PharmaZen

Good Health Healthy Future

ANNUAL REPORT

For the Year Ended 31 December 2016

2016

Annual Report

For the Year Ended 31 December 2016

Company Directory

For the Year Ended 31 December 2016

Company Number	CH/1168773
Issued Capital	160,000,000 Ordinary Shares
Registered Office	3 Desi Place Hillsborough, 8022 Christchurch
Shareholders	Listed on the Unlisted Securities Market
Directors	Dr M G Shepherd Mr K W Fergus Dr W L Burt Mr P W Dobbs
Accountants	Graeme Burnett Accountants Limited Rangiora
Bankers	Bank of New Zealand Limited Christchurch
Solicitors	Wynn Williams & Co. Christchurch
Auditors	Deloitte Christchurch

STATEMENT OF AFFAIRS OF THE COMPANY

For the 12 months ending 31 December 2016, PharmaZen Limited is reporting a surplus before tax of $665,504 on turnover of $7,663,959. This compares with a before tax surplus of $896,635 on turnover of $7,083,991 for the prior year.

The Company experienced strong demand throughout the year from its core product range as well as pleasing sales of the new range of botanical products.

While sales increased by just under 8% and gross margin maintained at 41% the net surplus was impacted by increased expenditure in several areas.

Occupancy costs for the new warehouse and GMP (Good Manufacturing Practice) facility along with increased depreciation added $230k of expenses which also included non-recurring relocation costs.

Marketing and research expenditure increased alongside increases in administration and consultancy expenses. This included expensed costs relating to trademark and patent applications as the Company maintains a policy of not carrying goodwill/intangibles on the balance sheet.

Outlook

The completion of the extraction facility was a major milestone representing more than five years of planning, building, consenting and final commissioning. The challenges have been significant and while it was anticipated that the facility would have been operating earlier, the compliance issues were complex, costly and time consuming.

The plant is now operational and the Company is positioned to launch the new range of products in the second half of 2017.

The quality and efficiency of the plant is exceptional, and with the capability to generate as much as $30m in sales at capacity, the focus is now on accelerating the time to market. To assist with this, it is pleasing to have the support of New Zealand Trade and Enterprise through their International Growth Fund scheme which will deliver up to $600k in co-funding through until 31 March 2018.

While filling the plant is a long term project, the spare capacity allows for the development of additional products beyond greenshell mussel oil and blackcurrant extract.

In addition to the extraction plant, the Company has completed construction of its new GMP dry factory. Installation of new plant and equipment, along with qualification work, will take place in the first quarter of 2017. We are expecting this plant to be licensed and operational by June 2017.

The Company continues to invest heavily in increased capacity and capabilities and is expanding with an additional 800sqm facility which will house the first of three new freeze dryers that the Company is purchasing.

The new dryers will be double the size of the current largest unit freeing up existing facility for increased greenshell mussel production and creating the largest purpose built botanical freeze drying plant in Australasia.

PharmaZen is now uniquely positioned in the New Zealand Nutraceutical landscape and is realising its long term objective of having an internationally significant facility converting multiple New Zealand raw materials into high value products for the international market.

The Board records its appreciation for the staff effort and commitment throughout the year and in particular, the contribution of our Chief Executive Officer, Craig McIntosh..

PRINCIPAL ACTIVITY

The Company manufactures and sells advanced animal remedy and human nutrition products.

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 $55,000 (2015: $49,375).

Directors' Loans

There were no loans by the Company to Directors.

Share Dealing

During the year no Directors (or their associated entity) acquired or disposed of equity securities in the Company.

SUBSTANTIAL SECURITY HOLDERS

The Company's register of substantial security holders at 31 December 2016.

Name	Number of voting securities
Downie Stewart Trustee Limited – Pine Hill Account	25,333,333
Downie Stewart Trustee Limited – Rutherglen Account	25,333,333
Khyentse Investments Pty Limited	18,271,190
Lee Patterson Family Trust Co. Limited	11,557,312
Dalmore Trustees Limited	6,000,000

EMPLOYEE REMUNERATION

One employee received remuneration or benefits in excess of $100,000 and this was in the range of $270,000 to $280,000.

The Directors are pleased to present to shareholders the financial statements for PharmaZen Limited for the year ended 31 December 2016. The financial statements presented are signed for, and on behalf of the Board and were 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 2016 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.

