Strides Arcolab (Australia) Pty Ltd

ABN 30 605 552 234

Special Purpose Financial Report
for the financial year ended 31 March 2019

Special purpose financial report
as at and for the year ended 31 March 2019

Directors' report

The directors of Strides Arcolab (Australia) Pty Ltd (the Company) submit herewith the annual report of the company and its controlled entities (the Group) for the financial year ended 31 March 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Company during or since the end of the financial year are:

Dennis Bastas – appointed 29 April 2015
Arun Kumar – appointed 29 April 2015
Mohan Pillai – appointed 16 May 2018

Principal activities

Strides Arcolab (Australia) Pty Ltd was incorporated on 29 April 2015. The principal activity of the Group during the financial year was the sale of generic prescription drugs, as well as an extensive range of non-prescription pharmacy products into the Australian pharmaceutical market.

No significant change in the nature of these activities occurred during the year.

Review of operations

A review of the operations of the Group during the financial year and the results of those operations found that during the year, the Group continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

The profit of the Group for the financial year after providing for income tax amounted to $11,352,270.

Changes in state of affairs

There have been no changes in the state of affairs of the Group during the year.

Subsequent events

On 9 May, 2018 the Group announced that it has agreed with Apotex, in principle, to merge their respective Australian business operations. The transaction is subject to entering into definitive agreements between the parties, satisfactory due diligence, customary closing conditions and statutory approvals of the Australian Competition and Consumer Commission (ACCC). It is expected that the merger will complete in July 2019.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year 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 company in future financial years.

Dividends

A dividend of $122,500 was paid by a subsidiary of the Group, Pharmacy Alliance Group Holdings Pty Ltd, to the non-controlling interest.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary, Mr. Andrew Burgess, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such as officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of this report.

Rounding of numbers

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Director
Dennis Bastas
Melbourne, 24th June, 2019

Directors' declaration

As detailed in Note 3 to the financial statements, the Group is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

____
Director
Dennis Bastas
Melbourne, 24th June, 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

The Board of Directors
Strides Arcolab (Australia) Pty Ltd
15–17 Chapel Street
Cremorne VIC 3121

24 June 2019

Dear Board Members,

Strides Arcolab (Australia) Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Strides Arcolab (Australia) Pty Ltd.

As lead audit partner for the audit of the financial statements of Strides Arcolab (Australia) Pty Ltd for the financial year ended 31 March 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

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Independent Auditor's Report to the members of Strides Arcolab (Australia) Pty Ltd

Opinion

We have audited the accompanying financial report, being a special purpose financial report, of Strides Arcolab (Australia) Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 March 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards to the extent described in Note 3 and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter – Basis of Accounting

We draw attention to Note 3 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the directors' report included in the Group's annual report for the year ended 31 March 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the Corporations Act 2001 and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 24 June 2019

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2019

	Notes	2019 $'000	2018 $'000 (restated)*
Revenue from operations	4	164,764	157,013
Other income		109	116
Gain on Sale		-	3,748
Foreign exchange gains / (losses)		(33)	(956)
Changes in inventories		(78,201)	(80,862)
Employee benefits expense	5	(20,660)	(20,622)
Finance costs on bank borrowing		(1,495)	(6,515)
Finance costs other		(6,422)	(4,615)
Depreciation	7	(566)	(550)
Amortisation	8	(4,688)	(3,254)
Acquisition related cost		(4,337)	(2,406)
Share of results of joint ventures		(506)	-
Administrative expenses		(29,206)	(28,489)
Profit before taxes		18,759	12,608
Income tax expense		(7,407)	(3,095)
Profit for the year		11,352	9,513
Attributable to:			
Owners of the Company		10,386	8,380
Non-controlling interest		966	1,133
		11,352	9,513
Other comprehensive income:		-	-
Total comprehensive profit / (loss) for the year		11,352	9,513

