Good Health Healthy Future

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

2019

PharmaZen
Good Health Healthy Future

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Company Number	CH/1168773
Issued Capital	218,769,344 Ordinary Shares
Registered Office	3 Desi Place Hillsborough, 8022 Christchurch
Shareholders	Listed on the USX (Unlisted Securities Exchange)
Directors	Mr K W Fergus *(Chairman)* Mr C L McIntosh Dr W L Burt Mr P W Dobbs Mr G P Shepherd
Bankers	Bank of New Zealand Limited Christchurch
Solicitors	Wynn Williams Christchurch
Auditors	Deloitte Limited Christchurch

3 Key Achievements

Financial highlights

2019 Sales

+38%

2019	17,317
2018	12,573

(000's)

Gross Margin

+6PPS

2019	46%
2018	40%

EBITDA

+98%

2019	5,431
2018	2,740

(000's)

Net Profit After Tax

+123%

2019	2,862
2018	1,280

(000's)

Earnings Per Share (cps)

+111%

2019	1.31cps
2018	0.62cps

Net Operating Cash

+189%

2019	4,283
2018	1,481

(000's)

Operating highlights

- Launch of AiOra®, PharmaZen's first consumer product range
- Installation and commissioning of industry leading Programmable Logic Controller to support quality and efficiency initiatives
- Order placed for new 2,000 kg freeze dryer to further increase manufacturing capacity
- Design and purchase of three stage cascade heat pump system which will provide more than 1.5 megawatts of heating and cooling designed and built to be class leading from an environmental and sustainability perspective
- New turnkey production lines (sachets, softgel, capsules) currently being installed.

AiORA® New Zealand
love your life daily®

4 Chairman's Report

On behalf of the Board, I am pleased to report another outstanding result for PharmaZen Limited for the financial year to 31 December 2019.

Driven by increasing global demand for our New Zealand-sourced, premium nutritional products and supplements our sales growth trajectory is firmly established.

Increased margin gains tangibly demonstrate the benefits realised from the Company's ongoing investment to support future growth.

Financial overview

PharmaZen achieved a net profit after tax of $2.9 million, 123% ahead of the $1.3 million reported last year. This record performance was driven by strong sales and margin growth, which continue to vindicate the value of the Company's previous investment decisions to increase capacity and capability.

Earnings before interest tax, depreciation and amortisation nearly doubled from last year's $2.7 million to $5.4 million and net profit before tax was 124% higher at $4.0 million for the year.

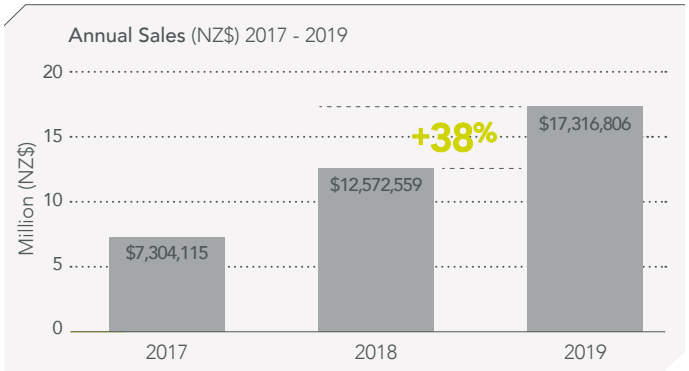
Sales increased by 38% to $17.3 million and are now $10 million higher than two years ago. Our margin improvements were particularly pleasing, with gross margin increasing from 40% to 46% and pre-tax profit margin from 14% to 23%. This was due to a range of factors including increased volumes, product mix and operating efficiencies.

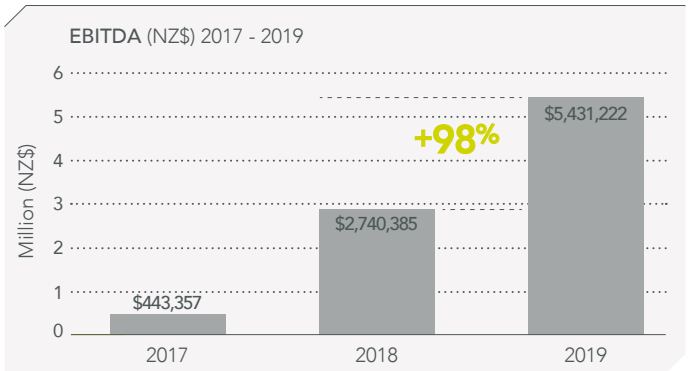
It is also worth highlighting the impact new capital projects have on our margins. Typically, when new manufacturing equipment or technology is introduced, such as the new extraction facility, it takes some time from first commissioning to achieving commercial volume rates.

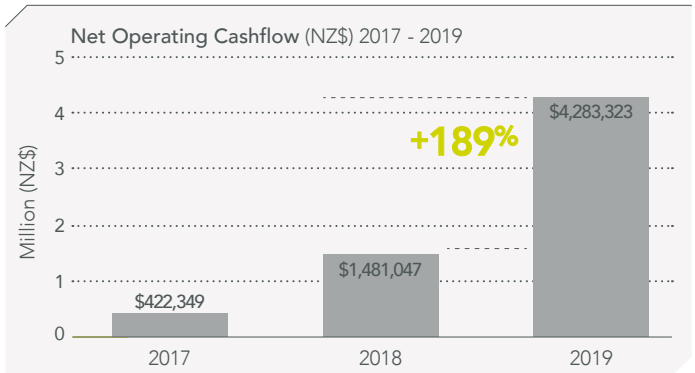
During this initial period of lower volume production, the average cost per product is higher, reducing the margin. However, once any new plant is operating at full capacity, as happened in the past year, the margin rapidly improves.

With further capital investment planned, we expect to see steady sales growth on top of the strong underlying margin, albeit with some fluctuation across the commercialisation phase of the new plant and technology.

Net operating cash flow increased by 189% to $4.3 million enabling the majority of the year's capital investment programme to be funded from free cash flow. This has further strengthened the balance sheet and ensures ongoing debt funding capacity to invest in future growth.







4 Chairman's Report (Cont.)

Operations

A key focus for 2019 was the development and launch of PharmaZen's two new consumer product ranges AiOra® and The 5th Quarter®.

AiOra®, a premium range of supplements targeting health issues ranging from digestive and cognitive functions to bone and joint health was launched late 2019 and is now on sale in New Zealand. Interest is strong and growing and initial sales (first quarter 2020) are well ahead of expectations.

Development of The 5th Quarter®, our range of glandular nutritional therapies, has also progressed well with encouraging market interest. The launch however, was delayed due to Covid-19 disruptions and is now anticipated in the second half of 2020.

GLANDULAR NUTRITIONAL THERAPY

THE 5TH QUARTER®

Unlocking genetic potential

GRASSFED & RAISED IN NEW ZEALAND

After a period of sustained investment in our manufacturing capability, plant and processes, the business is comfortably accommodating an increased demand for our products while continuing to maintain high standards of compliance and product quality.

