AFT PHARMACEUTICALS LIMITED
Annual Report 2016

AFT pharmaceuticals
Working to improve your health

Momentum is building
yet this is just the b

Contents

Full report available online at investors.aftpharm.com

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

This Annual Report is dated 17 June 2016.

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

David Flacks
Chairman

Hartley Atkinson
Chief Executive Officer

17 June 2016

SUCCESSFULLY RAISING $32 MILLION LAST DECEMBER HAS PROVIDED THE SPRINGBOARD FOR OUR NEXT STAGE OF GROWTH.

WE ARE PLEASED TO PRESENT OUR FIRST REPORT SINCE LISTING AND ANNOUNCE THAT WE ARE MAKING PROGRESS TO DELIVER ON OUR GOALS.

national success.

Home market sales are growing.

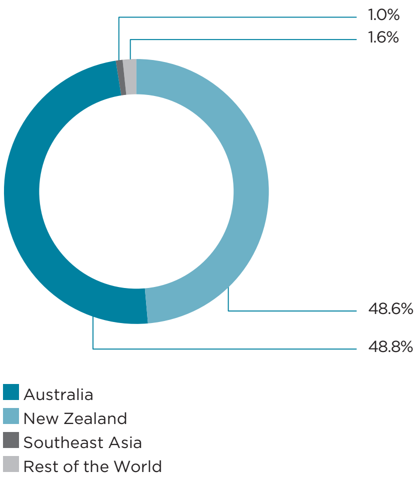
AFT AT A GLANCE

Overall revenue growth continued with Australia now becoming our largest market by sales.

Total Operating Revenue

$64.0m

Percentage of Overall Revenue by Market



AUSTRALIA

Operating Revenue

$31.2m

Number of products

45

Growth drivers

- Product launches of new Over The Counter (OTC) products: *Crystaderm*, *ZoRub* and antifungal nail products
- Growth of *Maxigesic* sales

NEW ZEALAND

Operating Revenue

$31.1m

Number of products

102

Growth drivers

- Ongoing sales growth of *Crystaderm*, *Maxigesic* and other OTC brands
- Launch of antifungal nail products

SOUTHEAST ASIA

Operating Revenue

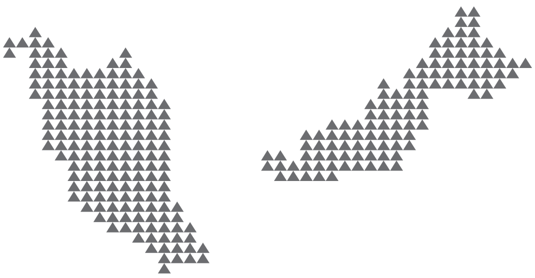
$0.6m

Number of products

4

Growth drivers

- Launching four OTC products in Singapore with expanded field force
- A total of 13 products are now approved across Singapore and Malaysia
- 26 applications for regulatory approval filed across both Singapore and Malaysia
- Further launches are planned to expand existing sales



We're moving into new territories to build on our growth.

REST OF THE WORLD

Operating Revenue

$1.0m

Number of products

4

Growth drivers

- *Maxigesic* sales growth in United Arab Emirates (UAE)
- Launch of *Maxigesic* in Italy
- Pending launches of *Maxigesic* into new markets

OUR KEY PRODUCTS

Maxigesic

Out-licensing agreements have now reached some 98 countries with further agreements expected. Registrations and launches are also continuing to grow this key business line around the world. Development work is well underway on the line extensions to further expand upon the existing tablet formulation.

NasoSURF Nebuliser

The nebuliser is in pilot scale production. Clinical studies will commence 3-4Q 2016. Preparing for US FDA pre-IND filing meeting. Filing for registration planned within 2016.

Crystaderm

Successful Australian launch has been implemented and working to grow the sales to replicate the product success in the New Zealand market where it has captured a 50% market share of the topical antiseptic product market.

Maxiclear PE

Development continues with the pivotal study in Cardiff, Wales well underway with Professor Eccles, a world leading researcher into colds and flu. Currently we have licensed to five countries with further negotiations underway.

The business is growing in Southeast Asia with more opportunities afoot.

KEY HIGHLIGHTS

Financial Highlights
(NZ$)

Total Income
$65.8m

Operating Revenue
$64.0m

Licensing Income
$1.8m

Operating Loss
($9.0m)

Cash Available at 31 March 2016
$28.1m

Maxigesic

98 countries
Maxigesic currently licensed in or distributed

4 countries
Maxigesic sold and launched in Australia, Italy, New Zealand and the United Arab Emirates

Clinical Trial Programme FY2017

7 countries
Australia, Jordan, Mexico, New Zealand, Russia, United Kingdom, United States

12 studies

1500+ patients

CHAIRMAN AND CEO'S REPORT

WE ARE WORKING HARD TO DELIVER ON ALL OF THE OPPORTUNITIES WE'VE CREATED FOR OURSELVES AND OUR SHAREHOLDERS.

The business is extending its reach and there is a sense of bigger things to come.

We are pleased to welcome our new shareholders and to present this Annual Report on the performance of AFT for the year ended 31 March 2016. It has been a busy period since our 22 December 2015 listing on the NZX Main Board and ASX. The company has been working hard to deliver on its expansion programme and we are pleased to note progress towards our goals.

Key to the business expansion is:

1. Completion of development of Key Innovative Products which will be the major driver of future growth. Completing clinical development programmes and subsequent out-licensing of the Key Innovative Products to strong licensees or distributors around the world;
2. Followed by registration of Key Innovative Products and their sales in multiple markets around the world;
3. Growth of the existing business in Australasia together with further product development and in-licensing of products from overseas pharmaceutical companies; and
4. Expansion of the fledgling Southeast Asian business.

Acceleration of the Key Innovative Products development programmes was the key driver behind raising additional capital in the IPO with the raised funds primarily going towards this goal. The flagship development programme, *Maxigesic*, has progressed significantly post the IPO.

- Additional out-licensing and distribution agreements for *Maxigesic* oral dose forms have now been secured to increase the number of countries to 98.
- Clinical trials for *Maxigesic* oral dose forms are well underway with studies running in Amman, Jordan; various centres in New Zealand; Cardiff, Wales; Melbourne, Australia; Mexico City, Mexico.
- An IND (Investigational New Drug) Application has been successfully opened with the FDA for *Maxigesic IV* and the first clinical study under the IND is underway in Christchurch, New Zealand. The next study is planned to start Q3 2016 in the United States (Texas and Maryland).
- Regulatory applications for the first additional *Maxigesic* oral dose forms to be filed this year.
- Additional out-licensing and distribution agreements for *Maxigesic IV* have also been secured to now reach 69 countries.
- Additional out-licensing agreements are expected to be announced in FY2017.

Key Innovative Product initiatives are progressing well.

The other major Key Innovative Product development programme, the patented ultrasonic nasal drug delivery and treatment device *NasoSURF*, is also making significant progress. Pilot scale production is currently underway which will enable the first clinical studies to be conducted this financial year and also for the first registrations to be filed in major jurisdictions such as Australia, Europe and the USA. The project is on-track for sales to commence next year for simple dose forms and for further drug delivery indications to be developed. Subsequent filings will be made the following year.

International sales of AFT products are a key growth area and sales are progressing. The first significant market outside Australasia is progressing well with United Arab Emirates sales in the current year likely to double over the prior year. A key matrix remains to build upon the current licensing and distribution agreements which first requires registrations to be completed followed by licensee/distributor launches.

In our key local markets, Australia and New Zealand, *Maxigesic* sales have continued to progress well. In Australia we were pleased to secure endorsement from the powerful Pharmacy Guild of Australia whereby *Maxigesic* packs of 24 tablets will feature the Guild "Gold Cross logo". This together with proposed down-scheduling from Pharmacist (behind the counter) to Pharmacy (On the shelf and able to be advertised) and up-scheduling of competitor OTC codeine combination products from restricted Pharmacist to Prescription offers significant upside for *Maxigesic* in the Australian market. In addition to these developments, key products such as *Crystaderm*, *ZoRub OA* & *HP* and *RestoraNail* have now been launched in Australia. The Australian salesforce has been significantly expanded in order to reach critical mass in that market with the associated increased cost having a temporary impact. Sales of key promoted products are expected to grow this year such that Australia will move back into a profit making position.

Progress is being made by our affiliates in Southeast Asia with sales in the region growing 303% from prior year. Additional sales representatives are starting in Singapore this year in order to launch *Maxigesic*, *Crystaderm* and *RestoraNail* in that market.

It is expected that due to significant investment in accelerating clinical studies for Key Innovative Products, a loss will be made in FY2017 as the company invests ahead of international sales from these products.

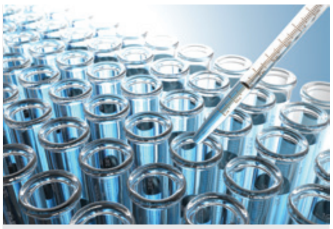
On behalf of our fellow directors we would like to congratulate and acknowledge the enormous contribution from all of our staff. Their contributions are sincerely appreciated.

David Flacks Chairman

Hartley Atkinson Founder and Chief Executive Officer

Overseas clinical studies are advancing the new growth opportunities.

FOCUSSED ON DEVELOPMENT



Global operations break down barriers

As a growing multinational business AFT operates where it needs to be.

One example of this is the ongoing *Maxigesic* clinical study in the paediatric population which has trial centres in Morelia and Guadalajara, Mexico. The location of these trials assists with developing business and regulatory contacts in Mexico - a key market for *Maxigesic* with combined paracetamol and ibuprofen tablet sales of US$192M.

Additional trials for the same study are also running in New Zealand and Australia while the plasma samples from the study are measured in a state of the art FDA and EU approved laboratory in Amman, Jordan.

"AFT IS DEVELOPING FURTHER ITS EXPERTISE AROUND THE WORLD."

Ioana Stanescu

Mexico potential market

US$192m

MAXIGESIC DEVELOPMENTS

Funds raised in the IPO are enabling acceleration of the development of the new dose forms of *Maxigesic*. These are the oral dose forms of Liquid, cold and flu, sachet and rapid together with the intravenous (IV) *Maxigesic Oral Liquid* development, which has a global market size of US$1.8 billion (based upon sales of either Paracetamol or Ibuprofen Oral Liquid), is progressing and the pivotal clinical study is underway in multiple sites in New Zealand, Australia and Mexico. This together with a further study to be completed in 2016 is currently expected to enable completion of the registration dossier by Q1 2017. The resultant registration dossier will then be filed with regulatory agencies around the world.

Maxigesic IV, the IND (Investigational New Drug) has been opened with the FDA enabling the first study to commence at CSST in New Zealand. Following this, a pivotal 275 patient clinical study will commence in the United States at sites in Texas and Maryland. A further clinical study is also planned to start this year. The target for first filings is Q1 2017. The market for non-opioid injectable analgesics is over US$830M and offers an attractive opportunity.

Maxigesic PE, the cold & flu variant, development is also progressing with the pivotal clinical study in Cardiff, Wales enrolling a significant number of patients over the last part of the northern cold and flu season. However, enrolment is now mothballed over the northern spring and summer with recruitment to recommence in October with completion targeted prior to Christmas 2016. The study also includes *Maxiclear PE* which is the reformulated Paracetamol and Phenylpehrine (PE) combination product which was developed following the discovery of a previously unknown drug-drug interaction between Paracetamol and PE which was published in the prestigious New England Journal of Medicine. This pivotal study examines the Nasal Airways Resistance of *Maxigesic PE* or *Maxiclear PE* compared with placebo or standard full dose PE. Pending successful clinical trial results, the target for the completion of the regulatory file is again Q1 2017.
A suitable *Maxigesic* hot drink sachet dose formulation has also been developed and following completion of the pivotal pharmacokinetic study mid-year, the target for first filing is 2016.
In certain parts of the world such as Europe, the sachet market is significant although in Australasia and Southeast Asia it is relatively small.

Additional dose forms are being investigated with negotiations underway with a group to in-license proprietary technology which if successful would enable development of a faster action version of the tablet dose form, *Maxigesic Rapid*. Such a development would offer the advantage of faster pain relief that to date major branded analgesics have used to further expand their product sales.

We're accelerating Maxigesic's development with innovative new variants.

MAXIGESIC DEVELOPMENT IS ACCELERATING

Maxigesic Oral Liquid
Suspension oral liquid for paediatric use

GLOBAL MARKET SIZE*
US$1.8bn

Maxigesic PE Tablets
Tablet for treatment of pains associated with cold and flu for adult use

GLOBAL MARKET SIZE*
US$886m

Maxigesic Powder Sachets
Powder sachets for preparation of a lemon flavoured hot drink for adult use

GLOBAL MARKET SIZE*
US$677m

Maxigesic PE Sachets
Powder sachets for treatment of pains associated with cold and flu for adult use

GLOBAL MARKET SIZE*
US$324m

Maxigesic IV
Injectable for post-operative use in adults either alone or to reduce the use of opioid analgesics

GLOBAL MARKET SIZE*
US$832m

*Based on 2014 IMS World Review Pack (August 2015) and management estimates.

