 31 March 2017	**798**	**414**	**218**	**1,430**
Additions	43	12	15	70
Disposals	-	-	(32)	(32)
Balance 31 March 2018	**841**	**426**	**201**	**1,468**
(b) Depreciation				
Balance 31 March 2016	**(537)**	**(192)**	**(172)**	**(901)**
Depreciation	(99)	(29)	(15)	(143)
Disposals	-	-	-	-
Balance 31 March 2017	**(636)**	**(221)**	**(187)**	**(1,044)**
Depreciation	(88)	(27)	(11)	(126)
Disposals	-	-	32	32
Balance 31 March 2018	**(724)**	**(248)**	**(166)**	**(1,138)**
(c) Carrying amounts				
Balance 31 March 2017	**162**	**193**	**31**	**386**
Balance 31 March 2018	**117**	**178**	**35**	**330**

12. Intangible assets

Capitalised development costs

Development projects are regularly reviewed throughout the year by a staff committee comprising the CEO, CFO, GM Development and Financial Controller. The status of each project is measured against the requirements of NZ IAS 38 and where projects are probable to generate economic benefits, the relevant costs incurred during the financial year are capitalised. The Group considers technical feasibility, resources required and intention of completing the project in making this assessment.

Finite useful life

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

Indefinite useful life

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

$NZ000's	Trademarks	Capitalised development costs	Patents	Software	Total
(a) Cost					
Balance 31 March 2016	**439**	**-**	**1,978**	**260**	**2,677**
Additions	171	-	204	254	629
Disposals	-	-	(9)	-	(9)
Balance 31 March 2017	**610**	**-**	**2,173**	**514**	**3,297**
Additions	84	2,465	234	1	2,784
Disposals	-	-	-	-	-
Balance 31 March 2018	**694**	**2,465**	**2,407**	**515**	**6,081**
(b) Amortisation					
Balance 31 March 2016	**-**	**-**	**(338)**	**(228)**	**(566)**
Amortisation	-	-	(99)	(84)	(183)
Disposals	-	-	-	-	-
Balance 31 March 2017	**-**	**-**	**(437)**	**(312)**	**(749)**
Amortisation	-	-	(115)	(99)	(214)
Disposals	-	-	-	-	-
Balance 31 March 2018	**-**	**-**	**(552)**	**(411)**	**(963)**
(c) Carrying amounts					
Balance 31 March 2017	**610**	**-**	**1,736**	**202**	**2,548**
Balance 31 March 2018	**694**	**2,465**	**1,855**	**104**	**5,118**

Trademarks are acquired to protect the current and future revenue streams of the Group.
They are considered to have an indefinite useful life while they continue to protect revenue streams.

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

13(a). Investment in subsidiaries

	Interest held 2018 %	Interest held 2017 %	Country of incorporation	Principal activities
AFT Pharmaceuticals (AU) Pty Ltd	100%	100%	Australia	Distribution of pharmaceuticals in Australia
AFT Pharmaceuticals Singapore Pte Ltd	100%	100%	Singapore	Registration of pharmaceuticals in Singapore
AFT Pharmaceuticals (S.E. Asia) Sdn Bhd	100%	100%	Malaysia	Distribution of pharmaceuticals in Malaysia
AFT Orphan Pharmaceuticals Limited	65%	65%	New Zealand	No activity
AFT Limited Partner Limited	100%	100%	New Zealand	Partner in Dermatology Specialties LP
AFT Dermatology Limited	100%	100%	New Zealand	Distribution of pharmaceuticals

All subsidiaries have a balance date of 31 March.

13(b). Investment in joint partnership

$NZ000's	2018	2017
Interest in joint venture company at cost	4,345	1,343
Equity accounted earnings of joint venture partnership	(2,210)	(716)
Net equity investment in joint venture partnership	**2,135**	**627**

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

	2018 % Interest held	2017 % Interest held
Dermatology Specialties LP (incorporated in New Zealand)	50%	50%

Principal activities: Development and distribution of pharmaceuticals

$NZ000's	2018	2017
Balance at start of year	627	185
Investment during the year	3,002	856
Share of current year loss	(1,494)	(414)
Dividend received	-	-
Balance at end of year	**2,135**	**627**

13(b). Investment in joint partnership (continued)

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

$NZ000's	2018	2017
Extracts from joint venture partnership balance sheet (unaudited)		
Current assets	-	-
Non-current assets	2,189	2,175
Current liabilities	(96)	(95)
Non-current liabilities	-	-
Net assets	**2,093**	**2,080**
Extracts from joint venture partnership income statement (unaudited)		
Revenue	-	-
Net profit after taxation	(2,989)	(828)

The joint venture did not have any contingent liabilities or capital commitments at balance date (2017: nil).