* The comparative information has been restated as discussed in note 3

Consolidated statement of financial position as at 31 March 2019

	Notes	2019 $'000	2018 $'000 (restated)*
Current assets			
Cash and cash equivalents	15	21,013	22,724
Cash investments		1,500	-
Trade receivables		28,409	30,011
Inventory		35,261	29,483
Prepaid expenses and deposits		1,078	4,385
Loans receivables	6	6,932	3,178
Total current assets		94,193	89,781
Non-current assets			
Property, plant and equipment	7	1,066	1,411
Goodwill		111,513	111,513
Other intangible assets	8	109,874	112,724
Investments in joint ventures	16	2,094	2,600
Loans receivables	6	5,400	5,400
Total non-current assets		229,947	233,648
Total assets		324,140	323,429
Current liabilities			
Trade and other payables	10	32,962	45,082
Provisions	12	3,628	1,822
Borrowings	11	23,018	22,854
Total current liabilities		59,608	69,758
Non-current liabilities			
Borrowings	11	93,467	94,219
Provisions	12	303	248
Other financial liabilities	17	22,699	23,476
Deferred tax liabilities		30,028	28,110
Total non-current liabilities		146,497	146,053
Total liabilities		206,105	215,811
Net assets		118,035	107,618
Equity			
Issued capital	13	119,664	119,664
Option Reserve		(22,095)	(22,095)
Accumulated profit (losses)		16,980	7,406
Equity attributable to owners of the entity		114,549	104,975
Non-controlling interest		3,486	2,643
Total equity		118,035	107,618

*Comparative information has been restated as discussed in note 3

Consolidated statement of changes in equity for the year ended 31 March 2019

	Issued Capital $'000	Option Reserve (restated)* $'000	Accumulated losses (restated)* $'000	Total (Restated)* $'000	Non-controlling interest $'000	Total (Restated)* $'000
Opening balance 1 April 2017	117,712	(22,095)	(974)	94,643	1,706	96,349
Issue of shares during the year	1,952	-	-	1,952	-	1,952
(Loss) / profit for the year	-	-	8,380	8,380	1,133	9,513
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	8,380	8,380	1,133	9,513
Payment of Dividends					(196)	(196)
Balance at 31 March 2018	119,664	(22,095)	7,406	104,975	2,643	107,618

	Issued Capital $'000	Option Reserve $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total $'000
Opening balance 1 April 2018	119,664	(22,095)	7,406	104,975	2,643	107,618
Issue of shares during the year	-	-	-	-	-	-
Adjustment on adoption of AASB 15	-	-	(812)	(812)	-	(812)
(Loss) / profit for the year	-	-	10,386	10,386	966	11,352
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	10,386	10,386	966	11,352
Payment of Dividends	-	-	-	-	(123)	(123)
Balance at 31 March 2019	119,664	(22,095)	16,980	114,549	3,486	118,035

*Comparative information has been restated as discussed in note 3

Consolidated statement of cash flows for the year ended 31 March 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		183,706	164,065
Payments to suppliers and employees		(166,097)	(139,292)
Income taxes paid		(3,508)	(5,896)
Interest paid		(7,640)	(7,267)
Net cash generated by operating activities	15(b)	6,461	11,610
Cash flows from investing activities			
Payments for business acquisitions		-	(4,934)
Payments for property, plant & equipment		(221)	(225)
Payments for intangible assets		(1,898)	(552)
Cash invested short term		(1,500)	-
Interest received		107	112
Net cash (used in) generated by investing activities		(3,512)	(5,599)
Cash flows from financing activities			
Proceeds from borrowings		21,822	20,000
Repayment of borrowings		(23,079)	(79,229)
Proceeds from share issue		-	1,952
Loan from related parties		-	62,792
Repayment of borrowings to related parties		(3,439)	(9,986)
Payment of dividends to non-controlling interest		(123)	(196)
Net cash (used in) financing activities		(4,819)	(4,667)
Net (decrease)/increase in cash and cash equivalents		(1,870)	1,344
Cash and cash equivalents at the beginning of the year		22,724	21,354
Effect of exchange rate changes on cash held in foreign currencies		159	26
Cash and cash equivalents at the end of the year	15(a)	21,013	22,724

1. General information

Strides Arcolab (Australia) Pty Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. The parent entity of Strides Arcolab (Australia) Pty Ltd is Strides Pharma Global Pte Ltd and the ultimate parent entity is Strides Shasun Limited.