Global prospects for our brands are exciting.

The Pharmacy Guild of Australia

Maxigesic's Pharmacy Guild of Australia endorsement

In Australia *Maxigesic* 24 tablet packets will soon carry the Pharmacy Guild of Australia's 'Gold Cross' logo. For decades, Australians have associated the Gold Cross with trusted advice and support from community pharmacies and the logo is an instantly recognisable mark of quality.

That *Maxigesic* is free of any codeine has undoubtedly been a factor in the success of the product in Australia in light of concerns expressed by a number of medical professionals about the risks of dependence from codeine-based painkillers.

Trevor Clarkin, General Manager of Gold Cross Products & Services outlined that the company was pleased to have entered into an endorsement agreement for *Maxigesic* with AFT Pharmaceuticals.

"THE ENDORSEMENT IS TESTAMENT TO THE QUALITY AND VALUE THE PRODUCT HAS BUILT IN AUSTRALIAN COMMUNITY RETAIL PHARMACY. WE LOOK FORWARD TO A LONG AND REWARDING PARTNERSHIP TOGETHER."

Trevor Clarkin, Gold Cross Products & Services Pty Ltd

MAXIGESIC COMMERCIALISATION

To date *Maxigesic* agreements for distribution and out-licensing, in addition to territories where AFT operates, has now reached 98 countries. We had originally targeted 100 countries but we would expect this target to be surpassed. We have purposely delayed licensing discussions in a number of key territories such as the Unites States, France, Canada and Mexico until we have further progressed *Maxigesic* registrations because we believe that this will enable us to reach more favourable licencing agreements in the long run. The key is to now conclude commercialisation in the territories, already subject to licensing agreements, to achieve sales in all these countries. We would expect to receive further upfront licensing fees from new agreements and also additional milestone payments for existing agreements. These payments will assist in offsetting research and development costs.

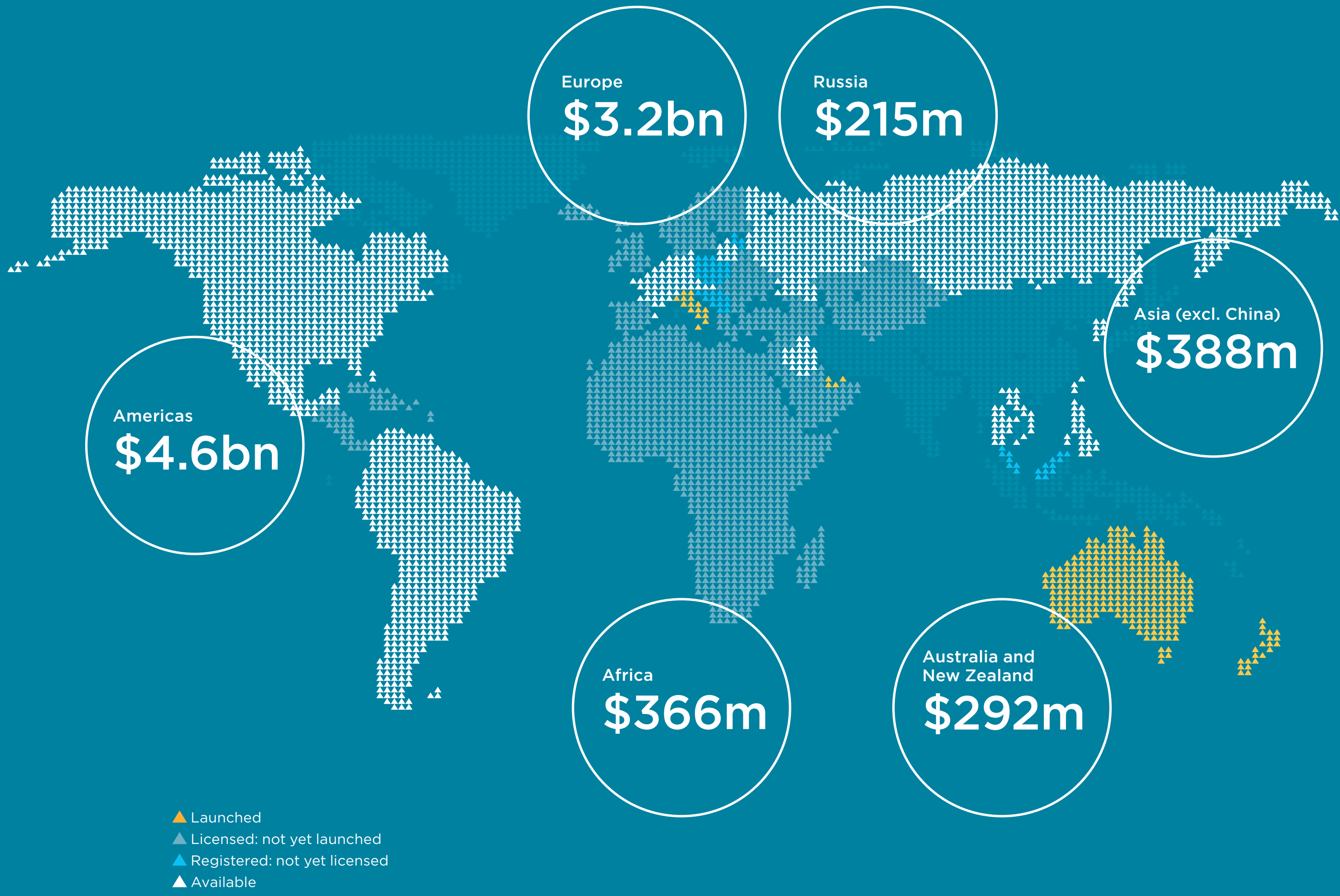
To date *Maxigesic* has been launched in Australia, Italy, New Zealand and UAE with further launches imminent in Bulgaria, Hungary, Romania, Slovakia, Serbia, Singapore and UK. Additional launches will proceed and this is an important matrix as their resultant sales will be a key part of the planned global business expansion. In many territories, regulatory filings are occurring this year and the registration process typically takes between 12-24 months depending on the specific territory.

Sales in UAE have progressed very well with second year sales doubling and the launch in Italy has also progressed well with FY2017 sales targets in both territories adjusted upwards. New Zealand *Maxigesic* sales grew 31% FY2016 vs FY2015. In Australia we continued to strengthen the position of *Maxigesic* and we have secured endorsement from the powerful Pharmacy Guild of Australia whereby *Maxigesic* packs of 24 tablets will feature the Guild "Gold Cross logo". This together with proposed down-scheduling (from Pharmacist to Pharmacy) and up-scheduling of competitor OTC codeine combination products (from Pharmacist to Prescription) offers significant upside for *Maxigesic* in the Australian market over this coming FY2017 time period. A further target is to add sales of the new dose forms to both existing and future sales of *Maxigesic* tablets. This will be dependent upon the successful development of these dose forms and the completion of registration. At this stage sales of the first new dose forms are expected to commence in the FY2018 time period.

We are close to securing agreements in 100 countries.

THE MAXIGESIC TABLET WORLD

We have now succeeded in out-licensing *Maxigesic* in 98 countries around the world. The key is to now register and then launch into all these markets over the next two years. A further key target is to register, license and then launch in the large North American markets.



All figures in US$

Potential market value (US$)	
Africa (South Africa and French West Africa only)	188m
North Africa and Levant	178m
Australia and New Zealand	292m
Asia (excl. China)	388m
Latin America	1.2bn
North America	3.4bn
Central America	36m
Russia	215m
Eastern Europe	416m
Western Europe	2.6bn
Nordics	165m

North America offers an attractive opportunity.

Tablet market size covered by Acino
US$500m

Maxigesic out-licensed to
69 new countries

ACINO PARTNERSHIP UNLOCKS POTENTIAL

An agreement with Swiss-based multinational pharmaceutical company Acino Pharma AG ('Acino') has been reached, enabling the out-licensing of the full range of *Maxigesic* products to 69 countries in selected emerging markets in the Middle East, Africa, Latin America and CIS.

Out-licensing of key innovative products, like *Maxigesic*, forms the backbone of AFT's growth plans and is a great example of this strategy in action. It also illustrates the point that selling its products to new international markets doesn't mean AFT has to set up its own costly operating infrastructure inside each region/country. Rather, AFT can partner with established companies, like Acino, who know their respective markets and already have an established brand there.

As Dr. Atkinson says "The key to unlock potential is to get alliance agreements in place and then work through the local regulatory approval and sales processes on a case-by-case basis with strong partners like Acino."

Jostein Davidsen, CEO of Acino Group is equally excited with the partnership. "We see partnering as a key growth driver for Acino's strategy and we are interested in novel products while providing our partners access to new customers in emerging markets. Adding the *Maxigesic* fixed combination formulations to our product portfolio will strengthen our offer in one of our core therapeutic areas – pain and rheumatology – as these formulations are perfectly complementary to our existing well established brands."

The market sizes covered by Acino's territories are significant. The tablet market for the IMS defined paracetamol and ibuprofen products alone (i.e. not including oral liquids, sachets, or IV products) aggregates to at least US$500 million annually.

With a target to sell *Maxigesic* in 100 countries achieving access to these 69 countries represents significant progress towards this stated goal.

Strong alliances and partnerships are key to our continued growth.

NASOSURF DEVICE MOVES TOWARDS COMMERCIALISATION

The *NasoSURF* device development has continued to progress with manufacture of a number of devices on a pilot scale. Preparation for regulatory filings and commercialisation is now underway which has included employment of a Business Development/Alliance Manager and we will appoint a Regulatory Affairs Associate specifically for *NasoSURF*.

The planned filing is on track for this 2016 calendar year in the United States, Europe, Australia and New Zealand as a Class I medical device (device only without a drug) with registration also expected in this calendar year. This will enable the device to be used for saline delivery.

Key will then be generation of specific clinical data around its use and additional filings for use as a drug-device which is more complex and will fall under a Class II medical-drug device combination registration. We expect that, the most significant markets will result from these type of sales. We continue to be on track to file and then meet with the FDA for a pre-IND application. Furthermore the funds raised have also allowed for the purchase of key testing equipment that enables complex testing to be brought in house which will both reduce costs and enhance the efficiencies of our development programmes.

SPECIFICALLY THE AFT DEVICE HAS THE POTENTIAL TO DELIVER A DOSE IN SECONDS RATHER THAN MINUTES.

Professor Paul Young,
Head Respiratory Technology,
Woolcock Institute, Sydney

As is our proven ability to develop and introduce new products.

THE EXPANSION OF OUR BUSINESS IN SOUTHEAST ASIA CONTINUES TO BE AN IMPORTANT GROWTH AREA FOR US.

Mark Morrison, AFT

MOVING AHEAD IN SOUTHEAST ASIA

Sales in FY2016 compared with FY2015 increased threefold in Southeast Asia. Sales were predominantly in the Singapore market where product registration is more rapid. AFT now has 10 products approved for sale in Singapore with a further 12 undergoing regulatory evaluation whilst Malaysia has three product approvals and another 14 in progress. This has enabled strengthening of both management and sales infrastructure in the AFT Southeast Asia affiliates in Singapore and Malaysia. We had already appointed prior to the IPO a Head of International Business, Mark Morrison, to oversee this expansion in addition to building our licensee and distributor business outside ANZ and Southeast Asia. We are now able to move from relying upon consultant services and are in the process of appointing a specific Business Manager for AFT Southeast Asia based in Malaysia in addition to our Sales Manager in AFT Singapore. We will implement launches of a number of products in both Singapore and Malaysia in FY2017 to increase our expansion in Southeast Asia.

Robust growth in Southeast Asia has provided the platform for

a stronger AFT management and sales infrastructure.

FULL YEAR FINANCIAL RESULTS SUMMARY

The FY2016 results reflect the ongoing strategy of expanding our presence in our home markets of Australia, New Zealand and Southeast Asia whilst continuing the investment in Research and Development of our key products to also grow our international revenues.

Operating Revenues grew 14% to $64.0m. The Australian market grew by 19% and is now our largest market. New Zealand grew by 6% doing well in the OTC (Over the Counter) channel. Rest of the World (excluding Southeast Asia) almost trebled Revenues to break through $1.0m and Southeast Asia grew threefold also from a low base with sales commencing in FY2015.

Gross Margins declined by 1% to 37%. The main drivers were in Prescription and Hospital pricing pressure from government purchasing agencies in Australia and New Zealand, however these were offset by the growth in the OTC business at better margins.

Licensing Income, which are the milestone payments received from out-licensing arrangements we have in the Rest of the World, are classified in the Financial Statements as Other Income. These grew significantly to $1.8m for FY2016 with a combination of new out-licensing agreements commencing and milestone payments on existing agreements.

The funds raised in the December 2015 IPO enabled us to increase and bring forward the investment programme into Research and Development, and this represented the biggest increase in Operating Expenses for the year. Research and Development represents 13% of Revenue. In total, Operating Expenses represent 54% of Revenue (50% in FY2015).