14. Trade and other payables

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

$NZ000's	2018	Restated 2017
Trade payables	7,335	10,828
GST payable	1,189	1,161
Employee entitlements	932	615
Other payables	7,935	1,945
	17,391	**14,549**

15. Provisions

$NZ000's	2018	Additional provisions	Utilised	2017	Additional provisions	Utilised	2016
Supplier rebates	1,098	1,098	(564)	564	564	(661)	661
	1,098	**1,098**	**(564)**	**564**	**564**	**(661)**	**661**

Supplier rebates are based on profit sharing arrangements with suppliers which are estimated on achieving expected set margin targets and are expected to be utilised within the next 12 months.

16. Interest bearing liabilities

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.

$NZ000's	2018	2017
CRG (Capital Royalty Partners) loans	30,654	23,426
	30,654	**23,426**

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

16. Interest bearing liabilities (continued)

$NZ000's	
Opening balance of CRG loan 1 April 2017	23,426
Capitalised interest	1,139
Additional loans drawn down	7,135
Gain on FX translation	(1,046)
Closing balance 31 March 2018	**30,654**

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

In September 2017, a new loan facility of USD$10 million was entered into, which includes a minimum mandatory drawdown of USD$5 million on or before 31 March 2018. This was drawn down in December 2017. A second drawdown for the balance is available at the Company's option on or before 30 September 2018.

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

The loans have a general security over the assets of the Group together with a group guarantee. Interest is fixed at 13.5% p.a. The loans are denominated in United States dollars (USD) and during the period NZD$1,046,000 (FY2017 $260k) was recognised as unrealised foreign exchange gains. The carrying amount of the CRG loans are substantially in line with the fair market value as at balance sheet date.

All covenants relating to the loan and BNZ facility have been complied with during the year (refer note 24).

17. Share capital

Ordinary shares are classified as equity. Preferred shares are classified as equity, they attract a dividend yield and do not have ordinary share voting rights.

	Shares 2018 Number	Shares 2017 Number	2018 $'000	2017 $'000
Ordinary share capital	97,308,019	96,834,838	57,058	55,994
Less capital-raising costs	-	-	(2,439)	(2,174)
Redeemable preference shares	3,330,000	3,330,000	9,124	9,124
	100,638,019	**100,164,838**	**63,743**	**62,944**

$NZ000's	2018	2017
Share capital at beginning of the year	62,944	53,902
Issue of Redeemable preference shares	-	9,124
Issue of Ordinary shares	1,065	-
Less capital raising costs	(266)	(82)
	63,743	**62,944**

FY2017

On 24 March 2017, the Company issued 3,330,000 redeemable preference shares at $2.74 each. These shares attract a dividend of 9.4% accruing quarterly, which may be satisfied in cash either in full or in part or deferred indefinitely at the Company's absolute discretion.

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

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

After three years from issue, they may be converted to ordinary shares at the option of the holder in multiples of 100,000. The holder would receive one ordinary share for every redeemable share held and a number of ordinary shares calculated by dividing the amount of any accumulated dividends by the issue price. Conversion of the redeemable preference shares may only be settled through the issuance of shares. Once the holder has elected to convert, neither the issuer not the holder can be obligated to settle in any other manner.

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

FY2018

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

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

$NZ000's	2018	Restated 2017
Loss after tax	(12,724)	(18,388)
Non-cash items:		
Depreciation	126	143
Amortisation	214	183
Impact of foreign exchange on cash and cash equivalents	24	456
Share options expense	135	230
Interest expense capitalized to loan principle	1,139	525
Unrealised gain on USD denominated loan	(1046)	(260)
Share in loss of JV entity	1,494	414
Movement in working capital:		
(Increase)/decrease in inventories	(2,214)	1,261
(Increase)/decrease in trade and other receivables	(1,080)	(5,273)
Increase/(decrease) in trade and other payables	3,171	1,509
Increase/(decrease) in income tax	(143)	138
Net cash used in operating activities	**(10,904)**	**(19,062)**

19(a). Related parties

The Group had related party relationships with the following entities:

Related party	Nature of relationship
CRG (Capital Royalty Partners)	Shareholder of both ordinary shares and redeemable preference

The following transactions were carried out with these related parties:

(i) Loans

$NZ000's	2018	2017
Capital Royalty Partners (refer note 16)	30,654	23,426
Total loan balances	**30,654**	**23,426**

(ii) Key management compensation

$NZ000's	2018	2017
Directors fees	286	289
Executive salaries	1,084	1,092
Short term benefits	127	238
Options expense	29	81
Key management compensation	**1,526**	**1,700**

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.

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

19(b). Staff share options

Staff share options are valued at fair value as calculated independently using the Black Scholes model. The options vest over up to four years from date of issue.