The address of its registered office and its principal place of business are as follows:

15 – 17 Chapel Street

Cremorne, VIC 3121

The principal activity of the Company and it's controlled entities (the Group) during the financial year was the sale of generic prescription drugs, as well as an extensive range of non-prescription pharmacy products into the Australian pharmaceutical market.

The consolidated financial statements were authorised for issue by the directors of the Company on 24th June, 2019.

2. Adoption of new and revised Accounting Standards

2.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting year that begins on or after 1 January 2017, and therefore relevant for the current year end.

<u>Standards affecting presentation and disclosure</u>

AASB 1048 Interpretation of Standards	A new principal version of AASB 1048 providing an up-to-date listing of Australian Interpretations, including interpretation 22 *Foreign Currency Transactions and Advance Consideration* and Interpretation 23 *Uncertainty over Income Tax Treatments*. This service standard ensures there is no difference between the status of Interpretations in the hierarchy between IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvement 2014-2016	Amends AASB 12 Disclosure of Interests in Other Entities, to clarify the interaction of AASB 12 with AASB 5 Non-current Assets Held for Sale and Discontinued Operations to explain that disclosures under AASB 12 are required for interests in entities classified as held for sale or discontinued operations in accordance with AASB 5.

2. Adoption of new and revised Accounting Standards

2.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards (Part E – Financial Instruments], AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The Standard carries over the existing derecognition requirements from AASB 139 but all other areas of AASB 139 have been revised. AASB 9 introduces new requirements for classifying and measuring financial assets, as follows: • Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances) • Investments in equity instruments not held for trading can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss • All other instruments (including all derivatives unless in a hedge relationship) are measured at fair value with changes recognised in profit or loss • The concept of 'embedded derivative' does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit and loss – in these cases, the portion of the change in fair value related to changes in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss, unless it creates a mismatch in profit or loss. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and written loan commitments and financial guarantee contracts. The loan loss allowance will be for either 12-month expected losses or lifetime expected losses. The latter applies if credit risk has increased significantly since initial recognition of the financial instrument. A new hedge accounting model has been put in place that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. However, some transition options exist that allow entities to essentially retain AASB 139 hedge accounting. As the Group has an extremely low incidence of overdue debts there is no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

AASB Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 Construction Contracts, AASB 118 Revenue, Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, and Interpretation 131 Revenue-Barter Transactions Involving Advertising Services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

The application of AASB 15 has had the following impact in 2019.

- Revenue from Sale of goods has increased by $397,957 due to the amortisation of customer rebates and incentives over customer contract terms
- Revenue from rendering of services as increased by $686,667 due to the amortisation of services contract amounts over the term of the relevant contract
- Trade and Other payable has increased by $1,662,164 to reflect revenue that will be deferred and recognised over the term of customer contracts
- Trade Receivables has increased by $1,586,285 due to the amortisation of rebates and incentives over customer contract terms
- Current tax expense has increased by $325,387 and Current Provisions have decreased by $22,764 which reflects the tax impact of the above
- The cumulative effect of initial application was recognised as a decrease in retained earnings of $812,352 at the beginning of the reporting year. Comparative prior years have not been adjusted.

2. Adoption of new and revised Accounting Standards (cont'd)

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting years beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 'Leases'	1 January 2019	31 March 2020
AASB 17 Insurance Contracts	1 January 2021	31 March 2022
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128, AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 125 and Editorial Corrections	1 January 2022	31 March 2023
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019	31 March 2020
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	1 January 2019	31 March 2020
AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019	31 March 2020
AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	1 January 2019	31 March 2020
AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements	1 January 2019	31 March 2020
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	31 March 2021
AASB 2016-7 Amendment to Australian Accounting Standards – Definition of Material	1 January 2020	31 March 2021

The potential effect of these revised Standards/Interpretations on the Group's financial statements has not yet been determined.