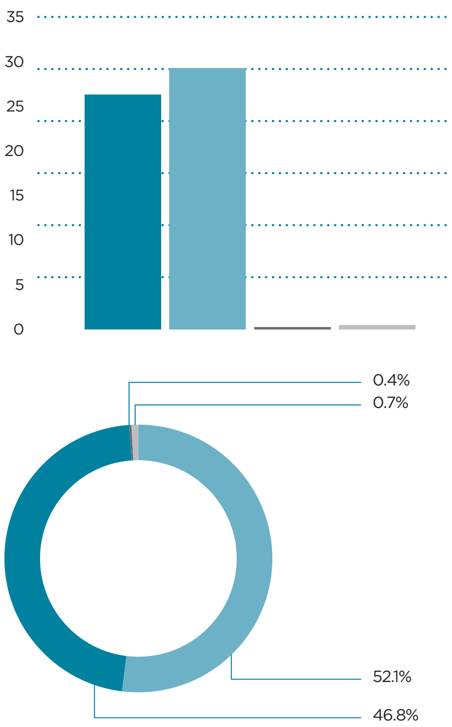
These factors culminated in the Operating Loss for the year of $8.9m.

Revenue growth

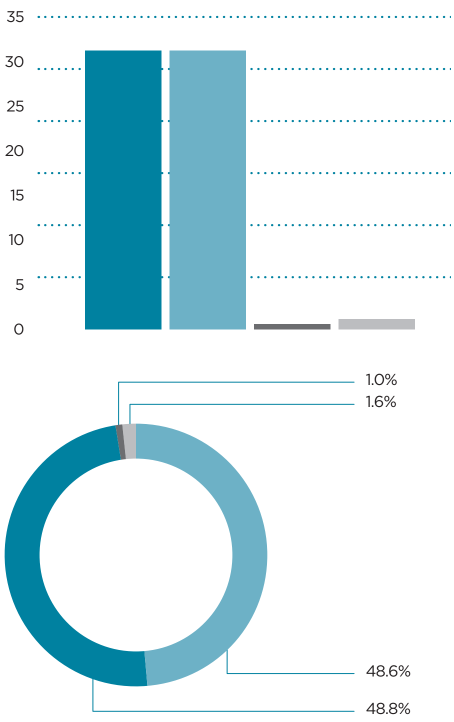
SUMMARY FINANCIAL RESULTS (For the year ended 31 March 2016)

$NZ000's	2016	2015
Revenue	64,014	56,241
Cost of Sales	(40,435)	(35,083)
Gross Profit	23,579	21,158
Other income	2,295	1,270
Selling and distribution expenses	(19,634)	(17,157)
General and administrative expenses	(6,804)	(5,475)
Research and development expenses	(8,092)	(5,761)
Equity Accounted Loss of joint venture entity	(302)	-
Operating Loss	**(8,958)**	**(5,965)**

Net Revenue FY2015
(NZ$000 and percentage)



Net Revenue FY2016
(NZ$000 and percentage)



Operating Revenues FY2016

+14% to $64m

Australia
New Zealand
Southeast Asia
Rest of the World

across the board, new product launches and continued expansion into new markets...

Operating Revenue
Operating Revenues grew 14% to $64.0m for the year ended 31 March 2016 from $56.2m for the year ended 31 March 2015 due primarily to the growth in our primary Australian market.

Australia Revenues grew by 19% to $31.2m with strong growth in its main OTC channel. Three new products were launched, *Crystaderm*, *RestoraNail* and *Myconail* while *Maxigesic* grew strongly even within the Pharmacist Only scheduling. However, Revenue growth was hindered by the low production levels being achieved by a significant product supplier. We continue to develop an alternate manufacturing line dedicated to manufacture of this formulation.

New Zealand Revenues grew by 6% to $31.1m also with good growth in its OTC channel. Sales of *Maxigesic*, *Crystaderm* and *Myconail* (which was launched in FY2015) all grew well and in addition, *RestoraNail* was launched.

Southeast Asia Revenues grew 302% (from a low base) to $0.6m and will continue to grow as new products are launched. Sales were predominantly in the Singapore market where product registration is generally quicker to obtain. Additional sales representatives are starting in Singapore this year in order to launch *Maxigesic*, *Crystaderm* and *RestoraNail* in that market.

Rest of World Revenues grew 182% to $1.0m with over half of its revenues coming from sales of *Maxigesic*. In FY2016 we sold *Maxigesic* to licensees in Italy, United Arab Emirates and United Kingdom. UAE has doubled sales in year two and we expect these markets to grow rapidly. Launches by our licensees are imminent in the United Kingdom, Bulgaria, Hungary, Romania, Slovakia, Serbia and Singapore.

Gross Margin
Gross Margin of 37% for FY2016 declined by 1% from the 38% for FY2015. The main drivers were in Prescription and Hospital pricing pressure from government purchasing agencies in Australia and New Zealand, however these were partially offset by the growth in the OTC business at better margins. We expect the positive impact on Gross Margin to become more significant as the International revenues grow.

Operating Overheads
Research and Development investment increased to $8.4m (this includes the joint venture equity accounting) from $5.8m in the prior year, with the accelerated investment in clinical trial spend enabled from the fund raising IPO in December 2015.

Selling and Distribution expenses increased in line with the 14% revenue growth to $19.6m (FY2015 $17.2m) driven to a large extent by the full year impact of the investment into the Australian sales force presence.

General and Administration expenses increased to $6.8m (FY2015 $5.5m) in line with the increase in business activity together with the additional costs of becoming a public company (directors' fees, share registry, investor relations and the employee share options).

Balance Sheet
The cash position improved to $28m at 31 March 2016 (FY2015 $4.7m) with the funds raised from the December 2015 IPO. These will be utilised to accelerate the research and development programme detailed in the Product Disclosure Statement.

Inventory and creditors increased in line with the 14% revenue growth. Debtors increased likewise but with a larger increase in March, with Wholesalers increasing stock levels to allow for the early Easter holiday period.

THE FLAGSHIP DEVELOPMENT PROGRAMME, MAXIGESIC, HAS PROGRESSED SIGNIFICANTLY POST IPO.

Hartley Atkinson,
Chief Executive Officer

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 and regulatory roles having recently retired as a senior corporate partner of leading New Zealand law firm Bell Gully. David was a partner of Bell Gully from 1987 and spent over four years as General Counsel and Company Secretary of Carter Holt Harvey Limited during the mid 1990s.

David is currently Chair of the NZX Markets Disciplinary Tribunal and a member of the Takeovers Panel. He is a director of the Vero NZ group companies, Harmoney Corp and NZ Venture Investment Fund. He also practises law as a director of specialist corporate law firm Flacks & Wong.

David graduated in law from St Johns College, 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 office. Marree is the liaison between AFT's staff and the Board.

Marree is a registered nurse previously practising at Waikato Hospital.

Nathan (Nate) Hukill

Non-Executive Director
Appointed 14 May 2014

Nate is the President of CRG, a US-based investment management firm focussed on the healthcare industry. He is also Chairman of CRG's investment committee. Nate joined CRG in 2009, bringing more than 16 years of investing experience. Prior to joining CRG, he was a Portfolio Manager at Highland Capital, where he invested and managed approximately $4.5 billion in the healthcare, consumer products, and technology sectors. Before Highland Capital, Nate co-founded a pharmaceutical-focussed enterprise software company called OpenQ, Inc. He started his career as a credit investor at Salomon Smith Barney where he managed a portfolio of approximately $800 million.

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

We have the leadership.

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 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 overseeing all research and drug development programmes. 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, is a director of a drug discovery company Phylogica in Perth Australia, and is Chairman of Adherium - a medical device company based in Auckland which has recently completed a successful initial public offering on the ASX.

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.

James (Jim) Burns

Independent Director
Appointed 17 September 2015

Jim has extensive executive experience in pharmaceuticals, biotechnology, medical devices, and diagnostics. He has served in leadership roles at large multinational corporations, early-stage companies, venture capital funds and private equity.

Jim is Chairman, and from 2009-2015 served as Executive Chairman and Chief Executive Officer, of Assurex Health, a precision medicine company focussed on neuropsychiatric and pain disorders. Previous roles include President of MedPointe Pharmaceuticals, a specialty pharmaceutical company; President & CEO of biotechnology company Osiris Therapeutics; General Partner of Healthcare Ventures; Group President of Becton Dickinson, a global medical device company; and Partner at Booz & Company, an international consulting firm.

Jim is a Board Leadership Fellow of the National Association of Corporate Directors and a Director of Symmetry Surgical and Vermillion, both of which are listed on NASDAQ.

Jim holds B.S. and M.S. degrees in biological sciences from the University of Illinois and an M.B.A. from DePaul University.

MANAGEMENT TEAM
Senior Managers

Dr Hartley Atkinson

Founder, Executive Director and Chief Executive Officer

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

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 office. Marree is the liaison between AFT's staff and the Board.

Marree is a registered nurse previously practising at Waikato Hospital.

Malcolm Tubby

Chief Financial Officer and Company Secretary

Malcolm has been involved with AFT since its establishment in 1997, providing financial, operational and governance expertise. Malcolm has had experience in senior finance positions in public and private companies in the pharmaceuticals (Allergan), fast-moving consumer goods (Frucor Beverages), insurance and healthcare industries. Malcolm is a qualified chartered accountant in the UK, Australia and New Zealand and holds a Bachelor of Arts (Honours) Degree from Kingston University, London. Malcolm has experience as a director of AFT and is currently a director of AFT Orphan.

Mark Morrison

Director International and Business Development

Mark joined AFT in March 2015 and has since been responsible for Business Development and International Sales. Mark's role involves both licensing in products for AFT to add to its growing portfolio and finding partners to commercialise AFT's key brand assets around the world. He has previously held a variety of senior roles in sales, marketing, strategic planning and new product development domestically and internationally with companies such as Sanofi and Pfizer.

Regulatory and Development Managers

Ioana Stanescu

Head of Drug Development

Ioana joined AFT in October 2012 as Drug Development Manager. As Head of Drug Development, Ioana has overall responsibility for the drug development activities of AFT. Ioana graduated as a Biologist (Phil.Lic, MSc.) from the University of Bucharest, Romania and started her career as an Immunologist at the Centre for State Control of Biological Products for Human Use in Bucharest, Romania. As a World Health Organisation temporary advisor, Ioana performed institutional assessments of competent regulatory authorities within Central and Eastern Europe. Prior to joining AFT, Ioana worked more than 12 years in Finland, at FIT Biotech Ltd., where she held various positions such as Vice President Quality Assurance & Regulatory Affairs and Head of Vaccine Business Area.

Vladimir Ilievski

Head of Regulatory Affairs

Vladimir joined AFT in February 2006 and is responsible for managing regulatory submissions in territories where AFT operates. Prior to joining AFT, he worked for Douglas Pharmaceuticals in various roles such as Quality Control/Quality Assurance analyst and Regulatory/Senior Regulatory Associate. Vladimir holds a Masters degree in Pharmacy from the University of Ljubljana, Slovenia, where he started his career as a pre-clinical researcher before moving to New Zealand.

Dr Brendon Woodhead

New Product Development Manager – Medical Devices

Brendon joined AFT in October 2011 and has held previous roles in pharmaceuticals formulation with AFT. In his current role, Brendon is responsible for technical leadership within AFT's medical device team to support AFT's development and commercialisation of novel medical devices, including the SURF Nebuliser. Brendon has over 25 years' experience in the pharmaceutical and medical science fields working for both local and multinational companies such as Glaxo NZ, LGC (UK), SmithKline Beecham Consumer Healthcare NPD (UK) and GlaxoSmithKline Pharmaceutical R&D (UK). Brendon holds a PhD in Pharmaceutical Science from Kings College, London.

Sales and Marketing Managers

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).

Calvin Mackenzie

Country Manager, AFT 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

Country Manager, AFT New Zealand

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.

This is the first leg of our excit

FINANCIAL STATEMENTS

The best is yet to come.

ting journey.

INDEPENDENT AUDITORS' REPORT
to the shareholders of AFT Pharmaceuticals Limited

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the consolidated financial statements of AFT Pharmaceuticals Limited ("the Company") on pages 27 to 51, which comprise the consolidated balance sheet as at 31 March 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 March 2016 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

We are independent of the Group. Other than in our capacity as auditors, providers of assurance services associated with the Group's initial public offering, tax due diligence and provision of an assurance report on the ASX pro forma balance sheet, we have no relationship with, or interests in, the Group.