We must also acknowledge the manufacturing team's performance in successfully procuring and commissioning a number of capital projects in addition to normal operations. These included the installation of a factory-wide Programmable Logic Controller upgrade, new consumer product production lines, as well as the design and procurement of a new 2,000 kg freeze dryer.

The new freeze dryer will be supported by a world-leading, high-efficiency energy system delivering low-carbon hot water and low-temperature glycol with no global warming impact.

The team's speed and agility in mastering the new operating processes associated with these projects consistently exceeded expectations, enabling production to commence ahead of schedule and reduced disruption costs.

People and capability

Organisational capability is a Board priority and is considered key to PharmaZen achieving its growth ambitions. Our 40-strong workforce is relatively small, but highly diverse and we see this as one of our core strengths. With an even gender split, diverse nationalities and backgrounds, a wide and balanced range of age and experience, our staff are able to bring a broad range of knowledge and perspective to their roles.

Our continued growth has created opportunities to invest in the development of our people and now see this investment being realised through ongoing improvements in the Company's overall capability.

We have continued to strengthen the management team. In January of this year, Rod Garrett was appointed as Chief Financial Officer, bringing extensive financial and management expertise, including most recently as Chief Financial Officer of NZX-listed SLI Systems Limited.

The research and development team was also strengthened with two key appointments which have added specialist product development skills in extraction and protein.

4 Chairman's Report (Cont.)

Governance

The year saw a number of changes around the Board table including, most notably, the retirement of Chairman, Max Shepherd at the Company's AGM in May 2019. We acknowledge and thank Max for his outstanding contribution and leadership over 18 years and wish him well in his retirement.

Ken Fergus, who has been a Director since 2006, was subsequently appointed as the new Chairman.

There were also two new Director appointments during the year. PharmaZen's Managing Director, Craig McIntosh was appointed in March 2019, bringing longstanding institutional knowledge and experience to the Board; and Gregory Shepherd was also appointed in March 2019. Gregory is an organisational transformation expert with an extensive background in financial services and global marketing.

Following its refresh, the Board has taken the opportunity to review PharmaZen's strategy, in particular, the identification of future opportunities and review of the Company's risk profile and capability requirements to ensure it is positioned to achieve its anticipated growth ambitions.

Acknowledgments

The Board extends its thanks and appreciation to management and staff for their efforts and contribution to an outstanding result. Our staff's commitment to PharmaZen is no better illustrated than by their response to the current Covid-19 outbreak as they quickly implemented and adapted to new work practices. We have no doubt that our shareholders have benefitted from the resilience of a team with such experience in navigating the business through very challenging events.

We would like to specifically acknowledge the loss of two long-serving team members during the year.

Anne Chapman, who had worked with the Company, (Waitaki Biosciences), since 1994, passed away suddenly on her way to work in February 2019; and

Graeme Burnett the Company Accountant since 1994 passed away in December 2019.

These team members made a valuable contribution to the Company and are sadly missed.

Looking ahead

Clearly our future outlook must consider the impact of the current global Covid-19 pandemic as it creates unprecedented levels of uncertainty throughout the world's economies. This new normal will present both opportunities and risks for the Company.

We expect to see the emergence of market, human resource and financial opportunities. Demand for health supplements typically increases during times of recession and/or virus outbreaks and we are already experiencing increased Q1 demand to support this view.

We believe a softening employment market will ease skill shortages and bring valuable new capability into the business.

Financially, the easing of the New Zealand dollar will assist our export sales. Likewise, favourable interest rates will provide the Company with new options to fund future capital investment.

We will continue to identify and monitor risks relating to Covid-19 which, at this stage, primarily relate to potential disruption in the supply of equipment and raw materials; increased operational complexity and costs; and the inability to effectively perform necessary business activities due to travel restrictions. This includes the short-term unavailability of international technicians and engineering support due to travel restrictions.

PharmaZen has longstanding risk mitigation processes in place to manage any disruption to supply of raw materials, plant, equipment and services. These have been developed and refined over time, as a consequence of multiple events such as the BSE outbreak, Christchurch earthquakes and the Global Financial Crisis. These initiatives will be invaluable should there be any further deterioration within its field of operation.

In the areas of international sales and procurement, the Company utilises in-market partners which will significantly minimise potential disruption. We are also confident that technology-based solutions meet our technical and engineering support requirements as well as providing potential opportunities in terms of business development and customer relationships. While these may be considered less than ideal, we know our global competitors face similar challenges.

Overall, the Board considers that PharmaZen is well positioned to capture opportunities presented by the Covid-19 pandemic, while the risks, as understood today, are moderate and largely mitigated by the actions described above.

Accordingly, we will continue with the next phase of our capital expansion programme which will see up to $8 million invested in key projects over the next year to provide additional capacity and bring new products to market. They will be funded from a combination of operating cash flow and bank debt.

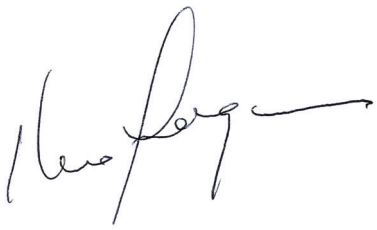
Once fully operational, these projects are expected to provide a strong return on investment and positive ongoing margin contributions.

4 Chairman's Report (Cont.)

Summary

With worldwide demand for health supplements continuing to grow and with the quality and traceability of ingredients becoming increasingly important, the opportunities for PharmaZen have never been better.

PharmaZen is now firmly established on a cash-positive growth path, with increasing demand being well supported by efficient, quality manufacturing. This momentum places the Company in an excellent position to look further ahead and capture future growth opportunities as they arise. We are moving forward with considerable optimism.



Mr K W Fergus
Chairman

Covid-19 response

Unite against COVID-19

PharmaZen's response to the Covid-19 pandemic is testament to the Company's resilience and ability to adapt to new challenges.

Over the years, PharmaZen has been tested by a range of unexpected events, including the Global Financial Crisis, a BSE outbreak, devastating earthquakes and pandemics.

Our learnings from these events have prepared the Company for significant disruptions. Accordingly, the Company began monitoring Covid-19 developments well ahead of any guidance and took early steps to manage risks within our business.

As an ingredient manufacturer, PharmaZen's food-grade hygiene standards are already strictly enforced. However, we identified that safety could be further enhanced and contamination risk reduced by creating additional change room facilities, which would enable different departments and factory areas to each operate independently within a 'work bubble'.

Once the lockdown was in place and PharmaZen was confirmed as an essential service, we implemented a strict health and safety policy to ensure the ongoing safety of employees. This included assessing the health profile of all staff and looking at home arrangements to ensure that staff coming to work were not in a house with high risk health workers or similar. Staff considered to be at-risk were able to either work from home or stay home.

With the introduction of these measures those eligible returned to work and PharmaZen was back operating at 80% capacity within two weeks, with systems in place to allow seamless movement between alert levels. At the time of writing all staff have remained healthy, virus free and our products continue to be produced and delivered around the world.