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

	2018		2017	
	Average exercise price $ per share	Options '000's	Average exercise price $ per share	Options '000's
Balance at beginning of year	2.80	850	2.80	861
Issued	-	-	-	-
Forfeited	-	(157)	-	(11)
Exercised	-	-	-	-
Lapsed	-	-	-	-
Balance at end of year	**2.80**	**693**	**2.80**	**850**

Weighted average share price for options exercised during the period $nil (2017: $nil).
Of the 693,000 outstanding options, 135,969 are currently exercisable (2017: nil).

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

Expiry month	Exercise month	Exercise price	2018	2017
April 2020	December 2017	2.80	135,969	151,629
April 2020	December 2018	2.80	557,031	698,371
Total share options outstanding			**693,000**	**850,000**

The weighted average remaining contractual life of options outstanding at the end of the period was 2 years (2017: 3 years).

Share options reserve

$NZ000's	2018	2017
Balance at beginning of year	(295)	(65)
Current year amortisation	(135)	(230)
Balance at end of year	**(430)**	**(295)**

20. Financial risk management

(a) Managing financial risk

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

- Market risk

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

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

- Foreign exchange risk

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

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

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

  In the current year (FY2018) Foreign Exchange gains totalled $817,992 (2017: $710,000 gain) of which $1,046,000 (2017: $260,000 gain) were unrealised gains on the USD denominated CRG loan. Future revenues from markets outside Australasia will be derived in USD which will be used towards repaying this debt as it falls due. The balance of the losses are derived from the restatement of the cash balances at the spot rate on the year end balance date of 31 March 2018 and the change in spot rates during the time between when expenses are recorded in the general ledger and when they are paid.

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

Assets NZ$000's	Currency	Liabilities NZ$000's
12,960	AUD	4,366
134	USD	33,596
202	MYR	62
251	SGD	24
30	EUR	2,897
-	GBP	64

  A 1% increase or decrease in foreign exchange rates on assets and liabilities will reduce/increase equity by $111,000 (2017: $53,000) and reduce/increase the profit or loss by $354,000 (2017: $341,000).

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

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

  All contracts mature within one year from 31 March 2018.

  The following forward foreign exchange contracts were held at the end of the 2017 financial year:

	Forward Foreign Exchange Contracts			
Buy currency	Buy (sell) currency amount ('000)	Sell (buy) amount $NZ000's	Buy (sell) amount 31-Mar-17 $NZ000's	Fair value $NZ000's
EUR	3,012	4,806	4,656	(150)
GBP	544	1,027	979	(48)
USD	2,730	3,902	3,909	7
AUD	(750)	(807)	(820)	(13)
Total exposure as at 31 March 2017				**(204)**

Notes to the Financial Statements (continued)

For the year ended 31 March 2018

20. Financial risk management (continued)

- Interest rate risk

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

- Credit risk

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

  The Group has one significant concentration of credit risk at 31 March 2018 with the largest debtor being $3,510,000 (2017: $7,640,667). There has been no past experience of default and no indications of default in relation to this debtor. There are no impaired receivables at 31 March 2018 (2017: nil).

  The Group's cash and short-term deposits are placed with high credit quality financial institutions. Accordingly, the Group has no significant concentration of credit risk other than bank deposits, with 8.3% of total assets at the Bank of New Zealand (2017: 23.9%), 3.8% at NAB Bank (2017: 3.3%) and 0% with ANZ (2017: 0%). The carrying value of financial assets represents the maximum exposure to credit risk.

- Liquidity risk

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

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

	Liquidity Profile				
$NZ000's 31 March 2018	< 1 Year	1-2 Years	2-5 Years	> 5 Years	Total
Trade and other payables	(16,122)	-	-	-	(16,122)
Borrowings	(2,806)	(36,458)	-	-	(39,264)
Derivative liabilities (outbound)	(12,747)	-	-	-	(12,747)
Derivative liabilities (inbound)	12,923	-	-	-	12,923
Totals	**(18,752)**	**(36,458)**	**-**	**-**	**(55,210)**
31 March 2017					
Trade and other payables	(14,549)	-	-	-	(14,549)
Borrowings	(2,144)	(14,454)	(13,283)	-	(29,881)
Derivative liabilities (outbound)	(9,132)	-	-	-	(9,132)
Derivative liabilities (inbound)	8,928	-	-	-	8,928
Totals	**(16,897)**	**(14,454)**	**(13,283)**	**-**	**(44,634)**