2.2 Standards and Interpretations in issue not yet adopted (Cont'd)

Standard/Interpretation	Effective for annual reporting years beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 'Leases'	1 January 2019	31 March 2020

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

This standard must be implemented retrospectively, either with the restatement of comparative information or with the cumulative impact of application recognised as at 1 April 2019 under the modified retrospective approach.

Assessment of Impact

As at 31 March 2019, the Group has determined that the standard will impact the accounting for property leases.

The following impacts are expected on implementation of the new requirements:

- A material right-of-use asset and a lease liability will be recognised on the balance sheet, with the difference posted to retained earnings;
- Finance costs will increase due to the impact of the interest component of the lease liability;
- Depreciation expense will increase due to depreciation of the right-of-use asset over the lease term;
- Lease rental operating expenses will reduce to close to nil; and
- In the cash flow statement, operating cash outflows will decrease, and financing cash outflows will increase as repayment of the principal balance in the lease liability will be classified as a financing activity.

Management has not yet quantified the impact of these changes.

Transition

We expect to apply the modified retrospective transition approach upon implementation from 1 April 2019. Under this option, the comparative period is not restated. The 'right of use' (ROU) asset is calculated as the written down value of the asset had it been depreciated from the date the lease was implemented, the lease liability is calculated based on the present value of remaining lease payments and any variance between the liability and asset on transition is recorded in opening retained earnings (no EBIT impact).

In applying AASB 16 for the first time, the Group plans to use the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting for operating leases with a remaining lease term of less than six months and leases of low-value assets (such as computers and furniture) as at 1 April 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Will not reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group will rely on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

3. Significant accounting policies

Financial reporting framework

The Group is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001. The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Group is a for-profit entity.

Statement of compliance

The consolidated financial statements have been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors,* AASB 1031 *Materiality* and AASB 1054 *Australian Additional Disclosures*.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 Inventories or value in use in AASB 136 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
• Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
• Level 3 inputs are unobservable inputs for the asset or liability.

All amounts are presented in Australian dollars, unless otherwise noted.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its return

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

Basis of consolidation (Cont'd)

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit and loss from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the consolidated entities accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of that consolidated entity are eliminated in full on consolidation.

Rounding off of amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, 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 other factors that are considered to be relevant. 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

<u>Business combination</u>
Management's judgement is applied in determining the fair value of any net assets acquired, the fair value of the consideration transferred and the fair value of the non-controlling interest in the subsidiary acquired. Refer to note 3(a) for further details.

<u>Revenue recognition</u>
Management's judgement is applied is determining the rebate obligations that reduces the revenue amount recognised.

<u>Provision for doubtful debts</u>
Management's judgement is applied in determining the provision for doubtful debts. If the estimated recoverable amount of the debtor is less than the amount of revenue recognised, the difference is recognised in the provision for doubtful debts.

Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

Provision for obsolete stock
Management's judgement is applied in determining the provision for inventories obsolescence. If the estimated selling price of inventory is lower than the cost to sell, the difference is recognised in the provision for obsolescence.

Measurement of Put Option

Management's judgement is applied in the determination of the fair value of the put option at each reporting period.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair value at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the 'measurement year' (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

(c) Employee benefits (Cont'd)

Liabilities recognised 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.

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

(d) Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Group assess impairment of trade receivables on a collective basis as they possess credit risk characteristics based on the days past due. The Group allows for amounts that over 90 days past due and writes off any amounts more than 12 months past due and there is no realistic prospect of recovery.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Impairment of financial assets

The entity recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The entity always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the entity'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.

For all other financial instruments, the entity recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial

Impairment of financial assets (Cont'd)

instrument has not increased significantly since initial recognition, the entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.
Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Derecognition of financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(e) Financial Liabilities

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities
Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities
Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(g) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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 (or 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 immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined based on weighted average cost. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

(i) Income tax (Cont'd)

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

(j) Leasing 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.

Group 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 statement of financial position 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 against income, unless they are directly attributable to qualifying assets.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

(j) Leasing assets (Cont'd)

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 economic benefits from the leased asset are consumed.