5 Directors' Report

Principal Activity

The Company manufactures and sells advanced human and animal nutritional ingredients.

Dividend

No dividend was declared or paid during the period.

Directors' Interests

Directors' Remuneration
Remuneration and other benefits paid or due to the Directors of the Company and receivable during the year, were $56,665 (2018: $55,001).

Directors' Loans
There were no loans by the Company to Directors.

Share Dealing
The table below records the PharmaZen Limited ordinary shares in which each Director had a relevant interest as at 31 December 2019 and 31 December 2018.

Director	Number of Ordinary Shares			
	Beneficial		Non–Beneficial	
	2018	**2019**	**2018**	**2019**
Dr M G Shepherd *(resigned 16 May 2019)*	36,392,204	N/A	–	N/A
Mr K W Fergus	9,000,000	9,000,000	6,756,996	6,859,996
Mr C L McIntosh *(appointed 26 March 2019)*	28,116,000	28,116,000	–	–
Dr W L Burt	32,000,000	32,000,000	–	–
Mr P W Dobbs	1,978,674	1,978,674	–	–
Mr G P Shepherd *(appointed 26 March 2019)*	N/A	2,076,282	N/A	–

Substantial Security Holders

The Companies register of substantial security holders at 31 December 2019 is as follows.

Name	Number of voting securities
MG Shepherd & LA Shepherd & Downie Stewart Trustee Ltd	36,092,204
Citibank Nominees New Zealand Limited	32,000,000
Bruce Hector McIntosh & Craig Lachlan McIntosh & Triplet Trustee Limited	20,536,000
Lee Patterson Family Trust Co. Limited	11,557,312

Employee Remuneration

Four employees received remuneration or benefits in excess of $100,000 as follows:

$110,001 - $120,000	1 employee
$120,001 - $130,000	1 employee
$130,001 - $140,000	1 employee
$280,001 - $290,000	1 employee

6 Directors' Responsibility Statement

The Directors are pleased to present to shareholders the financial statements for PharmaZen Limited for the year ended 31 December 2019. The financial statements presented are signed for, and on behalf of the Board, authorised for issue on the date below.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which materially reflect the financial position of the Company as at 31 December 2019 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the Company have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The financial statements are signed on behalf of the Board by:

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Mr K W Fergus
Chairman

Mr C L McIntosh
Director

22 April 2020

PharmaZen
Good Health Healthy Future

7 Income Statement

	Notes	2019	2018
		$	$
Revenue			
Sales	3a	17,316,806	12,572,559
Cost of sales		9,357,678	7,561,492
Gross profit		7,959,128	5,011,067
Other income	3b	937	30,678
Expenses			
Marketing		722,904	625,842
Occupancy		60,924	180,019
Administrative		796,330	695,388
Consultancy		58,601	66,297
Research and Development		305,738	228,740
Finance costs	3c	248,033	215,772
Depreciation	11	1,169,989	734,122
Insurance		405,813	324,408
Other		177,596	179,586
		3,945,928	3,250,174
Net Surplus/(Deficit) Before Taxation from Continuing Activities		4,014,137	1,791,571
Taxation expense/(credit)	4a	1,152,594	511,108
Net surplus/(deficit) for the year		2,861,543	1,280,463
Earnings Per Share			
Basic (cents per share)	13	1.31	0.62
Diluted (cents per share)	13	1.31	0.62

Calculated on a weighted average basis of the number of shares outstanding.

8 Statement of Comprehensive Income

	2019	2018
	$	$
Net surplus/(deficit) for the year	2,861,543	1,280,463
Total Comprehensive Income/(Loss)	2,861,543	1,280,463

9 Statement of Changes in Equity

	Notes	Fully Paid Ordinary Shares	Treasury Stock	Retained Earnings	Total
		$	$	$	$
2018					
Balance at 1 January 2018		10,439,134	–	85,568	10,524,702
Net surplus for the year		–	–	1,280,463	1,280,463
Contributions of Equity net of Transaction Costs and Tax	13	1,669,122	–	–	1,669,122
Reductions in Equity including Transaction Costs and Tax		–	(44,451)	–	(44,451)
Balance at 31 December 2018		12,108,256	(44,451)	1,366,031	13,429,836
2019					
Balance at 1 January 2019		12,108,256	(44,451)	1,366,031	13,429,836
Net surplus for the year		–	–	2,861,543	2,861,543
Balance at 31 December 2019		12,108,256	(44,451)	4,227,574	16,291,379

PharmaZen
Good Health Healthy Future

10 Statement of Financial Position

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		68,556	229,813
Accounts receivable	7	2,551,994	2,027,286
Prepayments		117,554	321,628
Inventories	8	1,852,298	1,470,599
Total current assets		4,590,402	4,049,326
Non–current assets			
Property, plant and equipment	11	22,945,525	19,110,532
Intangible assets	12	314,677	138,205
Total non–current assets		23,260,202	19,248,737
Total assets		27,850,604	23,298,063
Liabilities			
Current liabilities			
Bank overdraft		483,592	–
Accounts payable and accruals	9	1,246,573	1,328,358
Lease liabilities		149,034	–
Current tax liabilities	4c	1,263,395	168,599
Borrowings	10	1,136,717	852,733
Total current liabilities		4,279,311	2,349,690
Non–current liabilities			
Borrowings	10	6,587,814	6,928,950
Lease liabilities		39,421	–
Deferred tax liability	4d	652,679	589,587
Total non–current liabilities		7,279,914	7,518,537
Total liabilities		11,559,225	9,868,227
Owners Equity			
Share capital	13	12,108,256	12,108,256
Treasury stock	13	(44,451)	(44,451)
Retained earnings	14	4,227,574	1,366,031
Total equity		16,291,379	13,429,836
Total liabilities and Owners Equity		27,850,604	23,298,063

11 Cash Flow Statement

	Notes	2019 $	2018 $
Cash Flows from Operating Activities			
Cash was provided from (applied to):			
Receipts from customers		16,689,116	12,196,162
Interest received		937	1,080
Taxation refund received/(paid) – net		5,294	(175,384)
Payments to suppliers and employees		(12,042,012)	(10,153,133)
Payment of interest		(370,012)	(387,678)
Net cash inflow from operating activities	20	4,283,323	1,481,047
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Payment for property, plant and equipment		(4,552,484)	(3,213,357)
Payment for intangible assets		(176,472)	(138,205)
Net cash outflow applied to investing activities		(4,728,956)	(3,351,562)
Cash Flows from Financing Activities			
Cash was provided from (applied to):			
Proceeds from borrowings		487,692	1,538,115
Lease liability		(142,063)	–
Repayment of loans		(544,845)	(1,832,606)
Net proceeds from issues of shares	13	–	1,669,122
Shares repurchased	13	–	(44,451)
Net cash (applied to)/inflow from financing activities		(199,216)	1,330,180
Net increase/(decrease) in cash and cash equivalents		(644,849)	(540,335)
Cash and cash equivalents at the beginning of the year		229,813	770,148
Cash and short term deposits at the end of the year		(415,036)	229,813
Comprised of:			
Cash and short term deposits		68,556	229,813
Bank Overdraft		(483,592)	–
Net Cash		(415,036)	229,813

12 Notes to the Financial Statements

1) Summary of Accounting Policies

Reporting entity

PharmaZen Limited ("PharmaZen" or "Company") is a profit-oriented entity incorporated and domiciled in New Zealand.