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 reasonable assurance as to the integrity and reliability of the financial statements.

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

M. G. Shepherd

Director

Director

31 March 2017

Income Statement

For the Year Ended 31 December 2016

	Notes	2016 $	2015 $
REVENUE			
Sales	2a	7,663,959	7,083,991
Cost of sales		4,541,469	4,188,531
Gross profit		3,122,490	2,895,460
Other income	2b	110,991	45,400
EXPENSES			
Marketing		390,613	322,712
Occupancy		183,589	44,104
Administrative		540,315	496,640
Consultancy		109,732	44,746
Research and development		182,643	130,383
Finance costs	2c	155,091	166,525
Depreciation	10	522,989	432,450
Insurance		245,207	253,382
Other		237,798	153,283
		2,567,977	2,044,225
NET SURPLUS BEFORE TAXATION FROM CONTINUING ACTIVITIES	2d	665,504	896,635
Taxation expense	3a	239,169	264,164
NET SURPLUS/(DEFICIT) FOR THE YEAR		426,335	632,471
EARNINGS PER SHARE			
Basic (cents per share)	11	0.27	0.40
Diluted (cents per share)	11	0.27	0.40

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

The accompanying notes form part of these Financial Statements.

Statement of Comprehensive Income

For the Year Ended 31 December 2016

	Notes	2016 $	2015 $
Net surplus/(deficit) for the year		426,335	632,471
TOTAL COMPREHENSIVE INCOME/(LOSS)		426,335	632,471

Statement of Changes in Equity

For the Year Ended 31 December 2016

	Fully paid ordinary shares $	Retained Earnings $	Total $
Balance at 1 January 2015	8,001,000	(687,534)	7,313,466
Net surplus for the year	–	632,471	632,471
Other comprehensive income	–	–	–
Balance at 31 December 2015	8,001,000	(55,063)	7,945,937
Balance at 1 January 2016	8,001,000	(55,063)	7,945,937
Net surplus for the year	–	426,335	426,335
Other comprehensive income	–	–	–
Balance at 31 December 2016	8,001,000	371,272	8,372,272

The accompanying notes form part of these Financial Statements.

Balance Sheet

As at 31 December 2016

	Notes	2016 $	2015 $
ASSETS			
Current assets			
Cash and cash equivalents		134,226	227,948
Accounts receivable	6	1,668,719	1,321,764
Prepayments		208,986	187,766
Inventories	7	983,658	893,814
Total current assets		2,995,589	2,631,292
Non-current assets			
Property, plant and equipment	10	12,945,408	11,244,652
Total non-current assets		12,945,408	11,244,652
TOTAL ASSETS		15,940,997	13,875,944
LIABILITIES			
Current liabilities			
Bank overdraft		724,033	454,367
Accounts payable and accruals	8	774,716	836,577
Current tax liabilities	3c	47,728	85,316
Borrowings	9	939,754	444,019
Total current liabilities		2,486,231	1,820,279
Non-current liabilities			
Borrowings	9	4,561,000	3,612,989
Deferred tax liability	3d	521,494	496,739
Total non-current liabilities		5,082,494	4,109,728
Total liabilities		7,568,725	5,930,007
OWNERS EQUITY			
Share capital	11	8,001,000	8,001,000
Retained earnings (deficit)	12	371,272	(55,063)
Total equity		8,372,272	7,945,937
TOTAL LIABILITIES & OWNERS EQUITY		15,940,997	13,875,944

The accompanying notes form part of these Financial Statements.

Cash Flow Statement

For the Year Ended 31 December 2016

	Notes	2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to):			
Receipts from customers		7,493,786	7,082,755
Interest received		68	222
Taxation paid		(252,001)	(75,885)
Payments to suppliers and employees		(6,665,812)	(5,442,814)
Payment of interest		(155,091)	(166,525)
Net cash inflow from operating activities	18	420,950	1,397,753
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from (applied to):			
Proceeds from sale of property, plant and equipment		6,352	–
Payment for property, plant and equipment		(2,234,436)	(1,052,580)
Net cash outflow from investing activities		(2,228,084)	(1,052,580)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from (applied to):			
Proceeds from borrowings		5,436,645	500,000
Repayment of loans		(3,992,899)	(881,670)
Net cash inflow (outflow) from financing activities		1,443,746	(381,670)
Net (decrease)/increase in cash and cash equivalents		(363,388)	(36,497)
Cash and cash equivalents at the beginning of the year		(226,419)	(189,922)
Cash and short term deposits at the end of the year		(589,807)	(226,419)
COMPRISED OF:			
Cash and short term deposits		134,226	227,948
Bank overdraft		(724,033)	(454,367)
Net cash		(589,807)	(226,419)

The accompanying notes form part of these 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"). 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 and has the continuing support of its shareholders.