(k) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease 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 the purchase consideration 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, including freehold buildings. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting year.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	3 – 10 years
Leasehold improvements	5 years

(l) Revenue recognition

The entity recognises revenue from the following major sources:

Revenue Stream	Performance Obligation	Timing of Recognition
Sale of pharmaceutical goods, including related rebate programmes	Delivery of goods to customer	Point in time
Pharmaceutical ancillary services	Completion of services to be rendered	Over time
Sales promotional services	Completion of services to be rendered	Over time

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognises revenue when it transfers control of a product or service to a customer.

<u>Interest revenue</u>

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(m) Intangible assets

<u>Goodwill</u>

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

<u>Intangible assets acquired separately</u>

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a

(m) Intangible assets (Cont'd)

prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

Intangible assets are amortised over their estimated useful life on a straight line basis as follows:

Intellectual property and Brand names	5 – 20 years
Non-Compete Agreement	3 years
Customer contracts and relationships	15 years
Software licences	5 years

(n) Investments in joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5 Non-Current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in a joint venture is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the year in which the investment is acquired.

The requirements of AASB 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Group retains an

(n) Investments in joint ventures (Cont'd)

interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 9

The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's financial statements only to the extent of interests in the joint venture that are not related to the Group.

(o) Foreign currencies

The financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Group are expressed in Australian dollars ('$'), which is the functional currency of the Group and the presentation currency for the financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences on monetary items are recognised in profit or loss in the year in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting year. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange

(o) Foreign currencies (Cont'd)

differences accumulated in equity in respect of that operation attributable to the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting year. Exchange differences arising are recognised in other comprehensive income.

(p) 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 those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(r) Comparative amounts

The 2018 comparative amounts have been restated for the following:

- An error relating to the non recognition of a Put Option was identified with respect to the 2016 year. As such, the 2018 comparative numbers in the consolidated entity have been adjusted to reflect an increase of $23,476,293 to other financial liabilities, with a corresponding decrease of $22,094,917 to option reserve, profit decrease of $776,774 (increase in "finance costs other") and a decrease to opening retained earnings of $604,602.
- An error relating to the recording of a Deferred Tax Liability on intangibles acquired as part of a business combination was identified in relation to the 2016 year. As such, the 2018 comparative numbers in the consolidated entity have been adjusted to reflect an increase of $32,717,955 to Deferred Tax Liabilities, with a corresponding increase of $34,676,418 to Goodwill, a profit increase of $879,792 (decrease in income tax expense) and an increase to opening retained earnings of $1,078,671
- An error relating to the recording of a Deferred Tax Liability on intangibles acquired as part of a business combination was identified in relation to the 2018 year. As such, the 2018 comparative numbers in the consolidated entity have been adjusted to reflect an increase of $700,371 to Deferred Tax Liabilities, with a corresponding increase of $727,060 to Goodwill and a profit increase of $26,689 (decrease in income tax expense)
- GST payable of $1,021,755 has been reclassed from Prepaid Expenses and Deposits to Trade & Other Payables

4. Revenue from operations	**2019 $'000**	**2018 $'000**
Sale of goods	140,429	132,488
Rendering of services	24,335	24,525
	164,764	157,013

5. Employee benefit expenses

Salaries and wages	18,099	17,981
Post-employment benefits – defined contribution plan	1,510	1,517
Other employee benefits	1,051	1,124
	20,660	20,622

6. Loans receivables

<u>Current</u>		
Loans and advances to related parties	6,932	3,161
Other receivables	-	17
	6,932	3,178
<u>Non-current</u>		
Loans and advances to related parties	5,400	5,400
	5,400	5,400

7. Property, plant and equipment

	Plant & equipment $'000	Leasehold improvements $'000	Total $'000
Cost			
Balance at 1 April 2017	996	1,356	2,352
Additions	121	104	225
Balance at 31 March 2018	1,117	1,460	2,577
Accumulated depreciation			
Balance at 1 April 2017	(240)	(376)	(616)
Depreciation	(246)	(304)	(550)
Balance at 31 March 2018	(486)	(680)	(1,166)
Written down value			
Balance at 1 April 2017	756	980	1,736
Additions	121	104	225
Depreciation	(246)	(304)	(550)
Balance at 31 March 2018	631	780	1,411