The principal activity of the Company is formulating, manufacturing and marketing specialised animal and human health products based on immune protective bioactive components and other novel bioactive ingredients.

As an issuer, the Directors have determined that the Company is a FMC reporting entity.

These financial statements comply with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP, the Company is a for-profit entity. They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of preparation

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements have been prepared on the basis that the Company is a going concern (refer Note 2).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.
The financial statements are presented in New Zealand dollars.

Critical judgements and estimates in applying accounting policies

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments to the carrying amount of assets and liabilities in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The key areas where judgement is required are:

- Revenue recognition (refer note 3)
- Leases (refer note 22)

Summary of significant accounting policies

The principal accounting policies applied in the preparation and presentation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, other than land.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimates of useful lives are used in the calculation of depreciation:

	Years
• Buildings	6–50
• Furniture, fixtures and fittings	1–15
• Motor vehicles	7
• Plant and machinery	2–44
• Right of use assets	2–3

Assets in the course of construction for use in the production or supply of goods, or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

Impairment of assets

At each balance date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment

12 Notes to the Financial Statements (Cont.)

loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

The Company recognises trademarks as intangible assets when the recognition criteria are met and directly attributable costs necessary to register the trademark can be reliably measured. The directly attributable costs include the fees to register a legal right.

Intangible assets

Intangible assets relate to expenditure on patents, trademarks and licences that is expected to have an enduring benefit to the Company. Intangible assets are stated at their accumulated historical cost until such time as confirmation has been received that the patent, trademark or licence to which the expenditure relates has been approved. From that time the cost is amortised on a straight-line basis over the expected useful life of the asset for intangible assets with a finite useful life. For intangible assets with an indefinite useful life there is no amortisation of cost. Where an application is declined, and management decides not to take the matter further, the accumulated expenditure is expensed in the year that decision was taken. Management assesses all intangible assets for impairment on an annual basis and any necessary adjustments are made to carrying values.

Revenue recognition

Sale of goods

PharmaZen sells human and animal nutritional products to customers in Asia, Australia, Europe, New Zealand and the United States. Revenue is recognised by the Company when it passes control of the good. This occurs at the time a customer's order has been fulfilled in all aspects, including the physical specifications (based on lab testing results) at which time the customer will be invoiced. This represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment must be made.

Judgement - Sale of goods

The Company concluded that control of the goods passes to the customer upon invoicing at the point the customer's order requirements, including detailed product specification have been fully complied. At that point in time the Company concluded that the customer is considered to have accepted the goods and that the actual acceptance of the customer is a formality that would not affect the Company's determination of when the customer has obtained control of the goods.

Processing Services

PharmaZen provides contract processing services to external customers. Revenue is recognised by the Company as these services are being performed. There are no other obligations to perform services under such contracts that will impact the revenue being recognised as services are performed.

Judgement - Processing Services

The Company concluded that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. The Company determined that the output method is the best method in measuring progress of the processing services (based on the quantity of goods processed), because there is a direct relationship between the Company's effort and the transfer of service to the customer.

Other income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured, regardless of when the payment is received. Other income is measured at the fair value of the consideration received or receivable.

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially

12 Notes to the Financial Statements (Cont.)

ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity respectively.

At the moment of initial recognition of a right of use asset the deferred tax liability is not recognised as at the time of the transaction there is no impact on either accounting profit or taxable profit (tax loss). At the moment of initial recognition of a lease liability the deferred tax asset is not recognised as at the time of the transaction there is no impact on either accounting profit nor taxable profit (tax loss).

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Goods and Services Tax (GST)

All items in the Statement of Financial Position are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the income statement are stated exclusive of GST.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other short-term highly liquid investments (with a maturity less than three months) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Accounts receivable

Accounts receivable are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss at an amount equal to lifetime expected credit losses.

Expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs. Direct issue costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers and printing and distribution costs.

Accounts payable

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

Borrowings

Borrowings are initially recorded at fair value, plus transaction costs and subsequently at amortised cost using the effective interest rate method.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

12 Notes to the Financial Statements (Cont.)

Provision made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Financial assets

The Company's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents and accounts receivable are classified in this category.

The Company recognises a loss allowance for lifetime expected credit losses ("ECL") on accounts receivable (see Note 21(g)). For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise.

Cash flow statement

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the income statement.

Definition of terms used in the cash flow statement

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity.

Adoption of new revised standards and interpretation

New and amended IFRS Standards that are effective for the current year

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Impact of initial application of NZ IFRS 16 Leases

In the current year, the Company has applied NZ IFRS 16 Leases (as issued by the XRB in February 2016 and amended in July 2018) that is effective for annual periods that begin on or after 1 January 2019.

NZ IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 1. The impact of the adoption of NZ IFRS 16 on the Company's financial statements is described below.

The date of initial application of NZ IFRS 16 for the Company is 1 January 2019.

The Company has applied NZ IFRS 16 using the modified retrospective (full simplified) transition method which:

- At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowings rate ("IBR") as at 1 January 2019. Right-of-use assets are measured equal to liabilities
- Comparative periods presented were not restated.

(a) Impact on the new definition of a lease

The Company has made use of the practical expedient available on transition to NZ IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with NZ IAS 17 and NZ IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019

The change in definition of a lease mainly relates to the concept of control. NZ IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in NZ IAS 17 and NZ IFRIC 4

12 Notes to the Financial Statements (Cont.)

The Company applies the definition of a lease and related guidance set out in NZ IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

(b) Impact on Lessee Accounting

(i) Former operating leases

NZ IFRS 16 changes how the Company accounts for leases previously classified as operating leases under NZ IAS 17, which were off-balance sheet.

Applying NZ IFRS 16, for all leases (except as noted below), the Company:

a. recognises right-of-use assets and lease liabilities in the Statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with NZ IFRS 16:C8(b)(ii);

b. recognises depreciation of right-of-use assets and interest on lease liabilities in the Statement of profit or loss;

c. separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of cash flows.

Under NZ IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by NZ IFRS 16. This expense is presented within expenses in profit or loss.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying NZ IAS 17:

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- The Company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under NZ IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(c) Financial impact of initial application of NZ IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 4.8%.

There were no material impact on retained earnings on the date of initial implementation of NZ IFRS 16. The Company has recognised $330,520 of right-of-use assets and $330,520 of lease liabilities upon transition to NZ IFRS 16.