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 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.

Key sources of estimation uncertainty

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 area where judgement is required is:

- Accounts receivable collectability (refer Note 6)
- Depreciation (refer Note 10)

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.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

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. In the event that settlement of all or part of a purchase is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

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:

Buildings	6 - 50 years
Furniture, fixtures and fittings	1 - 15 years
Motor vehicles	7 years
Plant and machinery	2 - 44 years

Assets in the course of construction for production, supply 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 profit or loss.

Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment 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 (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

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, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount.

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 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.

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.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

Goods and services tax (GST)

All items in the balance sheet 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 balance sheet 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 that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and bank overdrafts.

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 when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue 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.

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.

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.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

Impairment of financial assets (Cont.)

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.

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.

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

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term, whichever is shorter.

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.

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 interpretations

Standards and interpretations effective in current year

The Company has adopted all standards, interpretations and amendments which became effective in the current year with no material changes to the Company's accounting policies with regard to measurement or disclosure in the financial statements.

Standards and interpretations in issue not yet adopted

The Company has not applied the following new and revised NZ IFRS that have been issued but are not yet effective:

NZ IFRS 15 Revenue from contracts with customers - effective 1 January 2018
NZ IFRS 16 Leases - effective 1 January 2019.
NZ IFRS 9 Financial instruments - effective 1 January 2018

The Company has yet to assess the impact of these standards. Other standards, interpretations, and amendments on issue but not yet effective are not expected to have a material impact on the Company.

2) SURPLUS FROM OPERATIONS

	2016	2015
	$	$
(a) Revenue		
Trading revenue consisted of the following items:		
Sales of goods	7,663,959	7,083,991
	7,663,959	7,083,991
(b) Other income		
Other income from operations consisted of the following items:		
Grants received	100,959	40,115
Interest	68	222
Proceeds of insurance claims	–	–
Rent received	1,600	4,700
Net gain on disposal of property, plant and equipment	3,013	–
Miscellaneous income	5,351	363
	110,991	45,400
(c) Finance costs		
Interest on borrowings	229,680	265,015
Less capitalised interest	(74,589)	(98,490)
	155,091	166,525

Interest costs that are directly attributable to the acquisition of property, plant and equipment have been capitalised at an average interest rate of 4.43% (2015: 5.18%).

(d) Other expense disclosures

	2016	2015
Net surplus before taxation includes the following specific expenses:		
Directors' fees	55,000	49,375
Operating lease payments	190,898	101,071
Inventory written off	5,732	17,051
Employee benefits expensed	1,436,560	1,212,432
KiwiSaver employer contributions	34,536	29,714

3) 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:	2016	2015
	$	$
Surplus before taxation	665,504	896,635
Income tax expense calculated at 28% (2015: 28%)	186,341	251,058
Non-deductible expenses	40,547	1,845
Prior period adjustments	–	749
Other	12,281	10,512
Tax expense	239,169	264,164
Recognised as:		
Current tax	214,414	221,148
Deferred tax	24,755	43,016
	239,169	264,164

3) INCOME TAXES (Cont.)