	Plant & equipment $'000	Leasehold improvements $'000	Total $'000
Cost			
Balance at 1 April 2018	1,117	1,460	2,577
Additions	221	-	221
Disposals	(68)	-	(68)
Transfers	75	(60)	15
Balance at 31 March 2019	1,345	1,400	2,745
Accumulated depreciation			
Balance at 1 April 2018	(486)	(680)	(1,166)
Depreciation	(259)	(307)	(566)
Eliminated on disposal	68	-	68
Transfers	(15)	-	(15)
Balance at 31 March 2019	(692)	(987)	(1,679)
Written down value			
Balance at 1 April 2018	631	780	1,411
Additions	221	-	221
Depreciation	(259)	(307)	(566)
Transfers	60	(60)	-
Balance at 31 March 2019	653	413	1,066

8. Other intangible assets

	Intellectual property $'000	Brand name $'000	Non-compete agreement $'000	Customer contracts and relationships $'000	Computer software $'000	Capitalised development work-in-progress $'000	Other intangibles $'000	Total $'000
Cost								
Balance at 1 April 2017	12,947	3,588	3,849	3,449	113	92,763	35	116,744
Acquisitions through business combinations	-	1,780	-	1,373	-	-	-	3,153
Additions	-	-	-	-	-	514	-	514
Transfers	60,133	-	-	-	-	(60,133)	-	-
Disposals	-	-	-	(729)	-	-	-	(729)
Balance at 31 March 2018	73,080	5,368	3,849	4,093	113	33,144	35	119,682
Accumulated amortisation								
Balance at 1 April 2017	(1,027)	(284)	(2,035)	(249)	(28)	(90)	(12)	(3,725)
Amortisation	(1,386)	(231)	(1,283)	(288)	(66)	-	-	(3,254)
Transfers	(90)	-	-	-	-	90	-	-
Disposals	-	-	-	21	-	-	-	21
Balance at 31 March 2018	(2,503)	(515)	(3,318)	(516)	(94)	-	(12)	(6,958)
Written down value								
Balance at 1 April 2017	11,920	3,304	1,814	3,200	85	92,673	23	113,019
Acquisitions through business combinations	-	1,780	-	1,373	-	-	-	3,153
Additions	-	-	-	-	-	514	-	514
Transfers	60,043	-	-	-	-	(60,043)	-	-
Disposals	-	-	-	(708)	-	-	-	(708)
Amortisation	(1,386)	(231)	(1,283)	(288)	(66)	-	-	(3,254)
Balance at 31 March 2018	70,577	4,853	531	3,577	19	33,144	23	112,724

8. Other intangible assets (cont'd)

	Intellectual property	Brand name	Non-compete agreement	Customer contracts and relationships	Computer software	Capitalised development work-in-progress	Other intangibles	Total
Cost	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 April 2018	73,080	5,368	3,849	4,093	113	33,144	35	119,682
Additions	-	-	-	-	1,065	774	-	1,839
Transfers	7,013	-	-	-	96	(7,089)	(35)	(15)
Balance at 31 March 2019	80,093	5,368	3,849	4,093	1,274	26,829	-	121,506
Accumulated amortisation								
Balance at 1 April 2018	(2,503)	(515)	(3,318)	(516)	(94)	-	(12)	(6,958)
Amortisation	(3,470)	(268)	(531)	(270)	(149)	-	-	(4,688)
Transfers	48	-	-	-	(46)	-	12	14
Balance at 31 March 2019	(5,925)	(783)	(3,849)	(786)	(289)	-	-	(11,632)
Written down value								
Balance at 1 April 2018	70,577	4,853	531	3,577	19	33,144	23	112,724
Additions	-	-	-	-	1,065	774	-	1,839
Transfers	7,061	-	-	-	50	(7,089)	(23)	(1)
Amortisation	(3,470)	(268)	(531)	(270)	(149)	-	-	(4,688)
Balance at 31 March 2019	74,168	4,585	-	3,307	985	26,829	-	109,874