Significant accounting policies section

Leases

The Company has applied NZ IFRS 16 using modified retrospective (full simplified) transition method and therefore comparative information has not been restated and is presented under NZ IAS 17. The details of accounting policies under both NZ IAS 17 and NZ IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

12 Notes to the Financial Statements (Cont.)

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in expenses in profit or loss.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

12 Notes to the Financial Statements (Cont.)

The aggregate lease liability and right of use asset recognised in the statement of financial position at 1 January 2019 and the Company's operating lease commitment at 31 December 2018 can be reconciled as follows;

	$
Future minimum lease payments under non-cancellable operating leases as at 31 December 2018	372,154
Leases not contained on 2018 commitment schedule	29,655
Future lease payments on short term and low value leases	(59,071)
Effect of discounting	(12,219)
Lease liability as at 1 January 2019	330,519

The Company has exercised areas of judgement with respect to determining the Company's incremental borrowing rate and the lease term of our real property lease regarding options to extend.

Policies applicable before 1 January 2019

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Entity as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

12 Notes to the Financial Statements (Cont.)

2) Going Concern

After reviewing internal management financial reports and budgets, the Directors believe the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3) Surplus from Operations

	2019 $	2018 $
(a) Revenue		
Trading revenue consisted of the following items:		
Sales of goods and services	17,316,806	12,572,559
	17,316,806	12,572,559

(b) Other income		
Other income from operations consisted of the following items:		
Grants received	–	23,677
Interest	937	1,080
Miscellaneous income	–	5,921
	937	30,678
(c) Finance costs		
Interest on borrowings	357,245	387,678
Interest on lease liabilities	12,767	–
Less capitalised interest	(121,979)	(171,906)
	248,033	215,772

Interest costs that are directly attributable to the acquisition of property, plant and equipment have been capitalised at an average interest rate of 4.62% (2018: 4.76%).

(d) Other expense disclosures		
Net surplus before taxation includes the following specific expenses:		
Directors' fees	56,665	55,001
Operating lease	82,742	204,836
Inventory written off	330,988	2,998
Employee benefits expensed	2,491,844	2,015,933
KiwiSaver employer contributions	66,199	53,407

Current year operating lease relates to short term/low value leases and is lower than prior year as a result of the change in treatment under NZ IFRS 16.

12 Notes to the Financial Statements (Cont.)

4) Income Taxes

(a) Income tax recognised in profit or loss

The prima facie income tax expense on pre–tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2019 $	2018 $
Surplus/(Deficit) before taxation	4,014,137	1,791,571
Income tax expense calculated at 28% (2018 : 28%)	1,123,958	501,639
Non–deductible expenses	28,111	30,361
Prior period adjustments	643	(15,641)
Other	(118)	(5,251)
Tax expense	1,152,594	511,108
Recognised as:		
Current tax	1,089,502	376,906
Deferred tax	63,092	134,202
	1,152,594	511,108

(b) Income tax recognised in other comprehensive income or directly in equity

There was no current or deferred tax charged/(credited) directly to other comprehensive income or equity during the period.

(c) Current tax liabilities

	2019 $	2018 $
Income tax payable - current year	1,263,395	168,599
	1,263,395	168,599

12 Notes to the Financial Statements (Cont.)

(d) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

2019	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(672,286)	(66,077)	(738,363)
Employee entitlements	63,650	1,785	65,435
Provisions	19,049	1,200	20,249
	(589,587)	(63,092)	(652,679)

2018	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(606,161)	(66,125)	(672,286)
Losses carried forward	97,719	(97,719)	–
Employee entitlements	51,459	12,191	63,650
Provisions	1,598	17,451	19,049
	(455,385)	(134,202)	(589,587)

(e) Imputation credit account balances

	2019 $	**2018** $
Balance at beginning of the year	1,350,425	1,037,189
Income tax paid (refund received)	(5,294)	144,638
Income tax payable – current year	1,089,502	168,598
Other adjustments	211	–
	2.434,844	1,350,425

12 Notes to the Financial Statements (Cont.)

5) Remuneration of Auditors

	2019 $	2018 $
Audit of the financial statements	50,929	30,600
Other advisory services	–	–
	50,929	30,600

6) Key Management Personnel Compensation

	2019 $	2018 $
Short–term employee benefits	288,554	306,800
	288,554	306,800

There were no long term benefits, post employment benefits, termination benefits or share based payments.

Key management personnel is the Chief Executive Officer.

7) Accounts Receivable

	2019 $	2018 $
Accounts receivable (i)	2,560,335	1,933,398
Other receivables	787	2,353
Goods and Services Tax receivable (payable)	(9,128)	91,535
	2,551,994	2,027,286

(i) The average credit period on sales of goods is 30 days from delivery. There are balances totalling $143,955 included in the Company's accounts receivable balance for debtors which are past due at the reporting date. The Company has not made any provisions for these receivable balances as there has not been a significant change in credit quality and the Company believes that the amounts are still recoverable based on past experience (2018: $221,447).

The average age of these receivables at 31 December 2019 is 50 days (2018: 45 days). There are no receivables that would otherwise have been past due or impaired whose terms have been re-negotiated. There was no allowance account for expected credit losses during the period as none was considered necessary (2018: $Nil).

8) Inventories

	2019 $	2018 $
Raw materials	893,922	687,849
Work in progress	341,010	268,623
Finished goods	617,366	514,127
	1,852,298	1,470,599

12 Notes to the Financial Statements (Cont.)

9) Accounts Payable and Accruals

	2019 $	2018 $
Accounts payable	906,990	719,791
Other payables and accruals	3,694	241,227
Employee entitlements	321,240	351,937
Revenue in advance	14,649	15,403
Total accounts payable	1,246,573	1,328,358

10) Borrowings

	2019 $	2018 $
Total borrowings at beginning of period	7,781,683	8,076,173
Accrued interest	12,205	13,515
Proceeds from borrowings during the year	475,487	1,524,601
Loans repaid during the year	(544,845)	(1,832,606)
Total borrowings at end of period	7,724,530	7,781,683
Borrowing repayable within one year at amortised cost		
Secured borrowings	749,150	308,163
Secured export trade finance	387,567	544,570
	1,136,717	852,733
Borrowing repayable after one year at amortised cost		
Secured borrowings	6,587,814	6,928,950
	6,587,814	6,928,950

The secured borrowings mature between 14 October 2020 and 31 January 2024, bear interest at a weighted average rate of 4.60% (2018: 4.76%) and are secured by a mortgage over the Company's land and buildings at Port Hills Road and Nuttall Drive, Christchurch and all present and after acquired property.

The Company entered into an export trade finance facility on 21 November 2016. This is a revolving credit facility allowing the Company to fund up to $1,200,000 of its total debt in foreign currencies where favourable interest rates are available. The weighted average interest rate applying to this facility at 31 December 2019 is 2.90% (2018: 3.86%) The debt is matched to specific sales invoices providing an economic hedge against currency movements and is secured by a mortgage over the Company's land and buildings at Port Hills Road and Nuttal Drive Christchurch and all present and after acquired property. Repayments under this facility are due at the earlier of the due date for the sales invoice plus 14 days, or 90 days from drawdown.