(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 assets and liabilities

	2016	2015
	$	$
Current tax liabilities:		
Income tax payable - current year	(64,413)	–
Income tax overpaid - prior years	16,685	(85,316)
	(47,728)	(85,316)

(d) Deferred tax balances

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

2016	Opening Balance	Charged to Income	Closing Balance
	$	$	$
Property, plant and equipment	(535,531)	(26,242)	(561,773)
Employee entitlements	36,843	1,647	38,490
Provisions	1,949	(160)	1,789
	(496,739)	(24,755)	(521,494)

2015	Opening Balance	Charged to Income	Closing Balance
	$	$	$
Property, plant and equipment	(496,784)	(38,747)	(535,531)
Losses carried forward	7,449	(7,449)	–
Employee entitlements	33,931	2,912	36,843
Provisions	1,681	268	1,949
	(453,723)	(43,016)	(496,739)

(e) Imputation credit account balances

	2016	2015
	$	$
Balance at beginning of the year	726,469	565,268
Income tax paid	252,001	75,887
Income tax payable - current year	64,413	85,314
Income tax payable - prior year	(85,314)	–
Taxation refund received	–	–
	957,569	726,469

4) REMUNERATION OF AUDITORS

	2016	2015
	$	$
Audit of the financial statements	25,232	24,590
	25,232	24,590

5) KEY MANAGEMENT PERSONNEL COMPENSATION

	2016	2015
	$	$
Short-term employee benefits	270,648	277,218
	270,648	277,218

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

6) ACCOUNTS RECEIVABLE

	2016	2015
	$	$
Accounts receivable (i)	1,537,793	1,259,711
Goods and services tax (GST) receivable	130,926	62,053
	1,668,719	1,321,764

(i) The average credit period on sales of goods is 30 days from delivery. There are balances totalling $41,164 included in the Company's accounts receivable balance for debtors which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the Company believes that the amounts are still recoverable (2015: $254,235). The average age of these receivables at 31 December 2016 is 109 days (2015: 41 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 credit losses during the period as none was considered necessary (2015: $Nil).

7) INVENTORIES

	2016	2015
	$	$
Raw materials	373,152	279,986
Work in progress	160,742	51,368
Finished goods	449,764	562,460
	983,658	893,814

8) ACCOUNTS PAYABLE AND ACCRUALS

	2016	2015
	$	$
Accounts payable (i)	399,270	341,147
Other payables and accruals	118,115	274,823
Employee entitlements	254,920	218,232
Revenue in advance	2,411	2,375
Total accounts payable	774,716	836,577

(i) Insurance premiums for the 2016/2017 risk year have been funded by a bank facility. The balance outstanding under that facility as at 31 December 2016 of $195,731 is reported under borrowings (secured borrowings repayable within one year). For the previous risk year the insurance premiums were funded by Lumley Finance and the unexpired portion of the Insurance Premium Funding agreement of $174,348 was reported under accounts payable.

9) BORROWINGS

	2016	2015
	$	$
Borrowing repayable within one year		
At amortised cost		
Secured borrowings	195,731	341,641
Secured export trade finance	744,023	102,378
	939,754	444,019
Borrowing repayable after one year		
At amortised cost		
Secured borrowings	4,561,000	3,612,989
	4,561,000	3,612,989

The secured borrowings mature between 5 October 2017 and 18 November 2021, bear interest at a weighted average rate of 4.60% (2015: 4.61%) 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 4 June 2015. 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 2016 is 2.95% (2015: 2.32%). The debt is matched to specific sales invoiced providing an economic hedge against currency movements.

Letters of credit

The Company has Letter of Credit facilities securing the payment of wages and salaries to a maximum of $55,000 per pay period (2015: $55,000).

Other borrowings

The Company has a bank overdraft facility with BNZ with an overdraft limit of $750,000 (2015: $750,000).

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

10) PROPERTY, PLANT AND EQUIPMENT

2016	Cost 1 Jan. 2016	Additions	Disposals	Cost 31 Dec. 2016	Accumulated depreciation 1 Jan. 2016	Depreciation expense	Accumulated depreciation reversed on disposal	Accumulated depreciation 31 Dec. 2016	Book value 31 Dec. 2016
	$	$	$	$	$	$	$	$	$
Land	1,911,004	–	–	1,911,004	–	–	–	–	1,911,004
Buildings	3,940,397	97,755	–	4,038,152	(366,950)	(103,969)	–	(470,919)	3,567,233
Plant and machinery	7,348,247	365,473	(42,173)	7,671,547	(2,792,284)	(408,531)	40,544	(3,160,271)	4,511,276
Motor vehicles	1,739	5,652	(1,739)	5,652	(29)	(471)	29	(471)	5,181
Furniture, fixtures, fittings	267,064	16,235	–	283,299	(251,214)	(10,018)	–	(261,232)	22,067
Construction in progress	1,186,678	1,741,969	–	2,928,647	–	–	–	–	2,928,647
Total property, plant and equipment	14,655,129	2,227,084	(43,912)	16,838,301	(3,410,477)	(522,989)	40,573	(3,892,893)	12,945,408