(b) Fair values

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

21. Segment reporting

	Operating Segments				
$NZ000's 31 March 2018	Australia	New Zealand	Southeast Asia	Rest of world	Total
Revenue	**49,193**	**27,096**	**1,286**	**2,496**	**80,071**
Other income	-	721	-	1,514	2,235
Depreciation and amortisation	25	308	7	-	340
Equity accounted loss of joint venture entity	-	-	-	(1,494)	(1,494)
Gain / (Loss) before tax	**538**	**(4,598)**	**(698)**	**(7,907)**	**(12,666)**
Finance income / (loss)	4	121		-	125
Finance costs	(719)	(2,027)	94	-	(2,652)
Total assets	**25,706**	**28,622**	**140**	**2,135**	**56,603**
Property, plant and equipment	39	274	17	-	330
Intangible assets	-	-	-	5,118	5,118
Investment in joint venture entity	-	-	-	2,134	2,134
Total liabilities	**5,254**	**42,651**	**86**	**-**	**47,991**
Capital expenditure	**11**	**50**	**9**	**-**	**70**
31 March 2017					
Revenue	**37,064**	**29,168**	**1,005**	**1,968**	**69,205**
Other income	-	550	-	2,109	2,659
Depreciation and amortisation	25	294	7	-	326
Equity accounted loss of joint venture entity	**-**	**-**	**-**	**(414)**	**(414)**
Loss before tax	**(3,633)**	**(5,782)**	**(689)**	**(8,226)**	**(18,330)**
Finance income	-	347	-	-	347
Finance costs	(26)	(3,728)	(124)	-	(3,878)
Total assets (restated)	**19,451**	**37,254**	**993**	**627**	**58,325**
Property, plant and equipment	54	317	15	-	386
Intangible assets	-	-	-	2,548	2,548
Capital expenditure	**19**	**722**	**10**	**-**	**751**

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

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

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

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

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

Rest of World – Includes the out-licensing of IP developments to markets in which AFT does not have a presence and the export of products to export markets (Balkans, Iraq, Pacific Islands, Saudi Arabia, United Arab Emirates). The costs of research and development and new market development activity not specific to the other segments are expensed to this segment.

Major Customers – Revenues from one customer of the Australian segment (being a licensed wholesaler) represents approximately NZ$38.5m (2017: NZ$15.5m) and from one customer of the New Zealand segment (also being a licensed wholesaler) represents approximately $14.6m (2017: $13.9m) of the Group's total revenues.

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For the year ended 31 March 2018

22. Contingent liabilities

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

23. Commitments

(a) Capital commitments

The Group has no capital commitments at 31 March 2018 (2017: nil).

(b) Lease commitments

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

$NZ000's	2018	2017
Due within one year	843	890
Due later than one year but within five years	1,953	2,261
Due later than 5 years	1,065	1,750
	3,861	**4,901**

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

(c) Other commitments

The Company has entered into contracts to complete clinical trials overseas. These contracts call for stage or milestone payments to be made progressively when those stages or milestones are achieved. Certain conditions allow for the termination of the trials, with future obligations extinguished. The aggregate expected amounts to be paid under these contracts is $4.0m (2017: $4.0m).

24. Management of capital

The Group's objectives when managing capital are to:

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

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

The long-term debt in the form of the CRG Loan was used to replace the trade facility from the BNZ in May 2014.

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

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

The Group has complied with both the CRG and BNZ covenants during the 2018 and 2017 financial years.

In March 2017 the Group issued 3,330,000 Redeemable Preference Shares raising $9.1m, and in May 2017 an issue of ordinary shares was offered to existing shareholders, resulting in the issue of 473,181 ordinary shares and raising an additional $1,064,657. Details are covered in note 17.

Going concern assumption

At 31 March 2018, the outstanding balance on interest bearing loans with CRG amounted to $30.5m (2017: $23.4m). At the same time, the Group held a cash balance of $6.8m (2017: $16.0m). The Group incurred a net loss in the period of $12.7m (2017: net loss of $18.4m) and had a net operating cash outflow for the period of $11.0m (2017: $19.1m).

During the period ended 31 March 2018, a new loan facility of US$10m was entered into with CRG of which US$5m has been drawn and US$5m is available for drawdown (refer note 16). A further $1m of additional share capital was also raised from existing shareholders (refer note 17).

The CRG loan is due for repayment in full on 31 March 2020 (refer to note 16).

The Directors have approved internal forecasts through to 31 March 2020, considered achievability of the assumptions under these forecasts, reviewed the existing working capital against Group requirements and considered forecast compliance with applicable debt covenants. The key revenue assumptions, which like all assumptions, are subject to a degree of uncertainty are:

- the ability to execute further licensing agreements for the key innovative products, *Maxigesic*, *Pascomer* and *NasoSurf*;
- the ability to generate future international revenues from the existing and potential licensing agreements for the key innovative products, *Maxigesic*, *Pascomer* and *NasoSurf*; and
- the continued Australian sales growth for *Maxigesic* as the market adjusts for the re-scheduled codeine-based painkillers from over-the-counter to prescription only, which took effect on 1 February 2018 (*Maxigesic* is codeine-free and is therefore exempt and remains available over-the-counter).

The directors actively monitor and manage these key revenue growth plans, together with their associated uncertainties, and have also taken into account the ability of the Group to significantly reduce and or defer forecast development and marketing spend should this be required, in order to preserve funds.