Opinion

In our opinion, the consolidated financial statements on pages 27 to 51 present fairly, in all material respects, the financial position of the Group as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

RESTRICTION ON USE OF OUR REPORT

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

PricewaterhouseCoopers

Chartered Accountants — Auckland

25 May 2016

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2016

$NZ000's	Note	2016	2015
Revenue	4	64,014	56,241
Cost of sales		(40,435)	(35,083)
Gross Profit		**23,579**	**21,158**
Other income	5	2,295	1,270
Selling and distribution expenses	6	(19,634)	(17,157)
General and administrative expenses	6	(6,804)	(5,475)
Research and development expenses	6	(8,092)	(5,761)
Equity accounted loss of joint venture entity	13(b)	(302)	-
Operating Loss		**(8,958)**	**(5,965)**
Finance income		291	35
Finance costs	6	(2,019)	(7,225)
IPO, listing and capital raising costs		(2,623)	-
Loss before tax	6, 7	**(13,309)**	**(13,155)**
Tax benefit/(expense)	7	42	282
Loss after tax attributable to owners of the parent		**(13,267)**	**(12,873)**
Basic and diluted earnings per share ($)	25	(0.48)	(10.91)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

$NZ000's	2016	2015
Loss after tax	**(13,267)**	**(12,873)**
Other comprehensive income		
May be subsequently reclassified to profit and loss:		
Foreign currency translation reserve	(530)	332
Fair value loss of cash flow hedges	-	(305)
Other comprehensive income/(loss) for the year, net of tax	**(530)**	**27**
Total comprehensive income/(loss) for the year attributable to owners of the parent	**(13,797)**	**(12,846)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

$NZ000's	Share capital	Cash flow hedge reserve	Share options reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance 31 March 2014	**33**	**-**	**-**	**(166)**	**3,181**	**3,048**
Loss after tax	-	-	-	-	(12,873)	(12,873)
Other comprehensive income	-	(305)	-	332	-	27
Issue of share capital	13,894	-	-	-	-	13,894
Capital raising expenses	(1,035)	-	-	-	-	(1,035)
Dividends paid and provided	-	-	-	-	(1,040)	(1,040)
Balance 31 March 2015	**12,892**	**(305)**	**-**	**166**	**(10,732)**	**2,021**
Loss after tax	-	-	-	-	(13,267)	(13,267)
Reclassification of FCTR to retained earnings	-	-	-	264	(264)	-
Transfer to current year earnings	-	305	-	-	-	305
Other comprehensive income	-	-	-	(530)	-	(530)
Issue of share capital	42,067	-	-	-	-	42,067
Movement in share options reserve	-	-	65	-	-	65
Capital raising expenses	(1,057)	-	-	-	-	(1,057)
Dividends paid and provided	-	-	-	-	(1,374)	(1,374)
Balance 31 March 2016	**53,902**	**-**	**65**	**(100)**	**(25,637)**	**28,230**

CONSOLIDATED BALANCE SHEET
As at 31 March 2016

$NZ000's	Note	2016	2015
ASSETS			
Current assets			
Inventories	8	17,686	14,686
Trade and other receivables	9	16,288	11,251
Cash and cash equivalents	10	28,055	4,700
Current income tax asset		26	88
Total current assets		**62,055**	**30,725**
Non-current assets			
Property, plant and equipment	11	407	411
Intangible assets	12	2,111	1,669
Deferred income tax assets	7	546	408
Investment in joint venture entity	13(b)	185	-
Total assets		**65,304**	**33,213**
LIABILITIES			
Current liabilities			
Trade and other payables	14	10,428	8,258
Provisions	15	3,083	1,890
Derivative liabilities	20	402	305
Total current liabilities		**13,913**	**10,453**
Non-current liabilities			
Interest bearing liabilities	16	23,161	20,739
Total liabilities		**37,074**	**31,192**
EQUITY			
Share capital	17	53,902	12,892
Retained earnings		(25,637)	(10,732)
Cash flow hedge reserve		-	(305)
Share options reserve	19(b)	65	-
Foreign currency translation reserve		(100)	166
Total equity		**28,230**	**2,021**
Total liabilities and equity		**65,304**	**33,213**
Net tangible assets per ordinary share		$0.95	$0.30

For and on behalf of the Board who authorised these financial statements for issue on 25 May 2016.

David Flacks
Chairman

Hartley Atkinson
Managing Director and
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

$NZ000's	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		62,050	53,877
Interest received		241	35
Payments to suppliers and employees		(73,979)	(64,156)
Tax (paid)/received		47	(11)
Interest and finance cost paid		(2,788)	(2,850)
Net cash (used in)/generated from operating activities	18	**(14,429)**	**(13,105)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(148)	(139)
Sale of property, plant and equipment		10	5
Purchases of intangible assets		(556)	(349)
Net cash used in investing activities		**(694)**	**(483)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		42,037	13,894
Share issue costs		(3,680)	(1,035)
Dividends paid		(1,652)	(763)
New borrowings		-	18,176
Repayment of borrowings		-	(13,137)
Net cash generated from financing activities		**36,705**	**17,135**
Net increase in cash		21,582	3,547
Impact of foreign exchange on cash and cash equivalents		1,773	(95)
Opening cash and cash equivalents		4,700	1,248
Closing cash and cash equivalents		**28,055**	**4,700**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

1. GENERAL INFORMATION

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

The financial statements of the group have been prepared in accordance with the requirements of the Companies Act 1993. 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 25 May 2016 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).

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 of the parent and the results of 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 by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. 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 directly in the statements of comprehensive income.

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 does not hold a controlling stake 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.

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(c) Critical accounting estimates and assumptions

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 assumptions are continually evaluated and are based on historical experience and other factors including expectations or future events that are believed to be reasonable under the circumstances. The main critical estimate and assumption used is the recognition of deferred tax, detailed within Note 7. It is not expected that this estimate and assumption 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 it operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

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

(iii) Foreign operations

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each 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.

(e) Revenue recognition

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

- The sales of goods are recognised when the product is delivered to customer.

(f) Other income recognition

Other income comprises of 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 out-licencing agreements. Milestone payments represent a minor portion of the economic benefits of the out-licencing agreements (the primary benefits being the sale of product and royalties earned on licensee sales). The milestones are recognised as income depending on the terms of each out-licencing agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

(g) Finance income recognition

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

(h) Property, plant & 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 is apportions the cost of the assets over their useful lives. The Group has the following classes of property, plant & equipment and depreciation rates:

Category	Depreciation Rate (%)
Plant & machinery	21% to 80%
Fixtures & fittings	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 statements of comprehensive income.

(i) Intangible assets

Finite Useful Life

Acquired patents have a finite life and are carried at cost less accumulated amortisation. Patents are amortised over a useful economic life of 20 years.

Indefinite Useful Life

Acquired trademarks are considered to have an indefinite useful life 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 assets' carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

(j) Goods & services tax

The Income Statement and the Statement of Comprehensive Income have been prepared so that all components are stated exclusive of NZ & AU GST. All items in the Balance Sheet are stated net of GST, with the exception of account receivables and payables which include GST invoiced. All components of 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 substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset or liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. STATEMENT OF ACCOUNTING POLICIES (Continued)

(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. Bad debts are written off in the year in which they are identified. Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statements of Comprehensive Income.

(o) Trade payables

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

(p) Borrowings

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

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

(q) Share capital

Ordinary shares, and the now-converted preferred shares, are classified as equity. Both carried equal voting rights. Preferred shares attracted a dividend yield.

(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 twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(s) Employee entitlements

Liabilities for wages and salaries, including non monetary benefits, 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

(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 by reference to current forward exchange rates for contracts in place and the actual exchange rate at year-end, considered level 2 of the fair value hierarchy.

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss is recognised in the Income Statement.

(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 is relates on a straight line basis over the 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.

Diluted earnings per share is computed by dividing net earnings adjusted for the share options cost, by the diluted weighted average number of ordinary shares (as if all options have been exercised).

3. STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE

No new standards that have been issued and are effective for the periods beginning 1 April 2015 are considered to materially impact the recognition, measurement or disclosure of these financial statements. The below are new standards and amendment 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 present changes in fair value in other comprehensive income not recycling.

3. STANDARDS OR INTERPRETATIONS NOT YET EFFECTIVE (Continued)

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 use 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 on its effective date and has yet to assess its full impact.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

IFRS 16 'Leases' was issued by The International Standards Board in January 2016 and replaces the previous leases Standard, IAS 17 Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. As a result all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments as an asset. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. As such the most significant effect of the new requirements in IFRS 16 will be an increase in the lease assets and liabilities. IFRS 16 is effective from 1 January 2019 with early adoption allowable if IFRS 15 also adopted.

There are no other NZ IFRSs 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	2016	2015
Sale of goods	64,014	56,241
Total Revenue	**64,014**	**56,241**

5. OTHER INCOME

$NZ000's	2016	2015
Research and development grant	465	974
Licensing income	1,830	296
Total other income	**2,295**	**1,270**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

6(a). NET OPERATING PROFIT

$NZ000's	Note	2016	2015
(Loss)/Profit before tax		**(13,309)**	**(13,155)**
After charging the following specific expenses:			
Finished goods material component of cost of goods sold		39,817	34,674
Inventory write off		618	409
Audit fees and review of financial statements	6(b)	340	58
Donations		-	25
Rental expense		532	600
Operating leases		382	321
Share options expense		65	-
Short term employee emoluments:			
Selling and distribution expenses		6,046	4,512
General and administrative expenses		2,084	1,995
Research and development expenses		1,113	849
		9,243	7,356
Research and development expenses:			
Product development		5,867	3,772
New market development		2,225	1,140
Employee emoluments	* see below	-	849
		8,092	5,761
Depreciation:			
Plant and machinery		103	75
Furniture and fixtures		29	27
Vehicles		22	27
		154	129
Amortisation:			
Patents		91	73
Software		23	26
		114	99
Finance Costs:			
Interest		3,436	1,943
Foreign exchange (gains)/losses		(1,405)	3,466
Other financing costs		(12)	1,816
		2,019	7,225

* In FY 2016, product development and new market development costs include employee emoluments.

6(b). FEES PAID TO AUDITORS

$NZ000's	2016	2015
Audit of financial statements		
Audit and review of financial statements – PwC	93	-
Half year review	41	58
Total fees for audit services	134	58
Other services		
Performed by PwC:		
Tax due diligence services	28	-
Assurance report on ASX pro forma balance sheet	18	-
IPO assurance services	160	-
Total other services	206	-
Total fees paid to auditor	**340**	**58**

Total fees of $160k were paid to PricewaterhouseCoopers in relation to IPO assurance services. Of these costs $141k are included within IPO, Listing and Capital raising costs expense in the current year with the remaining $19k being attributed to the cost of issue of shares and offset in contributed equity.

7. INCOME TAX

$NZ000's	2016	2015
(a) Tax expense		
Loss before tax	(13,309)	(13,155)
Tax calculated at domestic tax rates applicable	(3,752)	(3,627)
Expenses not deductible and other	830	57
Losses not recognised	2,715	3,489
Prior year adjustment	(165)	(201)
Tax (benefit)/expense	(42)	(282)
Comprising:		
Current tax	96	126
Deferred tax	(138)	(408)
	(42)	(282)

$NZ000's	2016	2015
(b) Deferred tax balance		
Provisions	546	408
	546	408

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 2016, the Group recognised deferred tax assets on temporary differences totalling $546k (2015: $408k) 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 utilization is $21,531k (FY 2015: $12,686k). No deferred tax asset has been recognized in relation to these losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

7. INCOME TAX (Continued)

$NZ000's	2016	2015
(c) Imputation credits available for use	953	1,443

8. INVENTORIES

$NZ000's	2016	2015
Inventory on hand	18,117	14,899
Provision for obsolescence	(431)	(213)
	17,686	**14,686**

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

$NZ000's	2016	2015
Trade receivables	15,446	10,448
Prepayments	842	803
	16,288	**11,251**

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 2016	2,641	87	-	31	**2,759**
31 March 2015	630	-	-	3	**633**

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

10. CASH AND CASH EQUIVALENTS

$NZ000's	2016	2015
Cash at bank	7,936	4,654
Cash on hand	44	46
	7,980	4,700
Cash on term deposit	20,075	-
Total cash	**28,055**	**4,700**

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

Term deposits are at various interest rates and maturity dates, all within 12 months

11. PROPERTY PLANT & EQUIPMENT

$NZ000's	Plant and Machinery	Furniture and Fixtures	Vehicles	Total
(a) Cost				
Balance 31 March 2014	**470**	**359**	**277**	**1,106**
Additions	106	11	22	139
Disposals	-	(8)	(32)	(40)
Balance 31 March 2015	**576**	**362**	**267**	**1,205**
Additions	118	34	-	152
Disposals	-	-	(49)	(49)
Balance 31 March 2016	**694**	**396**	**218**	**1,308**
(b) Depreciation				
Balance 31 March 2014	**(359)**	**(142)**	**(200)**	**(701)**
Depreciation	(75)	(27)	(27)	(129)
Disposals	-	6	30	36
Balance 31 March 2015	**(434)**	**(163)**	**(197)**	**(794)**
Depreciation	(103)	(29)	(22)	(154)
Disposals	-	-	47	47
Balance 31 March 2016	**(537)**	**(192)**	**(172)**	**(901)**
(c) Carrying amounts				
Balance 31 March 2015	**142**	**199**	**70**	**411**
Balance 31 March 2016	**157**	**204**	**46**	**407**

12. INTANGIBLE ASSETS

$NZ000's	Trademarks	Patents	Software	Total
(a) Cost				
Balance 31 March 2014	**183**	**1,385**	**204**	**1,772**
Additions	95	217	37	349
Disposals	-	-	-	-
Balance 31 March 2015	**278**	**1,602**	**241**	2,121
Additions	161	377	19	557
Disposals	-	(1)	-	(1)
Balance 31 March 2016	**439**	**1,978**	**260**	2,677
(b) Amortisation				
Balance 31 March 2014	**-**	**(174)**	**(179)**	(353)
Amortisation		(73)	(26)	(99)
Disposals	-	-	-	-
Balance 31 March 2015	**-**	**(247)**	**(205)**	**(452)**
Amortisation	-	(91)	(23)	(114)
Disposals	-	-	-	-
Balance 31 March 2016	**-**	**(338)**	**(228)**	**(566)**
(c) Carrying amounts				
Balance 31 March 2015	**278**	**1,355**	**36**	**1,669**
Balance 31 March 2016	**439**	**1,640**	**32**	**2,111**

Trademarks are acquired to protect the current and future revenue streams of the group.