2015	Cost 1 Jan. 2015	Additions	Disposals	Cost 31 Dec. 2015	Accumulated depreciation 1 Jan. 2015	Depreciation expense	Accumulated depreciation reversed on disposal	Accumulated depreciation 31 Dec. 2015	Book value 31 Dec. 2015
	$	$	$	$	$	$	$	$	$
Land	1,911,004	–	–	1,911,004	–	–	–	–	1,911,004
Buildings	3,365,960	574,437	–	3,940,397	(273,168)	(93,782)	–	(366,950)	3,573,447
Plant and machinery	5,765,622	1,582,625	–	7,348,247	(2,460,655)	(331,629)	–	(2,792,284)	4,555,963
Motor vehicles	–	1,739	–	1,739	–	(29)	–	(29)	1,710
Furniture, fixtures, fittings	261,769	5,295	–	267,064	(244,204)	(7,010)	–	(251,214)	15,850
Construction in progress	2,316,593	(1,129,915)	–	1,186,678	–	–	–	–	1,186,678
Total property, plant and equipment	13,620,948	1,034,181	–	14,655,129	(2,978,027)	(432,450)	–	(3,410,477)	11,244,652

No impairment losses were recorded in 2016 or 2015.

11) SHARE CAPITAL

	2016 No. of Shares	2016 $	2015 No. of Shares	2015 $
Balance at beginning of the period	160,000,000	8,001,000	160,000,000	8,001,000
Balance at end of the period	160,000,000	8,001,000	160,000,000	8,001,000

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

	2016 Cents/Share	2015 Cents/Share
Basic and diluted earnings per share	0.27	0.40

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

	2016 $	2015 $
Net surplus	426,335	632,471

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share:

	160,000,000	160,000,000

12) RETAINED EARNINGS (DEFICIT)

	2016 $	2015 $
Balance at beginning of the year	(55,063)	(687,534)
Total comprehensive income/(loss) for the year	426,335	632,471
	371,272	(55,063)

13) 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 as set out in Note 2(d) and key management personnel compensation set out in Note 5.

14) COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments

The Company has committed to contracts for the construction of additional manufacturing buildings on its factory site in Port Hills Road and for the supply of new plant as part of its programme for broadening and expanding its production capacity. The expenditure committed to, but not yet incurred, as at 31 December 2016 is $2,770,000. There was no expenditure committed to, but not yet incurred, as at 31 December 2015.

(b) Operating lease commitments

The Company leases office and production premises, 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.

	2016	2015
	$	$
Not later than one year	142,017	19,680
Later than one year but not later than two years	137,489	8,964
Later than two years but not later than five years	297,939	18,337
Later than five years	8,136	13,560
	585,581	60,541

15) CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities as at 31 December 2016. (2015: $150,000).

The prior year financial guarantee was in respect to a loan taken out by the Chief Executive Officer. The guarantee was for one year and has expired in the current period.

16) SUBSEQUENT EVENTS

There have been no material events requiring reporting since balance date.

17) 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 animal remedy and human nutrition products 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, Australia and Japan, 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

No operations were discontinued during the year.

The revenue reported in Note 2 represents revenue generated from external customers only.

There were no material non-cash expenses incurred during the year other than depreciation expenses reported in Note 10.

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.

17) SEGMENT INFORMATION (Cont.)

Information about major customers

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

31 December 2016:
There were two customers that individually comprised 10 per cent or more of the total revenue with combined sales of $2,383,707.

31 December 2015:
There was one customer that comprised 10 per cent or more of the total revenue with sales of $1,400,404.