	2019 $'000	2018 $'000
10. Trade payables and other payables		**(restated)***
Trade payables	15,040	20,541
Accrued rebates	4,920	9,220
Accrued expenses	11,662	12,794
Other Payables	1,340	2,527
	32,962	45,082

*Comparative information has been restated as discussed in note 3

11. Borrowings

Current		
External bank loans	22,271	21,019
Amount owing to related parties	747	1,835
	23,018	22,854
Non-Current		
External bank loans	-	600
Amount owing to related parties	93,467	93,619
	93,467	94,219

12. Provisions

Current		
Provision for employee benefits	1,380	1,207
Provision for income tax	2,248	615
	3,628	1,822
Non-current		
Provision for employee benefits	303	248

13. Share capital

Issued and fully paid up – 744,433 ordinary shares	74,443	74,443
Issued and fully paid up – 390,956 ordinary shares	40,269	40,269
Issued and partly paid up – 1 A Class share of AUD 8,000,000	3,000	3,000
Share application monies pending allotment	1,952	1,952
	119,664	119,664

Fully paid ordinary shares carry one vote per share and carry a right to dividends
A Class shares carry one vote per share and carry a right to dividends

14. Remuneration of auditors

	2019 $	2018 $
Audit of the financial statements	243,000	138,225
Other services	93,975	134,025
	336,975	272,250

The auditor of Strides Arcolab (Australia) Pty Ltd is Deloitte Touche Tohmatsu.

15. Cash and cash equivalents

(a) Cash balances

	2019 $'000	2018 $'000 (restated)*
Cash at bank	20,978	20,288
Deposits	35	2,436
	21,013	22,724

(b) Reconciliation of profit for the year to net cash flows from operating activities

	2019 $'000	2018 $'000 (restated)*
Profit for the year	11,352	9,513
Net foreign exchange (gains) / losses	33	956
Amortisation	4,688	3,254
Depreciation	566	550
Gain on Sale	-	(3,748)
Interest received	(107)	(112)
Share of losses of joint ventures	506	-
Change in operating assets and liabilities net of effect from acquisition of businesses		
(Increase) / Decrease in trade receivables	2,240	(7,866)
(Increase) / Decrease in inventory	(5,779)	18,797
(Increase) / Decrease in prepaid expenses and deposits	2,367	(1,975)
(Decrease) in trade and other payables	(14,248)	(9,296)
Increase in provisions	3,702	1,063
Increase / (Decrease) in other financial liabilities	(777)	777
Decrease in deferred tax assets	-	690
(Increase) / Decrease in deferred tax liabilities	1,918	(993)
Net cash generated by operating activities	6,461	11,610

*Comparative information has been restated as discussed in note 3

16. Investments in joint ventures	**2019 $'000**	**2018 $'000**
MyPak Solutions Pty Ltd	2,083	2,600
Oraderm Pharmaceuticals Pty Ltd	11	-
	2,094	2,600

17. Other financial liabilities	**2019 $'000**	**2018 $'000 (restated)***
Option gross obligation	22,699	23,476

*Comparative information has been restated as discussed in note 3

18. Commitments for expenditure

The group had no commitments for the acquisition of property, plant and equipment as at 31 March 2019.

19. Events after the reporting year

On 9 May, 2018 the Group announced that it has agreed with Apotex, in principle, to merge their respective Australian business operations. The transaction is subject to entering into definitive agreements between the parties, satisfactory due diligence, customary closing conditions and statutory approvals of the Australian Competition and Consumer Commission (ACCC). It is expected that the merger will complete in July 2019.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

20. Contingent Liabilities

The group did not have any contingent liabilities as at 31 March, 2019.

21. Interest in other entities

The consolidated special purpose financial statements incorporate the asset, liabilities and results of Strides Arcolab (Australia) Pty Ltd and the following subsidiaries, in accordance with the accounting policy described in note 3.