They are considered to have an indefinite useful life whilst they continue to protect revenue streams.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

13(a). INVESTMENT IN SUBSIDIARIES

	Interest Held			
	2016%	**2015%**	**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%	-	New Zealand	Partner in Dermatology Specialties LP
AFT Dermatology Limited	100%	-	New Zealand	Distribution of pharmaceuticals
DSGP Limited	50%	-	New Zealand	General Partner of Dermatology Specialties LP

Investment comprises ordinary shares held at cost.

All subsidiaries have a balance date of 31 March.

13(b). INVESTMENT IN JOINT VENTURE PARTNERSHIP

$NZ000's	**2016**	2015
Interest in joint venture company, at cost	487	-
Equity accounted earnings of joint venture partnership	(302)	-
Net equity investment in joint venture partnership	**185**	**-**

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

	2016 % Interest held	2015 % Interest held
Dermatology Specialties LP	50%	-

Principal activities: Development and distribution of pharmaceuticals

Dermatology Specialties LP was incorporated on 22 June 2015 and had not commenced operations at 31 March 2015. Movements in investment in the joint venture partnership during the year comprise:

$NZ000's	**2016**	2015
Balance at start of year	-	-
Investment during the year	487	-
Share of current year profit/(loss)	(302)	-
Dividend received	-	-
Balance at end of year	**185**	**-**

13(b). INVESTMENT IN JOINT VENTURE 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	**2016**	2015
Extracts from joint venture partnership balance sheet (unaudited)		
Current assets	-	-
Non-current assets	2,169	-
Current liabilities	(117)	-
Non-current liabilities	-	-
Net assets	**2,052**	**-**
Extracts from joint venture partnership income statement (unaudited)		
Revenue	-	-
Net profit after taxation	(604)	-

The joint venture did not have any contingent liabilities or capital commitments at balance date (2015: nil)

14. TRADE AND OTHER PAYABLES

$NZ000's	**2016**	2015
Trade payables	8,140	5,661
GST payable	616	671
Employee entitlements	621	382
Other payables	1,051	1,544
	10,428	**8,258**

15. PROVISIONS

$NZ000's	**2016**	**Additional Provisions**	**Utilised**	**2015**	**Additional Provisions**	**Utilised**	**2014**
Customer rebates	2,422	2,422	(998)	998	963	(215)	250
Supplier rebates	661	661	(892)	892	464	-	428
	3,083	**3,083**	**(1,890)**	**1,890**	**1,427**	**(215)**	**678**

Customer rebates are based on the customers' ability to achieve certain sales targets and are computed using the expected rebate percentage for sales made during the period.

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

$NZ000's	**2016**	2015
CRG (Capital Royalty Partners) loans	23,161	20,739
	23,161	**20,739**

The term loan agreement with CRG commenced in May 2014 and has a facility to be drawn down up to US$30million. It is for a six year term for which the first four years only interest is payable, some of which may be compounded, with the principal to be repaid in equal quarterly instalments in years five and six.

The loan has a general security over the assets of the Group together with a group guarantee. Interest is fixed at 13.5% p.a. Details of the two covenants relevant to the loan are in note 24 Management of Capital.

The fair value of the CRG loan is $19.9million (2015: $20.1million) based on a discounted cashflow calculation considered to be level 3 in the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

17. SHARE CAPITAL

$NZ000's	Shares 2016 Number	Shares 2015 Number	Shares 2016 $'000	Shares 2015 $'000
Ordinary share capital	96,834,838	1,179,600	55,994	41
Series A Preferred Shares	-	140,000	-	13,894
Less capital raising costs			(2,092)	(1,043)
	96,834,838	**1,319,600**	**53,902**	**12,892**

$NZ000's	2016 $'000	2015 $'000
Share capital at beginning of the year	12,892	33
Issue of Series A Preferred Shares	-	13,894
Issue of Series B Preferred Shares	9,392	-
IPO	32,675	-
Less capital raising costs	(1,057)	(1,035)
	53,902	**12,892**

FY 2015:

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

All shares have equal voting rights.

FY 2016:

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

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

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

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

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

18. RECONCILIATION OF PROFIT AFTER TAX WITH NET CASH FLOW FROM OPERATING ACTIVITIES

$NZ000's	2016	2015
Loss after tax	(13,267)	(12,873)
Non-cash items:		
Depreciation	154	129
Amortisation	114	99
Impact of foreign exchange on cash and cash equivalents	(1,773)	95
Movement in working capital:		
(Increase)/Decrease in inventories	(1,387)	(2,058)
(Increase)/Decrease in trade and other receivables	(5,222)	(1,954)
Increase/(Decrease) in trade and other payables	7,028	3,843
Increase/(Decrease) in income tax	(76)	(386)
Net cash used in operating activities	**(14,429)**	**(13,105)**

19. RELATED PARTIES

The Group had related party relationships with the following entities:

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

The following transactions were carried out with these related parties:

(i) Consultation fees

$NZ000's	2016	2015
Redvers Limited	113	101
Mainz Consulting Limited	21	55
Total consultation fees	**134**	**156**

No Redvers consultation fees were owing in Trade and other payables at 31 March 2016 (FY 2015: $60,000). These consultancy services ceased following completion of the IPO. Both Jon Lamb (Redvers) and Doug Wilson (Mainz) now receive directors fees for their services provided as directors, together with compensation set at a daily rate should they perform any duties outside the scope of their roles as directors.

(ii) Loans

$NZ000's	2016	2015
CRG (Capital Royalty Partners) – refer to note 16	23,161	20,739
Total loan balances	**23,161**	**20,739**

(iii) Key management compensation

$NZ000's	2016	2015
Directors fees	187	-
Other Director remuneration	134	-
Executive salaries	1,067	694
Short term benefits	39	-
Key management compensation	**1,427**	**694**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

19(b). STAFF SHARE OPTIONS

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

	2016		2015	
	Average exercise price $ per share	Options '000's	Average exercise price $ per share	Options '000's
Balance at beginning of year		-	-	-
Issued	2.80	861	-	-
Forfeited		-	-	-
Exercised		-	-	-
Lapsed		-	-	-
Balance at end of year	**2.80**	**861**	**-**	**-**

Weighted average share price for options exercised during the period $nil (2015: $nil).

Of the 861,000 outstanding options, nil are currently exercisable (2015: 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	2016	2015
April-2020	December-2017	2.80	155,296	-
April-2020	December-2018	2.80	705,704	-
Total share options outstanding			**861,000**	**-**

The weighted average remaining contractual life of options outstanding at the end of the period was 4 years (2015: nil)

Share options reserve

$NZ000's	2016	2015
Balance at beginning of year		
Current year amortisation	(65)	-
Options forfeited and lapsed transferred to retained earnings	-	-
Options exercised transferred to share capital	-	-
Balance at end of year	**(65)**	**-**

20. FINANCIAL RISK MANAGEMENT

(a) Managing financial risk

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

• Market risk

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

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

• Foreign exchange risk

The Group purchase goods and services from overseas suppliers in a number of currencies, primarily, NZD, AUD, USD, EUR and GBP, and has borrowings which are denominated in US Dollar amounts. This exposes the Group to foreign currency risk. The Group manages foreign currency risk through use of derivative arrangements, the exposure is monitored on a regular basis based on Group foreign exchange policies.

A 1% increase or decrease in foreign exchange rates on assets and liabilities will reduce/increase equity by $113,000 (2015: $113,000) and reduce/increase the profit or loss by $296,330 (2015: $131,000).

The following forward foreign exchange contracts were held at the end of the 2016 financial year:

Forward Foreign Exchange Contracts				
Buy Currency	**Buy Currency Amount ('000)**	**Sell Amount NZD ('000)**	**Buy Amount 31-Mar-16 NZD ('000)**	**MTM Value NZD ('000)**
EUR	3,500	5,914	5,815	(99)
GBP	610	1,358	1,278	(80)
USD	5,755	8,626	8,403	(223)
Total exposure as at 31 March 2016:				**(402)**

All contracts mature within one year from 31 March 2016.

• 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 2016 with the largest debtor being $4,525,638 (2015: $3,563,128). 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 2016 (2015: 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 32.3% of total assets at the Bank of New Zealand (2015: 8.4%), 2.7% at NAB Bank (2015: 5.4%) and 7.6% with ANZ (2015: nil). The carrying value of financial assets represents the maximum exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

• 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 $1million BNZ overdraft immediately available and an undrawn fund facility from Capital Royalty Partners which can be drawn as required by the Group.

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

	Liquidity Profile				
$NZ000's 31 March 2016	**< 1 Year**	**1-2 Years**	**2-5 Years**	**> 5 Years**	**Total**
Trade and other payables	(11,220)	-	-	-	(11,220)
Borrowings	-	-	-	(37,462)	(37,462)
Derivative liabilities (outbound)	(15,496)	-	-	-	(15,496)
Derivative liabilities (inbound)	15,094	-	-	-	15,094
Totals	**(11,622)**	**-**	**-**	**(37,462)**	**(49,084)**

$NZ000's 31 March 2015					
Trade and other payables	(8,258)	-	-	-	(8,258)
Borrowings	-	-	-	(33,545)	(33,545)
Derivative liabilities (outbound)	(10,027)	-	-	-	(10,027)
Derivative liabilities (inbound)	9,722	-	-	-	9,722
Totals	**(8,563)**	**-**	**-**	**(33,545)**	**(42,108)**

(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

$NZ000's 31 March 2016	Australia	New Zealand	Asia	Rest of World	Total
	Operating Segments				
Revenue	**31,224**	**31,135**	**648**	**1,007**	**64,014**
Other income	-	1	-	2,294	2,295
Depreciation and amortisation	30	233	5	-	268
Loss before tax	**(3,233)**	**(5,430)**	**(1,015)**	**(4,159)**	**(13,837)**
Finance income	-	291	-	-	291
Finance costs	(13)	(2,012)	6	-	(2,019)
Total assets	**18,578**	**46,515**	**211**	**-**	**65,304**
Property, plant and equipment	61	334	11	1	407
Intangible assets	-	2,111	-	-	2,111
Capital expenditure	**54**	**648**	**2**	**-**	**704**

31 March 2015					
Revenue	**26,324**	**29,398**	**161**	**358**	**56,241**
Other income	-	-	-	1,270	1,270
Depreciation and amortisation	16	209	3	-	228
Loss before tax	**(4,409)**	**(4,470)**	**(978)**	**(3,298)**	**(13,155)**
Finance income	-	35	-	-	35
Finance costs	(385)	(6,817)	(23)	-	(7,225)
Total assets	**11,436**	**22,111**	**(334)**	**-**	**33,213**
Property, plant and equipment	34	366	11	-	411
Intangible assets	-	1,669	-	-	1,669
Capital expenditure	**19**	**456**	**13**	**-**	**488**

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 which 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.

Asia – Includes the sales and distribution activity relating to the 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, UAE). 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) represent approximately NZ$11.99million (2015: NZ$10.88million) and from one customer of the New Zealand segment (also being a licensed wholesaler) represent approximately $12.91million (2015: $12.00million) of the Group's total revenues.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 March 2016

22. CONTINGENT LIABILITIES

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

23. COMMITMENTS

(a) Capital Commitments

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

(b) Lease Commitments

$NZ000's	2016	2015
Due within one year	888	749
Due later than one year but within five years	643	783
Due later than 5 years	-	-
	1,531	**1,532**

The above includes leases for property, vehicles and equipment.

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 likely to be paid under these contracts is NZ$9.8million.

The Group leases the business premises in Takapuna, Auckland, New Zealand for $387,000 plus GST (including operating expenses) per annum. It has an initial term of 6 years which will expire on 11 April 2017 with one right of renewal for another 4 years with final expiry on 12 April 2021. The Group also leases premises in North Ryde, Sydney Australia for AUD$106,456 (including operating expenses) per annum. It has an initial term of 5 years which will expire on 15 May 2020 with one right of renewal for another 5 years with final expiry on 14 May 2025. The Group also leases a number of motor vehicles and office equipment which all have a final expiry date not exceeding 3 years 6 months.

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
- to maintain a strong capital base to support the development of its business.

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

The Group refinanced in May 2014 with the introduction of $12.9million new share capital (as detailed in note 17) and the introduction of long term debt (as detailed in note 16).

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 are two covenants. The first requires a minimum bank balance of NZ$4million at each month end. The second is for Revenues to exceed NZ$64.5million for the 2016 financial year (2015: NZ$60million). The 2015 financial year revenue covenant was waived on 18 February 2015.