18) NOTES TO THE CASH FLOW STATEMENT

	2016	2015
	$	$
Reconciliation of net surplus/(deficit) after taxation with net cash flows from operating activities		
Net surplus/(deficit) for the year	426,335	632,471
Adjustments for non-cash items:		
Inventory written off	5,732	17,051
(Gain)/Loss on disposal of property, plant and equipment	(3,013)	–
Depreciation on property, plant and equipment	522,989	432,450
Movement in deferred taxation	24,755	43,016
	550,463	492,517
Movements in working capital:		
Accounts receivable and prepayments	(368,175)	56,326
Inventories	(95,576)	106,759
Employee entitlements	36,688	21,351
Current tax refundable	(37,587)	145,262
Accounts payable and accruals	(98,549)	(56,933)
Movements related to capital expenditure financing	7,351	–
	(555,848)	272,765
Net cash inflow (outflow) from operating activities	420,950	1,397,753

19) FINANCIAL INSTRUMENTS

All of the Company's financial assets are recognised as loans and receivables measured at amortised cost. The Company does not have any financial assets recognised as held to maturity, designated at fair value or available for sale.

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 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 9), cash, cash equivalents and equity; comprising issued capital and retained earnings as disclosed in Notes 11 and 12 respectively.

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

The Company is not subject to externally imposed capital requirements.

The Company's overall strategy remains unchanged from 2015.

(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.

19) FINANCIAL INSTRUMENTS (Cont.)

(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 2016 (2015: $Nil), however, the Export Trade Finance facility referred to in Note 9 provides an 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	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Euro	–	–	159,564	263,091
United States Dollar	744,023	102,378	1,399,882	1,012,720
Australian Dollar	–	–	–	3,765
Japanese Yen	–	–	–	95,124

The table expresses the foreign currency amounts in New Zealand dollar equivalents using the exchange rate at 31 December 2016 and 31 December 2015.

(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 2016 the Company’s four largest customers accounted for 48% of total revenue (2015: 36%) and 60% of total accounts receivable (2015: 66%).

	2016	**2015**
	$	**$**
The maximum exposures to credit risk at balance date are:		
Cash and short term deposits	134,226	227,948
Accounts receivable	1,668,719	1,321,764
Financial guarantee (refer Note 15)	–	150,000
	1,802,945	1,699,712

19) FINANCIAL INSTRUMENTS (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.

2016	Weighted Average Effective Interest Rate %	Less than 1 Year $	1-2 Years $	3-5 Years $	Total $
Financial assets:					
Cash and short term deposits	–	134,226	–	–	134,226
Accounts receivable	–	1,537,793	–	–	1,537,793
Financial liabilities:					
Bank overdraft	6.04	724,033	–	–	724,033
Accounts payable	–	519,796	–	–	519,796
Secured borrowings (including interest)	4.60	433,402	1,645,327	3,512.608	5,591,337
Secured export trade finance	2.95	744,023	–	–	744,023

2015	Weighted Average Effective Interest Rate %	Less than 1 Year $	1-2 Years $	3-5 Years $	Total $
Financial assets:					
Cash and short term deposits	–	227,948	–	–	227,948
Accounts receivable	–	1,259,711	–	–	1,259,711
Financial liabilities:					
Bank overdraft	6.43	454,367	–	–	454,367
Accounts payable	–	615,970	–	–	615,970
Secured borrowings (including interest)	4.61	414,600	534,858	3,279,251	4,228,709
Secured export trade finance	2.32	102,378	–	–	102,378
Financial guarantees (refer Note 15)	–	150,000	–	–	150,000

19) FINANCIAL INSTRUMENTS (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 2016 were as follows:

	2016	2015
Euro	0.6600	0.6200
United States Dollar	0.6900	0.6700
Australian Dollar	0.9500	0.9300
Japanese Yen	81.0000	80.0000

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 2016 year would decrease/increase by $142,569 (2015 decrease/increase by $127,232);
- Equity for the 2016 year would decrease/increase by $142,569 (2015 decrease/increase by $127,232).

(j) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

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 2016 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 2013 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 Chief Executive Officer.

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 Chief Executive Officer 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 including the Chairman. 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 Chief Executive Officer;
- 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.

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.

Independent Auditor's Report to the Shareholders of PharmaZen Limited

Deloitte.

For the Year Ended 31 December 2016

Opinion

We have audited the financial statements of PharmaZen Limited (the 'Company'), which comprise the balance sheet as at 31 December 2016, 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 6-26, present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its 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.

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 statement 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/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

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.

M. Hoshek

Mike Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
31 March 2017

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PharmaZen

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