Cash flow movements relating to this facility have been included on a net basis within the Cash Flow Statement.

The Company is in compliance with all bank covenants.

Letters of Credit

The Company has a Letter of Credit facility securing the payment of wages and salaries to a maximum of $95,000 per pay period (2018: $55,000).

Other Borrowings

The Company has bank overdraft facilities with BNZ with a limit of $1,750,000 (2018: $750,000). At balance date the Company had a bank overdraft of $483,592 (2018: $Nil). Cash and cash equivalents are entitled to be set off against the bank overdraft as required.

All overdraft facilities drawn down as at 31 December 2019, relate to the development of property, plant and equipment and thus have been considered as part of total borrowings.

The Company operates credit card accounts, mainly for travelling expenses, with a combined credit limit of $59,500.

12 Notes to the Financial Statements (Cont.)

11) Property, Plant and Equipment

2019	Cost 1 Jan 2019 $	Additions $	Right of use assets $	Transfers from work in progress $	Cost 31 Dec 2019 $	Accumulated depreciation 1 Jan 2019 $	Depreciation on all other fixed assets $	Depreciation on right of use assets $	Accumulated depreciation 31 Dec 2019 $	Book value 31 Dec 2019 $
Land	1,911,004	–	–	–	1,911,004	–	–	–	–	1,911,004
Buildings	8,386,016	331,094	276,355	40,885	9,034,350	(760,567)	(313,002)	(127,547)	(1,201,116)	7,833,234
Plant and machinery	12,509,599	411,355	54,165	781	12,975,900	(4,164,693)	(692,761)	(18,912)	(4,876,366)	8,099,534
Motor vehicles	7,817	–	–	–	7,817	(2,501)	(1,117)	–	(3,618)	4,199
Furniture, fixtures, fittings	165,667	9,085	–	–	174,752	(126,573)	(16,650)	–	(143,223)	31,529
Construction in progress	1,184,763	3,922,928	–	(41,666)	5,066,025	–	–	–	–	5,066,025
Total property, plant and equipment	24,164,866	4,674,462	330,520	–	29,169,848	(5,054,334)	(1,023,530)	(146,459)	(6,224,323)	22,945,525

2018	Cost 1 Jan 2018 $	Additions $	Transfers from work in progress $	Cost 31 Dec 2018 $	Accumulated depreciation 1 Jan 2018 $	Depreciation expense $	Accumulated depreciation 31 Dec 2018 $	Book value 31 Dec 2018 $
Land	1,911,004	–	–	1,911,004	–	–	–	1,911,004
Buildings	4,593,662	776,512	3,015,842	8,386,016	(588,682)	(171,885)	(760,567)	7,625,449
Plant and machinery	8,769,408	1,375,151	2,365,040	12,509,599	(3,615,690)	(549,003)	(4,164,693)	8,344,906
Motor vehicles	7,817	–	–	7,817	(1,383)	(1,118)	(2,501)	5,316
Furniture, fixtures, fittings	144,440	21,227	–	165,667	(114,457)	(12,116)	(126,573)	39,094
Construction in progress	5,402,090	1,163,555	(5,380,882)	1,184,763	–	–	–	1,184,763
Total property, plant and equipment	20,828,421	3,336,445	–	24,164,866	(4,320,212)	(734,122)	(5,054,334)	19,110,532

No impairment losses were recorded in 2019 or 2018.
The Bank of New Zealand has a mortgage over property situated at 320 Port Hills Road and property situated at 1 & 3 Nuttal Drive.

12 Notes to the Financial Statements (Cont.)

12) Intangible Assets

Patents and Licences. At 31 December 2019 all such expenditure incurred related to projects that were still in progress at that date. Management is reasonably certain that all projects will receive appropriate approval and future economic benefits will be generated and flow to the Company.

2019	Progress costs for Patents with finite useful life	Progress costs for Trademarks and Licences	Total
Cost	$	$	$
Balance at beginning of 2019 year	5,285	132,920	138,205
Additions – internally developed	70,706	105,766	176,472
Balance at end of 2019 year	75,991	238,686	314,677
Amortisation and impairment			
Balance at beginning of the year	–	–	–
Amortisation	–	–	–
Impairment	–	–	–
Balance at end of the year	–	–	–

2018	Progress costs for Patents with finite useful life	Progress costs for Trademarks and Licences	Total
Cost	$	$	$
Balance at beginning of 2018 year	–	–	–
Additions – internally developed	5,285	132,920	138,205
Balance at end of 2018 year	5,285	132,920	138,205
Amortisation and impairment			
Balance at beginning of the year	–	–	–
Amortisation	–	–	–
Impairment	–	–	–
Balance at end of the year	–	–	–

12 Notes to the Financial Statements (Cont.)

13) Share Capital

	2019 No. of Shares	2019 $	2018 No. of Shares	2018 $
Balance at beginning of the year	218,769,344	12,063,805	195,422,324	10,439,134
Contributions of Equity net of Transaction Costs and Tax	–	–	23,939,711	1,669,122
Shares repurchased	–	–	(592,691)	(44,451)
Balance at end of the year	218,769,344	12,063,805	218,769,344	12,063,805

All shares are fully paid ordinary shares and carry equal voting rights. All shares participate equally in any dividend.

During the year ended 31 December 2019 the Company issued no new shares (2018 the Company issued 23,939,711 shares at an average of $0.07 per share with no additional costs incurred in raising this new capital).

In 2018 the Company repurchased a total of 592,691 shares from minority shareholders at an average of $0.075 per share. There were no shares repurchased in 2019.

	2019 Cents/Share	2018 Cents/Share
Basic and diluted earnings per share	1.31	0.62

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2019 $	2018 $
Net surplus/(deficit) after tax	2,861,543	1,280,463
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share:	218,769,344	207,281,147

12 Notes to the Financial Statements (Cont.)

14) Retained Earnings

	2019 $	2018 $
Balance at beginning of the year	1,366,031	85,568
Total comprehensive income/(loss) for the year	2,861,543	1,280,463
	4,227,574	1,366,031

15) Related Party Transactions

There were no related parties, including Directors, that have a significant influence which provided and or received services and or supplies to or from the Company during the period, other than the Directors' remuneration and other key management personnel compensation set out in Note 6.

16) Commitments for Expenditure

(a) Capital expenditure commitments

The Company has capital commitments at 31 December 2019 of $164,990. The expenditure committed to, but not yet incurred, as at 31 December 2018 was $20,000.

(b) Operating lease commitments

The Company leases a motor vehicle and office equipment in the normal course of business. There were no restrictions imposed by lease arrangements for those assets. There are no sub-lease payments expected to be received at the end of the reporting period.

	2019 $	2018 $
Not later than one year	11,417	170,325
Later than one year but not later than two years	8,364	146,932
Later than two years but not later than five years	10,586	54,897
Later than five years	–	–
	30,367	372,154

17) Contingent Assets and Liabilities

There are no contingent liabilities as at 31 December 2019 (2018: $Nil).