After considering the uncertainties and mitigations described above, the Directors have a reasonable expectation that the Group will be in a position to repay this loan on or before 31 March 2020 from a combination of positive cash flows, issuance of new equity or by establishing a replacement facility if required.

25. Earnings per share

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

The calculation of diluted earnings per share assumes the conversion of all dilutive potential ordinary shares in determining the denominator.

$NZ000's	2018	2017
Earnings used in the calculation of basic and diluted earnings per share		
Loss after tax	(12,724)	(18,388)
Weighted average ordinary shares for the purposes of basic and diluted earnings per share	97,248,871	96,837,838
Basic and diluted loss per share ($)	(0.13)	(0.19)

26. Dividends per share

No dividends have been declared to the ordinary shareholders of the parent company during the current year, nor in FY2017.

Gross dividends of $894,506 were declared on the Redeemable Preference Shares, with $411,701 paid in cash and withholding taxes, and $482,805 accumulated in a reserve for future settlement per the terms described at note 17.

27. Subsequent events

On 30 April 2018, the Group announced that it had concluded its divestment of non-core hospital products by divesting to Baxter Healthcare a range of non-core hospital products currently sold in Australia. The expected completion date is 1 June 2018. For FY2018 sales of these products in Australia were NZ$5.2m and stock on hand was NZ$1.0m.

Statutory Disclosures

Non-Executive Director Remuneration

AFT's shareholders have approved a total cap of $575,000 per annum for non-executive directors' fees, for the purposes of the NZX Listing Rules. This annual fee pool has not been increased since it was approved by shareholders in 2015. AFT currently pays directors' fees which, in aggregate, amount to approximately $300,000 per annum (subject to exchange rate fluctuations). More information about the remuneration payable to directors is set out in AFT's Corporate Governance Statement which is located on the investor centre of the Company's website.

The Board has agreed that the following fixed annual fees will apply to all non-executive directors during FY2019 (these remain unchanged from FY2018):

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

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

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

Non-executive directors received the following directors' fees, remuneration and other benefits from the Company in the year ended 31 March 2018:

	Remuneration and Value of Other Benefits Received in FY2018					
Director	Non-Executive Directors' Board Fees	Audit and Risk Committee Fees	Remuneration and Nominations Committee Fees	Regulatory and Product Development Oversight Committee Fees	Shares and Other Payments or Benefits[1]	Total Remuneration
Jim Burns[2]	$69,968	$6,997	$6,997	-	-	**$83,962**
David Flacks	$95,000 (Chairman)	$5,000	-	-	-	**$100,000**
Nate Hukill[3]	-	-	-	-	-	**-**
Jon Lamb	$40,000	$7,500 (Chairman)	$7,500 (Chairman)	-	-	**$55,000**
Doug Wilson	$40,000	-	-	$7,500 (Chairman)	-	**$47,500**
Total	**$244,968**	**$19,497**	**$14,497**	**$7,500**	**-**	**$286,462**

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

[2] Fees disclosed in New Zealand Dollars. Jim Burns receives fees paid in USD. These fees have been converted into NZD in the above table, calculated at an exchange rate of 1: 0.715

[3] Nate Hukill agreed not to receive any directors' fees during the financial year ended 31 March 2018.

Executive Director Remuneration

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

The table below sets out the total remuneration and value of other benefits earned by or paid to each executive director of AFT during, and in respect of, the financial period ended 31 March 2018:

	Base Salary	Taxable Benefits[1]	Subtotal	Pay for Performance			Total Remuneration
				STI	LTI[4]	Subtotal	
Hartley Atkinson	$428,978	$9,035	$438,013	$76,225[2]	-	$76,225	$514,238
Marree Atkinson	$114,053	-	$114,053	$11,425[3]	-	$11,425	$125,478

[1] Taxable benefits include a car allowance.

[2] The short-term incentive stated was earned in FY2017 and paid in FY2018. Hartley earned a short-term incentive for FY2018 of $119,842 from a full potential of $248,472. This will be paid in FY2019.

[3] The short-term incentive stated was earned in FY2017 and paid in FY2018. Marree earned a short-term incentive for FY2018 of $11,388. This will be paid in FY2019.

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

Employee Remuneration

The table below sets out the number of employees or former employees of AFT and its subsidiaries, not being directors of AFT, who, in their capacity as employees received remuneration and other benefits during the period ended 31 March 2018 totalling at least $100,000 per annum. The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars.