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 these covenants during the 2016 financial year.

In May 2015 the group raised $9.4m of further equity through the issuance of Preference B Shares. In December 2015 a further $32.6m was raised through an initial public offering of shares which are jointly listed on both the NZX and ASX. Details are covered in Note 17.

25. EARNINGS PER SHARE

$NZ000's	2016	2015
Loss after tax	(13,267)	(12,873)
Weighted average ordinary shares	**27,576,214**	**1,179,600**
Basic and diluted earnings/(loss) per share ($)	(0.48)	(10.91)

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.

Diluted earnings per share is computed by dividing net earnings adjusted for the share options cost, by the diluted weighted average number of ordinary shares (as if all options have been exercised).

26. DIVIDENDS PER SHARE

No dividends have been declared to the ordinary shareholders of the parent company during the current year, nor in the FY 2015.

28. SUBSEQUENT EVENTS

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

CORPORATE GOVERNANCE STATEMENT

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 current best practice and adheres to the highest ethical standards.

AFT is listed on the New Zealand stock exchange (NZX Main Board) and on the Australian stock exchange 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) and with the ASX Listing Rules only to the extent specified in ASX Listing Rule 1.15.

Corporate governance principles and guidelines have been introduced in both New Zealand and Australia. These include the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations (3rd Edition), the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the Financial Markets Authority Handbook 'Corporate Governance in New Zealand Principles and Guidelines' (collectively, the 'Principles').

The Governance Manual for the Company consists of various charters and policies which document AFT's governance practices. The Board considers that the Company's corporate governance practices and procedures substantially reflect the Principles. In this Corporate Governance Statement, we report on how the Company has followed the recommendations set out in the Principles.

The full content of the Company's corporate governance policies can be found on the corporate governance section of the Company's website – www.aftpharm.com

ETHICAL STANDARDS

Code of Ethics

The Board recognises that high ethical standards and behaviours are central to good corporate governance and has recently implemented a Code of Ethics to guide the behaviour of its directors, senior managers and employees. AFT's Code of Ethics establishes the framework by which directors and staff of AFT are expected to conduct their professional lives by facilitating behaviour and decision-making that meets AFT's business goals and is consistent with AFT's values, policies and legal obligations. AFT's Code of Ethics is available on AFT's intranet and forms part of the induction process for new employees. To date there have been no instances raised with either the Board or management around any alleged breaches of the Code of Ethics. AFT encourages staff to report any concerns they have about compliance with the Code of Ethics, AFT policies or legal obligations.

The Code of Ethics addresses:

- Conflicts of interest
- Receipt of gifts
- Corporate opportunities
- Confidentiality
- Behaviours and responsibilities
- Proper use of AFT property and information
- Compliance with laws and AFT policies
- Reporting issues regarding breaches of the Code, legal obligations or other AFT policies; and
- Additional director responsibilities.

Securities Trading Policy

The Company is committed to complying with legal and statutory requirements with respect to ensuring directors and employees do not trade AFT shares while in possession of inside information.

AFT's Securities Trading Policy and Guidelines apply to all directors, officers, and employees of AFT and its subsidiaries. This Policy seeks to ensure that those subject to the Policy do not trade in AFT securities if they hold undisclosed price-sensitive information. The Policy sets out additional rules, which includes the requirement to seek company consent before trading and prescribes certain periods during which trading is prohibited.

Compliance with the Securities Trading Policy is monitored through the consent process, through education and via notification by AFT's share registrar when any director or senior manager trades in AFT securities. All trading by directors and senior managers (as defined by the Financial Markets Conduct Act 2013) is required to be reported to NZX and the ASX and recorded in AFT's securities trading registers.

Securities Trading Policy (Continued)

In addition to the restrictions outlined above, each director and senior manager who held shares in AFT at the date of AFT's initial public offering (IPO) (21 December 2015) has entered into an escrow deed with AFT. Under these arrangements, each escrowed shareholder has agreed not to sell or otherwise dispose of any of the escrowed shares until the first business day after AFT's preliminary announcement has been released in respect of its financial results for the year ending 31 March 2017, except that the Selling Shareholder (Hartley Atkinson and Colin McKay as trustees of the Atkinson Family Trust) may sell or otherwise dispose of 15% of the escrowed shares held by it from the first business day following the six-month anniversary of quotation of AFT's shares on the NZX Main Board. In total there are 80,991,276 ordinary shares subject to voluntary escrow.

AFT's Securities Trading Policy is available on the Company's website.

BOARD OF DIRECTORS

Role of the Board

The business and affairs of the Company are managed under the direction of the Board of Directors. At a general level, the Board is elected by shareholders to:

- Build sustainable value for shareholders
- Establish the Company's objectives
- Develop major strategies for achieving the Company's objectives
- Manage risks
- Determine the overall policy framework within which the Business and Company is operated; and
- Monitor management's performance with respect to these matters.

The Board has adopted a Board Charter that regulates internal Board procedure and describes the Board's specific role and responsibilities. The Board delegates management of the day-to-day affairs and responsibilities of the Company to the Management Team under the leadership of the Chief Executive Officer, to deliver the strategic direction and goals determined by the Board. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports within set limits. The Board regularly monitors and reviews management's performance in the execution of its delegated responsibilities.

The Board met for nine regularly scheduled meetings during the financial year. The Board intends to meet at least eight times during the year ending 31 March 2017.

Board Membership, Size and Composition

The NZX Listing Rules state that the number of directors must not be fewer than three and a Board must have at least two independent directors. Subject to this limitation, and in accordance with the provisions of AFT's constitution and the Board Charter, the size of the Board is determined by the Board from time to time.

As at 31 March 2016 (and the date of this Annual Report), the Board comprised seven directors, consisting of four independent directors (being David Flacks, Jon Lamb, Doug Wilson and Jim Burns) and three non-independent directors (being Nate Hukill (Non-Executive Director), and Hartley Atkinson and Marree Atkinson (both Executive Directors)). A biography of each director is set out on page 20 of this Annual Report.

Malcolm Tubby resigned as a director of AFT Pharmaceuticals Limited during the financial year ended 31 March 2016 (on 8 October 2015) prior to AFT's listing.

The Board has delegated to the newly constituted Remuneration and Nominations Committee the responsibility for recommending candidates to be nominated as a director. When recommending candidates to act as director, the Committee will take into account factors as it deems appropriate, including the diversity of background, experience and qualifications of the candidate. When appointing directors, the Board undertakes appropriate background checks.

As AFT operates in specialised markets, the Board believes that it is important to have directors with a broad range of experience and skills, both locally and internationally, that are appropriate to meet its objectives. The Board considers skills and experience in marketing, finance, people development, public companies, governance/legal and the global pharmaceutical industry to be particularly relevant.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Independence of Directors

A majority of AFT's directors are independent. The factors the Company takes into account when assessing the independence of its directors are set out in the Board Charter. Generally speaking, a director is considered to be independent if that director is not an executive of AFT and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to AFT.

The Board has determined that four out of the five non-executive directors are independent directors for the purposes of the NZX Listing Rules and in accordance with the Board Charter. The Board considers the independent directors to be independent in accordance with Box 2.3 of the ASX Principles. The previous advisory work provided by Jon Lamb and Doug Wilson is not considered likely to influence in any material way their independent judgement in relation to decisions affecting the Company.

The Board will review any determination it makes on a director's independence on becoming aware of any new information that may affect that director's independence. For this purpose, directors are required to ensure they immediately advise AFT of any new or changed relationship that may affect their independence or result in a conflict of interest.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The Chairman has been elected by the Board from the non-executive directors. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive Officer. The current Chairman, David Flacks, was appointed on 22 June 2015 and is an independent, non-executive director.

Board Appointment, Training and Evaluation

At the time of appointment, each director receives a copy of AFT's Corporate Governance Manual (comprising all of AFT's core governance documents) and is introduced to the business through a specifically tailored induction programme. All directors are regularly updated on relevant industry and Company issues and are expected to undertake training to remain current on how to best perform their duties as directors of AFT.

The procedure for the appointment and removal of directors is ultimately governed by the Company's constitution. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy. Every director appointed by the Board must submit himself or herself for reappointment by shareholders at the next annual meeting following his or her appointment. Directors are subject to the rotation requirements set out in the NZX Listing Rules.

All directors have access to senior management to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate. The Board, Board committees and each director have the right to seek independent professional advice at AFT's expense to assist them in carrying out their responsibilities.

The Board has implemented a policy in relation to the performance evaluation of the Board, the Board's committees and individual directors. As AFT only recently listed, the first performance evaluations will take place during the year ending 31 March 2017 in accordance with the Company's governance documents.

Conflicts of Interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and perceived) between their duty to AFT and their own interests. The Board Charter outlines the Board's policy on conflicts of interest. AFT maintains an interests register in which relevant disclosures of interest and securities dealings by the directors are recorded.

Company Secretary

The Company Secretary, Malcolm Tubby, is responsible for supporting the effectiveness of the Board by ensuring that its policies and procedures are followed and for coordinating the completion and dispatch of the Board agendas and papers. The Company Secretary is accountable to the Board, via the Chair, on all governance matters.

BOARD COMMITTEES

The Board uses committees to deal with issues requiring detailed consideration, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its committees and determines each committee's roles and responsibilities. The current committees of the Board are:

- Audit and Risk Committee
- Remuneration and Nominations Committee
- Regulatory and Product Development Oversight Committee

Details of the roles and responsibilities of these committees are described in their respective charters and summarised below. The Committee Charters are available on AFT's website.

From time to time, the Board may constitute an ad-hoc committee to deal with a particular issue that requires specialised knowledge and experience.

Audit and Risk Committee

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Company's risk management and internal control framework, the integrity of its financial reporting and the Company's auditing processes and activities. The Audit and Risk Committee was constituted on 25 November 2015 (immediately prior to listing), and held one formal Committee meeting during the year ended 31 March 2016. The Committee intends to hold at least four meetings during the year ending 31 March 2017.

Under the Audit and Risk Committee Charter, the Committee must be comprised of a minimum of three members who are each a non-executive director, the majority of whom are also independent directors and at least one director with an accounting or financial background. Further the Chairman of the Committee is required to be independent and not be the chairperson of the Board.

The current members of the Committee are Jon Lamb (Chair), Jim Burns and David Flacks. All members are independent, non-executive directors. Their qualifications and experience are set out on pages 20 and 21.

Remuneration and Nominations Committee

The Board recently appointed a Remuneration and Nominations Committee. The Remuneration and Nominations Committee's role is to oversee remuneration policies and practices at AFT, oversee management succession planning, consider the composition of the Board and recommend candidates to fill Board vacancies as and when they arise. The Committee is also tasked with annually monitoring and evaluating the Company's performance with respect to its diversity policy. As the Committee was only constituted on 23 February 2016, no meetings were held during the year ended 31 March 2016. The Committee intends to hold at least two meetings during the year ending 31 March 2017.

Under the Remuneration and Nominations Committee Charter, the Committee must be comprised of a minimum of three members, a majority of whom are independent directors. The chairperson of the Committee is required to be independent.

The current members of the Committee are Jon Lamb (Chair), Jim Burns and Hartley Atkinson.

Regulatory and Product Development Oversight Committee

The Regulatory and Product Development Oversight Committee's role is to oversee the Company's regulatory risk management framework relating to product development; oversee the Company's key clinical and product development projects and monitor the Company's compliance with applicable regulations regarding the sale and distribution of pharmaceutical products. The Regulatory and Product Development Oversight Committee was constituted on 25 November 2015 (immediately prior to listing), and held no meetings during the year ended 31 March 2016. The Committee intends to hold at least two meetings during the year ending 31 March 2017.

Under the Regulatory and Product Development Oversight Committee Charter, the Committee must be comprised of a minimum of three members.

The current members of the Committee are Doug Wilson (Chair), Hartley Atkinson and Marree Atkinson.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board and Committee Attendance

The below table shows the attendance at Board and Committee meetings during the year ended 31 March 2016.

Director	Board		Audit and Risk Committee[d]	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Hartley Atkinson	9	9		
Marree Atkinson	9	8		
Jim Burns[a]	5	4	1	1
David Flacks[b]	7	7	1	1
Nate Hukill	9	7		
Jon Lamb	9	8	1	1
Malcolm Tubby[c]	6	6		
Doug Wilson	9	9		

Notes:

(a) Jim Burns was appointed by shareholders on 17 September 2015

(b) David Flacks was appointed by shareholders on 22 June 2015

(c) Malcolm Tubby ceased to be a Director on 8 October 2015

(d) The Audit and Risk Committee (constituted on 25 November 2015) was the only Committee that met during the financial period.

REPORTING AND DISCLOSURE

Financial Reporting

The Board is responsible for ensuring the integrity of its financial reporting. As noted above under **Board Committees**, the Audit and Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Audit and Risk Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. As part of this process, the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that, to the best of their knowledge, the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with the relevant accounting standards and those reports are founded on a sound system of risk management and internal control that is operating effectively.