Name of entity	**Country of incorporation**	**Equity holding**
Arrow Pharmaceuticals Pty Ltd	Australia	100%
Arrow Pharma Pty Ltd	Australia	100%
Amneal Pharmaceuticals Pty Ltd	Australia	100%
Amneal Pharma Australia Pty Ltd	Australia	100%
Pharmacy Alliance Investments Pty Ltd	Australia	100%
Pharmacy Alliance Group Holdings Pty Ltd	Australia	51%

21. Interest in other entities (cont'd)

Pharmacy Alliance Pty Ltd	Australia	51%
Alliance Pharmacy Pty Ltd	Australia	51%
Smarterpharm Pty Ltd	Australia	51%

22. Deed of cross guarantee

Strides Arcolab (Australia) Pty Ltd, Arrow Pharmaceuticals Pty Ltd, Arrow Pharma Pty Ltd, Amneal Pharmaceuticals Pty Ltd and Amneal Pharma Australia Pty Ltd (together referred to as the closed group) are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee are provided as follows:

Consolidated statement of profit or loss and other comprehensive income	**2019** **$'000**	**2018** **$'000** (restated)*
Revenue from operations	147,583	140,125
Other income	73	95
Gain on Sale	-	3,748
Foreign exchange gains / (losses)	(33)	(956)
Changes in inventories	(78,209)	(80,834)
Employee benefits expense	(12,584)	(12,903)
Finance costs on bank borrowings	(1,495)	(6,515)
Finance costs other	(7,138)	(3,751)
Depreciation	(479)	(486)
Amortisation	(4,294)	(2,943)
Acquisition related cost	(4,337)	(2,406)
Share of profits of associates and joint ventures	(506)	-
Other expenses	(23,216)	(22,918)
Profit before taxes	15,365	10,256
Income tax expense	(6,623)	(2,094)
Profit for the year	8,742	8,162
Other comprehensive income:	-	-
Total comprehensive profit for the year	8,742	8,162

*Comparative information has been restated as discussed in note 3

22. Deed of cross guarantee (cont'd)

Consolidated statement of financial position	**2019**	**2018**
	$'000	**$'000**
		(restated)*
Current assets		
Cash and cash equivalents	19,293	19,454
Trade receivables	24,431	25,711
Inventory	35,261	29,483
Prepaid expenses and deposits	740	3,418
Loans receivables	6,933	3,178
Total current assets	86,658	81,244
Non-current assets		
Property, plant and equipment	818	1,181
Goodwill	98,966	98,966
Other intangible assets	105,642	109,197
Investments	16,211	16,717
Deferred Tax Assets	-	-
Loans receivables	5,400	5,400
Total non-current assets	227,037	231,461
Total assets	313,695	312,705
Current liabilities		
Trade and other payables	32,614	43,118
Provisions	2,867	1,369
Borrowings	21,247	21,063
Total current liabilities	56,728	65,550
Non-current liabilities		
Borrowings	93,467	93,619
Provisions	209	137
Deferred tax liabilities	29,110	27,148
Total non-current liabilities	122,786	120,904
Total liabilities	179,514	186,454
Net assets	134,181	126,251
Equity		
Issued capital	119,664	119,664
Accumulated profit / (losses)	14,517	6,587
Total equity	134,181	126,251

*Comparative information has been restated as discussed in note 3

23. Parent entity financial information

(a) Summary of financial information

The individual special purpose financial statements for the parent entity show the following aggregate amounts:

	2019	2018
	$'000	**$'000**
Current assets	87,186	93,950
Non-current assets	117,819	117,818
Total assets	**205,005**	**211,768**
Current liabilities	812	771
Non-current liabilities	93,467	93,619
Total liabilities	**94,279**	**94,390**
Net assets	**110,726**	**117,378**
Issued capital	119,664	119,664
Retained earnings	(8,938)	(2,286)
Total shareholder's equity	**110,726**	**117,378**
(Loss) for the year	**(6,652)**	**(2,600)**
Total comprehensive (loss)	**(6,652)**	**(2,600)**

(b) Guarantees entered into by the parent entity

Strides Arcolab (Australia) Pty Ltd is party to a Deed of Cross Guarantee under which each company guarantees the debts of the others (refer note 22).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 March 2019.

(d) Commitments for expenditure

The parent entity had no commitments for the acquisition of property, plant and equipment as at 31 March 2019