Remuneration Range (NZD)	Total Number of Employees
$100,000-$110,000	4
$110,001-$120,000	9
$120,001-$130,000	4
$130,001-$140,000	7
$140,001-$150,000	1
$150,001-$160,000	-
$160,001-$170,000	-
$170,001-$180,000	4
$180,001-$190,000	-
$190,001-$200,000	1
$200,001-$210,000	1
$210,001-$220,000	1
$220,001-$230,000	1
$270,001-$280,000	1
$280,001-$290,000	1
Total number of employees and former employees	**35**

The table includes base salaries and short-term incentives paid during FY2018 and long-term incentives vested or exercised during FY2018. The table does not include long-term incentives that have been granted and have not yet vested. Where the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme are included in the above table. Where the individual works in Australia contributions of 9.5% of gross earnings towards Australian Superannuation are included in the table above.

Statutory Disclosures (continued)

Diversity

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2017 and 31 March 2018 are set out in the table below:

	Female				Male			
	2018		2017		2018		2017	
	No.	%	No.	%	No.	%	No.	%
Directors	1	14%	1	14%	6	86%	6	86%
Officers[1]	4	40%	3	27%	6	60%	8	73%
Senior Employees[2]	2	29%	2	33%	5	71%	4	66%
Overall Workforce	54	61%	49	56%	34	39%	39	44%

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

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

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

Board and Committee Attendance

The table below shows the number of Board and Committee meetings each director was eligible to attend and attended during the year ended 31 March 2018:

Director	Board	Audit and Risk Committee	Remuneration and Nominations Committee[1]	Regulatory and New Product Development Committee
Hartley Atkinson	9/9	-	2/2	2/2
Marree Atkinson	8/9	-	-	2/2
Jim Burns	9/9	4/4	2/2	-
David Flacks	9/9	4/4	-	-
Nate Hukill	7/9	-	-	-
Jon Lamb	7/9	4/4	1/2	-
Doug Wilson	9/9	-	-	2/2

[1] The Remuneration and Nominations Committee carried out certain functions during the year via circular resolution.

Director Independence

As at 31 March 2018 (and the date of this Annual Report), the Board comprised seven directors:

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

A biography of each director is set out on pages 20 and 21 of this Annual Report.

The Board has determined, based on information provided by directors regarding their interests, that as at 31 March 2018 (and the date of this Annual Report) David Flacks, Jon Lamb, Doug Wilson and Jim Burns are independent directors. The Board has also determined that Hartley Atkinson and Marree Atkinson are not independent directors due to also being executives and having major shareholding interests in AFT. The Board has also determined that Nate Hukill is not independent due to his relationship with CRG, a major shareholder in AFT.

Director Interest Disclosures

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. All of those interests (and any changes to interests) notified and recorded in AFT's Interests Register during the financial year ended 31 March 2018 are set out below:

Director	Entity	Relationship
Hartley Atkinson	AFT Orphan Pharmaceuticals Limited	Director
	AFT Pharmaceuticals Pty Limited	Director
	AFT Pharmaceuticals Singapore PTE Limited	Director
	AFT Pharmaceuticals (SE Asia) SDN BHD	Director
	Atkinson Family Trust	Trustee/Discretionary Beneficiary
	AFT Limited Partner Limited	Director
	DSGP Limited	Director
	Dermatology Specialties, L.P.	Director of AFT Limited Partner Limited (LP of Dermatology Specialties)
	AFT Dermatology Limited	Director
Marree Atkinson	Atkinson Family Trust	Discretionary Beneficiary
James Burns	Precera Bioscience (formerly Sano	Appointed Director
	Informed Phenomics Health Inc	Appointed Director
	Assurex Health, Inc	Ceased to be Chairman/Director
	Symmetry Surgical, Inc	Ceased to be Director
	Vermillion, Inc	Director
David Flacks	Harmoney Corp Limited	Appointed Chairman
	NZX Regulatory Governance Committee	Appointed Chairman
	NZX Markets Disciplinary Tribunal	Ceased to be Director
	Vero Liability Insurance New Zealand Limited	Director
	Vero Insurance New Zealand Limited	Director
	Flacks & Wong Limited	Director
	Asteron Life Limited	Director
	NZ Venture Investment Fund	Director
	Upside Biotechnologies Limited	Chairman
Nate Hukill	Capital Royalty Group entities	President/Shareholder
	CRG Investment Committee	Chairman
	Valeritas Inc	Director
Jon Lamb	Zoono Limite	Appointed Executive Chairman
	Redwood Medical Limited	Ceased to be Director
	Rivers One Limited	Trustee
	Redvers Limited	Director
	Project X Trustee Limited	Director
	Coronation Equities Limited	Director
	Three Dots Limited	Director
Doug Wilson	Adherium Limited	Ceased to be Chairman
	Mainz Consulting Limited	Director

There were no entries in the Interests Register for the purposes of section 140(1) of the Companies Act 1993.