18) Subsequent Events

The outbreak of Covid-19 and the subsequent quarantine measures imposed by the New Zealand and other governments as well as the travel and trade restrictions imposed by New Zealand and other countries in early 2020 have caused disruption to businesses and economic activity. The Company considers this to be a non-adjusting post balance sheet event and accordingly the financial effects of Covid-19 have not been reflected in the Company's financial statements at 31 December 2019.

The Company has continued to operate throughout this pandemic due to the essential service classification, specifically the primary industry sector involved in food and beverage production and processing.

12 Notes to the Financial Statements (Cont.)

The short-term impact on the Company appears to be limited to disruption of processing and consequential delays to sales timing. As the situation remains fluid (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the directors of the Company acknowledges there are likely to be additional costs involved in mitigating the disruption however believes these are not likely to be significant and there are unlikely to be any long-term negative implications on operations as a result of Covid-19.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the entity in subsequent financial years.

19) Segment Information

Products and services from which reportable segments derive their revenues.

The Company operates in one industry, being the manufacture and sale of advanced human and animal nutritional ingredients from New Zealand. Raw materials may be of animal, marine or, increasingly, plant origin but the manufacturing process is largely the same with the same plant and equipment being used irrespective of the origin of the raw materials.

The regulatory environment for the Company's products varies in different markets. The Company generally manufactures to specifications and standards that meet the most stringent regulations in order to obtain the greatest flexibility in terms of the market for the product. Although the Company sells to overseas markets in Europe, Asia, United States and Australia, as well as to the domestic market, no geographical or product information is available and the cost to develop this is excessive. Marketing initiatives target the global market without specific focus on location.

Segment revenues and results

As there is only one reportable segment for the Company the segment profit or loss represents profit or loss earned for the Company after all costs including administration costs, Directors' salaries, investment revenue, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Information about major customers

Included in total revenue are revenues which arose from sales to the Company's largest customers as follows:

31 December 2019

There were two customers that each comprised more than 10% of total revenue with total sales of $9,280,250 to these customers.

31 December 2018

There were four customers that individually comprised 10% or more of the total revenue with total sales of $6,815,667.

12 Notes to the Financial Statements (Cont.)

20) Notes to the Cash Flow Statement

	2019 $	2018 $
Reconciliation of net surplus/(deficit) after taxation with net cash flows from operating activities		
Net surplus/(deficit) for the year	2,861,543	1,280,463
Adjustments for non–cash items:		
Depreciation on property, plant and equipment	1,169,989	734,122
Write off inventory	330,988	–
Movement in deferred taxation	63,092	134,202
	1,564,069	868,324
Items classified as investing activities:		
Interest capitalised	(121,979)	(171,906)
Movements in working capital:		
Accounts receivable and prepayments	(322,954)	(466,114)
Inventories	(712,688)	(394,445)
Employee entitlements	(30,698)	36,909
Current tax payable (refundable)	1,094,796	201,522
Accounts payable and accruals	11,765	175,112
Movements related to capital expenditure financing	(60,531)	(48,818)
	(20,310)	(495,834)
Net cash inflow (outflow) from operating activities:	4,283,323	1,481,047

21) Financial Instruments

All of the Company's financial assets are measured at amortised cost.

All of the Company's financial liabilities are measured at amortised cost.

(a) Financial risk management objectives

Exposure to credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Company's business. The Company will from time to time enter into derivative financial instruments to economically hedge an exposure to foreign currency risk. The use of derivatives is governed/overseen by the Directors.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Specific risk management objectives and policies are set out below.

(b) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt (Note 10), cash, cash equivalents and equity; comprising issued capital and retained earnings (Notes 13 and 14 respectively).

12 Notes to the Financial Statements (Cont.)

The Company's Board of Directors reviews the capital structure on a regular basis.

The Company is in compliance with all externally imposed capital requirements in the form of covenant requirements on external borrowings. These covenants relate to tangible asset ratios and earnings before interest and tax cover ratios.

The Company's overall strategy remains unchanged from 2018.

(c) Market risk

Market risk is the potential for change in the value of balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities. The Company's activities expose it primarily to market risk associated with changes in foreign currency rates and interest rates as set out below. The mechanisms to manage these risks are set out below. There have been no changes during the year to the Company's exposure to risk or the manner in which the risks are measured and managed.

(d) Interest rate risk

The Company is exposed to interest rate risk as from time to time it borrows funds at floating interest rates and also invests cash in short term deposits at fixed interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments at fixed interest rates expose the Company to fair value interest rate risk. The Company does not hedge this risk.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. The Company does not hedge this risk.

The Company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

(e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In the course of normal trading activities, the Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

There were no foreign currency hedge instruments in place for this purpose at 31 December 2019 (2018: $Nil) however, the Export Trade Finance facility referred to in Note 10 provides a partial economic hedge against currency movements for the specific sales to which the facility relates.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance date are as follows:

	Liabilities		Assets	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Euro	164,253	149,006	163,133	358,571
United States Dollar	223,314	395,564	1,496,934	1,199,341
Australian Dollar	–	–	9,519	–
Japanese Yen	–	–	812	94,832
	387,567	544,570	1,670,398	1,652,744

12 Notes to the Financial Statements (Cont.)

The table expresses the foreign currency amounts in New Zealand dollar equivalents using the exchange rate at 31 December 2019 and 31 December 2018.

(f) Other price risk

The Company is not exposed to substantial other price risk arising from financial instruments.

(g) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. The Company has adopted a policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties are monitored on a regular basis.

The Company does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics, except that all cash deposit balances are held with the BNZ, and that in 2019 the Company's four largest customers accounted for 67% of total revenue (2018: 52%) and these four largest customers accounted for 73% of total accounts receivable at year end (2018: 59%).

The maximum exposures to credit risk at balance date are:

	2019	**2018**
	$	$
Cash and short term deposits	68,556	229,813
Accounts receivable	2,551,994	2,027,286
	2,620,550	2,257,099

In assessing the Company's exposure to credit risk it has applied the NZ IFRS 9 simplified approach to measuring expected credit losses. This requires an assessment of the risk characteristics applying to all trade receivables and, where applicable, grouping them based on those characteristics and the days past due.

The nature of the Company's business, the markets in which it operates and its credit policies mean that credit losses are irregular, however could be significant if they occur. For that reason the Company carries insurance against credit losses in its export markets.

Based on past experience and consideration of the macro economic conditions in the markets in which it operates, the Company has assessed the probability of default at 0.005% of overdue trade receivables. The loss given default for customers located within New Zealand is calculated at 100% of the exposure at default. For export customers the loss given default is 15% of the exposure at default with the other 85% being covered by insurance.