Market Disclosure Policy

AFT is committed to the promotion of investor confidence by ensuring that the trading of Company shares takes place in an efficient, competitive and informed market. The Company's Market Disclosure Policy establishes the Company's policies for meeting the continuous disclosure requirements of both the NZX Main Board and the ASX. A copy of the Market Disclosure Policy is available on the Company's website. In addition to the procedures set out in that Policy, directors and management consider at each meeting whether there are any issues that require disclosure to the market.

REMUNERATION

Non-Executive Director Remuneration

The maximum total monetary sum payable by the Company by way of non-executive directors' fees is $575,000 per annum, as approved by shareholders in advance of listing. The fees for non-executive directors vary depending on their duties, including for committee work, as detailed in the below table. It is currently not intended that AFT pay non-executive directors' fees exceeding, in aggregate, approximately $300,000[1]. The additional level of directors' fees is intended to provide flexibility for AFT to appoint additional non-executive directors in the future and allow for an increase in directors' fees in future years.

Non-executive directors do not take a portion of their remuneration under an equity security plan but directors may hold shares in the Company, details of which are set out in the **Director Interest Disclosures** section below. It is the Company's policy to encourage directors to hold shares in the Company.

The non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with AFT's business. No retirement allowances will be paid to the non-executive directors on their retirement.

Annual non-executive director fees for the year ending 31 March 2017:

Director	Annual Director Fees[2]	Committee Fees
David Flacks (Chairman)	95,000	5,000
Nate Hukill[3]	-	-
Jon Lamb	40,000	15,000
Doug Wilson	40,000	7,500
Jim Burns	US$50,000	US$10,000

[1] Subject to exchange rate fluctuations.

[2] Fees disclosed in New Zealand Dollars, except where indicated.

[3] Nate Hukill agreed not to receive any directors' fees during FY2017.

Non-executive directors received the following directors' fees, remuneration and other benefits from the Company in the year ended 31 March 2016:

Director	Fees (NZD)	Remuneration	Benefits
David Flacks	75,333	-	-
Nate Hukill[4]	-	-	-
Jon Lamb	32,083	113,250[5]	-
Doug Wilson	20,750	21,000[6]	-
Jim Burns	46,000	-	-
Total	**174,166**	**134,250**	**-**

[4] Nate Hukill agreed not to receive any directors' fees during FY2016.

[5] Includes fees received by Redvers Limited for special projects work undertaken by Jon Lamb. In the first half of FY2016, prior to AFT's listing, Jon Lamb undertook, through Redvers Limited, special projects work for AFT relating to pricing and distribution strategy. This work ceased when AFT listed and Jon now receives director fees for his services provided as a director, together with compensation at a daily rate from time to time where he performs duties outside the scope of his role as a non-executive director.

[6] Includes fees received by Mainz Consultancy Limited for consultancy services provided by Doug Wilson. In the first half of FY2016, prior to AFT's listing, Doug Wilson undertook, through Mainz Consulting Limited, special projects work for AFT relating to pricing and distribution strategy. These consultancy services ceased when AFT listed and Doug now receives director fees for his services provided as a director, together with compensation at a daily rate from time to time where he performs duties outside the scope of his role as a non-executive director.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Executive Director Remuneration

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

Hartley Atkinson received fixed remuneration (inclusive of the value of benefits) for the year ended 31 March 2016 of $415,615. In addition to this fixed remuneration, Hartley also received a performance-based, at-risk, short-term incentive payment of $127,872. Hartley Atkinson was not issued any form of long-term incentive during the financial period, however, subject to any necessary regulatory and shareholder approval requirements being satisfied, may participate in AFT employee incentive schemes in the future.

Marree Atkinson received fixed remuneration (inclusive of the value of benefits) for the year ended 31 March 2016 of $110,929. She did not receive any performance-based, at-risk, short-term incentive payment. Marree Atkinson was not issued any form of long-term incentive during the financial period, however, subject to any necessary regulatory and shareholder approval requirements being satisfied, may participate in AFT employee incentive schemes in the future.

Malcolm Tubby ceased to be a director on 8 October 2015 and did not receive any fees in his capacity as an executive director.

Senior Manager & Employee Remuneration

The remuneration policy for senior management is designed to attract, reward and retain high quality employees who will enable the Company to achieve its short and long-term objectives.

The remuneration packages of senior management consist of a combination of a fixed remuneration, a variable performance-based short-term incentive component (if pre-determined Company and individual performance objectives are met) and a discretionary long-term incentive component. Each year a review is carried out to benchmark salaries with market increases and adjustments are made accordingly.

AFT recently introduced a long-term incentive for senior managers and eligible employees, in the form of an option scheme (**LTI Plan**). This is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests. Under the LTI Plan, participants are granted options to acquire ordinary shares in AFT. One option will give the participant the right to subscribe for (or otherwise purchase) one ordinary share, subject to meeting any vesting conditions set by the Board and payment of the exercise price. The Board has an absolute discretion to invite employees to participate in the LTI Plan and to set the terms and conditions of options at the time they are granted, including the number of options to be granted, any consideration payable for the grant of options, any vesting conditions, the exercise price and the expiry date for the options.

The maximum aggregate number of options which may be granted under the LTI Plan is 5% of the total number of ordinary AFT shares on issue immediately after the issue of options, unless shareholder approval is obtained. With respect to AFT's LTI Plan, no director or employee is permitted to enter into financial products or arrangements which operate to limit the economic risk of their vested or unvested entitlements.

The Remuneration and Nominations Committee is responsible for reviewing the remuneration of the Company's senior management in consultation with the Chief Executive Officer. The Company's senior executives are subject to regular performance reviews. The performance of senior executives is reviewed by the Chief Executive Officer who meets with each senior executive to discuss their performance, as measured against key performance targets (both financial and non-financial) previously established and agreed with that executive. During the year ended 31 March 2016, performance reviews took place in accordance with that process.

At the time of the IPO, AFT issued 100 shares to all staff by way of a bonus. These shares were issued subject to escrow. Under these arrangements, each employee has agreed not to sell or otherwise dispose of any of the escrowed shares until 22 December 2017.

Senior Manager & Employee Remuneration (Continued)

The table below sets out the number of employees or former employees of AFT and its subsidiaries, not being directors of AFT, who received during the year ended 31 March 2016 remuneration and other benefits in their capacity as employees, that in value was or exceeded $100,000 per annum, in brackets of $10,000. The remuneration of those employees paid outside of New Zealand has been converted into New Zealand dollars. No employee appointed as a director of a subsidiary company of AFT receives any remuneration or other benefits for acting in this capacity.

Remuneration Range (NZ$)	Number of Employees
100,001 – 110,000	6
110,001 – 120,000	2
120,001 – 130,000	8
130,001 – 140,000	7
140,001 – 150,000	2
150,001 – 160,000	3
160,001 – 170,000	0
170,001 – 180,000	1
180,001 – 190,000	2
190,001 – 200,000	0
200,001 – 210,000	0
210,001 – 220,000	0
220,001 – 230,000	1
230,001 – 240,000	0
240,001 – 250,000	0
250,001 – 260,000	0
260,001 – 270,000	0
270,001 – 280,000	3

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

DIVERSITY

The Board is committed to providing equal employment opportunities and, as such, has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experiences. The Company works to ensure that its selection processes for recruitment and employee development opportunities are free from bias and are based on merit.

The Board recognises that building diversity across AFT will deliver enhanced business performance. AFT has adopted a Diversity Policy and is committed to achieving diversity in the skills, attributes and experience of its Board members, management and staff across a broad range of criteria (including, but not limited to, culture, gender and age). The Board as a whole is responsible for overseeing and implementing the Diversity Policy but has delegated to the Remuneration and Nominations Committee the responsibility to develop and to recommend measurable objectives to the Board that are designed to adhere to AFT's diversity policy. As a newly listed entity that has only recently adopted a Diversity Policy, no measurable objectives were set for the year ended 31 March 2016. The Board is currently setting the measurable objectives for the year ending 31 March 2017. The Company will report against its progress in meeting diversity objectives in its 2017 Annual Report.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DIVERSITY (Continued)

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2015 and 31 March 2016 are set out in the table below:

	Female				Male			
	2015		2016		2015		2016	
	No.	%	No.	%	No.	%	No.	%
Directors	1	17%	1	14%	5	83%	6	86%
Senior Executives[1]	2	20%	2	20%	8	80%	8	80%
Senior Employees[2]	2	29%	3	38%	5	71%	5	62%
Overall workforce	45	58%	50	57%	33	42%	38	43%

[1] Senior Executives 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 the number of Directors and Senior Executives reported.

[2] Direct reports to Senior Executives.

RISK MANAGEMENT

Risk Management Framework

AFT has designed and implemented a risk framework for the oversight and management of financial and non-financial business risks, as well as related internal compliance systems that are designed to:

- Optimise the return to, and protect the interests of, stakeholders
- Safeguard the Company's assets and maintain its reputation
- Improve the Company's operating performance
- Fulfill the Company's strategic objectives; and
- Manage the risks associated with the sale and distribution of pharmaceutical products.

The Board ultimately has responsibility for internal compliance and internal control processes. The Audit and Risk Committee and Regulatory and Product Development Oversight Committee assists the Board in discharging its responsibilities. The Audit and Risk Committee monitors compliance with the overarching risk and compliance framework, while the Regulatory and Product Development Oversight Committee oversees the Company's regulatory risk management framework regarding the development, quality assurance, and sale and distribution of pharmaceutical products.

The Audit and Risk Committee, in conjunction with management, regularly reports to the Board on the effectiveness of the Company's management of its material business risks and whether the risk management framework and systems of internal compliance and control are operating effectively and efficiently in all material respects. AFT does not have a dedicated internal auditor, instead internal controls are managed on a day-to-day basis by the finance team. Compliance with internal controls is reviewed annually by AFT's auditors.

Economic, Environmental and Social Sustainability Risks

The Board considers that a number of risks, across various risk categories, have the potential to impact upon the economic, environmental and social sustainability of the organisation in one way or another. Details of these types of risks and the way in which they are managed are set out in AFT's IPO Product Disclosure Statement on pages 61 – 64.

Health and Safety

AFT has recently updated its Health and Safety Policy and both the Board and management are committed to promoting a safe and healthy working environment for everyone working in or interacting with AFT's business. The Health and Safety Policy requires AFT people to endeavour to take all practicable steps to provide a working environment that promotes health and wellbeing, while minimising the potential for any risk, personal injury, ill health or damage. The Board has agreed a detailed programme of work, which aims to ensure AFT remains compliant with its Health and Safety obligations. The Board is updated on Health and Safety matters at each meeting and there is a review each quarter.

AUDITORS

Auditor Independence

AFT has adopted an Auditor Independence Policy that requires, and sets out the criteria for, the external auditors to be independent. The Policy recognises the importance of facilitating frank dialogue between the Audit and Risk Committee, the auditor and management.

The Policy requires that the lead and client service audit partners are rotated after a maximum of five years so that no such persons shall be engaged in an audit of AFT for more than five consecutive years.

The Audit and Risk Committee Charter requires the Committee to facilitate the continuing independence of the external auditor by assessing the external auditor's independence and qualifications, and overseeing and monitoring its performance. This involves monitoring all aspects of the external audit, including the appointment of the auditor, the nature and scope of its audit, and reviewing the auditor's service delivery plan.

In carrying out these responsibilities the Audit and Risk Committee intends to meet regularly with the auditor without executive directors or management present.

The auditor is restricted in the non-audit work it may perform. In the last financial year, the audit firm has undertaken specific non-audit work. None of that non-audit work is considered to have compromised (or been seen to have compromised) the independence of the auditor. For further details on the audit and non-audit fees paid and work undertaken during the period, refer to Note 6(b) of the **Financial Statements** above.

SHAREHOLDER RELATIONS

AFT is committed to maintaining a full and open dialogue with its shareholders. The Company has in place an investor relations programme to facilitate effective two-way communication with investors.

The aim of the Company's communication programme is to provide shareholders with information about the Company and to enable shareholders to actively engage with the Company and exercise their rights as shareholders in an informed manner. The Company facilitates communication with shareholders through written and electronic communication, and by facilitating shareholder access to directors, management and the Company's auditors.

The Company provides shareholders with communication through the following channels:

- The investor section of the Company's website
- The annual report
- The interim report
- The annual shareholders' meeting
- Regular disclosures on Company performance and news via the NZX and ASX online disclosure platforms; and
- Disclosure of presentations provided to analysts and investors during regular briefings.

The Company's website is an important part of the Company's communication programme. Included on the website is a range of information relevant to shareholders and others concerning the operation of the Company and its subsidiaries, including information about the Company and its history, biographies of the Company's directors and senior management, the Company's constitution Board Charter (and the charters of the various committees) and other corporate governance policies of the Company.

Shareholders may, at any time, direct questions or requests for information to directors or management through the Company's website or by contacting the Company's Chief Financial Officer, the contact details for whom are available on the Company's website.