Statutory Disclosures (continued)

In accordance with Section 148(2) of the Companies Act 1993, directors disclosed the following acquisitions or disposals of relevant interests in AFT ordinary shares during the financial year ended 31 March 2018:

Name	Date of Acquisition /Disposal	Number of Shares Acquired /(Disposed)	Nature of Relevant Interest	Details of Acquisition/Disposal	Consideration Paid/Received (NZD)
James Burns	16-Jun-17	6,667 ordinary shares	Registered holder and beneficial owner of ordinary shares.	Acquisition of shares under Share Purchase Plan.	$15,000
	4-Jul-17	14,000 ordinary shares	Registered holder and beneficial owner of ordinary shares.	On market acquisition during permitted trading period.	$32,200
	10-Jul-17	20,000 ordinary shares	Registered holder and beneficial owner of ordinary shares.	On market acquisition during permitted trading period.	$46,000
David Flacks	15-Jun-17	25,000 ordinary shares	Joint registered holder and beneficial owner of ordinary shares as trustee of Waitemata Family Trust.	On market acquisition during permitted trading period.	$57,500
	16-Jun-17	6,667 ordinary shares	Joint registered holder and beneficial owner of ordinary shares as trustee of Waitemata Family Trust.	Acquisition of shares under Share Purchase Plan.	$15,000
Jon Lamb	16-Jun-17	6,667 ordinary shares	Power to control the exercise of the right to vote as trustee of the Rivers One Trust which holds the shares in Rivers One Limited.	Acquisition of shares under Share Purchase Plan.	$15,000
Doug Wilson	25-May-17	50,022/ (50,022) ordinary shares	Beneficial interest as beneficiary of trust. Power to control the exercise of the right to vote as director and shareholder of Gillespie Nominee Limited.	Off-market transfer of shares to new trustee entity. The underlying beneficial holders remain unchanged.	n/a
	16-Jun-17	6,667 ordinary shares	Beneficial interest as beneficiary of trust. Power to control the exercise of the right to vote as director and shareholder of Gillespie Nominee Limited.	Acquisition of shares under Share Purchase Plan.	$15,000

In accordance with the NZX Listing Rules, as at 31 March 2018, directors had a relevant interest in AFT ordinary shares as follows:

Name	Relevant Interest	Percentage
Hartley Atkinson[1]	72,964,942	74.983%
James Burns	100,417	0.103%
David Flacks	115,431	0.119%
Jon Lamb	207,972	0.214%
Doug Wilson	56,689	0.058%

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

For the purposes of section 161 of the Companies Act 1993, the following entries were made in the Interests Register in relation to the payment of remuneration and other benefits to directors:

Date	Director	Particulars of Board Authorisation
16 June 2017	Hartley Atkinson Maree Atkinson	The payment of remuneration and the provision of other benefits by the Company to each of Hartley Atkinson and Marree Atkinson on the terms set out in a letter of amendment to the relevant employment agreement.

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

Shareholdings

As at 30 April 2018, there were 97,308,019 AFT ordinary shares on issue, each conferring on the registered holder the right to vote on any resolution at a meeting of shareholders, held as follows:

Size of Shareholding	Number of Ordinary Holders		Number of Ordinary Shares	
1 to 1,000	348	37.2%	171,301	0.2%
1,001 to 5,000	373	39.8%	1,021,180	1.1%
5,001 to 10,000	106	11.3%	804,444	0.8%
10,001 to 50,000	84	9.0%	1,674,150	1.7%
50,001 to 100,000	9	1.0%	590,937	0.6%
100,001 and over	16	1.7%	93,046,007	95.6%
Total	**936**	**100.0%**	**97,308,019**	**100.0%**

As at 30 April 2018, there were 50 individuals holding a total of 694,000 options to acquire shares issued by AFT under its employee long-term incentive scheme. The options are unlisted and carry no voting rights.

As at 30 April 2018, there were 5 shareholders holding a total of 3,330,000 redeemable preference shares issued by AFT. The redeemable preference shares may convert into ordinary shares in certain circumstances. The redeemable preference shares are unlisted and do not carry any right to vote except at meetings of an "interest group" of holders of Redeemable Shares.

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

Statutory Disclosures (continued)

Set out below are details of the 20 largest holders of AFT ordinary shares as at 30 April 2018:

	Shareholder[1]	Number of Ordinary Shares Held	%
1.	Hartley Atkinson + Colin McKay	72,964,942	74.98%
2.	Capital Royalty Partners II – Parallel Fund B (Cayman) L.P.	6,499,508	6.68%
3.	National Nominees New Zealand Limited – Nzcsd <NNLZ90>	3,468,810	3.56%
4.	Capital Royalty Partners II – Parallel Fund A L.P.	3,285,589	3.38%
5.	Capital Royalty Partners II L.P.	2,444,415	2.51%
6.	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited – NZCSD <SUPR40>	1,006,667	1.03%
7.	JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct – NZCSD <CHAM24>	875,023	0.90%
8.	Capital Royalty Partners II (Cayman) L.P.	769,503	0.79%
9.	FNZ Custodians Limited	446,066	0.46%
10.	HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90>	417,993	0.43%
11.	Rivers One Limited	207,972	0.21%
12.	Hamish Stewart Atkinson + Karen Winifred Atkinson + Andrew John Marriott	190,000	0.20%
13.	Joseph Wallace Carson	125,000	0.13%
14.	Joeri Yvonne Jozef Sels	123,100	0.13%
15.	Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>	121,002	0.12%
16.	James Burns	100,417	0.10%
17.	David Mark Flacks + Adina Rita Betty Halpern	90,431	0.01%
18.	BNP Paribas Nominees Pty Ltd <IB Au Noms Retailclient DRP>	75,750	0.08%
19.	Barbara Tubby + Colin Tubby + Malcolm Tubby	75,218	0.08%
20.	Custodial Services Limited <A/C 3>	63,412	0.07%