	Total	New Zealand		Export	
		Current	Overdue	Current	Overdue
Expected Loss Rate %		0%	0.00500%	0%	0.00075%
Trade receivables as at 31 December 2019	$2,560,335	$934,979	$3,600	$1,481,400	$140,355
Loss allowance	1	–	–	–	1

12 Notes to the Financial Statements (Cont.)

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long–term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities using interest rates applying at year end.

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed later in this note.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will accrue to those assets or liabilities.

2019	Weighted Average Effective Interest Rate %	Less than 1 Year $	1–2 Years $	3–5 Years $	Later than 5 years $	Total $
Financial assets:						
Cash and short term deposits	–	68,556	–	–	–	68,556
Accounts receivable	–	2,561,122	–	–	–	2,561,122
Financial liabilities:						
Bank Overdraft	5.71%	483,592	–	–	–	483,592
Accounts payable	–	925,333	–	–	–	925,333
Secured borrowings (including interest)	4.60%	1,068,508	651,600	6,819,236	–	8,539,344
Secured export trade finance	2.53%	387,567	–	–	–	387,567
Net position		(235,322)	(651,600)	(6,819,236)	–	(7,706,158)

2018	Weighted Average Effective Interest Rate %	Less than 1 Year $	1–2 Years $	3–5 Years $	Later than 5 years $	Total $
Financial assets:						
Cash and short term deposits	–	229,813	–	–	–	229,813
Accounts receivable	–	1,935,752	–	–	–	1,935,752
Financial liabilities:						
Bank Overdraft	5.50%	–	–	–	–	–
Accounts payable	–	976,422	–	–	–	976,422
Secured borrowings (including interest)	4.72%	641,527	750,705	2,898,058	4,375,563	8,665,853
Secured export trade finance	2.83%	544,570	–	–	–	544,570
Net position		3,046	(750,705)	(2,898,058)	(4,375,563)	(8,021,280)

12 Notes to the Financial Statements (Cont.)

(i) Sensitivity

The Company is exposed to foreign currency risk arising from transactions denominated in currencies other than the Company's functional currency, arising from normal trading activities.

The majority of foreign currency related exposure relates to accounts receivable, mitigated for some foreign receivables by amounts owing under the Export Trade Finance facility. For any foreign receivables financed by the Export Trade Finance facility any unfavourable movements in foreign exchange rates will be offset by a favourable movement in amounts repayable under that facility. The Company is mainly exposed to the Euro, United States Dollar, Japanese Yen and Australian Dollar.

The exchange rates adopted in converting foreign currency denominated assets and liabilities at 31 December 2019 were as follows:

	2019	**2018**
Euro	0.6000	0.5900
United States Dollar	0.6600	0.6800
Australian Dollar	0.9600	0.9400
Japanese Yen	72.0000	76.0000

Foreign currency exchange rate sensitivity is calculated at balance date assuming that the bank balances and accounts receivable balances denominated in foreign currencies had been converted to New Zealand dollars at rates above or below those adopted as set out above.

If exchange rates had been 10% higher/lower at balance date, and all other variables held constant, the Company's:

- Profit for the 2019 year would decrease/increase by $109,335 (2018: Profit decrease/increase by $79,788);
- Equity for the 2019 year would decrease/increase by $109,335 (2018: Equity decrease/increase by $79,788).

The Company is exposed to interest rate risk arising from unhedged floating rate liabilities at balance date. The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at reporting date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Impact on net profit after tax, and equity, assumes that none of the floating interest rate borrowings were hedged.

	2019		**2018**	
	1%	–1%	1%	–1%
Impact on net profit after tax, and equity	(52,425)	52,425	(56,029)	56,029

(j) Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

13 Statement of Corporate Governance

The Directors are responsible for the Corporate Governance of the Company. The Corporate Governance processes set out in this statement outline the governance policies and practices followed by the Company.

Financial statements

The Directors are responsible for ensuring the financial statements materially reflect the financial position of the Company as at 31 December 2019 and its financial performance and cash flows for the year ended on that date. The external auditors are responsible for expressing an opinion on the financial statements, based on their assessment of the conclusions drawn from evidence obtained during the course of the audit.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993 and the Financial Markets Conduct Act 2013.

After reviewing internal management financial reports and budgets, the Directors believe that the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

The Board of Directors of PharmaZen Limited is elected by the shareholders to supervise the management of the Company. The Board establishes the Company's objectives, strategies for achieving these objectives, the overall policy framework within which the business of the Company is conducted, monitors management's performance and ensures that procedures are in place to provide effective internal financial control. The day-to-day management responsibilities of the Company have been delegated to the Managing Director.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the Company.

The primary responsibilities of the board include:

- The approval of the annual financial report;
- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- Succession planning for the Managing Director and the Board;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a regular basis;
- Monitoring environmental, social and economical performance;
- Ensuring that the Company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;
- Ensuring legislative compliance;
- Monitoring executive management;
- Communicating with stakeholders.

Board membership

The Board currently comprises four non-executive Directors and one executive Director. Four formal Board meetings and monthly operational meetings were held during the financial year.

Code of conduct

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct as part of a Directors' Operations Manual to guide Directors and management in carrying out their duties and responsibilities.

The Directors' Operations Manual covers such matters as:

- Corporate governance matters;
- Role of the Board and Composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of and remuneration of a Managing Director
- Confidentiality and the safeguarding of Company information;
- Compliance with laws and regulations;
- Shareholder participation.

Newly elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual.

Training is also provided to new and existing Directors, where this is required, to enable Directors to fulfil their responsibilities.

13 Statement of Corporate Governance (Cont.)

Conflicts of interest

All Directors must disclose any specific and general interests which could be in conflict with their obligations to PharmaZen Limited.

Sub committees

Given the size of the Board, there are no sub committees. Rather, the full Board is involved in the Director nomination process, liaison with the Company's external auditors, and other corporate financial matters.

The Directors' Operations Manual sets out a written charter in relation to:

- Appointment of external auditors.
- Monitoring the external audit of the Company's affairs.
- Reviewing the annual financial statements.
- Reviewing the Company's internal controls and systems.

The Board receives reports from the external auditors concerning any matters which arise in connection with the performance of their role. The full Board also monitors the independence of the external auditors and reviews and approves any services provided by the auditors other than in their statutory role.

Impairment of financial assets

Financial assets, other than those at Fair Value Through Profit or Loss (FVTPL), are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

14 Independent Auditor's Report

Deloitte.

To the Shareholders of PharmaZen Limited

Opinion

We have audited the financial statements of PharmaZen Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 10 to 35, present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in the Company, except that partners and employees of our firm deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Audit materiality

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

We determined materiality for the Company's financial statements as a whole to be $430,000.

Key audit matters

We have determined that there are no key audit matters to communicate in our report.

14 Independent Auditor's Report (Cont.)

Other information

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

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

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

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Mike Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
22 April 2020

PharmaZen

Good Health Healthy Future

P.O. Box 19–727, Woolston, Christchurch 8241
3 Desi Place, Hillsborough, Christchurch 8022
T: +64 (0)3 337 6096

www.aioranz.com www.waitakibio.com www.stimucal.com