The Company provides shareholders with the option to receive communications from, and send communications to, the Company and its share registrar electronically. A large number of AFT shareholders have elected to receive electronic communications.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Annual Shareholders' Meeting

AFT's 2016 Annual Shareholders' Meeting will be held in Auckland on Friday, August 5th 2016. Shareholders will be given an opportunity at the meeting to ask questions and comment on relevant matters. In addition, the auditors, PwC, will be available to answer any questions about their audit report. A Notice of Meeting will be sent to shareholders in advance of the meeting.

Share Register

AFT's share register is audited annually for accuracy.

DIRECTOR INTEREST DISCLOSURES

In accordance with Section 140(1) of the Companies Act 1993, directors disclosed the following interests in transactions with AFT during the financial year ending 31 March 2016:

Director	Nature of Director's Interest in Transaction
Hartley Atkinson Marree Atkinson	Gave notice to the Board that they are have an interest in the Atkinson Family Trust and should be considered to have an interest in all transactions between the Trust (as majority shareholder prior to and at the time of the IPO) and the Company until notified otherwise.
Hartley Atkinson Marree Atkinson	Gave notice to the Board that they are interested in employment agreements entered into with AFT Pharmaceuticals Limited.
Jon Lamb	Gave notice to the Board that Redvers Limited, in which he is a shareholder and director, had entered into a Consultancy Agreement with AFT Pharmaceuticals Limited.
Doug Wilson	Gave notice to the Board that Mainz Consulting Limited, in which he is a shareholder and director, had entered into a Consultancy Agreement with AFT Pharmaceuticals Limited.
Hartley Atkinson Marree Atkinson Jon Lamb Doug Wilson Nathan Hukill David Flacks James Burns	Gave notice to the Board that they are interested in Deeds of Indemnity granted and insurance taken out by AFT Pharmaceuticals Limited.
Hartley Atkinson Marree Atkinson Jon Lamb Doug Wilson Nathan Hukill David Flacks James Burns	Gave notice to the Board that they are interested in Deeds of Escrow entered into with AFT Pharmaceuticals Limited.
Nathan Hukill	Gave notice to the Board that the CRG Funds in which he is President and Chairman of the Investment Committee, had entered into a Subscription Agreement with AFT Pharmaceuticals Limited to subscribe for shares under a US Private Placement dated 26 November 2015.

DIRECTOR INTEREST DISCLOSURES (Continued)

Directors have given general notices disclosing interests pursuant to section 140(2) of the Companies Act 1993. Those interests (or changes to interests) notified and recorded in AFT's Interests Register during the financial year ended 31 March 2016 are set out below.

Director	Entity	Relationship
David Flacks	NZ Markets Disciplinary Tribunal	Chairman*
	Takeovers Panel	Member*
	Vero Liability Insurance New Zealand Limited	Director*
	Harmoney Corp Limited	Director*
	Flacks & Wong Limited	Director*
	Asteron Life Limited	Appointed Director
	NZ Venture Investment Fund	Appointed Director
	Vero Insurance New Zealand Limited	Director*
Hartley Atkinson	Atkinson Family Trust	Trustee/Discretionary Beneficiary
	AFT Dermatology Limited	Appointed Director
	AFT Limited Partner Limited	Appointed Director
	DSGP Limited	Appointed Director
Marree Atkinson	Atkinson Family Trust	Discretionary Beneficiary
Jon Lamb	Rivers One Limited	Appointed Trustee
James Burns	Assurex Health, Inc	Chairman*
	Symmetry Surgical, Inc	Director*
	Vermillion, Inc	Director*

*Interest held at time of appointment

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DIRECTOR INTEREST 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 2016:

Name	Date of Acquisition/ Disposal	Number of Shares Acquired/ (Disposed)[7]	Nature of Relevant Interest	Consideration[8]
David Flacks	8-May-15	775 Series B Preferred Shares	Joint registered holder and beneficial owner of ordinary shares[9]	US$99,975
	21-Dec-15	48,050[10]	Joint registered holder and beneficial owner of ordinary shares[9]	Nil[11]
	21-Dec-15	35,714[12]	Joint registered holder and beneficial owner of ordinary shares[9]	$99,999
Hartley Atkinson	08-May-15	14,535 Series B Preferred Shares	Joint registered holder and beneficial owner of ordinary shares. Has the power to exercise a vote attached to, and dispose of, the shares[9]	US$1,875,015
	21-Dec-15	74,036,370[13]	Joint registered holder and beneficial owner of ordinary shares. Has the power to exercise a vote attached to, and dispose of, the shares[9]	Nil[14]
	21-Dec-15	(1,071,428)[15]	Joint registered holder and beneficial owner of ordinary shares. Has the power to exercise a vote attached to, and dispose of, the shares[9]	$2,999,998
Doug Wilson	12-May-15	581 Series B Preferred Shares	Joint registered holder and beneficial owner of ordinary shares[9]	US$74,949
	21-Dec-15	36,022[16]	Joint registered holder and beneficial owner of ordinary shares[9]	Nil[17]
Jon Lamb	12-May-15	2,907 Series B Preferred 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[9]	US$375,003
	22-Dec-15	180,234[18]	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[9]	Nil[19]
	22-Dec-15	21,071[20]	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[9]	$58,999
Malcolm Tubby	08-May-15	1,163 Series B Preferred Shares	Joint registered holder and beneficial owner of ordinary shares[9]	US$150,027
James Burns	1-July 15	775 Series B Preferred Shares	Registered holder and beneficial owner of ordinary shares	$99,975
	22-Dec-15	48,050[21]	Registered holder and beneficial owner of ordinary shares	Nil[22]

7 Shares are ordinary shares unless indicated otherwise
8 Consideration is stated in NZD unless indicated otherwise
9 Held via trust in which the director is a trustee
10 Conversion of 775 Series B Preferred Shares into ordinary shares and split 62:1 on IPO
11 Consideration for shares provided through subscription of Preference Shares
12 Acquisition of shares at IPO
13 1,179,600 Ordinary Shares and 14,535 Series B Preferred Shares converted into ordinary shares and split 62:1 on IPO
14 Consideration for shares provided through subscription of Preference Shares
15 Sell-down of 1,071,428 shares on IPO
16 Conversion of 581 Series B Preferred Shares into ordinary shares and split 62:1 on IPO
17 Consideration for shares provided through subscription of Preference Shares
18 Conversion of 2,907 Series B Preferred Shares into ordinary shares and split 62:1 on IPO
19 Consideration for shares provided through subscription of Preference Shares
20 Acquisition on IPO
21 Conversion of 775 Series B Preferred Shares into ordinary shares and split 62:1 on IPO
22 Consideration for shares provided through subscription of Preference Shares

DIRECTOR INTEREST DISCLOSURES (Continued)

In accordance with the NZX Listing Rules, as at 31 March 2016, directors had a relevant interest in AFT ordinary shares as follows:

Name	Relevant Interest	Percentage
Hartley Atkinson	72,964,942	75.350%
James Burns	48,050	0.050%
David Flacks	83,764	0.087%
Jon Lamb	201,305	0.208%
Doug Wilson	36,022	0.037%

There were no entries in the interests register for the purposes of section 161 of the Companies Act 1993, in relation to the payment of remuneration and other benefits to directors.

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 and in respect of prospectus liability insurance. Deeds of indemnity were also granted to each director during the year and particulars were entered in the Interests Register.

SHAREHOLDINGS

As at 2 May 2016 there were 96,834,838 AFT Pharmaceutical Limited 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 Shareholders		Number of Ordinary Shares		Number of Option holders		Number of Options	
1 - 1,000	332	40.0%	157,876	0.2%	45	69.2%	45,000	5.2%
1,001 - 5,000	336	40.5%	904,604	0.9%	12	18.5%	31,000	3.6%
5,001 - 10,000	76	9.2%	555,613	0.6%	-	0.0%	-	0.0%
10,001 - 50,000	65	7.8%	1,423,209	1.5%	1	1.5%	50,000	5.8%
50,001 - 100,000	7	0.8%	492,469	0.5%	4	6.2%	285,000	33.1%
100,001 and over	13	1.6%	93,301,067	96.4%	3	4.6%	450,000	52.3%
TOTAL	**829**	**100.0%**	**96,834,838**	**100.0%**	**65**	**100.0%**	**861,000**	**100.0%**

As at 2 May 2016 there were no shareholders holding between 1 and 99 ordinary shares (a minimum holding under the NZX listing rules) and 79 shareholders holding less than a marketable share parcel of A$500 (under the ASX listing rules).

As at 2 May 2016, there were 65 individuals holding a total of 861,000 options to acquire shares issued by AFT under its employee long-term incentive scheme. The options carry no voting rights.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

SHAREHOLDINGS (Continued)

Set out below are details of the 20 largest shareholders of AFT as at 2 May 2016:

	Shareholder	Number of Ordinary Shares Held	%
1	Hartley Atkinson + Colin Mckay <Atkinson Family A/C>	72,964,942	75.3%
2	Capital Royalty Partners II - Parallel Fund B (Cayman) L.P.	6,499,508	6.7%
3	National Nominees New Zealand Limited - NZCSD <NNLZ90>	3,462,143	3.6%
4	Capital Royalty Partners II - Parallel Fund A L.P.	3,285,589	3.4%
5	Capital Royalty Partners II L.P.	2,444,415	2.5%
6	Jpmorgan Chase Bank Na Nz Branch-Segregated Clients Acct - NZCSD <CHAM24>	1,377,519	1.4%
7	New Zealand Superannuation Fund Nominees Limited - NZCSD <SUPR40>	1,298,214	1.3%
8	Capital Royalty Partners II (Cayman) L.P.	769,503	0.8%
9	FNZ Custodians Limited	359,850	0.4%
10	Mint Nominees Limited - NZCSD	328,929	0.3%
11	Rivers One Limited	201,305	0.2%
12	Hamish Atkinson + Karen Atkinson + Andrew Marriott <Hs & Kw Atkinson Family A/C>	165,000	0.2%
13	Matthew Strobeck	144,150	0.1%
14	Forsyth Barr Custodians Limited <1-Custody>	91,829	0.1%
15	David Mark Flacks + Adina Rita Betty Halpern <The Waitemata Family A/C>	83,764	0.1%
16	Barbara Tubby + Colin Tubby + Malcolm Tubby <Jembag Investment A/C>	72,106	0.1%
17	First NZ Capital Securities Limited	67,850	0.1%
18	Custodial Services Limited <A/C 3>	66,500	0.1%
19	Phillip Thwaite	60,000	0.1%
20	Andrew William Harmos + Gregory Bernard Horton <HH Investment A/C>	50,420	0.1%

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 2016 in respect of the number of quoted voting products noted below:

Substantial Product Holder	Total number of ordinary shares	Percentage held in class
Capital Royalty Partners Funds*	12,999,015	13.42%
Hartley Campbell Atkinson & Colin McKay as Trustees of the Atkinson Family Trust	72,964,942	75.35%

* Funds detailed in the substantial product holder notice

As at the balance date (31 March 2016) there were 96,834,838 ordinary shares on issue.

SUBSIDIARY COMPANY DIRECTORS

The following fees were paid to directors of subsidiary companies during the year ended 31 March 2016.
No other directors of subsidiary companies received director fees:

- Raymond McGregor received A$12,000 during the financial year ended 31 March 2016 in his capacity as a director of AFT Pharmaceuticals (AU) Pty Limited.

The following people held office as directors of subsidiary companies at 31 March 2016:

Subsidiary	**Directors**
AFT Pharmaceuticals (AU) Pty Limited (Australia)	Hartley Atkinson, Raymond MacGregor
AFT Pharmaceuticals (SE Asia) SDN BHD (Malaysia)	Mohamad Bin Abdullah, Hartley Atkinson, Giles Moss,
AFT Pharmaceuticals Singapore Pte Limited (Singapore)	Hartley Atkinson, Chia Lai Kuan, Giles Moss
AFT Orphan Pharmaceuticals Limited	Hartley Atkinson, Andrew Moore, Giles Moss, Malcolm Tubby
AFT Dermatology Limited	Hartley Atkinson
AFT Limited Partner Limited	Hartley Atkinson
DSGP Limited	Hartley Atkinson, Michael Derby

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

NZX WAIVERS

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

STOCK EXCHANGE LISTINGS

The Company's shares were listed on the NZX Main Board and ASX on 22 December 2015.

None of the NZX, the ASX or the Financial Markets Authority has taken any disciplinary action against AFT during the financial year ending 31 March 2016.

DONATIONS

AFT made no donations during the financial reporting period.

CREDIT RATING

AFT does not currently have an external credit rating status.

DIRECTORY

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

Registered Office	Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 0232 www.aftpharm.com Mertons, Level 7, 330 Collins Street, Melbourne, Victoria 3000, Australia +61 3 8689 9997
Principal Administration Office	Level 1, 129 Hurstmere Road, Takapuna, Auckland 0622, New Zealand +64 9 488 0232 www.aftpharm.com 113 Wick 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 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	PricewaterhouseCoopers Level 22, PwC Tower, 188 Quay Street, Auckland 1010, New Zealand +64 9 355 8000

FINANCIAL CALENDAR

Annual Meeting	5 August 2016
Half-Year End	30 September 2016
Interim Results Announcement	November 2016
Financial Year End	31 March 2017

AFT pharmaceuticals

Working to improve your health