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

According to notices given to AFT under the Financial Markets Conduct Act 2013, the following persons were substantial product holders in AFT as at 31 March 2018 in respect of the number of quoted voting products noted below. As at the balance date (31 March 2018) there were 97,308,019 ordinary shares on issue:

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

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

Subsidiary Company Directors

The following fees were paid to directors of subsidiary companies during the year ended 31 March 2018. No other directors of subsidiary companies received director fees:

- Raymond McGregor received A$12,000 during the financial year ended 31 March 2018 in his capacity as a director of AFT Pharmaceuticals (AU) Pty Limited.
- Hawksford Singapore Pte Ltd received SG$3,600 during the year ended 31 March 2018 in relation to Leong Wai Kuan acting as a director of AFT Pharmaceuticals Singapore Pte Limited.
- Ilium Corporate Management SDN BHD received MYR3,600 during the year ended 31 March 2018 in relation to Khafnena Binti Khanafiah and Irdawati Binti Mohamad acting as directors of AFT Pharmaceuticals (SE Asia) SDN BHD.

The following people held office as directors of subsidiary companies as at 31 March 2018:

Subsidiary	Directors
AFT Pharmaceuticals (AU) Pty Limited (Australia)	Hartley Atkinson, Raymond MacGregor
AFT Pharmaceuticals (SE Asia) SDN BHD (Malaysia)	Hartley Atkinson, Khafnena Binti Khanafiah, Irdawati Binti Mohamad
AFT Pharmaceuticals Singapore Pte Limited (Singapore)[1]	Hartley Atkinson, Leong Wai Kuan
AFT Orphan Pharmaceuticals Limited	Hartley Atkinson, Andrew Moore, Giles Moss, Malcolm Tubby
AFT Dermatology Limited	Hartley Atkinson
AFT Limited Partner Limited	Hartley Atkinson
DSGP Limited	Hartley Atkinson, Michael Derby

[1] Chia Lai Kuan ceased to be, and Leong Wai Kuan was appointed, a director of AFT Pharmaceuticals Singapore Pte Limited during the financial year ended 31 March 2018.

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

Statutory Disclosures (continued)

NZX Waivers

On 21 December 2015, NZX granted the Company a waiver (Original Waiver) from NZX Main Board Listing Rule 5.2.3 in respect of its quoted shares (Shares) for a period of 12 months to the extent the Rule required the Company to have at least 25% of Shares held by Members of the Public holding at least a Minimum Holding (as that term is defined in the NZX Main Board Listing Rules). The Original Waiver has expired. On 21 December 2016, a further waiver from NZX Main Board Listing Rule 5.2.3 was granted to AFT for an additional 12 month period. This waiver was renewed by NZX Regulation for a further 12 month period on 20 December 2017.

The waiver was granted on the following conditions:

- NZX receives an undertaking from the Atkinson Family Trust (AF Trust) that it will not increase its holding in AFT during the term of the waiver, otherwise than as a result of an allotment pursuant to an offer or issue of shares that is made pro-rata to all AFT shareholders;
- At least 10% of shares are held by more than 500 Members of the Public, with each Member of the Public holding at least a Minimum Holding;
- AFT clearly and prominently discloses this waiver, its conditions, and its implications in AFT's half year and annual reports, and in any Offer Documents relating to any offer of shares undertaken by AFT, during the period of the waiver;
- AFT 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;
- AFT 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; 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.
- AFT provides NZX, with the second quarterly update, an update on the proposed initiatives AFT intends to undertake to materially increase the percentage of shares held by Members of the Public before the expiry of the waiver.

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 each waiver can be viewed at www.aftpharm.com.

Donations

No donations were made to charities or political parties during the financial reporting period. We donated medicine that was used in education, prison and government institutions in Fiji.

Credit Rating

AFT does not currently have an external credit rating status.

Directory

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

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

Financial calendar

Annual Meeting	3 August 2018
Half-Year End	30 September 2018
Interim Results Announcement	November 2018
Financial Year End	31 March 2019

Notes

AFT pharmaceuticals

Working to improve your health